Biggert-Waters and the National Flood Insurance Program

The County Perspective

Presidential disaster declarations related to flooding, 1965-2013

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

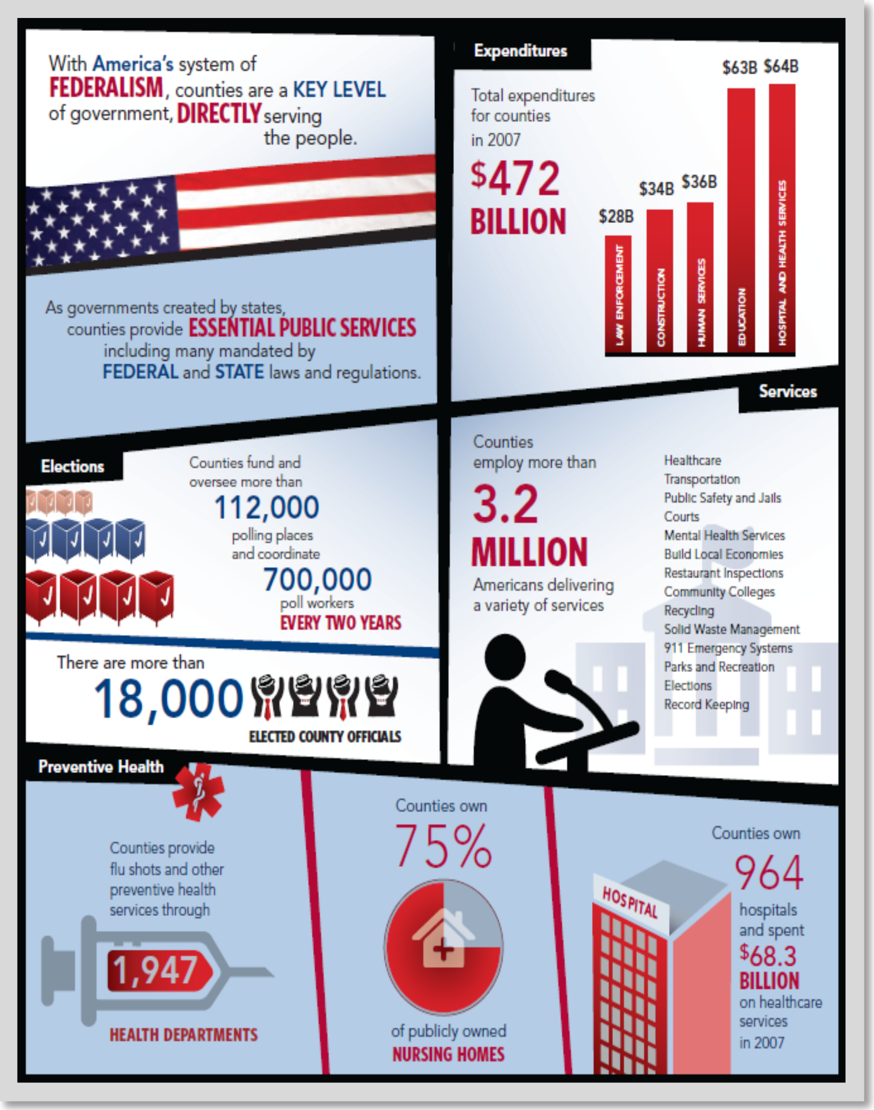
NATIONAL ASSOCIATION OF COUNTIES | JANUARY 2014

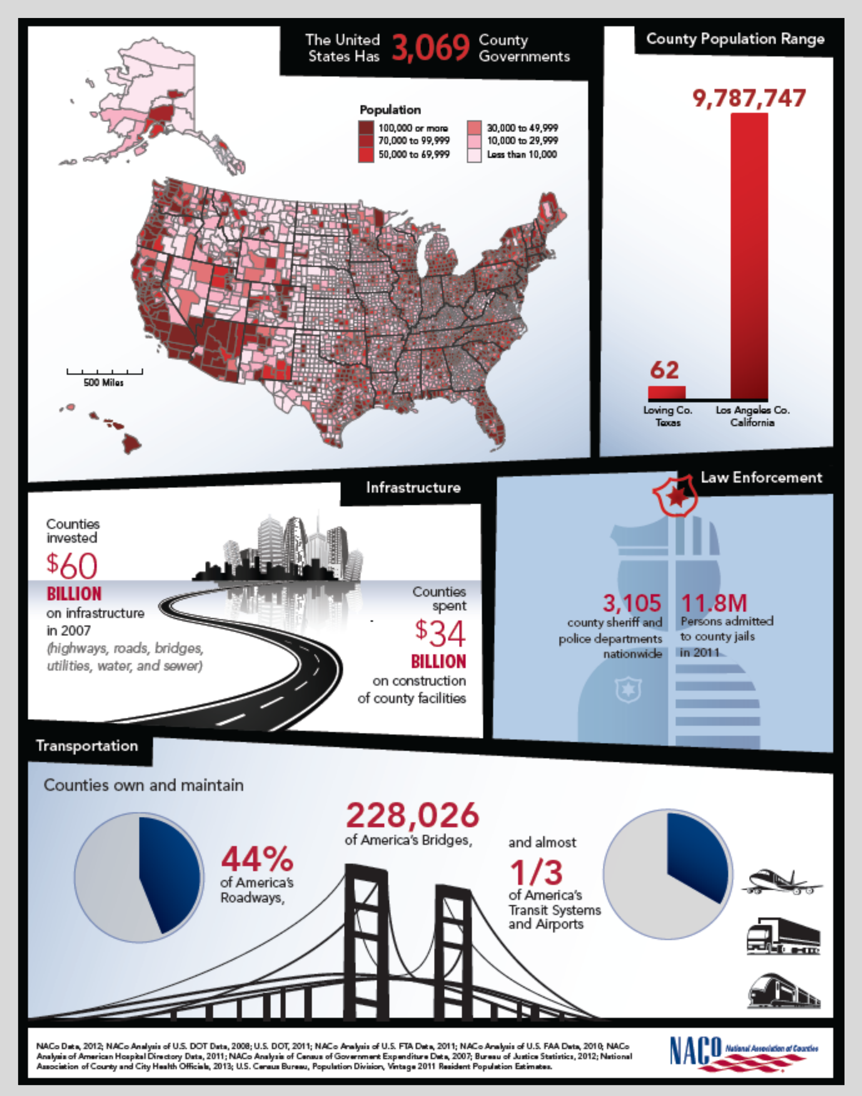
About NACo

- **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





Upcoming NACo Events

2014 Legislative Conference

- March 1-5, 2014 | Washington, D.C.
- Help NACo tackle key federal policy issues
- Network with Administration and Congress officials

2014 NACo Annual Conference

- July 11-14, 2014 | Orleans Parish, LA
- Network with your peers and explore ideas
- Learn about new innovations, trends and emerging practices in county government

Presentation Overview

NACo National Association of Counties
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1. County Perspective

- Why NFIP and Biggert-Waters matter
- NACo policy on NFIP and Biggert-Waters

2. National Flood Insurance Program

- What is NFIP?
- Fiscal status of NFIP

3. The Biggert-Waters Act

- Details of flood insurance reforms
- Impact on insurance rates

4. Congressional Response to Biggert-Waters

- Homeowners Flood Insurance Affordability Act
- **CALL TO ACTION FOR COUNTIES!**

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

Homeowners Flood Insurance Affordability Act: (S.1864/H.R. 3370) proposed federal legislation that would delay drastic premium rate increases resulting from Biggert-Waters

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

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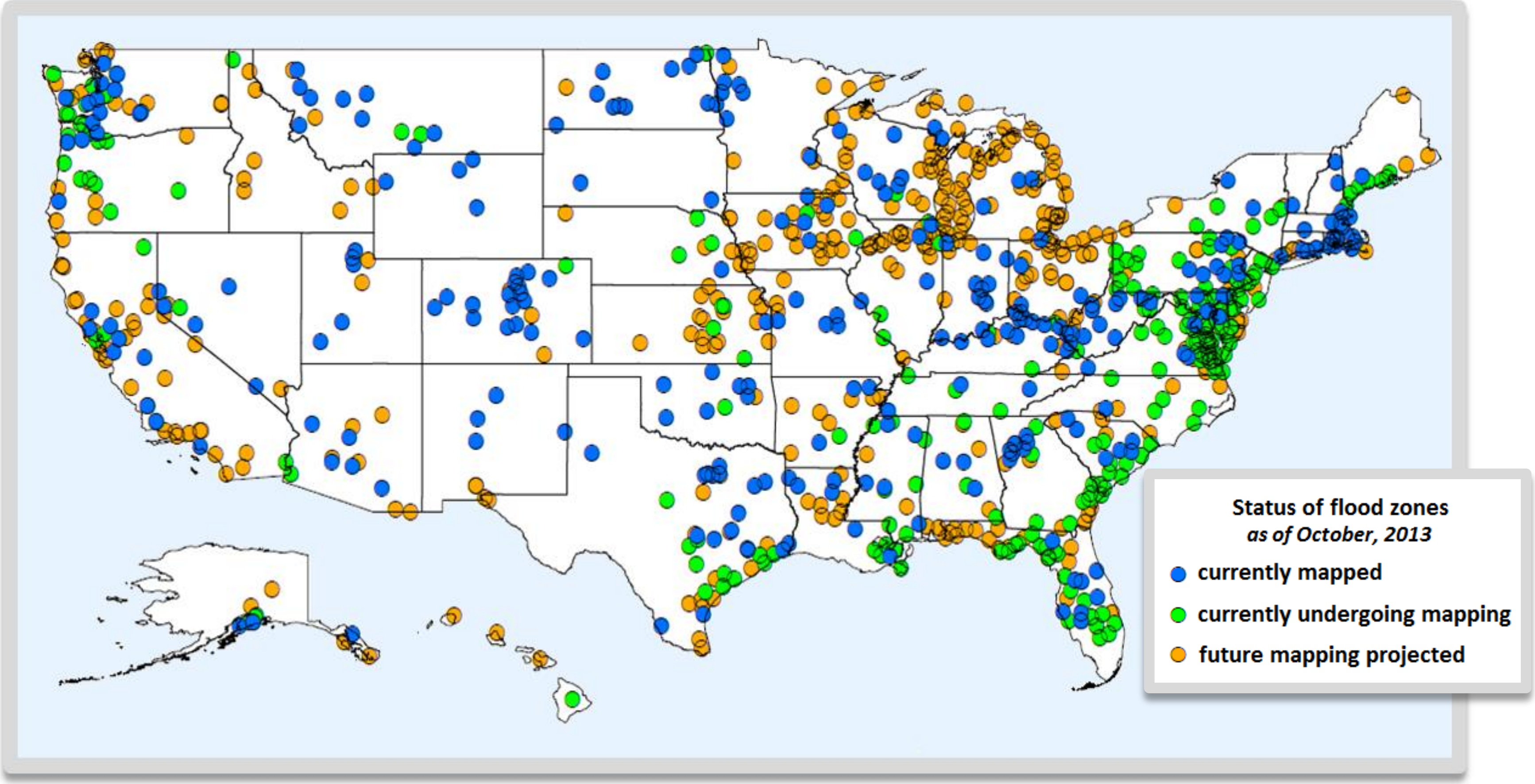
Location and Status of FEMA Flood Insurance Rate Maps (FIRMs)

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.

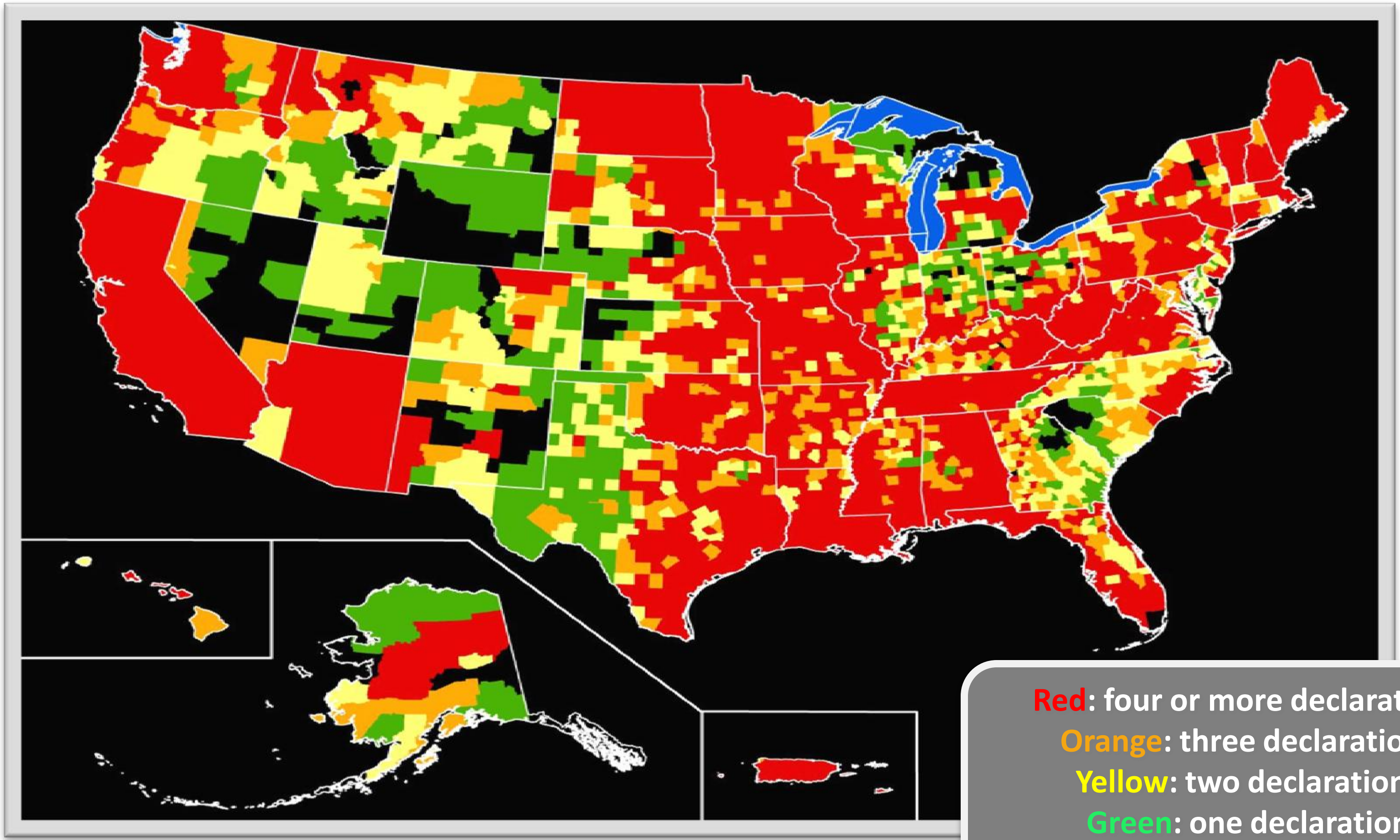
- Communities that participate in NFIP must have, and enforce, a **floodplain management ordinance,** which is meant to lower a community's risk of flooding. This typically requires delegating an individual to implement the ordinance.

- 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

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

County Perspective

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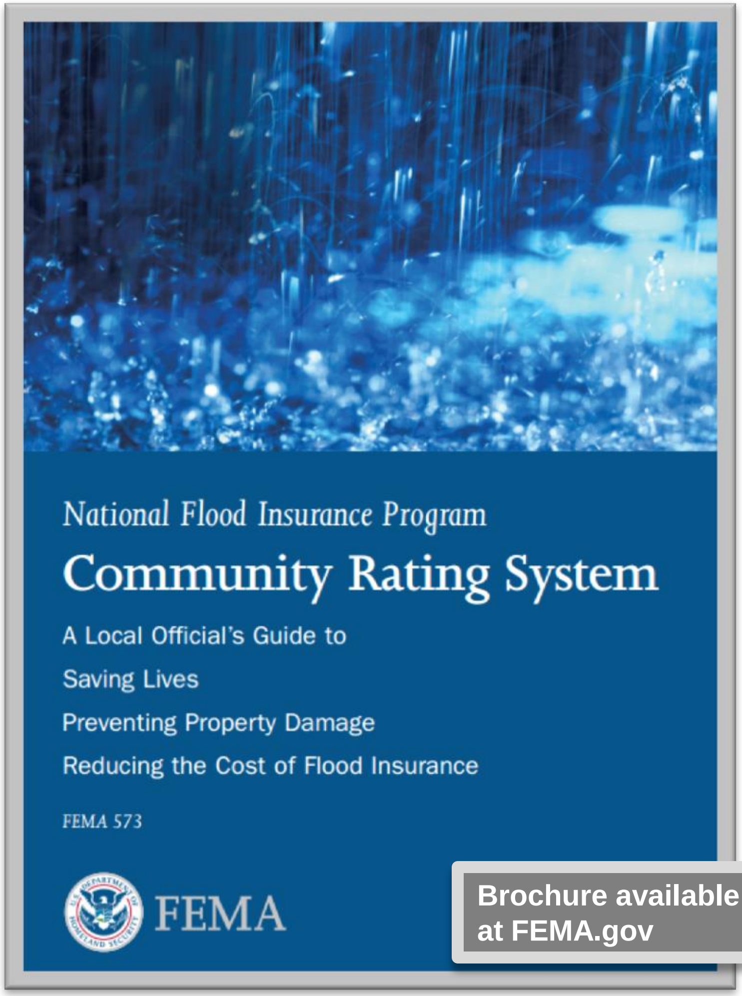
FEMA's Community Rating System

- 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.

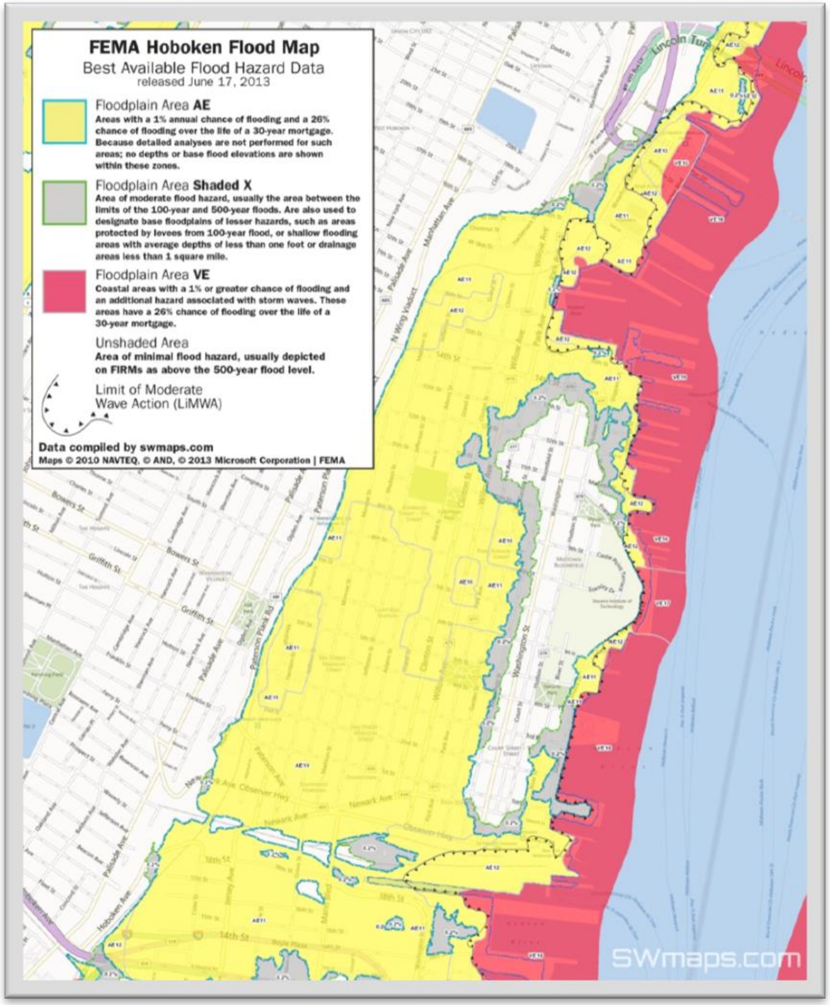
Key Components of NFIP

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)



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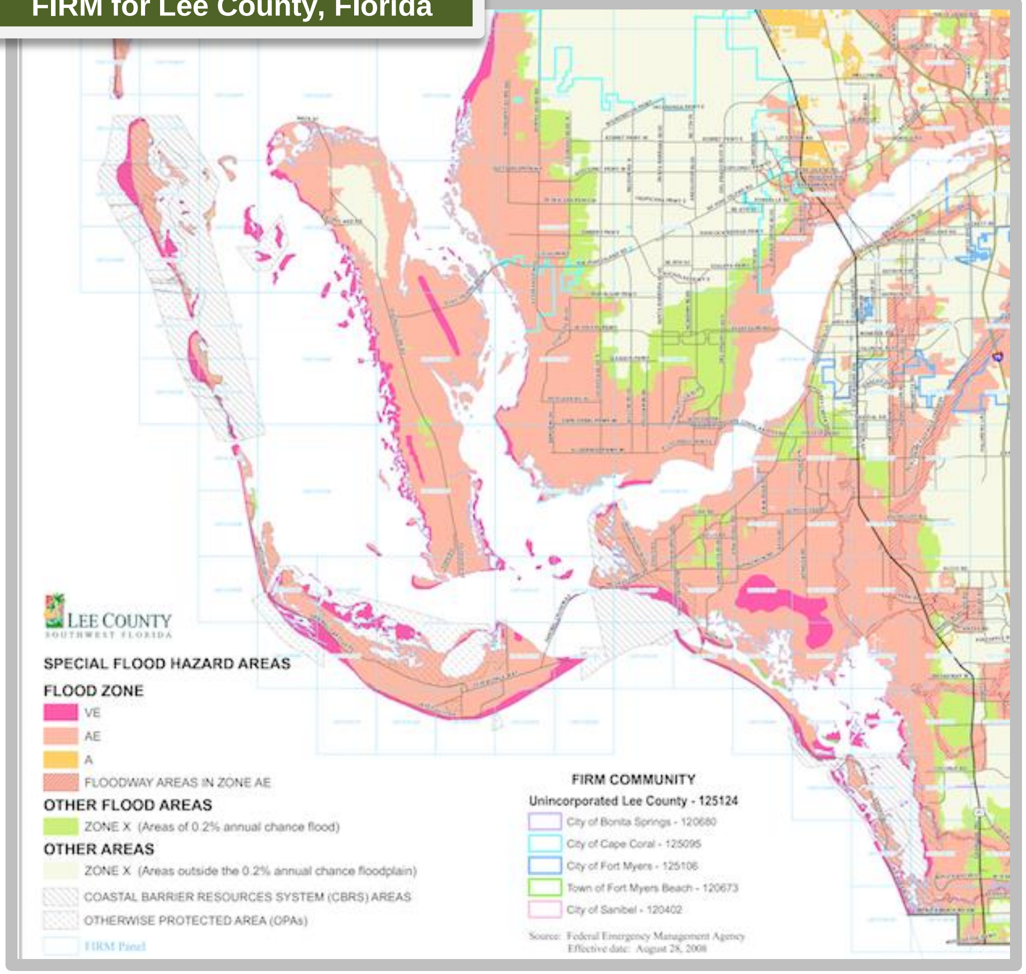
How FEMA Flood Insurance Rate Maps (FIRMs) Work

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

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Fiscal Status of NFIP

NFIP Net Profit or Loss, FY1999-FY2012

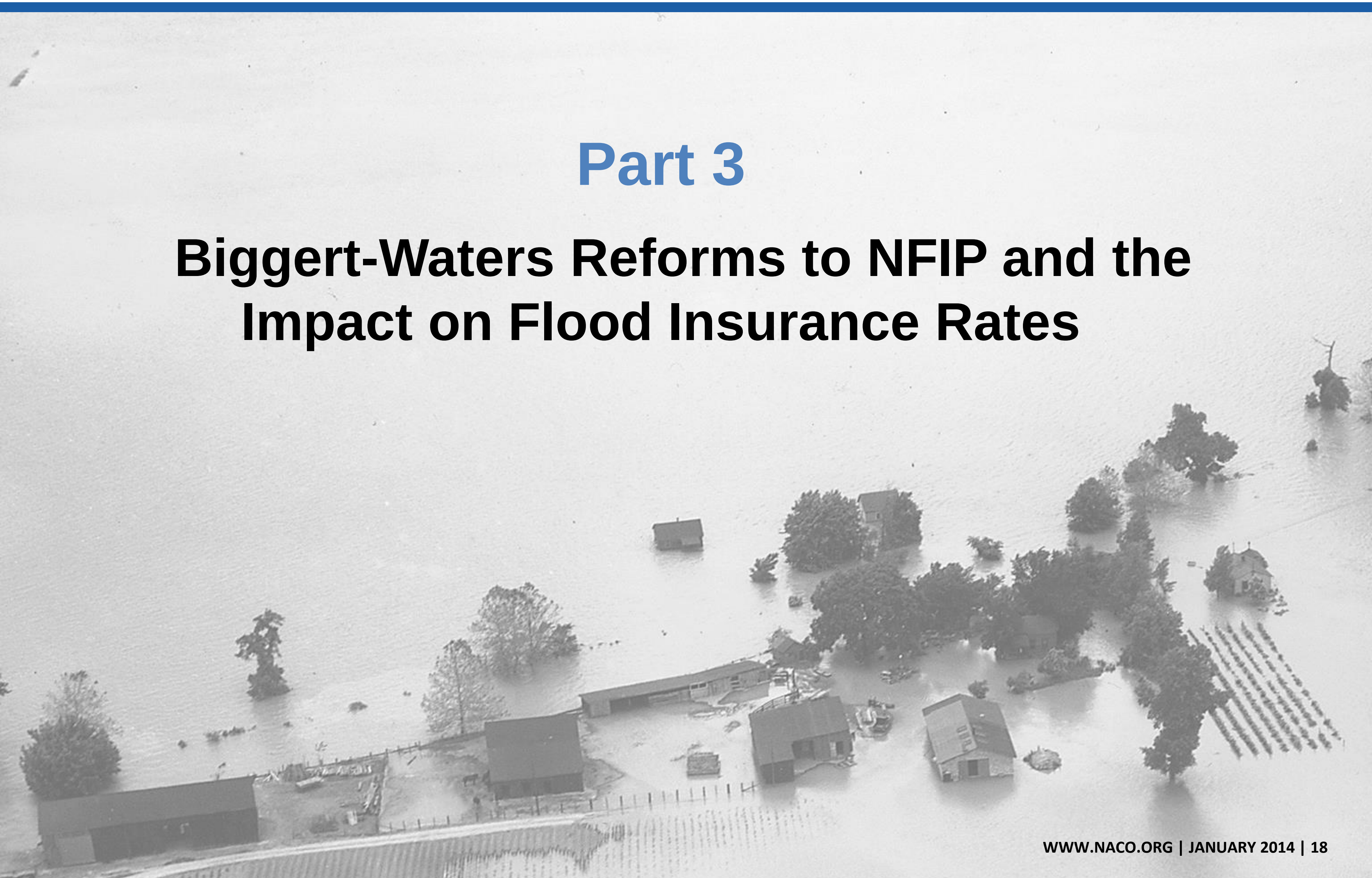
1999	$132 million
2000	$553 million
2001	($519 million)
2002	$731 million
2003	$448 million
2004	($497 million)
2005	($1 billion)
2006	($17 billion)
2007	($102 million)
2008	$345 million
2009	($1.8 billion)
2010	$831 million
2011	$1.6 billion
2012	($321 million)

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
    - 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.

Biggert-Waters and NFIP Reform

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

Schedule of Subsidized Rate Phase-Outs

January 1, 2013

- Owners of **non-primary residences** (i.e., vacation homes) with **pre-FIRM** subsidized rates see a **25 percent annual rate increase** until full-risk rates are reached.

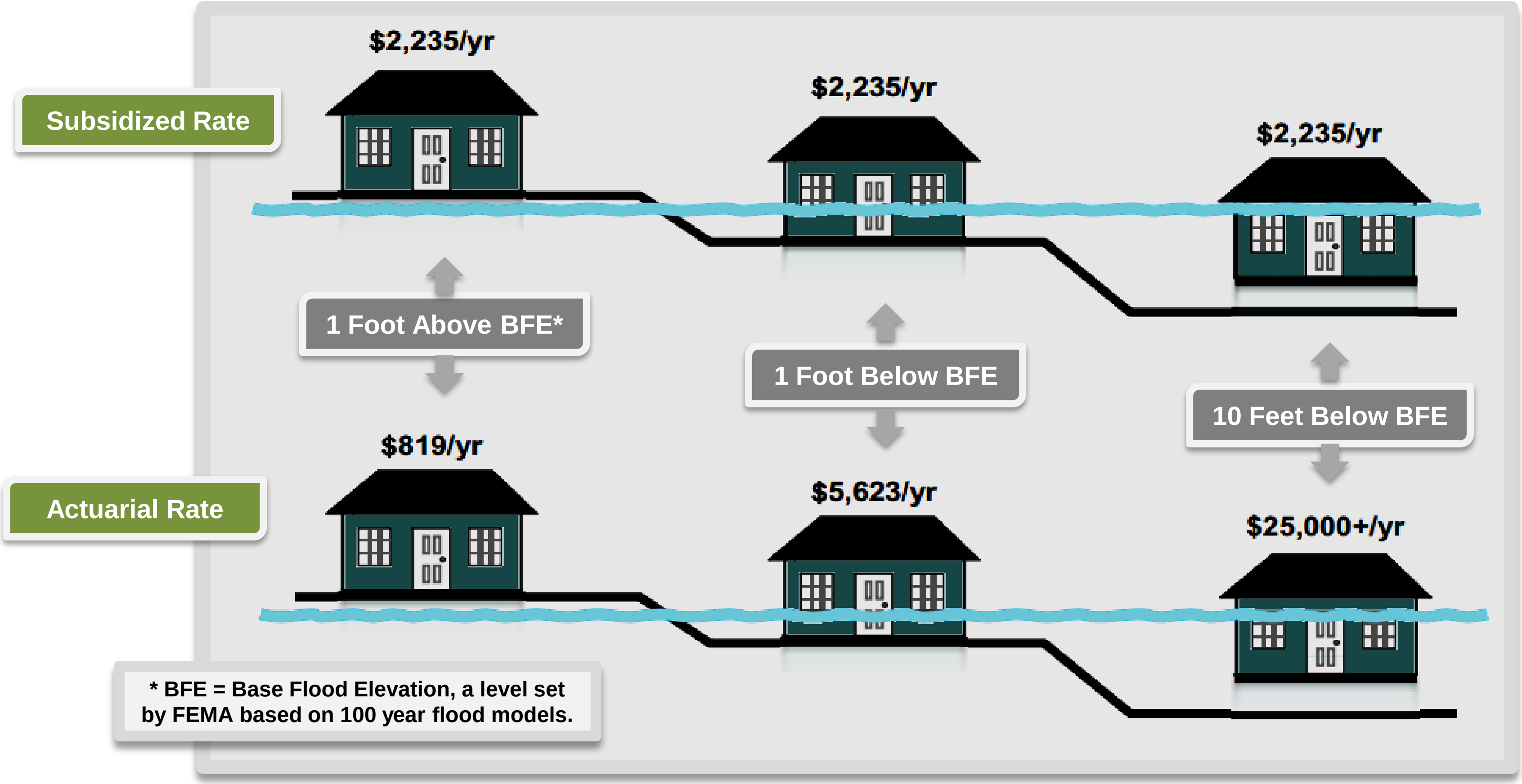
October 1, 2013

- Owners receiving subsidized rates on property that has experienced **severe or repeated flooding** will see a **25 percent annual rate increase** until full-risk rates are reached.
- Owners of **businesses** with **pre-FIRM** subsidized rates will see a **25 percent annual rate increase** until full-risk rates are reached, even if the property has never experienced flooding.
- Pre-FIRM subsidized rate policies taking effect **on or after July 6, 2012** or covering homes purchased on or after that date, will **move directly to full-risk rates**.

Owners of **primary residences in SFHAs** with subsidized rates will keep those rates unless or until: the property is sold, the policy lapses, there is severe, repeated, flood loss, **or** a new policy is purchased.

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.

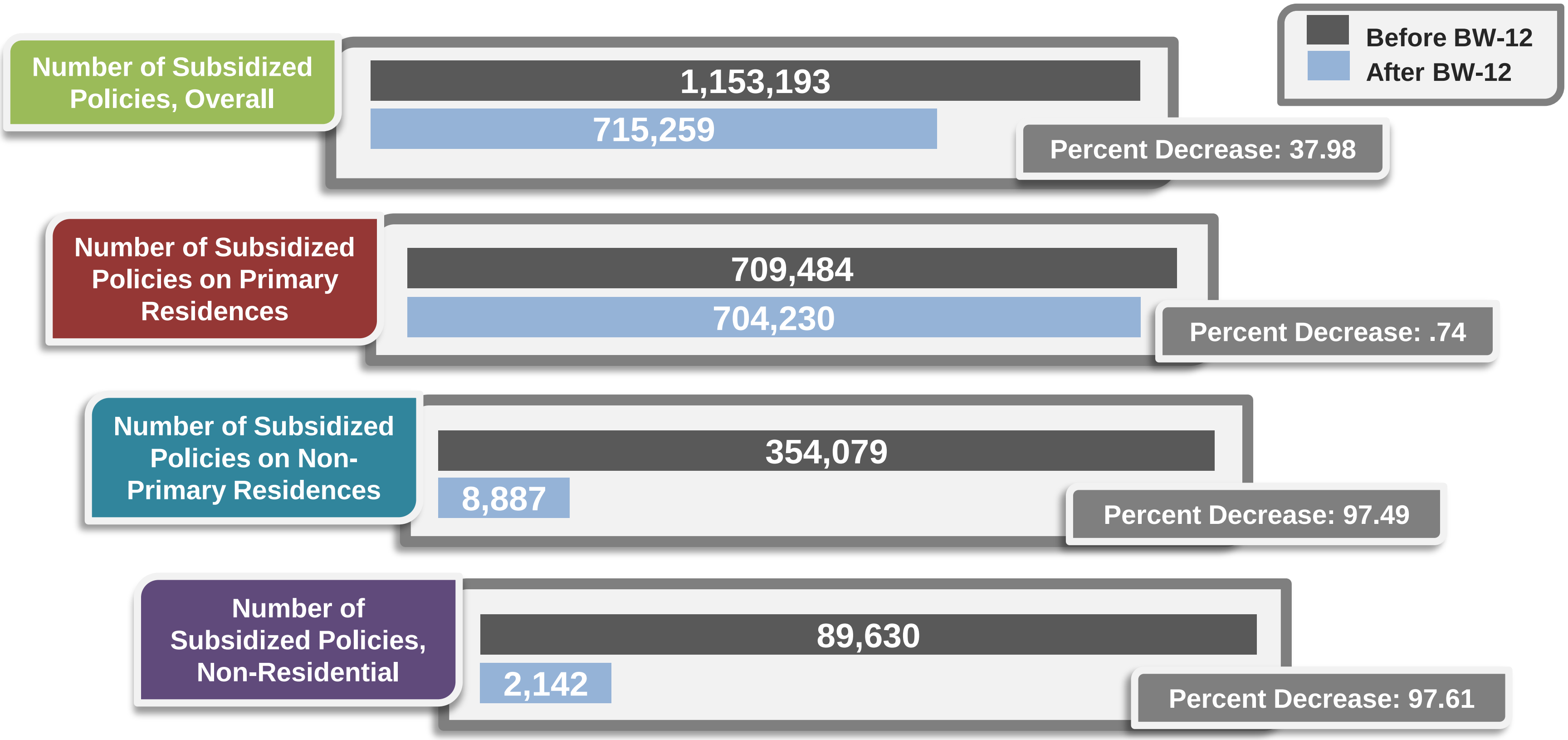
- Primary residence
- Pre-FIRM property
- Has never flooded

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

Source: Greater New Orleans Inc.

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.**

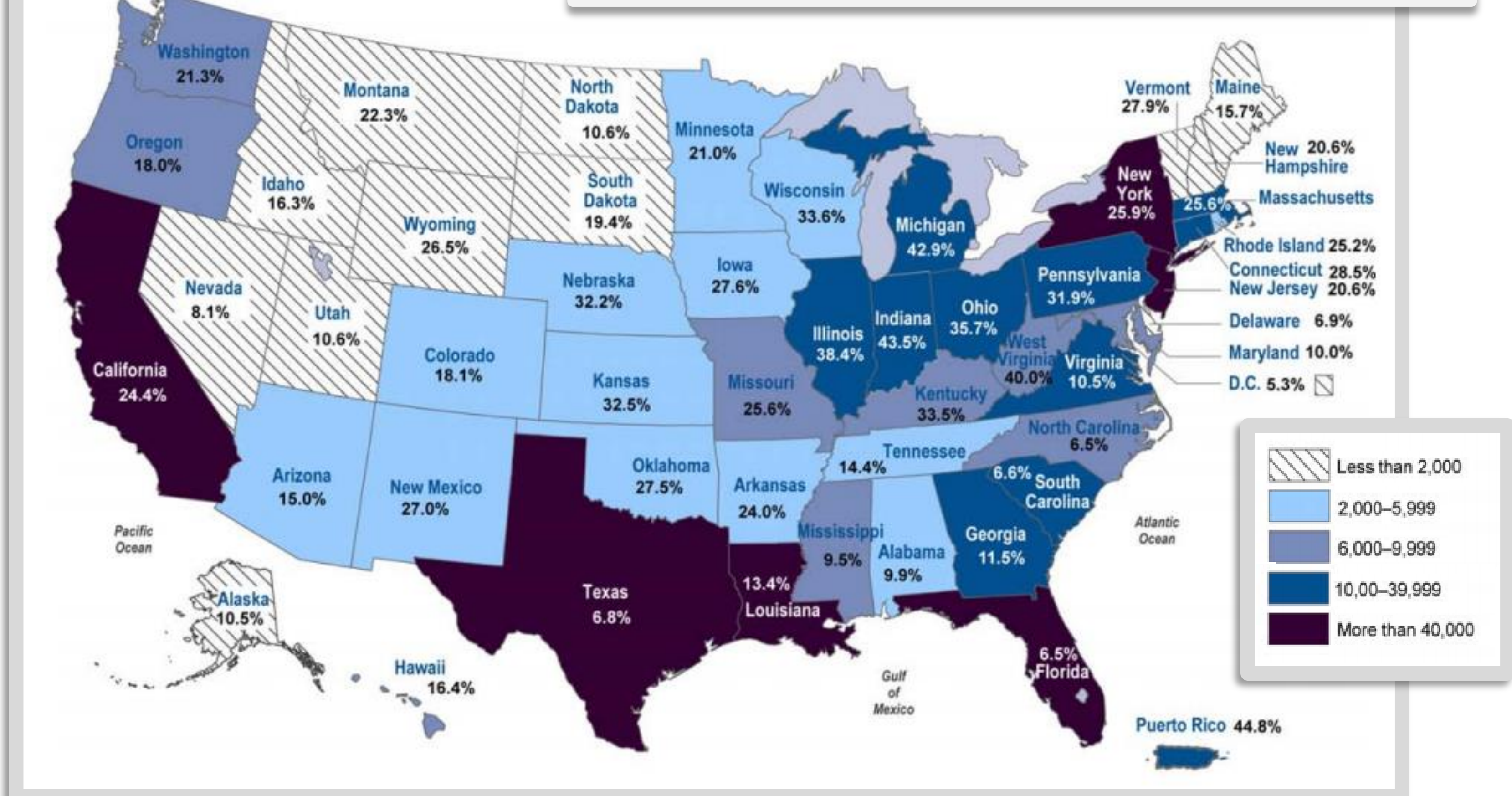


Source: Government Accountability Office

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.



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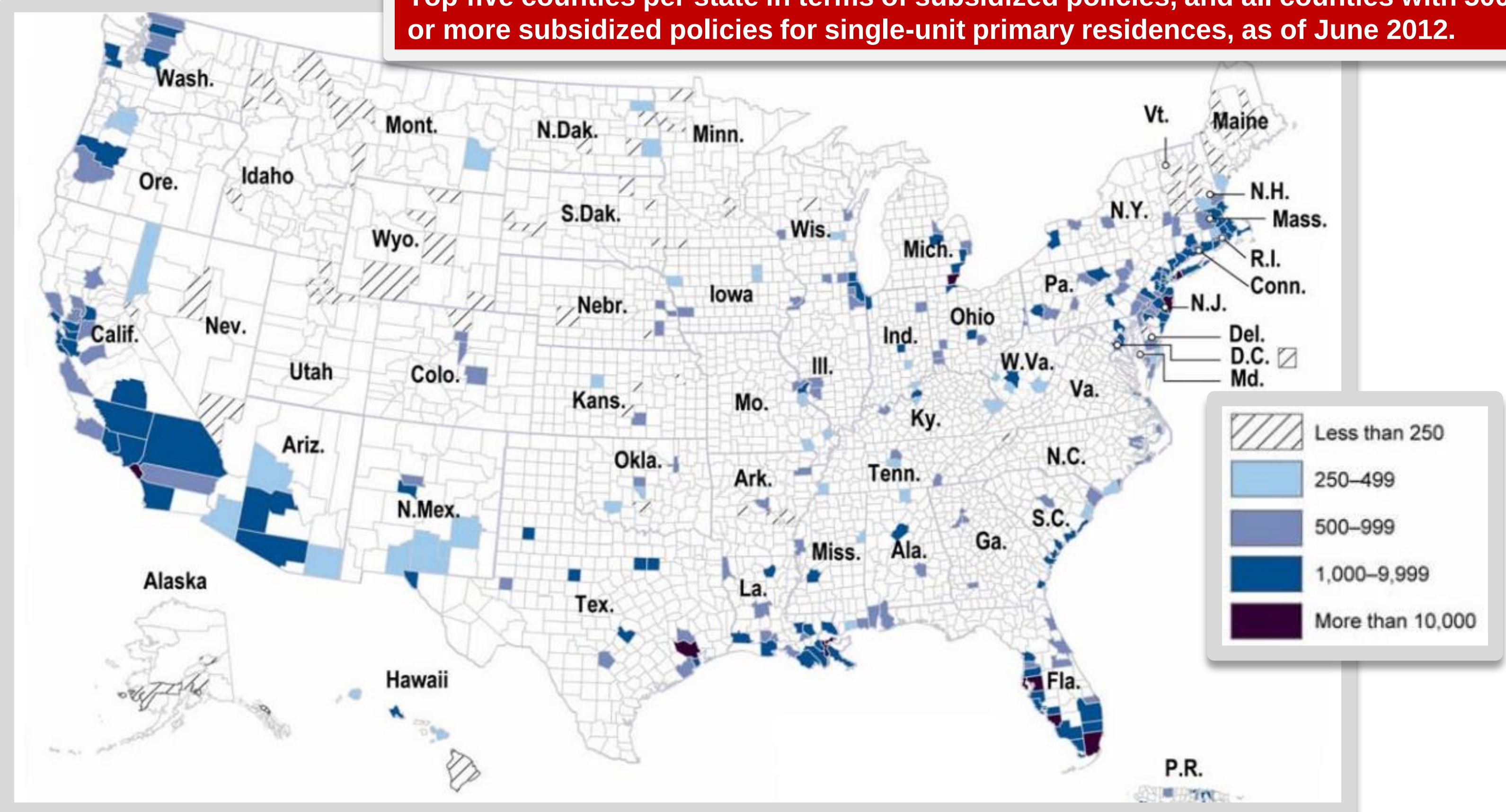
Estimate of Remaining Subsidized Policies by County

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

Biggert-Waters and NFIP Reform

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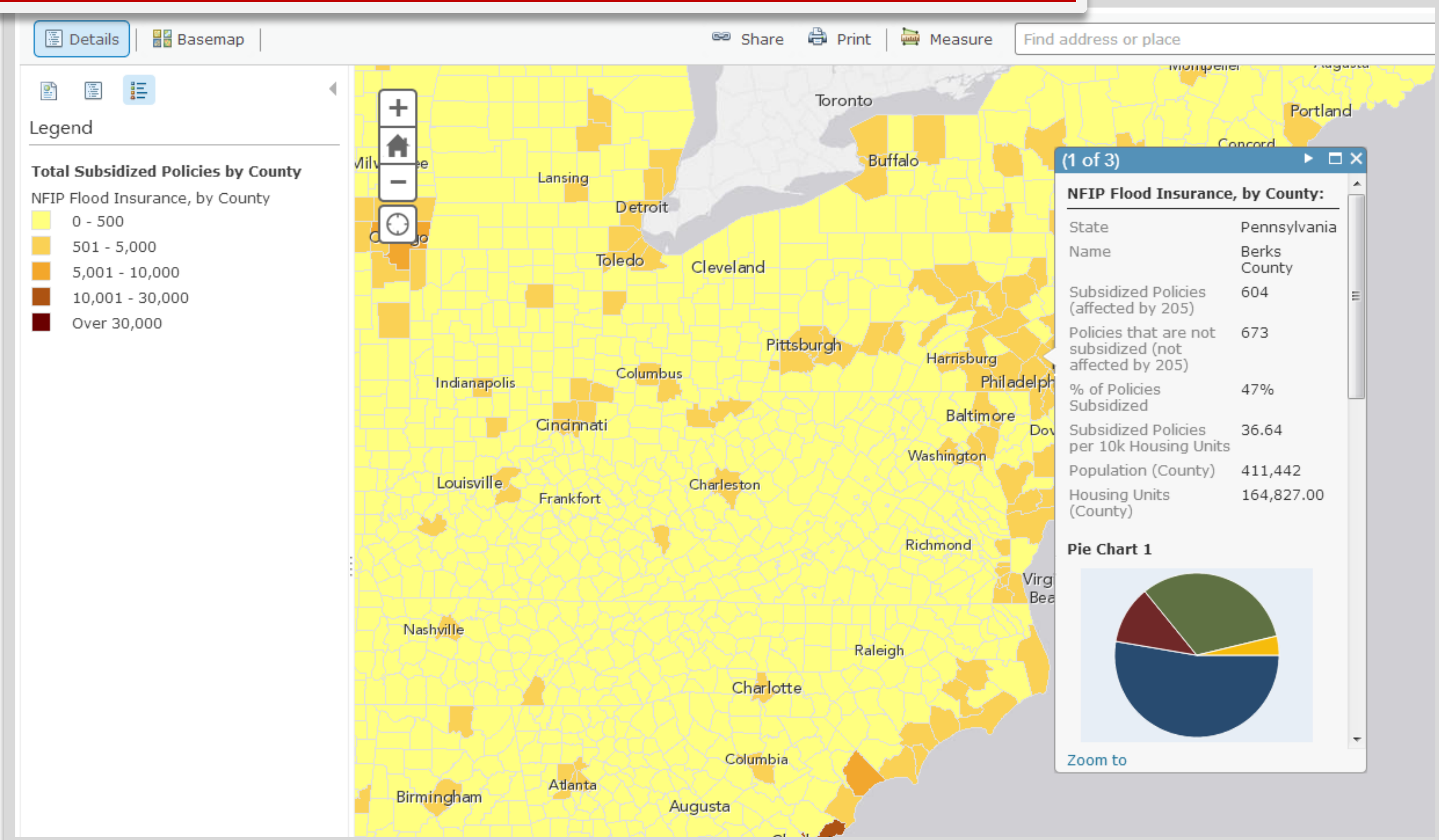
To view remaining subsidized policies in your county and state

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:
NACo Member CALL TO ACTION

The Homeowner Flood Insurance Affordability Act

An Attempt to Delay BW-12 Premium Rate Increases

- Under the Biggert-Waters Act, FEMA is required to conduct a **study on the affordability of risk-based premiums**. The aim of this study is to increase affordability through targeted assistance, rather than broadly subsidized premiums. Apparently as a result of shortages in time and funding, **FEMA has not completed this study**.
- The **Homeowner Flood Insurance Affordability Act**, introduced in the House (H.R. 3370) and Senate (S. 1846) in Fall 2013, would **delay for four years** some of the rate increases (details on next slide) being implemented under BW-12. This delay would give FEMA an additional two years and more funding to complete its affordability study.
    - After completing its study, FEMA would have 18 months to establish a **draft regulatory framework** to address affordability issues identified by the study. Thereafter, Congress would be given six months to review the framework and grant or deny FEMA the authority to propose regulations under the framework.
    - If Congress approves the authority, the freeze on rate increases would continue until the regulations are finalized. If Congress denies the authority, the freeze would be lifted and rate increases would take effect.

The Homeowner Flood Insurance Affordability Act

Details of the Legislation

- The delays in rate-increases proposed by the Homeowner Flood Insurance Affordability Act would apply to three types of properties:
  - All homes and business that are currently **"grandfathered"** (built to code and later remapped into a higher-risk area)
  - All properties covered by a policy purchased after July 6, 2012, but before they were legally required to purchase insurance
  - All **properties sold after July 6, 2012**, unless the property triggers another BW-12 provision, such as Severe Repetitive Loss or non-primary residence status
- The measure would also provide funding to reimburse homeowners for successful appeals of mapping determinations. FEMA currently has the authority to provide such reimbursements, but has never received funding for this purpose.
- The measure also establishes a **Flood Insurance Advocate** within FEMA to answer current and prospective policyholder questions about mapping and rates.

The Homeowner Flood Insurance Affordability Act

Cosponsors and Movement in Congress

- The House version of the Homeowners Affordability Act **(H.R. 3370)** was introduced by Rep. Michael Grimm (R-N.Y.) on October 29, 2013. As of January 13, 2014, the measure has **175 cosponsors in the House**, with 55 Republicans joining 120 Democrats in supporting the bill.

- The Senate version of the bill **(S. 1846)**, introduced on December 17, 2013 by Sen. Robert Menendez (D-N.J.), has **29 cosponsors in the Senate** as of January 13, 2014. Nine Republicans have joined 20 Democrats in supporting the Senate bill.

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. 1846.

NACo thanks the 16 Louisiana parish presidents, Greater New Orleans, Inc. and the Coalition for Sustainable Flood Insurance (CSFI) for their efforts to keep premium rates affordable following Biggert-Waters reforms.

Action Needed!

Please join the National Association of Counties (NACo) in urging Congress to pass the Homeowners Flood Insurance Affordability Act of 2013 (S. 1846/H.R. 3370). The measure was introduced in response to the Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12), which was signed into law on July 6, 2012, and would delay implementation of flood insurance premiums for four years, until after the Federal Emergency Management Agency (FEMA) completes its affordability study and Congress can act on those recommendations. **The bill is anticipated to be considered by the U.S. Senate the week of January 13, 2014, and in the House of Representative in the weeks thereafter.**

- **Call your U.S. Senators and ask them to vote in favor of the Homeowners Flood Insurance Affordability Act of 2013 (S. 1846)**
  - Click here to see if your Senator has cosponsored S. 1846
- **Urge your House Members to cosponsor H.R. 3370, the Homeowner Flood Insurance Affordability Act of 2013 (the House companion bill to S. 1846)**
  - Click here to see if your House Member has cosponsored H.R. 3370

Questions?

Contact Us!

For questions or more information, feel free to contact us

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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

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WASHINGTON WATCH

Federal News for the Nation's Counties

Issue #26 • October 25, 2013

This week's highlights:

- House Passes WRRDA with Overwhelming Support
- House Leadership Names Farm Bill Conferees, Action Needed
- First-Ever FEMA Reauthorization Introduced in House
- House Passes Adoption and Guardianship Bill
- House Committee Holds Hearing on IP transition

Legislative News

House Passes WRRDA with Overwhelming Support
On October 23, the U.S. House of Representatives passed the Water Resources Reform and Development Act (WRRDA) by a vote of 417-3. WRRDA addresses many key issues of importance to counties. WRRDA is based on the Water Resources and Development Act (WRDA), which is biannual legislation last authorized in 2007. More ▸

House Leadership Names Farm Bill Conferees, Action Needed
On October 12, U.S. House of Representatives leaders announced the members of their farm bill conference committee. The newly appointed House conferees will join their Senate counterparts, who were named prior to the August recess, to hash out the differences between the two chambers' farm bills. The House conferees include 17 Republicans and 12 Democrats, while the Senate's consist of 7 Democrats and 5 Republicans. More ▸

First-Ever FEMA Reauthorization Introduced in House
On October 22, leaders of the House Committee on Transportation and Infrastructure introduced the first ever reauthorization of the Federal Emergency Management Agency (FEMA). This bipartisan legislation is designed to ensure accountability and strong Congressional oversight of FEMA. FEMA programs assist states and local communities to better prepare for, respond to, recover from, and mitigate the broad range of hazards frequently facing our nation. More ▸

House Passes Adoption and Guardianship Bill
On October 22, the U.S. House of Representatives unanimously approved the Promoting Adoption and Legal Guardianship for Children in Foster Care Act (H.R. 3205). The bill reauthorizes the Adoption Incentive Grants Program and the Family Connections Grant Program through 2016. County child welfare agencies can apply for Family Connections grants directly. More ▸

House Committee Holds Hearing on IP transition
On October 23, the House Energy and Commerce Committee's Subcommittee on Communications and Technology held a hearing on the topic of IP transition with witnesses from industry, government and think tanks. IP transition commonly refers to the provision of phone service via the internet rather than traditional copper lines; phone service provided through an internet network is called Voice Over Internet Protocol (VOIP). More ▸

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Critical Infrastructure and Cybersecurity
October 30, 2 PM (EDT)
Register ▸

Staying Financially Resilient in the Face of Disaster
November 14, 2 PM (EDT)
Register ▸

Grow Your County's Green Building Industry
November 21, 2 PM (EDT)
Register ▸

Affordable Care Act Part 1: Impact on Counties as Employers
November 22, 2 PM (EDT)
Register ▸