Testimony of Steve Ellis
Vice President, Taxpayers for Common Sense

Senate Committee on Banking, House, and Urban Affairs
hearing
"Reauthorization of the National Flood Insurance Program, Part II"

May 4, 2017

Good morning, Chairman Crapo, Ranking Member Brown, members of the committee. I am Steve Ellis, Vice President of Taxpayers for Common Sense (TCS), a national non-partisan budget watchdog. Thank you for inviting me to testify on opportunities and challenges facing the National Flood Insurance Program (NFIP). With the recent flooding in several states just in the past week this hearing is tragically timely. My sympathies are with those affected by the floods. TCS has worked on flood insurance issues and reform of the program for our entire twenty-one 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. This is a critical issue for taxpayers and smart public policy that protects people and property.

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.[1] For a decade the coalition has advocated reforms 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.

Though the NFIP provides critical insurance coverage to those at risk, the program must be significantly reformed to ensure it is financially sustainable, that there are sufficient incentives for reducing future flood damages and vulnerabilities, that it provides better protection for taxpayers who have repeatedly backstopped the program, and that it better protects the environment and promotes the use of nature-based mitigation solutions that have a long term benefit for homeowners and the taxpayers.

[1] Full list of groups is available at www.smartersafer.org

Steve @ taxpayer.net • 651 Pennsylvania Ave SE • Washington DC 20003 • Tel: 202-546-8500 • www.taxpayer.net

SmarterSafer released a comprehensive flood insurance reform proposal in February that is attached to this testimony as an addendum. TCS supports this proposal and I request it be included in the record. The recommended reforms are grouped in four main areas:

1. Risk analysis and mapping must be up to date and must provide property level elevation data.
2. Rates must be tied to risk, with support for mitigation and premium support for low-income homeowners.
3. Increased federal investments and efforts on mitigation both at a property level and community wide, so that we are reducing rates by reducing risk.
4. Ensuring consumer choice and private sector competition which will also reduce taxpayer exposure.

Background on the National Flood Insurance Program

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 National Flood Insurance Program (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."[2] 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.[3]

With the program nearly $25 billion in debt to taxpayers, it is clear that the program has resulted in a waste of great magnitude and not promoted a wise use of floodplains. In fact it represents a significant lost opportunity to strengthen our country's protections against natural disasters. Although subsidies were largely envisioned to be limited and short-term, they weren't. And while the program has encouraged standards and construction that help reduce flood risks for participating communities, the availability of subsidized federal flood insurance over the last several decades made it financially attractive to develop in high risk areas. Along with other factors, NFIP helped fuel the coastal development boom that increased the program's risk exposure and losses.

---

[2] P.L. 90-448.

[3] 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

$25 Billion in Debt and Subsidized Rates

There is a general misperception that NFIP is financially healthy but for a couple of large storms—namely Katrina and Sandy. However, for years prior to Katrina, NFIP teetered on either side of solvency, covering shortfalls with Treasury borrowing and repaying the loans in years of surplus. Then in 2005, the inevitable happened – a catastrophic loss year – and after Katrina, Rita, and Wilma, the program was roughly $18 billion in debt to the Treasury. That was followed by the Superstorm Sandy losses in 2012 which resulted in the program being $23 billion in debt to taxpayers.

Losses continue to grow, however, with 2016—as a result of Hurricane Matthew and several other rain events—representing one of NFIP's largest loss years with $3.7 billion in payouts triggering additional borrowing from the Treasury. The program is now nearly $25 billion in debt to U.S. taxpayers. As storms and flooding become more frequent and more severe, the debt in this program will only continue to grow. Nuisance flooding, disaster declarations, and billion dollar disasters are all on the rise; leaving the flood program as is basically guarantees additional borrowing from the Treasury.

To put the program's debt into perspective, FEMA data indicates that in 2016 the 5.1 million policies resulted in $3.3 billion in premium to insure $1.25 trillion worth of property.[4] The Government Accountability Office has estimated that approximately 20 percent of policies are explicitly subsidized and paying only 35-45 percent of their actual full-risk level premiums.[5] These numbers have likely changed some subsequent to the enactment of the Homeowners Flood Insurance Affordability Act of 2014, also known as Grimm-Waters.

As this Committee well knows, reforms to the NFIP were enacted in the Biggert-Waters Flood Insurance Reform Act of 2012 to align premiums with risk, which would not only help program solvency, but also help policyholders better understand their risk and take measures to mitigate that risk. Despite some concerns, TCS and SmarterSafer supported the 2012 legislation while also favoring additional efforts to help address affordability. Unfortunately, in Grimm-Waters, Congress rolled back many of the reforms that would have led to more actuarial rates. The rollbacks actually exacerbated the inequities in the program, placing surcharges on policies to pay for continued subsidies.

The authorization for NFIP expires September 30, 2017. Before the long-term reauthorization in 2012, NFIP required 17 extensions after the 2004 reauthorization expired in 2009 and even occasionally lapsed only to be temporarily reauthorized retroactively. We think all involved should work together so the program doesn't lapse again. That said, TCS believes that a five year reauthorization schedule is preferable to a longer one that would delay adjustments and reforms to the program. To put it in perspective, if the 2004 reauthorization would have been

---

[4] Federal Emergency Management Agency. Available at: https://www.fema.gov/statistics-calendar-year

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

for ten years, the 2005 storm season and Superstorm Sandy would have occurred in that time period with no opportunity to make clearly needed reforms.

Risk Analysis and Mapping

FEMA is required to map the Special Flood Hazard Area (SFHA). This delineates the area considered to have a one percent chance of flooding in any given year (so-called 100-year floodplain) and therefore has a mandatory purchase requirement for federally backed mortgages. These maps are the backbone of the NFIP and are used to determine rates. However, the flood maps do not look at property level risk or elevation, and this means that there is a lack of confidence in maps and the risk analysis provided by those maps. The current lack of confidence in the flood maps hobbles FEMA implementation of the program.

Mapping is both a challenge and an opportunity. Technology has enabled greater level of detail and accuracy in mapping. It also can be used by the private sector for more intensive risk analysis and modeling that can benefit private sector flood insurance alternatives (and NFIP as well) particularly in providing risk-based coverage in areas outside the SFHA. In addition, flood claims should inform mapping. While it is true that just because a property has never flooded in no way guarantees it won't flood, the converse does provide an indicator. Absent significant mitigation action for structural changes, a property that has flooded is certainly at risk of flooding again. Yet, in a three-part series published in early 2014, NBC News documented instances where FEMA agreed to remap out of the floodplain large condominiums built in previously flooded areas.[6] One company head that made the remapping program his business (only for commercial properties, not residential) dubbed himself Robin Hood. Hardly. Maps have to be accurate for both sides. Taxpayers and ratepayers.

Mapping also has to be smarter. Private companies are using tools that enable property level mapping and elevation. The SmarterSafer reform proposal includes requiring FEMA to move to a system of more granular, property level mapping. This would not only ensure proper risk analysis and rates, but it would take the onus off of homeowners who now have to go through a burdensome and expensive process if they believe they are mapped incorrectly. To ensure that maps are accurate and inform property owners, government officials, and the public at large, SmarterSafer urges Congress to make revisions to FEMA's mapping requirements. Many of these recommendations are consistent with those of FEMA's own Technical Mapping Advisory Council.

To help people understand their risk and to ensure proper NFIP rates, maps must be up-to-date and accurate, and property elevations (or effective proxies) must be known. Private companies already perform assessments of risk to individual properties—something that is not currently reflected in FEMA maps. FEMA must be required to update its maps, include the best science on known conditions and risks, but also conduct (or purchase) property level (or close

---

6 Dedman. "Why Taxpayers Will Bail Out the Rich When the Next Storm Hits US" http://www.nbcnews.com/news/investigations/why-taxpayers-will-bail-out-rich-when-next-storm-hits-n25901 NBC News.

to) risk assessments. The government must continue to map for purposes of the Special Flood Hazard Area designation (which triggers mandatory purchase requirements); however, this is not enough. FEMA should be required to assess elevation at a higher resolution or conduct more granular risk analysis. This is something that is possible—the state of North Carolina has undertaken a mapping effort where they have not only gotten property level data at a reasonable cost, but they have a digital system to allow property owners to search and understand their risk, potential flood premiums and mitigation options. FEMA should be required to move in this direction.

There are also many different federal agencies that engage in mapping. This should be more coordinated and shared among agencies to avoid duplication. This is also where – and I know this is also outside the committee's jurisdiction – the nation's mitigation and pre-disaster programs have to dovetail with NFIP and post-disaster response.

More needs to be done for the public to have a greater understanding of their flood risk. As discussed earlier, FEMA is tasked with mapping the SFHA for the mandatory purchase requirement. That is a federal mandate that isn't likely to change. However these maps are static – lines on a map designating various flood risk areas and charging various rates based on those risks. If a homeowner has an elevation certificate that proves they are elevated "out" of the floodplain they can have those rates adjusted. But the creation of the rates are sort of a black box and it is not entirely clear that even "full-risk" rates are actuarially sound.[7] In some cases there are significant cross-subsidies where lower risk properties pay more to maintain subsidies for higher risk properties.

Risk-based Rates, Targeting Mitigation and Premium Support

NFIP has subsidized rates in the program virtually since its inception, regardless of need. FEMA estimates 20 percent of properties in the program pay subsidized rates, but that doesn't include properties with grandfathered rates where the flood zone designation has changed. Even with the properties that are paying supposed risk-based premiums, the fact that the program can borrow from the Treasury is a built in subsidy. The GAO has documented large cross-subsidies, many of which benefit high-income homeowners.[8] The Government Accountability Office 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.

TCS and SmarterSafer believe that rates in the program must over time be linked to risk while understanding that there may be some in the program who will need assistance in order to pay

---

[7] Beider. "Understanding FEMA's Rate-Setting Methods for the National Flood Insurance Program." Congressional Budget Office. October 7, 2014. Available at: https://www.cbo.gov/sites/default/files/presentation/49441-femaratemethodsnfip.pdf

[8] Supra note 5.

[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

higher rates or reduce their risk. Currently subsidies are effectively hidden from the homeowner, which eliminates any price signal of risk or incentive to mitigate to reduce the risk and thereby the premium. Masking subsidies with lower rates prevents policyholders from understanding their true level of risk. As was noted in the FEMA privatization report mandated by Biggert-Waters, subsidized rates “can promote (and have promoted) poor decisions on the part of property owners and political representatives … they also create a moral hazard, especially when the subsidies are not well targeted.”[10] The report continues that the presences of subsidies “removes the incentive to undertake mitigation efforts, thereby encouraging ever increasing societal costs.”

A far better approach is to target any premium assistance to those who need it, and to encourage and fund mitigation measures that could serve to reduce rates by reducing risk. These mitigation efforts should be targeted at higher risk and lower income property owners.

While affordability must be addressed, we must also separate out those who truly cannot afford their risk based rates and those who need time to plan for rate increases, but for whom those rates would not cause a substantial hardship. TCS and SmarterSafer recommends that as rates move to risk-based, Congress ensure that there is assistance for those in need – but it must be done in a means-tested, targeted, and time-limited manner outside the rate structure. Under the SmarterSafer proposal, low-income property owners would be eligible for this premium support. However, premium support is not the preferred option for reducing premiums—we should be doing more to reduce premiums by reducing risk.

While noting some of the challenges of creating a premium assistance program, an April 2017 Government Accountability Office report on flood insurance noted: “Prioritizing mitigation over premium assistance could address the policy goal of enhancing resilience because it would involve taking steps to reduce the risk of the property, thus reducing the likelihood of future flood claims and potentially reducing long-term federal fiscal exposure.”[11]

We believe FEMA should be working to conduct cost-benefit analyses so that subsidies can be used for mitigation where cost-effective. In addition, FEMA should be required to work with private lenders as well as the Federal Housing Administration to develop or modify existing loan products that homeowners could use to mitigate thus reducing their flood insurance rates.

Increased Emphasis on Property and Community wide mitigation

Subsidized rates provide a disincentive to mitigation, but as rates gradually increase there is more incentive for individuals, and by extension communities, to mitigate. This should be encouraged by further federal investment. We know that each dollar of mitigation reduces

---

10 Oliver Wyman. Flood Insurance Risk Study: “Options for Privatizing the NFIP. P60 Available at: http://www.floods.org/ace-files/documentlibrary/2012_NFIP_Reform/Reinsuring_NFIP_Insurance_Risk_and_Options_for_Privatizing_the_NFIP_Report.pdf

11 Government Accountability Office. “Flood Insurance: Comprehensive Reform Could Improve Solvency and Enhance Resiliency.” April 2017.

post-disaster costs by four dollars or more.[12] Instead of providing premium subsidies the goal should be to reduce rates by reducing risk. Conversely, subsidizing rates does not reduce risk to people and property, in fact it encourages people to develop or stay in high risk areas. FEMA's subsidies should be used for mitigation where possible and cost-effective. SmarterSafer's proposal also includes a number of recommendations to better target mitigation funds to homeowners and communities most at risk, to provide additional flexibility for increased Cost of Compliance funds and to strengthen the Community Rating System to incentivize nature-based mitigation approaches.

There is a greater benefit from larger scale, community wide mitigation efforts than mitigating house by house or property by property. In addition, this type of mitigation often becomes a community amenity that can actually increase home values beyond the flood damage reduction benefits alone. FEMA should establish a system to promote mitigation of groups of adjacent properties in order to maximize flood damage reduction and provide additional opportunities for preservation of wetlands and other natural buffers against storm surge and other flooding. Under the SmarterSafer reform proposal, FEMA would be required to identify 'Flood Hotspots'—communities with clusters of, or significant numbers of, severe repetitive loss properties and areas with a significant number of properties at high flood risk. These areas would be required to work with FEMA to develop plans to reduce flood risk, with a priority for nature-based, non-structural mitigation.

Consumer Choice and Private Sector Competition

Though for many years NFIP was the only viable option for flood insurance, the private sector has begun to write first dollar flood insurance, even in the highest risk areas. For instance, there are at least 19 companies writing private flood insurance in Florida, home to nearly 40 percent of the NFIP policies. A majority of these are writing flood coverage in the highest risk areas, and many are providing much higher coverage limits.

This provides needed competition in the flood marketplace – it provides consumers choice in flood policies, instead of forcing homeowners to purchase a one-size fits all government policy that is significantly limited. It also takes risk off of the federal government, helping to stabilize the flood program and reduce the burden on taxpayers. I request to include for the record a recent analysis done by the Reinsurance Association of America (RAA) of a comparable public insurance system for hurricane risk – Florida Citizens Property Insurance Corporation, a state-run, subsidized wind insurer. This analysis reveals the results of an effort to get the private sector to "take out" policies from the program – an exodus of nearly a million policies out of a million and half total. But instead of choosing only low risk properties, private insurers took out properties across the risk spectrum, including those along the coast in the highest risk areas. This left a smaller, stronger state run insurance program that could meet its obligations. While

---

[12] Multi-Hazard Mitigation Council. Natural Hazard Mitigation Saves: An Independent Study to Assess the Future Savings from Mitigation Activities. Available at: https://c.ymcdn.com/sites/www.nibs.org/resource/resmgr/MMC/hms_vol1.pdf

it is an extrapolation, the RAA analysis concludes that private sector engagement in flood insurance would "be extremely beneficial to both policyholders, taxpayers, and NFIP."[13] Through private competition, purchase of reinsurance and a continued move toward risk based rates, NFIP would be able to meet its obligation in a 100-year flood with little Treasury borrowing.

S. 563, The Flood Insurance Market Parity and Modernization Act – introduced by Committee members Sens. Heller (R-NV) and Tester (D-MT) – is the first step towards leveling the playing field for private sector flood insurance and bringing competition and consumer choice to the flood insurance marketplace. TCS and SmarterSafer believes that private sector participation would increase coverage while decreasing the cost for consumers, and should be encouraged. Consumers should be able to choose private flood insurance policies, potentially with terms and coverage that can be tailored to the interests of the consumer, as well as better incentives for mitigation. In fact, private flood policies could allow property owners to purchase enough coverage to ensure they can rebuild after a storm, not constrained by NFIP limits or by the amount of the mortgage.

S. 563 would ensure that private flood insurance counts for purposes of the mandatory purchase requirements, and would also provide an important consumer protection that ensures rate stability for consumers if they leave NFIP for private coverage and then come back to NFIP. This bill is merely a clarification that Congress never intended for homeowners to be required to purchase flood coverage through the federal government, only that they had to have coverage if they were in the 100-year floodplain and had a federally-backed mortgage. An identical version of this bill passed the House of Representatives 419-0 last year. This represents a broad, bipartisan recognition that consumers should be given choices in flood coverage and the unanticipated regulatory hurdle to acceptance of private flood coverage should be addressed.

The idea is not that private companies will only compete for the 5 million polices in NFIP already covered by flood insurance. The goal is to ensure that more people around the nation purchase needed flood coverage. Recent flooding events have sadly demonstrated that many people who need coverage do not have it. The average NFIP payment for the 2016 flooding in Louisiana was $86,500, the average individual aid payment was $9,150. Absent flood insurance the homeowner is left with low interest Small Business Administration loans to rebuild. Piling a loan on top of a mortgage to rebuild a currently uninhabitable house is not conducive to efficient and resilient rebuilding.
Also, there is no need for the federal government to further extend into the catastrophe insurance market through reinsurance or other means.

[13] Reinsurance Association of America. "Private Flood Improves NFIP's Stability."

Additional Thoughts

Adverse selection – The simple fact is that most of the people who are purchasing flood insurance are those most likely to get a payout. As I indicated there are 5.1 million policies in the program. According to the U.S. Census Bureau there are 134 million housing units[14] in the country and even leaving out multi-unit structures – that could be purchasing flood insurance – and commercial properties, roughly 5.4 percent of the houses in the country have flood insurance. Just about everybody has some level of flood risk, but for the most part, unless it's acute, they don't buy it. This means that NFIP as currently structured is essentially a high risk pool covering the most at-risk properties; the $25 billion in debt shows this to be the case. This concentration of risk has put significant strain on the program, particularly given the lack of risk based rates. The private sector would most likely not concentrate all of their risk in flood, but would have diverse risk pools; in addition they could write multi-peril insurance that includes flood and other risks, making the pricing for the peril less, and they can also lay off risk on the worldwide reinsurance marketplace.

Reinsurance - FEMA's recent purchase of reinsurance demonstrated that there is interest and capacity in the reinsurance markets to take on U.S. flood risk. Obviously industry will have to gain a greater understanding of the nature of the underlying flood risk in the NFIP portfolio, but that can be managed through responsible data sharing. Laying off risk on the private sector will help protect taxpayers from debts racked up by future large storms.

Disaster Assistance - NFIP's inter-relationship with federal disaster aid programs under the Stafford Act is both an opportunity for reform and a challenge to a more rational holistic federal approach.

An observation from a the 2014 FEMA privatization report "… highly publicized instances of federal aid following catastrophic events have also created a public perception that individual property owners do not need to insure against low-probability high severity flood events, effectively creating moral hazard."[15] What people are not realizing is that the vast majority of the aid goes to rebuild public and federal infrastructure, not individuals to help them move on after disaster. A 2014 study by the Wharton Center for Risk Management and Decision Processes at the University of Pennsylvania found that increasing disaster assistance by $1,000 reduced subsequent insurance coverage by $6,000.[16]

---

14 http://quickfacts.census.gov/qfd/states/00000.html

15 Oliver Wyman. Flood Insurance Risk Study: "Options for Privatizing the NFIP. P52 Available at: http://www.floods.org/ace-files/documentlibrary/2012_NFIP_Reform/Reinsuring_NFIP_Insurance_Risk_and_Options_for_Privatizing_the_NFIP_Report.pdf

16 Kousky, Michel-Kerjan, Raschky. Does Federal Disaster Assistance Crowd Out Private Demand for Insurance? Available at: http://opim.wharton.upenn.edu/risk/library/WP2013-10_FedDisasterAssistance.pdf

Conclusion

There are a number of reforms that Congress should make when it reauthorizes the NFIP to ensure the program is sustainable in the long term. With better, property level mapping, a focus on mitigation and risk reduction, a move to risk based rates with targeted subsidies, and private sector competition, we believe NFIP will be strengthened and more people will purchase needed flood coverage.

SmarterSafer
National Flood Insurance Program Reform Proposal
February 2017

NFIP must be reformed to better protect taxpayers, the environment, and people in harm's way.

The National Flood Insurance Program (NFIP), which provides critical insurance coverage to those at risk, is up for reauthorization this year. The program must be reauthorized and reformed to ensure it is financially sustainable, that there are sufficient incentives for reducing future flood damages and vulnerabilities, that it provides better protection for taxpayers who have repeatedly backstopped the program, and that it better protects the environment and promotes the use of nature-based mitigation solutions.

While NFIP provides needed insurance coverage, it has numerous problems as currently constructed – it was not designed to accommodate major catastrophic events; it fails to adequately deter new development in areas vulnerable to flooding thus leading to further environmental degradation and additional financial losses; and it does not do enough to encourage states, communities, and individuals to reduce their vulnerability to floods. The NFIP must be reformed to address these issues — to provide increased transparency to the public, provide more information to people living in harm's way about past damages and the risk of flooding, to ensure mapping is timely and accurate, to tie rates to risk, to give consumers greater choice in flood insurance options, and to incentivize mitigation and risk reduction.

It is important that Congress lay out an updated vision for NFIP that includes managing the nation's escalating flood risks, reducing those risks over the long-term, promoting environmental stewardship, and easing the financial burden for flood risk now borne by the federal taxpayers. Toward these ends, any reauthorization of NFIP should prioritize the following:

- *More Accurate Mapping.* Accurate, up-to-date, and accessible mapping that takes into account the growing frequency and severity of floods as well as more detailed and granular risk analysis methods to determine risks and associated rates.
- *Risk-Based Rates with Support for Reducing Risk.* A move toward risk-based rates for properties over time, with means-tested assistance for those who cannot afford actuarial rates with an emphasis put on risk reduction instead of premium support.

- *Focus on Resilience.* A closer linkage of NFIP and hazard mitigation programs under the Stafford Act so that mitigation funds are used for those properties in NFIP most at risk in order to help reduce risk and lower NFIP premiums and losses.
- *Private Sector Participation and Consumer Choice.* There should be a growing role for private insurers in managing flood risk. To do this, there must be a level playing field for private flood policies so consumers have greater consumer choice.
- *Increased Flood Insurance Purchase.* Not enough people at risk purchase flood insurance; Additional property owners at risk should be encouraged to purchase flood insurance to ensure they can rebuild after disasters.
- *Environmental and other Actions to Reduce Risk.* Public policy should include incentives to identify, protect, and restore natural resources that reduce risk; to use nature-based features to reduce risk; and for communities to adopt floodplain management standards that go beyond NFIP's minimum requirements to reduce risk.

Helping those in Harm's Way Understand and Plan for Risk—More Accurate Mapping and Rates

For too many years, federal policies—and discounted flood rates that bear no relation to the potential for flood damages—have masked risk and encouraged development in unsafe and environmentally sensitive areas. SmarterSafer urges Congress to make a number of changes to mapping to ensure people understand and can prepare for known risks.

FEMA's Flood Insurance Rate Maps, also known as flood maps or FIRMs, are an essential component of NFIP and the nation's ability to manage the potential for flood damages. These maps serve two main purposes:

1. to establish the risk of flooding at a given location and the commensurate flood insurance rates a property owner is required to pay, based on the location of an individual parcel of land and the structure's elevation relative to the mapped floodplains; and
2. to provide the public and decision makers with the best available information on flood risks to guide decisions related to development, project design, siting and local land use decisions, and enforcement of provisions of the NFIP.

To ensure that maps are accurate and inform property owners, government officials, and the public at large, SmarterSafer urges Congress to make revisions to FEMA's mapping requirements. Many of these recommendations are consistent with those of FEMA's own Technical Mapping Advisory Council.

- FEMA must ensure that the highest quality datasets (like high resolution LIDAR) are more widely deployed.
- FEMA should consider mapping not only short-term flood risks that inform year-to-year decisions on flood insurance premiums, but FEMA should also consider mapping longer-term flood risks that need to be accounted for when siting developments, for instance, and for making other regulatory decisions under the NFIP. Many areas of the country have begun taking steps to map their erosion hazards and these actions should be incorporated into NFIP maps.

- Congress must ensure adequate funding for mapping, and should review mapping efforts and data collection across federal agencies to ensure FEMA has access to all relevant government data and to ensure efforts are not duplicative.

To help people understand their risk and to ensure proper NFIP rates, maps must be up-to- date and accurate, and property elevations (or effective proxies) must be known. Private companies already perform assessments of risk to individual properties—something that is not currently reflected in FEMA maps. FEMA must be required to update its maps, include the best science on known conditions and risks, but also conduct (or purchase) property level (or close to) risk assessments. The government must continue to map for purposes of the Special Flood Hazard Area designation (which triggers mandatory purchase requirements); however, this is not enough. FEMA should be required to assess elevation at a higher resolution or conduct more granular risk analysis.

<u>Proposal on new mapping data</u>. Rather than expending federal funds to digitize outdated flood maps FEMA should instead use some portion of these funds to procure new data and investigate the use of new modeling and risk analysis information currently being used in the private and public sectors. An emphasis should be put on accessing data that can be used to determine elevation in the highest risk areas.

- FEMA shall, within 3 months, conduct a detailed analysis of data available from public and private sources for mapping and risk analysis. Unless available from public sources, FEMA shall, within 6 months, accept bids from private risk analysis companies, mapping companies and others (including accessing google map data and LIDAR data) that provide the most accurate data on elevation and risk in the highest risk areas. FEMA could choose to begin this in a few targeted states—those with the greatest number of NFIP properties.
- In addition to the reallocation of funds described above, FEMA should also be authorized to spend funds to procure these datasets and be authorized to place a small and reasonable fee on each NFIP policy or to finance collection of these data so long as the data will provide needed elevations (or proxies); that rates will be based on the elevation/new data; and that new risk analysis will be readily available to members of the public.
- Any property for which FEMA uses these data shall have rates based on actual risk and elevations, and should dispense with the need for individual property owners to get elevation certificates. Where the updated analysis suggests a property's rates should increase, those risk-based rates should be phased in at the same rate as others.

<u>Proposal on Mapping Council.</u> FEMA's Technical Mapping Advisory Council (TMAC) has worked to establish guidelines for more accurate mapping. SmarterSafer supports the continuance of TMAC and recommends the following:

- TMAC should be required to continue its work and make a more detailed set of recommendations about incorporating land use information, including the type of land cover and identification of important natural resources and habitats that contribute to flood risk reduction and community resiliency. This would help communities assess their flood risks and develop strategies to reduce and manage those risks.

- TMAC should also be required to look at riverine and coastal erosion and how best to incorporate these zones into flood risk products.
- TMAC should consider and make recommendations on establishing future zones that reflect the changing conditions of coastal barrier resources. These recommendations should include where FEMA and Congress should consider restricting or removing availability of federal flood insurance, due to the likely risks and impacts on resources reaching unacceptable levels.
- TMAC and FEMA should formulate and establish meaningful outreach effort to states, tribes, communities and the private sector to identify the range and types of information that are needed and desired for planning and for managing current and future flood risks.
- The need for updated map and elevation data is not unique to FEMA, but is also critically needed by other federal agencies, as well as local and State governments. FEMA should pursue joint mapping initiatives with federal agencies that share needs for updated geospatial and elevation data. This would ensure that FEMA is not forced to pay for acquiring data on which other agencies also depend, and would promote unified utilization of best science and mapping techniques among federal agencies.

Tying Rates to Risk and Supporting Mitigation

Rates for flood insurance should accurately reflect risk. As a result of past reforms, NFIP is already moving towards insurance rates that more accurately reflect the risks faced by many, but not all, policyholders. Reauthorization should complete the shift toward risk-based rates while ensuring affordable access to coverage for low-income policy holders. Those already on the economic margins may not be able to afford risk-based rates, and assistance for these low-income property owners may be needed. One way to help low-income property owners in harm's way is to provide them with resources to mitigate flood risk, rather than simply providing rate subsidies.

In addition, information about risk must be transparent and provided to property owners. Households and communities should use the information provided by accurate insurance rates and past flood events to make changes that reduce their risk. Federal, state, and local assistance should help them to do so through cost-benefit analysis, support for up-front investment to relocate or renovate homes to make them safer from floods, and support for nature-based, community-level mitigation efforts.

<u>Proposal on Rates and Mitigation</u> As part of NFIP reauthorization, Congress and FEMA should cushion the adjustment to accurate flood insurance rates for low-income policyholders and encourage mitigation actions that lower risk and costs for property owners and communities. We recommend these steps to connect affordability and mitigation:

- *Risk Based Rates*. Rates for all properties should either begin or continue to move towards risk-based rates. Rate increases should be capped on an annual basis, as they were in 2012, to some percentage of current premiums to make the increases predictable. Any NFIP communication to policyholders—most importantly, premium statements-- must contain what the property's risk-based rate is as well as the current rate the policyholder is paying to ensure property owners understand their risks.

- *Support for Low-Income Families*. Those who can afford to pay the true cost of insuring their property should do so. However, Congress should require FEMA to establish a support program for low-income homeowners who cannot afford the risk-based rate. Support should be paid for within the program.

  - Any assistance would be outside the rate structure so as not to mask the true level of risk—premium support must be clear and transparent.

  - Premium support would be available to all low-income homeowners who would be cost-burdened by risk based rates. The support would be time-limited support available for a minimum of 10 years, with extensions available for families who would be displaced or otherwise face a hardship. Mitigation support would be available for the life of the loan made for mitigation activities.

  - Premium support would not be the only, or even the preferred, option; where cost-effective, mitigation should be used to reduce risk. FEMA should be required to work with private sector lenders and government agencies to facilitate low-interest loans for mitigation.

    - FEMA, working with state and local partners as appropriate, will establish a simple procedure to help property owners evaluate the costs and benefit of mitigation.
    - FEMA would work with lenders to facilitate mitigation loans, including arranging direct payment of the federal offset funds to the approved lender. As long as the homeowner maintained NFIP coverage, federal offset funds would repay the lender. The result would be a pay for performance structure—federal assistance would only flow if the required mitigation efforts occur and flood insurance is maintained.

  - Transparency on Needs. Each year FEMA shall report to Congress and the public on how many property owners have applied for and are receiving assistance, what form of assistance they are receiving, income levels of people receiving assistance, cost of assistance by type (mitigation and premium support), and overall cost.

- *Proposal on Community Mitigation for Severe Repetitive Loss Properties and 'Flood Hotspots.'* Mitigation should not only be done on a house by house or property by property basis. FEMA should establish a system to promote mitigation of groups of adjacent properties in order to maximize flood damage reduction and provide additional opportunities for preservation of wetlands and other natural buffers against storm surge and other flooding.

- FEMA should be required to identify 'Flood Hotspots'—communities with clusters of, or significant numbers of, severe repetitive loss properties and areas with a significant number of properties at high flood risk.

- FEMA should use the best available data to determine those areas that have:

  - A propensity to flood now and an increasing vulnerability to flood in the future;
  - High losses and high potential future losses, including a high number of severe repetitive loss properties and properties that have incurred damage that totals more than 50 percent of a property's current value (e.g. cumulative substantial damage); and
  - Low income residents who must obtain coverage for the first time (for instance, due to updated flood maps) or pay higher flood insurance rates, either as property owners or for contents coverage as renters.

- For any identified Flood Hotspot, communities will be required to create plans and pursue community-level mitigation efforts that would protect the community from future flooding and produce savings for households in the community net of the costs of mitigation. Communities, working with FEMA would have to undertake studies of potential actions that could help reduce risk in the community through mitigation for clusters of flood-prone properties, rather than on a property by property basis to maximize flood damage reduction and ancillary benefits. Nature-based, non-structural mitigation should be a priority in these efforts, and communities should consider voluntary acquisition and buyouts.

- FEMA would use mitigation program funding through its various hazard mitigation programs to assist communities to finance mitigation efforts or access private financing, prioritizing communities at greatest risk, with the largest potential savings, and with the least ability to finance mitigation themselves. Community-level mitigation would be a priority in the hazard mitigation program and Congress should increase funding for mitigation programs since it is cost-effective and shown to reduce risks.

- Resources for mitigation for Flood Hotspots should only flow to communities that agree to and work with FEMA on mitigation efforts and are enrolled in the Community Rating System (CRS). However, Congress should consider taking steps to assist lower-income communities, those that may not have the resources, to meet minimum flood standards or enroll in the CRS program.

- Improvements to the Community Rating System would aid FEMA in these mitigation efforts. Rate reductions from community mitigation actions should accurately reflect the resulting reduction in risk. For instance, communities should receive lower rates for achieving higher percentages of insurance purchase by households, not for intermediate steps to notify or promote insurance.

Expanded Role for Private Insurers

The move to a system in which both the private sector and NFIP write flood insurance will provide consumer choice and ensure competition and innovation, while maximizing the number of properties covered by flood insurance. As people choose to purchase in the private sector, however, FEMA would continue to have a clear mandate to provide maps for mandatory purchase, establish minimum floodplain standards, and focus efforts on mitigation and resiliency assistance to reduce risk at the household and community levels in cost-effective ways. As more properties move to the private sector, NFIP would be able focus its mitigation efforts on the most at-risk properties. It is critical that mitigation and resiliency be elevated as part of NFIP's mission, as well as through disaster assistance reforms.

Private companies are poised to write flood risk, and some already have started to write flood risk in the United Sates. To ensure there is a level playing field, Congress must clarify that private flood insurance counts for purposes of mandatory purchase—no property owner should be forced to purchase from NFIP or any particular insurer. Consumers should have choice and should be able to choose policies that meet their needs and are not one-size-fits-all, like NFIP. This means private companies must be able to innovate and offer different coverages, limits, and deductibles. In addition, to reduce taxpayer liability, FEMA should continue to look for ways to transfer risk to the private sector, like through reinsurance purchase.

<u>Proposal on Private Insurance</u>.

- Lenders must be required to accept flood insurance policies written by private companies so long as the company is permitted by the relevant state insurance commissioner to write such coverage (including policies in the surplus lines market) so long as the policy covers "at least" the mortgage amount.

- Lenders may require that the mortgagee and mortgagor are covered by the policy. Language should be included to ensure that policyholders who leave NFIP for private policies and later return are considered as having continuous coverage for rate determination. (Ross-Murphy/Tester-Heller language)

- Private insurance policies should not be restricted or required to mirror NFIP policies or coverages. Private policies can have different coverage limits, coverages and terms to better meet consumer needs.

- Congress should eliminate the non-compete clause so that companies that write flood through NFIP Write Your Own program can also sell insurance on their own books, where the private company takes the risk.

- Currently, mapping and floodplain management are partially funded through a fee on all NFIP policies. If policies move from NFIP to the private sector, it is critical that mapping and floodplain management funds must not be reduced--these funds benefit everyone in communities, not just those who purchase flood insurance. Congress must maintain and expand Congress should expand these funds, and could consider a number of options to do so, including a potential fee on all flood insurance policies on real property within mandatory purchase areas, increased appropriations for these purposes, a potential fee on other transactions, and other funding streams.

- To ensure communities continue to meet flood standards, Congress should restrict pre-disaster mitigation funding to communities that meet minimum floodplain standards

<u>Proposal on Other Private Sector Involvement</u>. To better protect taxpayers and minimize the federal government's risk, the private sector could take risk directly from NFIP. This means:

- FEMA should continue to examine transferring risk to the private sector, including through reinsurance, catastrophic bonds, and other financial instruments. Specific goals should be set for FEMA reinsurance purchase.

- FEMA should be encouraged to carry out pilot programs for other public-private partnerships and risk-sharing with the private sector.

- FEMA should be required to release NFIP claims and policy records to the public, individual homeowners, insurers, reinsurers, reinsurance brokers, and modeling companies to allow companies to assess risk and understand claims. Appropriate non-disclosure and limited utilization could be required, as well as other requirements to protect personal information.

Encourage More People to Purchase Flood Insurance

A significant amount of flooding occurs outside of the '100 year floodplain' or the Special Flood Hazard Area (SFHA). Estimates are that 20% of NFIP claims overall and 17% of severe repetitive loss properties reside outside the mapped 100-year floodplain--those areas where purchase of flood insurance is mandatory for properties with federally backed mortgages. It is clear that flood waters do not stop for a line drawn on a map, and additional property owners should be purchasing flood insurance—whether through the NFIP or through private policies. Since standard homeowners' insurance policies do not cover flood, homeowners are often surprised to learn they have no insurance. Though there is federal disaster assistance provided many times, the amount per property is usually not enough to rebuild, much less to reduce future risk.

Property owners and prospective owners must be provided better information on risk so they can make decisions about purchasing flood insurance and resiliency. FEMA should be required to provide information about a property's history of flooding so that homeowners can make informed decisions about the need for flood insurance or the need to take mitigation actions. Providing actual flood history of a home could help buyers and owners understand the importance of getting and maintaining coverage year to year.

Proposal on Expansion of Flood Insurance Purchase.

- Properties that would be designated as located within a flood plain but for a flood protection system like dams and levees—residual risk areas—should be subject to the mandatory purchase requirement. Rates for these properties should clearly reflect the decreased risk the properties face as a result of the dam or levee. Requiring purchase of flood coverage would protect these property owners at a reasonable cost.

- Congress should consider requiring FEMA to provide additional information to homebuyers so they understand flood risk and can make better decisions about flood coverage.

- Communities should be required to purchase private insurance for public buildings and facilities for which they received federal funding to support the construction, purchase, or rehabilitation.

Proposal on Increased Transparency.

- A homeowner or prospective buyer should have the right to receive the following information from FEMA about their property:

    - a full history of claims and damages paid
    - a history of NFIP coverage
    - a full accounting of federal assistance received by previous owners that triggers a requirement by subsequent owners to maintain NFIP coverage (e.g. Individual Assistance Grants or a Small Business Administration Disaster Loan)

Focus on Resiliency-- FEMA's focus should be on mitigation and protecting those in harm's way. SmarterSafer has recommended a sliding scale for disaster assistance as a way to incentivize communities to become more resilient. This should be coupled with changes to NFIP to build resiliency. FEMA should look at mechanisms that encourage high-risk policy holders to consider relocating, or that provide incentives for taking mitigation actions that will protect their property from flood damage over the long term. It is also essential that means be developed to allow such relocations to take place on a much more timely basis. Currently, many distressed homeowners can be held up for years waiting for the necessary assistance.

Resiliency Proposals for Individuals.

- Congress should consider shifting some of the fee that is used to fund NFIP reserves to allow it to be used for mitigation of the most at-risk properties, particularly those of low-income policyholders, where a cost-benefit analysis has shown that resilience will reduce risk to the property and taxpayers.

- ICC funding (which is paid for within the program) should be increased from the current $30,000 cap when used for relocation or demolition, and should be raised somewhat for elevation. This would allow individuals in the program to mitigate their risk and reduce costs to taxpayers.

- To ensure mitigation activities can occur, FEMA should be required to further change their cost-benefit analysis on mitigation to take into account a number of additional benefits including ecosystem restoration and environmental benefits.

Resiliency Proposals for Communities/Nature Based Approaches.

Public policy should include incentives for nature based resilience. Communities or properties at risk from severe weather, storm surge, flooding, and other hazards, can undertake a variety of community wide approaches that make use of natural features, or those that emulate them with human-engineered features. Natural or nature based approaches such as protecting or restoring wetlands, berms, forests and natural floodplains can be as, or more, cost-effective as traditional man-made flood reduction structures. In addition, these approaches provide numerous additional benefits including improved water quality, public open space and wildlife habitat. Whenever possible, the NFIP should encourage and incentivize this type of mitigation to better protect people and properties and to reduce flood insurance premiums

Congress should encourage enrollment and participation in the voluntary Community Rating System and should strengthen the program’s requirements to focus on non-structural mitigation and simplify administrative burdens. In addition, SmarterSafer has recommended a series of changes in disaster assistance to only provide maximum federal disaster assistance if states and communities are planning for and mitigating for known risks.

Proposal:

- Congress should encourage increased enrollment and greater participation in the voluntary Community Rating System and should strengthen the program's requirements to focus on non-structural mitigation and simplify administrative burdens.

- FEMA should be required to reevaluate the CRS point system to ensure that communities pursue the most ambitious and direct action steps to mitigate instead of focusing on earning points through notifications and public education.

- FEMA should prioritize funding for nature based mitigation approaches whenever possible as it administers the Hazard Mitigation Grant Programs.

- To ensure that communities remain in NFIP, mitigation assistance at both the community and individual level will only be available in communities that continue to take part in NFIP.

Data Transparency

FEMA has a vast amount of information on flood damages, NFIP claims and policies, properties that have been repeatedly damaged, compliance of communities with NFIP provisions, and communities' actions under the Community Rating System. Unfortunately, relatively little of this data is available to the public.

Congress should direct FEMA to make all data publicly available while still protecting private individuals' right to privacy under the Privacy Act. FEMA should release data that includes at least ZIP code resolution data that includes the following:

- Individual parcel's claims and policy information, including past records of properties that are no longer covered by the NFIP
- Identification of repetitive loss and severe repetitive loss properties
- Properties that have been mitigated through elevation, purchase, or some other action
- Regular updates on participating community compliance, nature of any deficiencies or incidents of non-compliance by individual communities, status of corrective actions and days of continuing non-compliance
- Number of claims by community and state that are post-FIRM vs pre-FIRM properties, properties that are substantially damaged, and properties that are located in the SFHA

SmarterSafer is a broad-based, diverse coalition of taxpayer advocates, environmental groups, insurance industry representatives, housing groups and mitigation interests that supports environmentally responsible, fiscally sound approaches to natural catastrophe policy that promotes public safety and encourages resiliency. A list of members and further information can be found at SmarterSafer.org.