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U.S. Senate
Committee on Banking
hearing
"Reauthorization of the National Flood Insurance Program: Part One"

May 18, 2021

Good morning, Chairman Brown, Ranking Member Toomey, members of the Banking Committee. I am Steve Ellis, President of Taxpayers for Common Sense (TCS), a national non-partisan budget watchdog. Thank you for inviting me to testify at this hearing on reauthorizing the National Flood Insurance Program (NFIP). TCS has worked on flood and disaster related issues on behalf of taxpayers for our entire twenty-six years of existence and I've been involved in flood issues dating back to my days as a young Coast Guard officer dealing with the aftermath of the Great Midwest Flood of 1993. These are critical issues for taxpayers and the country needs smart public policy that protects people and property.

The timing of this hearing is notable considering the first named storm of the extremely active 2020 Atlantic hurricane season appeared on May 16th. The year included a total of 30 named storms, a record. This was on the heels of years of increasing billion-dollar disasters. The Congressional Budget Office estimates that hurricane winds and storm-related funding cost the U.S. economy $54 billion annually including $34 billion in expected annual economic losses to the residential sector. The expected annual cost to federal taxpayers is estimated to be $17 billion.[1]

Taxpayers for Common Sense is allied with SmarterSafer, a coalition in favor of promoting public safety through fiscally sound, environmentally responsible approaches to natural catastrophe policy. The groups involved represent a broad set of interests, from free market and taxpayer groups, to consumer and housing advocates, to environmental and insurance industry groups.

For more than a decade the coalition has advocated reforms to federal disaster policy and in the National Flood Insurance Program that ensure the program is smarter and safer for those in harm's way, the environment, and for federal taxpayers.

[1] Congressional Budget Office. "Expected Costs of Damage From Hurricane Winds and Storm-Related Flooding." April 2019. https://www.cbo.gov/system/files/2019-04/55019-ExpectedCostsFromWindStorm.pdf

Federal floodplain policy and management has enabled unwise development that ironically contributes to catastrophic events. For instance, the flood insurance program subsidizes construction in risk- and disaster-prone areas, making it economically "safe" to build in medium-and high-risk areas by removing the costs of such decision-making. Before Hurricane Katrina in 2005, the federal flood insurance program never borrowed more than $1.5 billion from the U.S. Treasury and loans were repaid with interest. Since the 2005 storms, the program has borrowed more than $35 billion.

One other truism of disasters is that they have a disproportionate impact on poor and minority populations. In many cases these individuals don't have savings to rely on while they rebuild, they may have lost their transportation to work, and their place of business may have been destroyed as well. Because of historically discriminatory policies or a need for lower housing costs, these individuals are often situated in less desirable, more vulnerable, higher risk areas. They may not be able to repay loans made available after disasters or provide sufficient funds of their own to tap federal programs.

On a cost-adjusted basis, billion-dollar disasters in the U.S. have increased from 2.9 per year at an average cost of $17.8 billion in the 1980s to 16.2 disasters per year at an average annual cost of $121.4 billion from 2016-2020.[2] The Congressional Budget Office puts it rather succinctly, "Climate change increases federal budget deficits." And that, "Investment by the government or others in various types of mitigation or adaptation efforts could reduce the costs of climate change."[3]

While it varies by situation and peril, we know that every dollar spent on mitigation can save as much as $6 or more in post-disaster response.[4]

NFIP

It is important to understand the context of how the nation got into the flood insurance business. After years of ad hoc disaster aid being meted out by Congress, the NFIP was established in 1968 to create "a reasonable method of sharing the risk of flood losses through a program of flood insurance which can complement and encourage preventative and protective measures."[5] The program was to make up for a perceived lack of available flood insurance. But even at that time Congress was warned that it was playing with fire. The Presidential Task Force on Federal Flood Control Policy wrote in 1966:

> A flood insurance program is a tool that should be used expertly or not at all. Correctly applied it could promote wise use of flood plains. Incorrectly applied, it could exacerbate the whole problem of flood losses. For the Federal Government to subsidize low premium disaster insurance or provide insurance in which premiums are not proportionate to risk would be to invite economic waste of great magnitude.[6]

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[2] National Oceanic and Atmospheric Administration National Centers for Environmental Information. "U.S. Billion-Dollar Weather and Climate Disasters (2021)." https://www.ncdc.noaa.gov/billions/

[3] Congressional Budget Office. "Budgetary Effects of Climate Change and of Potential Legislative Responses to It." April 27, 2021. https://www.cbo.gov/publication/57019

[4] National Institute for Building Sciences. "Mitigation Saves: Mitigation Saves Up to $13 for Every $1 Invested." 2021.nibs.org/files/pdfs/ms_v4_overview.pdf

[5] P.L. 90-448

[6] U.S. Task Force on Federal Flood Control Policy. "A Unified National Program for Managing Flood Losses." August 1966. P 17. http://www.loc.gov/law/find/hearings/floods/floods89-465.pdf

For 50 years, the flood insurance program has helped fuel a development boom in high-risk areas simply by making it more affordable to take on flood risk. And housing doesn't occur in a vacuum. As areas develop infrastructure follows with roads, bridges, water, electric, and sewer; these all intensify along with residential development. The NFIP has exacerbated exposure to climate change. At the same time, it is negatively impacted by it. As storms increase in frequency, as sea levels rise, this increases the costs to the program. It also increases demand for disaster spending.

In a little over 15 years, NFIP has been forced to borrow nearly $40 billion from taxpayers to pay off claims, so I think it's pretty clear that this "tool" was not used expertly and that the waste issue has come to fruition.

NFIP has subsidized rates in the program virtually since its inception, regardless of need. FEMA estimates more than 25 percent of properties in the program pay subsidized or "grandfathered" rates, where the flood zone designation has changed.[7] Even with the properties that are paying supposedly risk-based premiums, the fact that the program can borrow from the Treasury is a built-in subsidy. The Government Accountability Office (GAO) has documented large cross-subsidies, many of which benefit high-income homeowners.[8] They found that over 78 percent of subsidized properties in NFIP are located in counties with the highest home values (the top three deciles), while only five percent of subsidized properties are in counties with the lowest home values (the bottom five deciles).[9] This represents a real challenge to the program's sustainability. To help address this, grandfathering should not be allowed for any new construction in the floodplain.

The best way to reduce the rate – for property owners and taxpayers – is to reduce the risk. It's not about artificial rate caps that hide the real risk to people, but about finding ways to fund mitigation either at the property level or at the community level. If a property owner is unable to afford the premium, means-tested assistance outside the rate structure should be provided.

We have long called for means-tested premium assistance to help more homeowners obtain flood insurance while shifting away from property-based subsidies. There are a little more than 5 million NFIP policies, but there are well over 100 million housing units. To put the need for flood insurance into perspective, according to FEMA, after 2016's extraordinary heavy rainfall event in Baton Rouge, the average homeowner with flood insurance coverage got $86,500 to rebuild their home, the average person without flood insurance got only $9,100 in individual disaster assistance.[10]

This sadly demonstrates that many people who aren't required to buy flood insurance should. Even with protection from levees, floodwalls, or dams, there is a residual level of risk of flooding.

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[7] Congressional Research Service. "National Flood Insurance Program: The Current Rating Structure and Risk Rating 2.0." January 25, 2021. https://fas.org/sgp/crs/homesec/R45999.pdf

[8] Government Accountability Office. "Flood Insurance: More Information Needed on Subsidized Policies." July 2013.

[9] U.S. Government Accountability Office. July 2013. Flood Insurance: More Information Needed on Subsidized Properties. (Publication No. GAO-13-607). Retrieved from: http://www.gao.gov/assets/660/655734.pdf

[10] Taxpayers for Common Sense. "Weekly Wastebasket: Another Hurricane Season Begins." June 1, 2018. https://www.taxpayer.net/infrastructure/another-hurricane-season-begins/

We strongly urge the Banking Committee to enact a five-year reauthorization of the NFIP in order to get past the annual or even monthly fights.

However, there are several things not to do in reauthorization – such as a number of provisions that have been contemplated in a partisan discussion draft in the other chamber. These include a proposed repeal of the surcharge imposed by Grimm-Waters – a surcharge that was implemented to pay for the repeal of elements of Biggert-Waters. Without offsets for this repeal, more NFIP costs will be borne by taxpayers. This legislation also envisions halving of the cap on premium increases intended to bring some policyholders rates closer in line to their risk, which is also a step backward. It would go from 18 percent to 9 percent. Further the legislation redefines average historical loss year to exclude catastrophic loss years and misrepresent the true costs of the program. The average historical loss year is used to set premiums in an effort to try to ensure they help offset costs to taxpayers. Excluding catastrophic loss years does not eliminate past floods or their costs on communities and taxpayers. The House draft also waves the magic debt-cancellation wand without even reducing the $30 billion borrowing limit - a ridiculously high amount.

As the committee knows, FEMA has launched a new effort to better price actual risk for properties. The new program, Risk Rating 2.0, is supposed to start for new properties and policies in October and for existing policyholders next year. According to FEMA, they worked with public, private, and nonprofit organizations to incorporate more data and flood variables to determine actual risk to properties, and it will be updated annually. In theory, this will reduce some of the cross-subsidies that have plagued the program. In addition, FEMA predicts that 23 percent of policyholders will see an average decrease of $86 a month and 66 percent will see an increase of less than ten dollars and another seven percent an increase of less than $20 per month. Four percent will see an increase of more than $20 per month, but those are for high value homes in high-risk areas. This adheres to the existing rate caps.[11]

This move to Risk Rating 2.0 coincides with long overdue updates to mapping efforts. It goes without saying that there have been enormous technological advancements in mapping and modeling since the program's inception 50 years ago. More advanced technology such LiDAR, 3-D mapping, and computing power enable much more accurate and predictive maps than what have been in use to date.

Speaking of additional data, FEMA's National Risk Index coupled with other data can be used to target mitigation funds to communities and property most at risk and most in need of assistance. By targeting this way, federal funds and assistance from a range of agencies and programs can be used with an even greater return on investment and risk reduction than otherwise.

Conclusion

I want to thank you for inviting me to testify today. NFIP and related disasters are critical issues not just for their budget and taxpayer impacts, but for society as a whole. Federal policies must better promote realistic and responsible solutions to climate change including targeted investments that lift innovative solutions and reflect the needs and experiences of low-income and minority communities. The goal must be to develop risk management and mitigation strategies that enable communities, infrastructure, and industries to become more resilient, face less risk, and can better adapt to and mitigate future costs and damages of climate change.

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[11] Federal Emergency Management Agency. "Risk Rating 2.0 is Equity in Action." https://www.fema.gov/sites/default/files/documents/fema_rr-2.0-equity-action_0.pdf

To that end, I urge the Senate Banking Committee to pursue solutions to these issues in a bipartisan manner as has been done in the recent past. In countless areas across government, this has proved to be the only method to achieve durable and lasting solutions to our challenges. Thank you again, and I'm happy to answer any questions you might have.