Biggert-Waters and the National Flood Insurance Program

The County Perspective

NACo National Association of Counties
The Voice of America's Counties

NATIONAL ASSOCIATION OF COUNTIES | APRIL 2014

About NACo

- **The National Association of Counties (NACo) is the only national organization that represents county governments in the United States.** Founded in 1935, NACo assists America's 3,609 counties in pursuing excellence in public service to produce healthy, vibrant, safe and resilient counties. NACo promotes sound public policies, fosters county solutions and innovation, promotes intergovernmental and public-private collaboration and provides value-added services to save counties and taxpayers money.

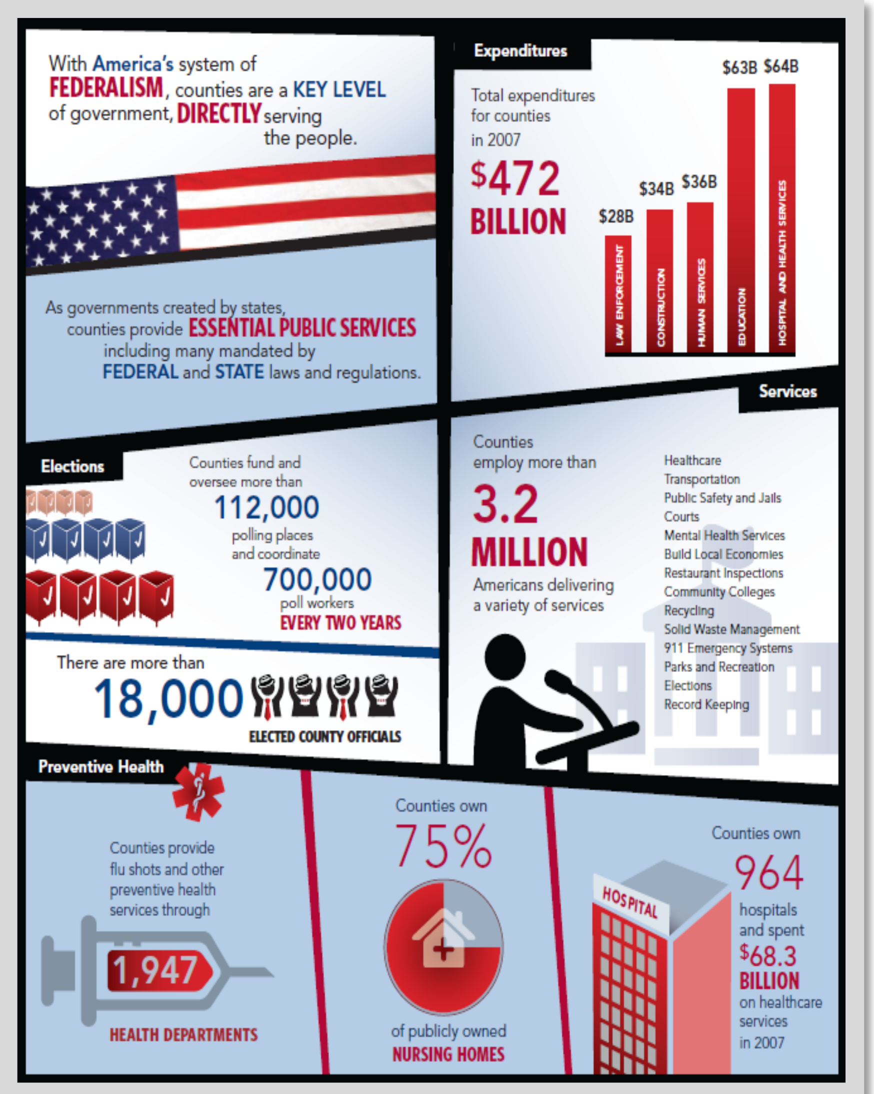
Healthy, vibrant, safe

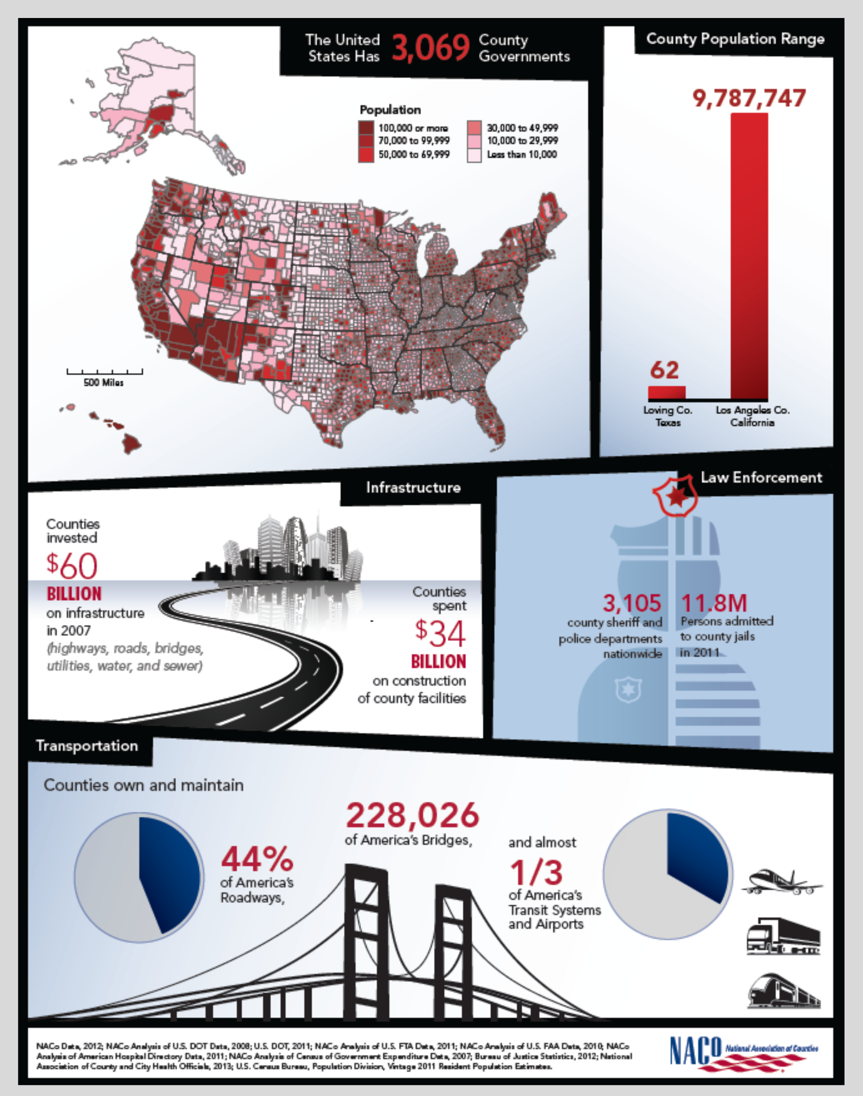
and resilient counties

across America.

Why Counties Matter

NACO National Association of Counties
The Voice of America's Counties






NACo National Association of Counties
2014
ANNUAL
CONFERENCE
& EXPOSITION
County Solutions
and Idea Marketplace
July 11–14
MORIAL CONVENTION CENTER
ORLEANS PARISH/NEW ORLEANS, LA.
NACo
NEW ORLEANS
ORLEANS PARISH
Mark your calendars now!
Laissez les bon temps rouler!
Registration, hotel forms and everything
you need to know about this year's
conference are available online!
Visit www.naco.org!
Rue Toulouse
Toulouse

Presentation Overview

1. Why the National Flood Insurance Program (NFIP) and Biggert-Waters reforms matter to counties, and the county role in flood insurance
2. Why NFIP was established, how it works, and why it faces fiscal issues
3. Biggert-Waters reforms to NFIP and the impact on flood insurance rates
4. Congressional response to Biggert-Waters

Quick Reference

NFIP: the National Flood Insurance Program is a program administered through the Federal Emergency Management Agency (FEMA) that provides flood insurance to home and business owners

Biggert-Waters: federal legislation enacted in 2012 that aimed to remedy NFIP's insolvency by phasing out subsidized insurance premium rates

Part 1

Why the National Flood Insurance Program (NFIP) and Biggert-Waters Reforms Matter to Counties, and the County Role in Flood Insurance

Why Do Counties Care?

- The purpose of the Biggert-Waters Act of 2012 (BW-12) was to make the National Flood Insurance Program (NFIP), which faced a deficit of $24 billion, solvent. **However, BW-12 resulted in some unintended consequences for local governments, residents and businesses.**
- A number of the nation's 3,069 counties represented by NACo, both coastal and inland, have stated that their **homeowners and business are facing drastically increasing annual NFIP flood insurance premiums** due to BW-12's phase-outs of subsidized premium rates.
  - **According to the Government Accountability Office, properties in 2,930 counties had subsidized policies as of June, 2012.**
- Many low-lying areas contain lower income and/or middle income resident and business properties. **As insurance rates rise rapidly in certain areas, owners have two options – sell or walk away from mortgages.** Since selling properties with high annual insurance premiums is unlikely, people could walk away from existing mortgages, impacting both local economies and housing markets**.** As more homes become vacant, **counties' property values are in turn impacted.**
- As the Federal Emergency Management Agency (FEMA), which oversees the NFIP program, continues to update its Flood Insurance Rate Maps (FIRMs), **more low-lying areas may begin to face drastic premium rate increases in the future.**

NACo Policy:

National Flood Insurance Program and Biggert-Waters Act

The National Association of Counties supports a sustainable, fiscally responsible NFIP that protects the businesses and homeowners who built according to code and have followed all applicable laws, and we urge Congress to amend the Biggert-Waters Act to keep flood insurance rates affordable while balancing the fiscal solvency of the program. Further, NACo urges Congress to reinstate the grandfathering of properties (not policies) that were built to code, have maintained insurance and have not repeatedly flooded, and to implement economically reasonable rate structures.

-Adopted July 22, 2013

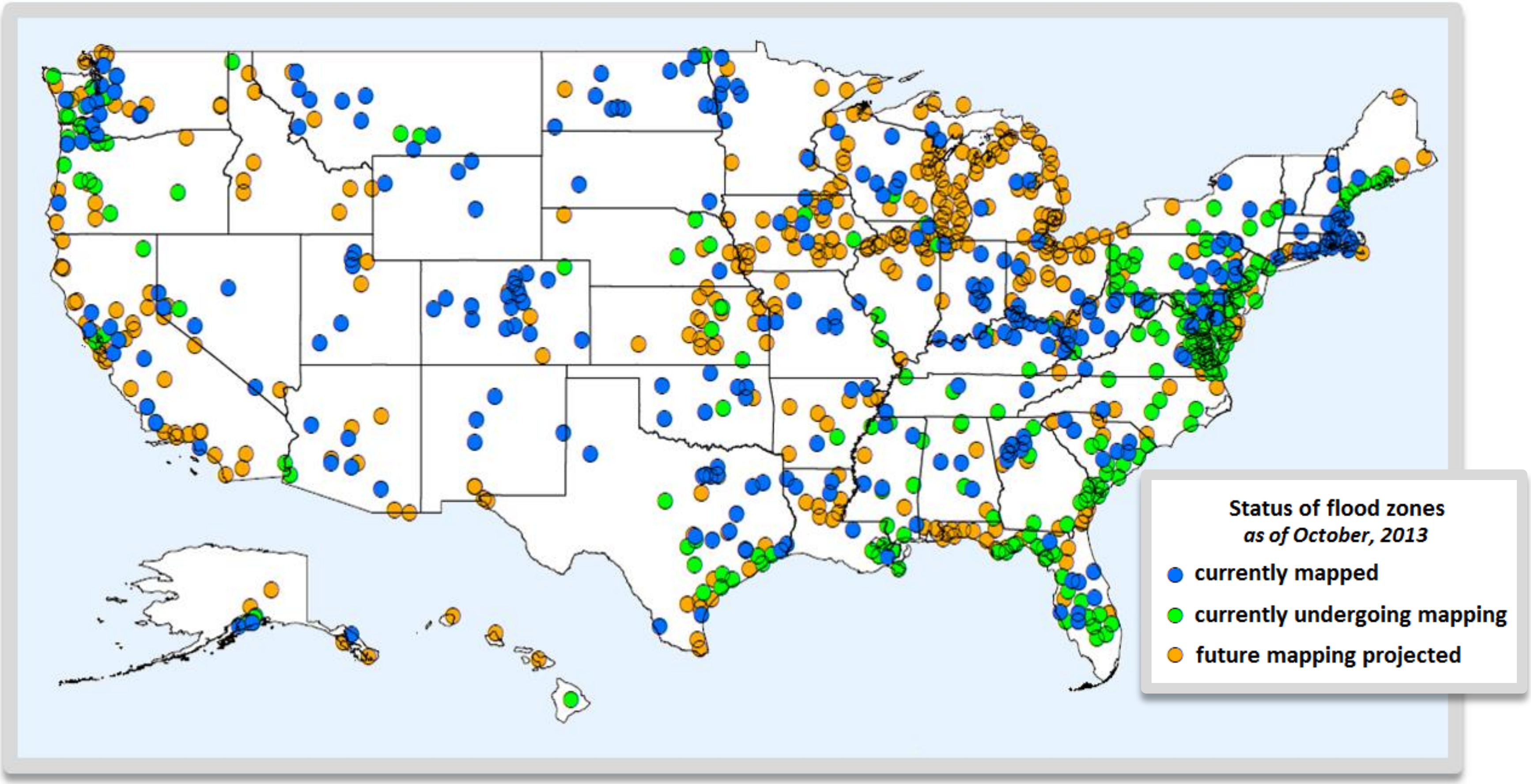
Page 123 of the *American County Platform*
http://www.naco.org/legislation/Documents/American-County-Platform-and-Resolutions-2013-2014.pdf

County Perspective

NACO National Association of Counties
The Voice of America's Counties

Location and Status of FEMA Flood Insurance Rate Maps (FIRMs)

Areas with FIRMs will be affected by rate increases



Source: Federal Emergency Management Agency

The Role of Local Communities in Flood Insurance

- Although NFIP is a voluntary program, local communities are **heavily incentivized** to participate. If a community does not participate in NFIP, its property owners cannot purchase NFIP policies, which are **often required by mortgage lenders** if a property is in a floodplain.

- Communities that participate in NFIP must have, and enforce, a **floodplain management ordinance,** which is meant to lower a community's risk of flooding. This typically requires delegating an individual to implement the ordinance.

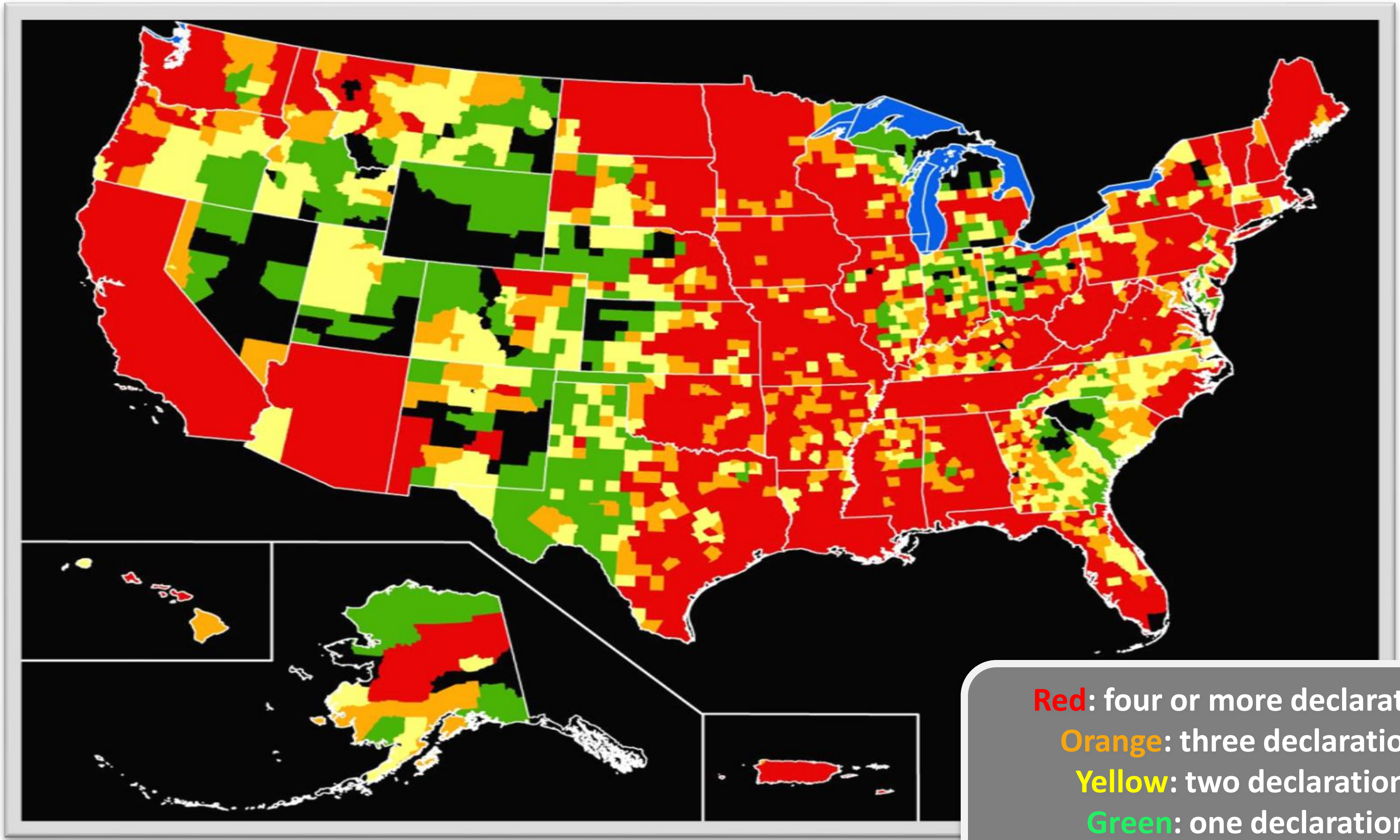
- Communities with **Special Flood Hazard Areas** (**SFHAs**), as defined by FEMA, must participate in NFIP to receive financial assistance for future flood-related disasters.

County Perspective

NACO National Association of Counties
The Voice of America's Counties

Presidential Disaster Declarations Related to Flooding

June 1965 – June 2013



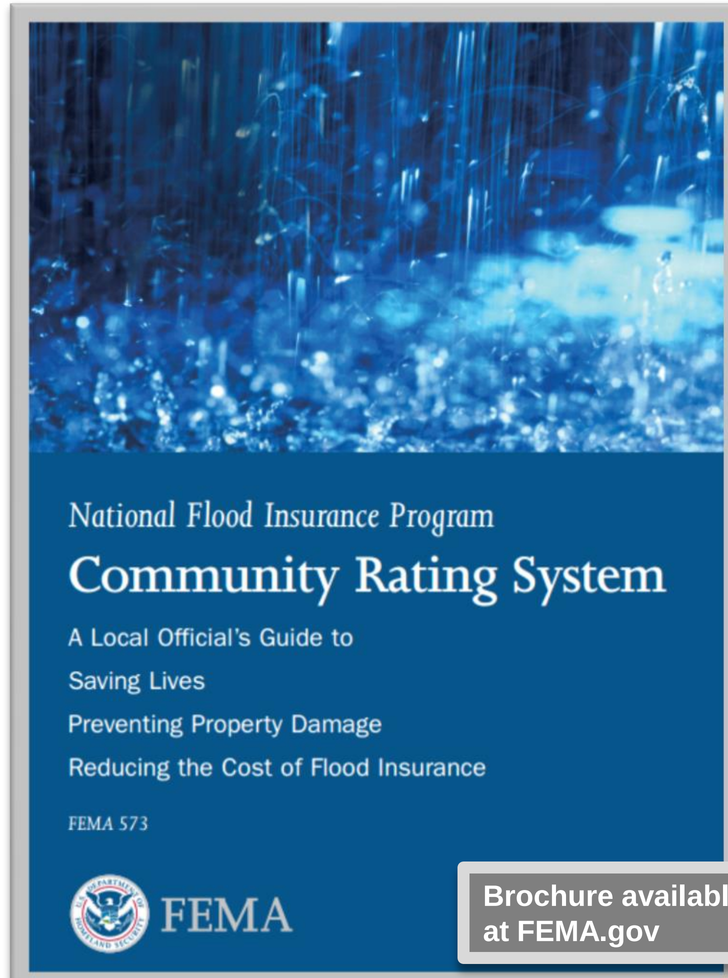
Red: four or more declarations
Orange: three declarations
Yellow: two declarations
Green: one declaration

Source: Federal Emergency Management Agency

FEMA's Community Rating System

- The Community Rating System (CRS) is a voluntary **incentive program** that recognizes and encourages community floodplain management, local mitigation, and outreach activities that **exceed the minimum NFIP requirements**. 3.8 million policyholders in 1,211 communities participate in CRS.

- Under CRS, flood insurance **premiums are discounted** to reflect the reduced flood risk resulting from community actions that exceed NFIP requirements. Rates are discounted in 5 percent increments, **up to 45 percent**, based on creditable activities undertaken by the community.



Brochure available at FEMA.gov

Part 2

Why NFIP was Established, How it Works, and Why it Faces Fiscal Issues

What is the National Flood Insurance Program?

- In the 1960s, after widespread flooding along the Mississippi River, **most private insurers stopped offering flood insurance plans**, as they found that the plans required greater payouts than the sum of their premiums.
- Established in 1968, **the National Flood Insurance Program (NFIP) fills this void and offers federal flood insurance** to homeowners, renters and business owners in participating communities.
- **Today, NFIP provides nearly all of the flood insurance policies in the U.S.** Although coastal states typically account for most of these policies, NFIP provides coverage to participating communities **in all 50 states.**

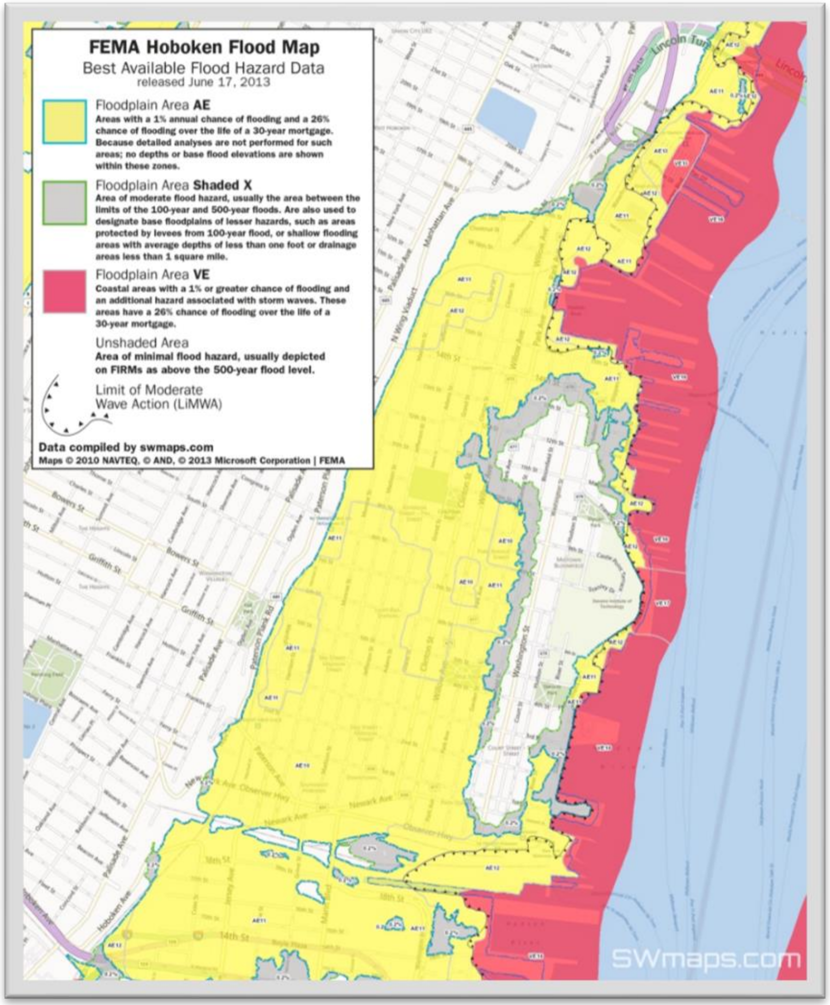
NATIONAL FLOOD INSURANCE PROGRAM

NFIP is a voluntary program, but communities must join and adopt flood management ordinances in order for their residents to purchase NFIP policies. Communities in Special Flood Hazard Areas (SFHAs) must participate to receive disaster assistance loans or grants in connection with floods.

Key Components of NFIP

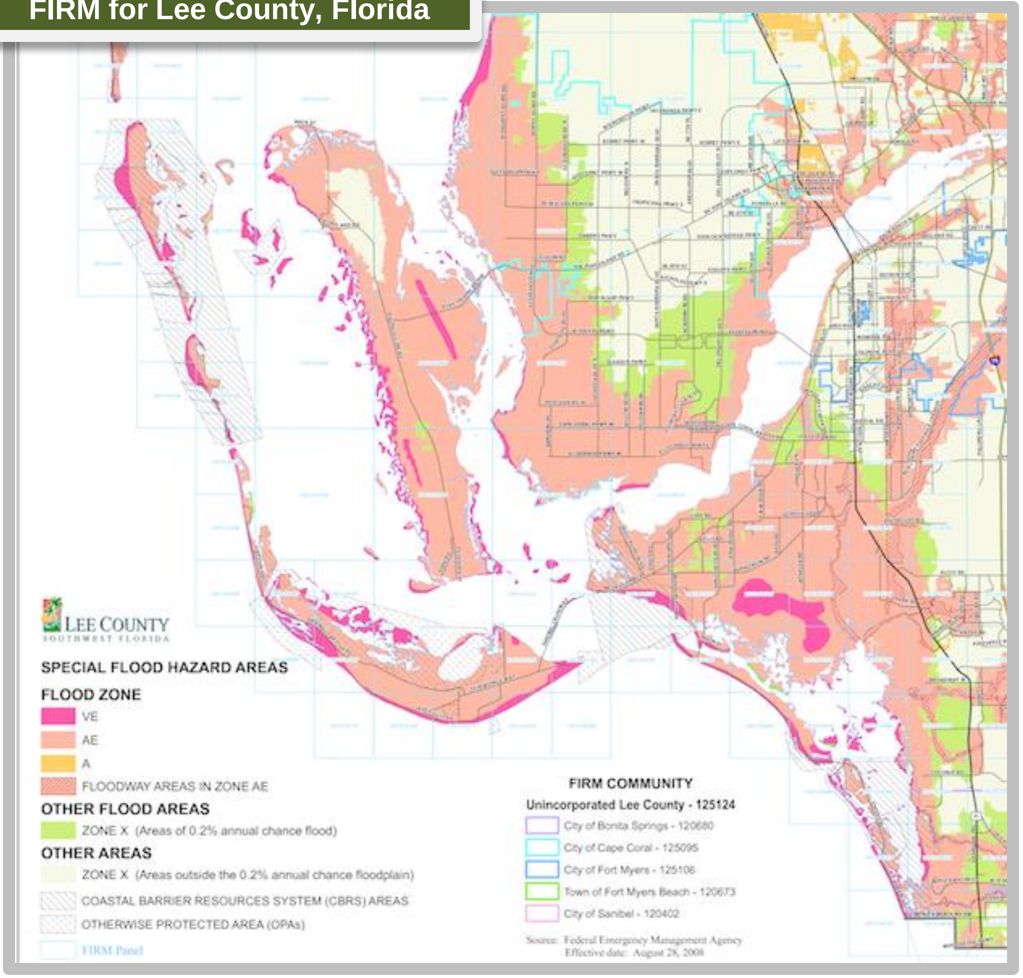
Managed through the U.S. Department of Homeland Security's Federal Emergency Management Agency (FEMA), NFIP has three primary components:

1. **Provides federal flood insurance** to homeowners, renters and business owners in participating communities. Some of these policies are subsidized.
   - NFIP provides **limited policy coverage**: up to $250,000 for residential structures, $100,000 for contents and $500,000 for commercial structures.
2. **Aims to reduce the risk of future flood damage** by requiring participating communities to adopt and enforce floodplain management ordinances.
3. **Develops Flood Insurance Rate Maps (FIRMs)** to provide accurate flood hazard and corresponding premium rates to participating communities. (see sample map at right)



How FEMA Flood Insurance Rate Maps (FIRMs) Work

FIRM for Lee County, Florida



- FIRMs divide geographic areas into **"flood zones"** based on annual risk of flooding. Flood zones with annual flood risk greater than 0.2% are considered **"Special Flood Hazard Areas" (SFHAs).**
- For homes and businesses built in areas where FEMA has already established a FIRM, premium rates correspond to flood zones, i.e. **higher flood risk = higher premium.**
- Homes and business built before FEMA had established a FIRM (**pre-FIRM**) for a given area traditionally receive **subsidized NFIP premium rates.**
- Existing FIRMs are occasionally redrawn by FEMA to reflect changing flood risks. Traditionally, policyholders continue to pay premiums based on the FIRM that was in effect when their property was built. This practice is commonly referred to as **"grandfathering."**

Source: Federal Emergency Management Agency

Fiscal Status of NFIP

NFIP Net Profit or Loss, FY1999-FY2012

1999	$132 million
2000	$553 million
2001	($519 million)
2002	$731 million
2003	$448 million
2004	($497 million)
2005	($1 billion)
2006	($17 billion)
2007	($102 million)
2008	$345 million
2009	($1.8 billion)
2010	$831 million
2011	$1.6 billion
2012	($321 million)

Source: Federal Emergency Management Agency

- As this chart demonstrates, in FY2006 NFIP experienced **massive losses as a result of Hurricane Katrina**; according to a report prepared by the Congressional Research Service for members and committees of Congress, **"Katrina financially overwhelmed the program."**
- Due in large part to losses from Katrina, NFIP was placed on the **Government Accountability Office's (GAO) list of high-risk federal programs** in 2006 and remains on that list. The high-risk list calls attention to federal programs that are "most in need of transformation."
- According to GAO, NFIP owed approximately **$24 billion** to the U.S. Treasury as of July 31, 2013, and suffers from **"structural weaknesses in how the program has been funded – primarily its rate structure."**

Part 3

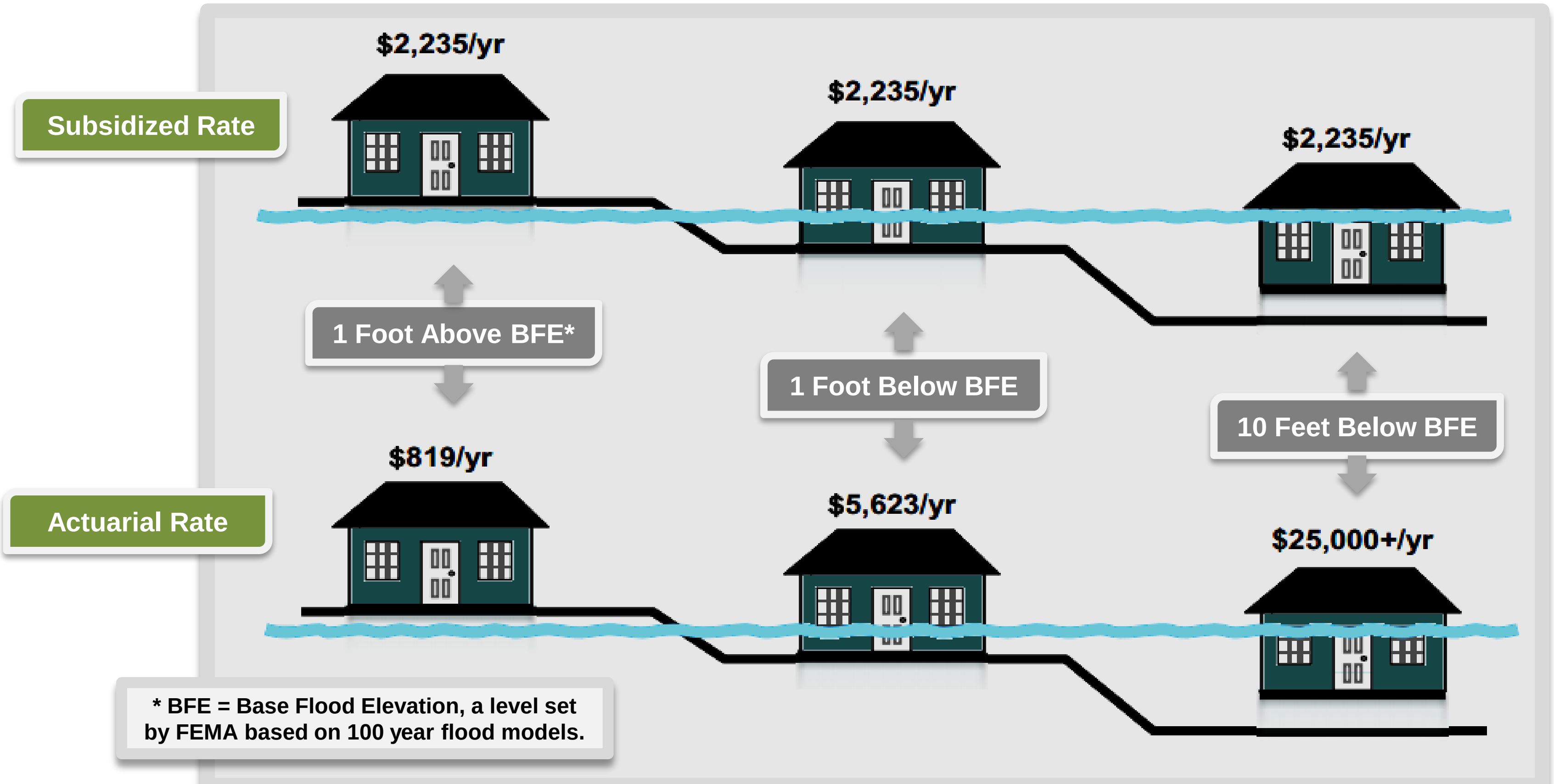
Biggert-Waters Reforms to NFIP and the Impact on Flood Insurance Rates

The Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12)

- **In July 2012, Congress passed the Biggert Waters Flood Insurance Reform Act of 2012 (BW-12), which significantly reformed NFIP in an effort to bring financial stability to the program. The following are the most significant changes:**
  - Gradual **phase-out of subsidized rates** on certain classes of properties to reflect true flood risks. This will result in **rate increases** for many policy holders over time. The Government accountability Office estimates that, as of June 2012, **2,930 counties** had subsidized policies.
    - Traditionally, homes and businesses in **Special Flood Hazard Areas** (**SFHAs**) that were built before FEMA Flood Insurance Rate Maps were drawn ("**pre-FIRM**") paid subsidized rates, which do not reflect true flood risk. As of June 2012, **roughly 21 percent of NFIP policies were subsidized.**
  - NFIP **flood map "grandfathering" will be phased out**: beginning in late 2014 or later, policyholders will no longer have the option of using risk data from previous Flood Insurance Rate Maps (**FIRM**) that were in effect when their home or business was built. This will also result in rate increases.
    - Update: the Homeowner Flood Insurance Affordability Act of 2013 (P.L. 113-89) repeals this provision of BW-12. Grandfathering will be allowed to continue.

Projected Impact of Loss of Subsidized Rates

Based on 2012 NFIP rates for a building valued at $200,000 with contents valued at $80,000.
For some properties, rates will increase by **a minimum of 1,000 percent** over time.



Source: Federal Emergency Management Agency

Projected Impact of Loss of Subsidized Rates

Actual examples of rate increases resulting from Biggert-Waters reforms

14272 Highway 23, Belle Chasse, La.

- Primary residence
- Built fully to code
- Has never flooded

Premium will increase from $632/year to $17,723/year once grandfathered rates are phased out

212 43rd Avenue, St. Petersburg Beach, Fla.

- Primary residence
- Pre-FIRM property
- Has never flooded

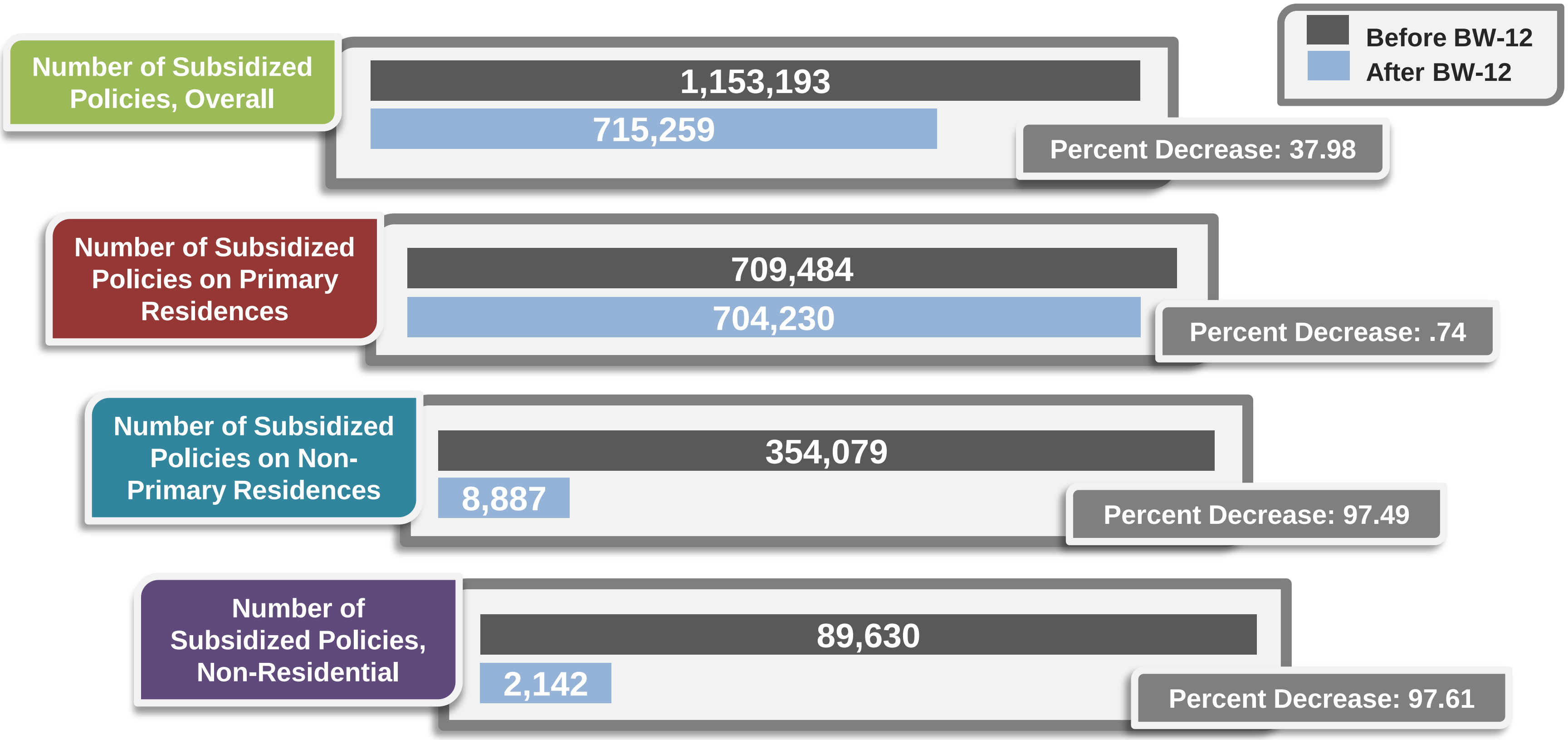
Premium will increase from $1,000/year to $10,872/year when property is sold

Source: Greater New Orleans Inc.

Biggert-Waters and NFIP Reform

Estimated Decrease of Subsidized Policies After BW-12

The graphs below show the impact of BW-12 on subsidized NFIP policies. Nearly all of the subsidized policies still fully in effect after BW-12 will cover primary residences, and those policies will also be phased out over time as homes are sold and policies lapse. **The Government Accountability Office estimates that within 14-18 years, only 100,000 subsidized policies will remain.**

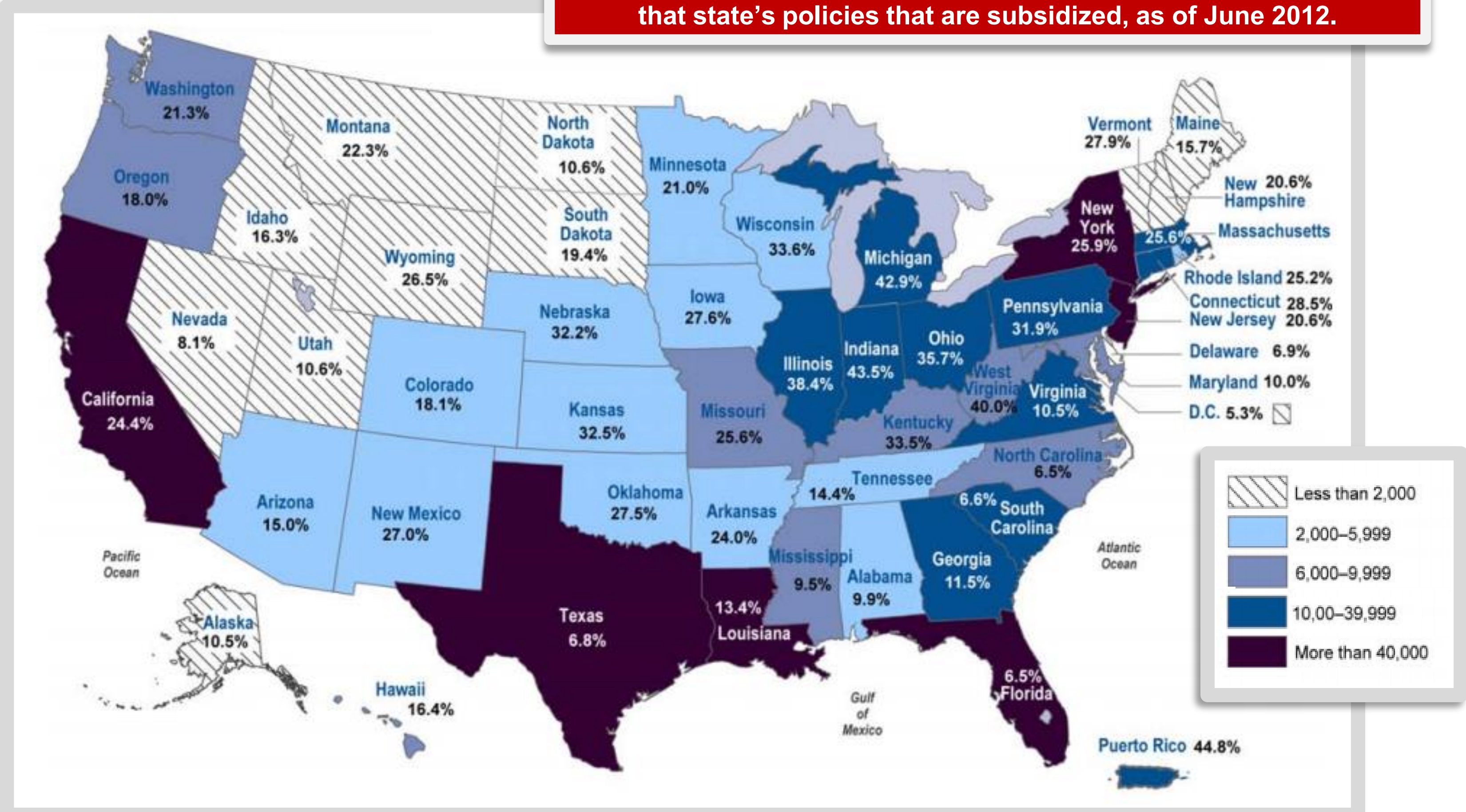


Source: Government Accountability Office

Biggert-Waters and NFIP Reform

Estimate of Remaining Subsidized NFIP Policies by State

Number of subsidized policies in each state and the percentage of that state's policies that are subsidized, as of June 2012.



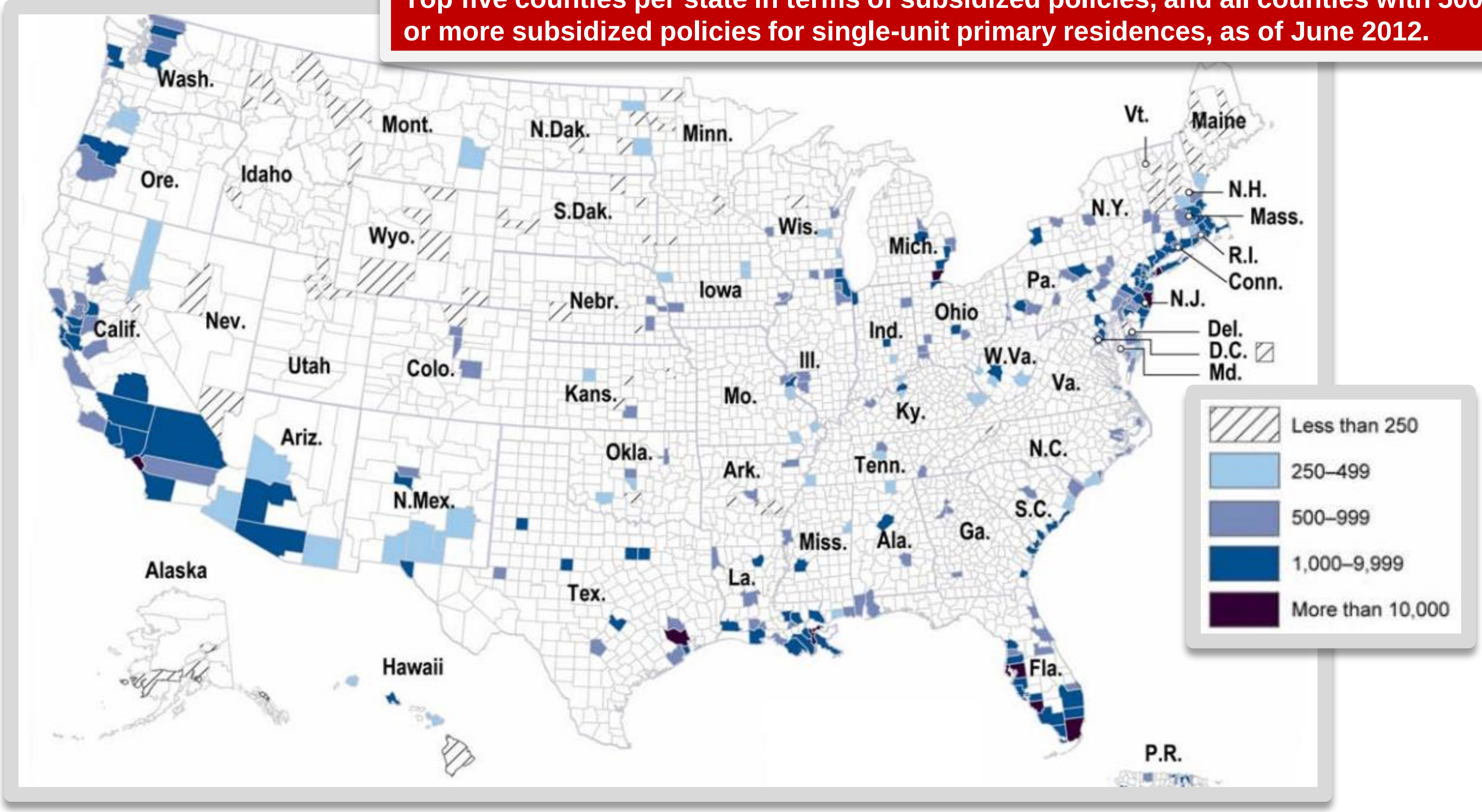
Source: Government Accountability Office

Biggert-Waters and NFIP Reform

Estimate of Remaining Subsidized Policies by County

Policyholders in an estimated **2,930 counties had subsidized policies**, as of June 2012, according to the Government Accountability Office.

Top five counties per state in terms of subsidized policies, and all counties with 500 or more subsidized policies for single-unit primary residences, as of June 2012.

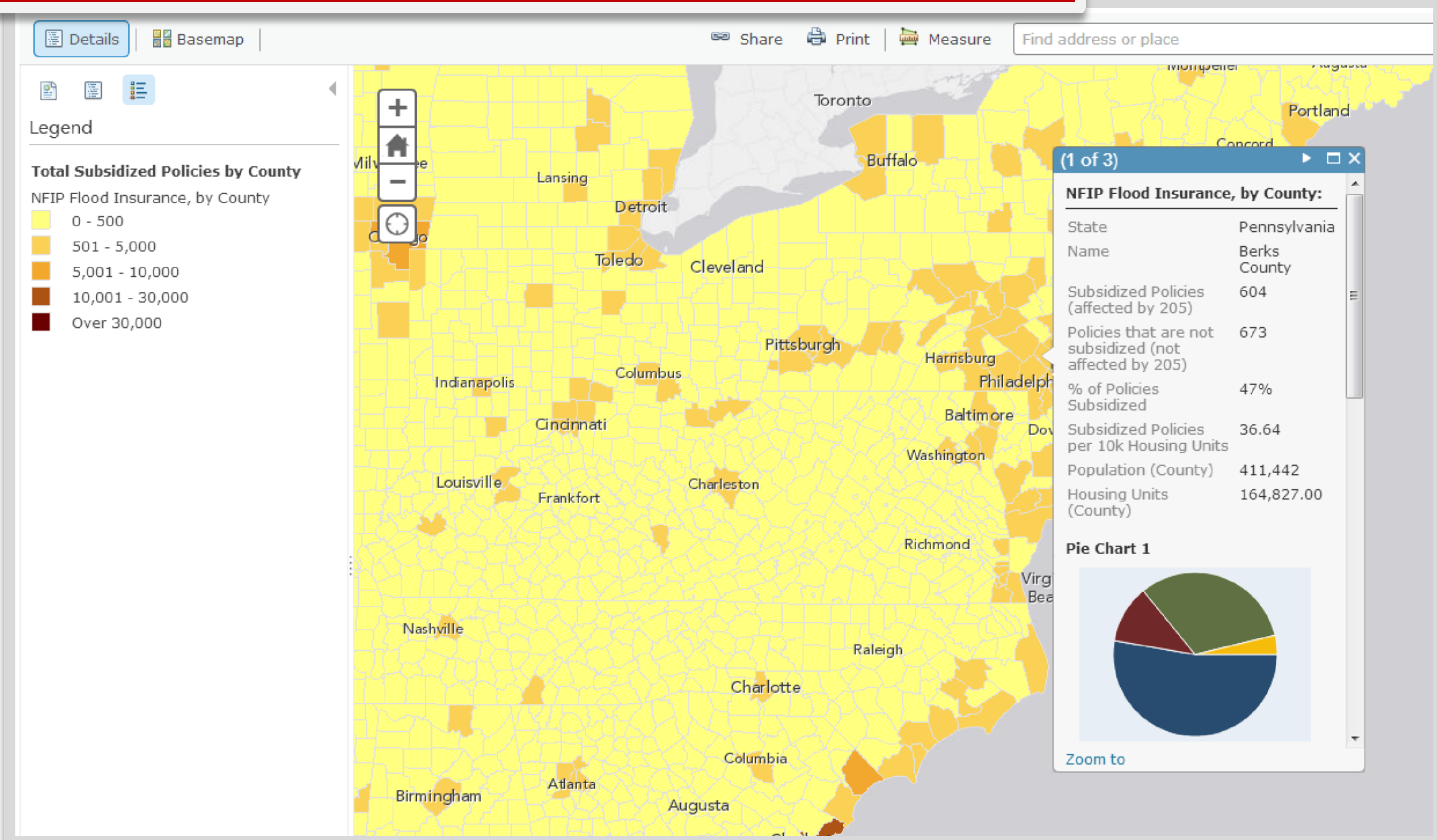


Source: Government Accountability Office

To view remaining subsidized policies in your county and state

visit bit.ly/1hnU3oB

Total Number of Subsidized Policies by State and County as of December 2012



Source: arcgis.com

Part 4

Congressional Response to Biggert-Waters

The Homeowner Flood Insurance Affordability Act

Movement in Congress

- The Senate passed their version of the Homeowner Flood Insurance Affordability Act **(S. 1926)** on January 30, 2014 by a vote of 67-32

- The House of Representatives passed their version of the Homeowner Flood Insurance Affordability Act **(H.R. 3370)** on March 4, 2014 by a vote of 306-91

On January 7, 2014 Sens. Chuck Schumer (D-N.Y.) and Robert Menendez (D-N.J.), joined by NACo President Linda Langston and Second Vice President Sallie Clark, held a press conference in support of S. 1926.

- On March 21, 2014 President Obama signed the Homeowner Flood Insurance Affordability Act of 2014 (P.L. 113-89) into law. This bill mirrors the House-passed version of the Homeowner Flood Insurance Affordability Act (H.R. 3370).

Congressional Response to Biggert-Waters

The Homeowner Flood Insurance Affordability Act of 2014

Key provisions compared to BW-12

Issue	Biggert-Waters (P.L. 112-557) Passed July 6, 2012	Homeowner Flood Insurance Affordability Act of 2014 (P.L. 113-89) Passed March 4, 2014
Pre-FIRM properties (Properties built before the community's flood insurance rate map or FIRM was issued)	Phases out subsidies for second homes, businesses, severe repetitive loss properties or substantially improved/damaged properties	Would retroactively refund insurance rates already collected if the new rates are lower than those previously paid
Grandfathered Properties	Phases out subsidies for grandfathered properties, premium would increase by 20 percent following effective date of remapping	Would permanently repeal section 207 of BW-12, allowing grandfathering to continue
Annual Rate Increases (Subject to FEMA's Authority to Increase Rates)	Increased annual premium rates within any single risk classification from 10 to 20 percent	Would limit annual rate increase to 5-15 percent of pre-BW-12 premiums until actuarial rates are met (based on average within a single risk classification i.e. flood Zone A, Zone AE, Zone V etc.) **5 percent floor only applies to pre-FIRM primary residences** **Limits per property premium increase at 18 percent**

Congressional Response to Biggert-Waters

The Homeowner Flood Insurance Affordability Act of 2014

Key provisions compared to BW-12

Issue	Biggert-Waters (P.L. 112-557) Passed July 6, 2012	Homeowner Flood Insurance Affordability Act of 2014 (P.L. 113-89) Passed March 4, 2014
Addressing NFIP Fiscal Solvency	Requires FEMA to create repayment schedule to eliminate debt; progress to be reported every 6 months Phases out subsidies for second homes, businesses, severe repetitive loss properties	Would implement annual surcharge of $25 for primary residences and $250 for second homes and businesses to be deposited in reserve fund CBO estimates a **zero cost** to the NFIP to implement over a 10 year period (2015-2024)
Home Improvement Threshold	Premium increases triggered when the NFIP property undergoes renovation or substantial damage that equals or is above **30 percent** of the structure's fair market value	Would increase home improvement threshold (renovation or damage) to **50 percent** of the structure's fair market value
Residential Basements	Base flood elevation (BFE) calculated based on lowest floor structure; i.e. lowest floor is the basement floor, regardless of flood-proofing	Would exclude detached structures from mandatory purchase requirement Would allow FEMA to use exceptions and variances for flood-proofed basements

For More Legislative Presentations, Visit www.naco.org

Questions?

Contact Us!

For questions or more information, feel free to contact us

Matthew Chase, NACo Executive Director

Deborah Cox: Legislative Director
dcox@naco.org or 202.942.4286

Paul Beddoe: Health, Deputy Legislative Director
pbeddoe@naco.org or 202.942.4234

Michael Belarmino: Finance & Intergovernmental Affairs
mbelarmino@naco.org or 202.942.4254

Daria Daniel: Community and Economic Development
ddaniel@naco.org or 202.942.4212

Yejin Jang: Telecommunications and Technology, DHS/FEMA
yjang@naco.org or 202.942.4239

Jessica Monahan: Transportation
jmonohan@naco.org or 202.942.4217

Arlandis Rush: Justice, Public and Safety
arush@naco.org or 202.942.4236

Marilina Sanz: Human Services and Education
msanz@naco.org or 202.942.4260

Arthur Scott: Agriculture and Rural Affairs
ascott@naco.org or 202.942.4230

Hadi Sedigh: Workforce and Pensions
hsedigh@naco.org or 202.942.4213

Julie Ufner: Environment, Energy & Land Use
jufner@naco.org or 202.942.4269

NACo was named one of nine remarkable associations in the United States after a four-year study conducted by the American Society of Association Executives and The Center for Association Leadership because of its commitment to members and purpose