Testimony of Michael Hecht, President & CEO of Greater New Orleans, Inc.
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Good morning, Chairman Brown, Ranking Member Scott, and Members of the Committee. I am honored to speak to you today about reauthorizing and reforming the National Flood Insurance Program (NFIP).

My name is Michael Hecht, and I am the President and CEO of Greater New Orleans, Inc. (GNO, Inc.), the 10-parish economic development organization for Southeast Louisiana. Since April 2013, GNO, Inc. has led the Coalition for Sustainable Flood Insurance (CSFI), a national alliance of approximately 250 organizations across 35 states. The Coalition for Sustainable Flood Insurance sees NFIP as a critical program that allows critical communities across our country to keep working.

GNO, Inc. originally created CSFI to support NFIP reform as a federal priority. Thus, we appreciate your longstanding leadership, as demonstrated today, and your continued recognition of the importance of available, affordable, and transparent flood insurance coverage for your respective districts and constituents. As you know, flood risk affects us all, and flood events have occurred in all 50 states and 99% of counties in the United States since 1996. Your work this Congress to address insurance challenges will shape the future of our nation's environment and economy, and make for a more prosperous and resilient country.

Today, I will discuss the need to reauthorize NFIP - given its benefits to our nation - and the need to reform the program - given FEMA's administration of Risk Rating 2.0 and its associated impacts.

I. Reauthorization

First and foremost, CSFI aims to ensure the availability of flood insurance through a reauthorized NFIP. CSFI supports a long-term, multi-year reauthorization of NFIP to ensure program stability and to minimize ripple effects across the American economy. Since September 2017, NFIP has been operating under a series of short-term reauthorizations without comprehensive reform. Since then, NFIP has been extended on a short-term basis 28 times and has briefly lapsed three times. On March 8, 2024, NFIP's current authorization will expire.

a. Effects of a Lapse

If NFIP lapses, NFIP will lose the authority to provide new flood insurance contracts, and existing policies will not be renewed. NFIP's authority to provide new flood insurance contracts is a particular necessity based on the mandatory purchase requirement (MPR). This requires property owners to purchase flood insurance as a condition of mortgages made or guaranteed by federal agencies, federally regulated lending institutions, and government-sponsored enterprises. Property owners, both residential and commercial, are required to purchase flood insurance if their property is identified as being in a Special Flood Hazard Area (SFHA) and is in a community that participates in the NFIP. While private flood insurance coverage can now satisfy the mandatory purchase requirement, private flood insurance availability varies nationwide and is limited in many states, and can be prohibitively expensive.

Thus, NFIP's reauthorization is consequential to the national housing market and real estate transactions. During a June 2010 lapse, about 1,400 home sale closings were canceled or delayed each day, representing over 40,000 sales per month. There are approximately six million homes located in SFHAs and subject to the MPR nationwide.

A lapse also jeopardizes NFIP's ability to satisfy claims. NFIP can still process and pay claims on flood insurance policies as long as funds are available; however, NFIP's borrowing limit would be decreased from $30.425 billion to $1 billion.

b. NFIP's Success

NFIP covers nearly five million policyholders with an annual premium of $3.5 billion and $1.3 trillion insurance in force. NFIP's policyholders are often misperceived as rich, second-home owners in beachfront communities. However, in 2017, a CSFI study found that that 98.5% of all NFIP policies are in counties with a median household income below $100,000, and 62% of all NFIP policies are in counties with a median household income below the national average of $53,889. According to FEMA, incomes are higher outside the SFHA than they are inside the SFHA. 26% of policyholders inside of the SFHA are low income, compared to 21% of policyholders outside of the SFHA. Despite the MPR, 51% of non-policyholders in the SFHA are low income, compared to 41% of non-policyholders outside the SFHA. Thus, NFIP works to serve working Americans in need of sustainable, reasonable flood insurance.

David Maurstad, Deputy Associate Administrator for Insurance and Mitigation, said, "over the last 50 years, NFIP has collected $60 billion in NFIP premiums, but has paid $96 billion in costs (including losses, operating expenses, and interest)." That said, a difference of $36 billion to assist about 5 million American property owners today – and many millions more over the course of the program – is a good financial deal for the American public. According to FEMA, NFIP's flood management standards save the nation almost $2.4 billion annually in flood losses avoided. Thus. over a 50 year period, these savings total $120 billion in flood losses avoided – **for a net benefit to the American public of nearly $85 billion.**

NFIP should be reauthorized to fulfill its original objectives, and administered in a manner that respects these objectives. Congress, in the National Flood Insurance Act of 1968, declared the purpose of NFIP: "a reasonable method of sharing the risk of flood losses is through a program of flood insurance which can complement and encourage preventive and protective measures… if such a program is initiated and carried out gradually, it can be expanded as knowledge is gained and experience is appraised, thus eventually making flood insurance coverage available on <u>reasonable terms and conditions</u> to persons who have need for such protection."

Congress, in 1968, did not create NFIP to charge full-risk rates, if those premiums were onerous and exacerbated risk exposure. Rates were supposed to be "adequate, on the basis of accepted actuarial principles, to provide reserves for anticipated losses, or, if less than such amount, consistent with the <u>objective of making flood insurance available where necessary at reasonable rates so as to encourage prospective insureds to purchase such insurance and with the purposes of this chapter</u>." Yet, only 4% of structures in the United States are covered today, and more policyholders are being priced out of the program as we speak.

NFIP was given the authority to borrow money from the U.S. Treasury from the beginning, with Congress foreseeing the possibility of collecting less in premiums than claims paid. The Congressional Research Service (CRS) affirms that, "The NFIP was not designed to retain funding to cover claims for truly extreme events; instead, the National Flood Insurance Act of 1968 allows the program to borrow money from the Treasury for such events."

For most of the NFIP's history, the program – exclusively on the backs of policyholders, without any other support from taxpayers – has been able to cover its costs. Prior to Hurricane Katrina in 2005, NFIP's largest level of debt was $917 million in 1997, which was reduced to zero by the end of FY2003. Since 2005, the NFIP – through premiums collected from its policyholders – has made six principal repayments totaling $2.82 billion and has paid $6.17 billion in interest. NFIP has not borrowed from the Treasury since 2016.

Unless debt is forgiven, only current and future participants in the NFIP – via premium revenues – are responsible for repaying NFIP's debt and accruing interest. The October 2017 cancellation of $16 billion of NFIP debt represents the first time NFIP debt has been cancelled. The outstanding $20.525 billion in debt – and $619 million in interest paid by policyholders annually to Treasury – continues to hamper NFIP policyholders, and NFIP's success as both an insurance company and a federal program. This $619 million in interest would be much better invested in mitigation.

Recent administrative changes by FEMA further threaten NFIP's success. This change – Risk Rating 2.0 – further diverts the program from its original dual purposes of providing flood insurance and reducing the nation's flood risk.

II. <u>Risk Rating 2.0</u>

CSFI was formed in the wake of the implementation of the Biggert-Waters Act, when homeowners across the county were facing skyrocketing rate increases through a combination of the removal of grandfathering and new maps, which often times were inaccurate. CSFI was a driving force behind the passage of the Homeowner Flood Insurance Affordability Act (HFIAA), which was signed into law in March 2014.

Today, we find ourselves in a similar position. As we did a decade ago, CSFI will work with all partners – coalition members, Members of Congress, FEMA's public servants, and all other interested stakeholders – to successfully address challenges with Risk Rating 2.0.

a. <u>Transparency and Accuracy Concerns</u>

Risk Rating 2.0 is a "déjà vu" of sorts, although this time around, Congress did not pass legislation to cause this change to NFIP, nor has Congress had any substantial input in its development. FEMA, through what they claim is their administrative authority, has removed historical processes and replaced them - without a rulemaking process, an economic impact analysis, or even requested Congressional briefings. In short, transparency has been an issue in Risk Rating 2.0's rollout.

Risk Rating 2.0 represents the largest change to NFIP's premium calculations since the program began in 1968. Risk Rating 2.0 was implemented on October 1, 2021 for new policies, and April 1, 2022 for existing policies. FEMA, in April 2023, finally released average full-risk rates for states, counties, and ZIP Codes. Beforehand, FEMA had only released an analysis of premium increases per month (ex: policyholders on average see premium increases of $8 per month). This is ironic, as FEMA doesn't yet allow for payments in monthly installments, despite having the statutory directive from HFIAA in 2014 to provide policyholders with the option of paying premiums monthly. FEMA's former demonstration of premium cost changes in terms of per-month increases also hid full-risk rates, given HFIAA's annual premium increase limit for existing policies.

With Risk Rating 2.0, FEMA has "moved the goalline" for policyholders and communities who have historically followed the rules by maintaining flood insurance coverage and satisfying floodplain management requirements. For example, past recipients of FEMA Flood Mitigation Assistance (FMA) grant assistance for home elevations agreed to maintain flood insurance coverage in perpetuity, expecting large premium discounts for mitigation, and not expecting Risk Rating 2.0 to change their premiums. Now, they cannot drop coverage, despite current conditions that they did not accept. CSFI's floodplain manager members have reported cases of property owners eligible for elevations denying FMA assistance. These property owners feel as though Risk Rating 2.0 discounts for mitigation are unclear or insufficient to make even subsidized costs of elevation financially prudent. Thus, Risk Rating 2.0 is confounding and undermining FEMA's own programs, intended to mitigate risk.

Contrary to common misconception, FEMA has released the Risk Rating 2.0 methodology through a "Risk Rating 2.0 Methodology and Data Sources" document and appendixes. One appendix is the "premium calculation worksheet," an Excel document of four example properties in California, South Carolina, and Michigan to demonstrate the methodology's interaction of rating factors at the property-level. The "Appendix D Rating Factor" spreadsheet shows tables and scores for Risk Rating 2.0's dozens of rating factors – including state base rates, distance to water bodies, levee quality, drainage area, concentration risk, foundation type, first floor height, floors of interest, and much more. Flood zones from Flood Insurance Rate Maps (FIRMs) are not a rating factor. CSFI members and Congressional staffers have questioned some factors, like why there are base rates by state, since NFIP is a national program and the new methodology intends to reflect an individual property's specific flood risk, as opposed to general risk.

Unfortunately, policyholders do not have access to their property-level rating factor inputs, beyond the few listed on their declaration pages, which is made available only after purchasing coverage. Furthermore, there is no public-facing, interactive Risk Rating 2.0 premium calculator. So, it still isn't clear to policyholders how modifying each of these factors (like elevation / first floor height) may affect their premium at the property-level. With Risk Rating 2.0, FEMA is communicating flood risk through price of flood insurance coverage. Alternatively, FEMA could now use its wealth of rating factors – procured through many vendors – to demonstrate how, where, and why policyholders are at risk, and how policyholders can most cost-effectively mitigate this risk.

Recently, FEMA has taken additional strides towards transparency, like through the release of a "Flood Insurance Discount Tool." FEMA also commits to future transparency improvements, in response to the July 2023 Government Accountability Office (GAO) report on Risk Rating 2.0 (GAO-23-105977). For example, FEMA says that they will "enhance policyholder communication productions and public-facing websites" by April 30, 2024; "pilot online quoting tool" by April 30, 2025; and "publish final draft" of an annual actuarial report by September 30, 2025. FEMA should be encouraged, if not legislatively required, to honor their commitments.

To date, FEMA's communications, materials, and tools still leave much to be desired by policyholders, stakeholders, and local communities. FEMA's Office of the Flood Insurance Advocate (OFIA), in its latest annual report, underscores concerns about Risk Rating 2.0's transparency and accuracy. For example, "Policyholders, insurance agents and community officials expressed to OFIA that premiums rates do not seem to adequately reflect mitigation activities. For instance, they have indicated that they believe insufficient credit is given for certain mitigation techniques…This makes it harder for homeowners to take action to reduce their flood premiums, and harder for OFIA to advise customers of their mitigation options."

Amongst other suggestions, OFIA recommends that:

- "FEMA's Federal Insurance Directorate (FID) should make information about premium rates more accessible to the public and should update language on NFIP's Pricing Approach | FEMA.gov to describe in further detail how risks are aggregated and tailor new materials to wider audiences."
- "FID should make information available about who policyholders, agents, insurers, and other stakeholders can go to within FEMA when questions arise about premium rates that are not addressed in the public material."
- "FID should require standardized information on quotes and declarations pages to include a description of a property's flood risk including the types of flood risk and other specific rating factors that most influence the individual premium so that customers can understand their risk of flooding."
- "FID should ensure that deductible discounts are applied in a manner that meaningfully reflects the financial risk assumed by either the insurer or the insured."

OFIA also expresses accuracy concerns of Risk Rating 2.0's methodology and data sources, suggesting that:

- "FID should update the rating engine to allow agents and insurance companies to provide more accurate geographic coordinate data."
- "FID should consider establishing a process to allow agents and policyholders an opportunity to provide other sources of information to demonstrate replacement cost value used for flood insurance rating."
- "FID should explore ways to incorporate more data from communities into the catastrophe models."

In further detail, OFIA explains issues with geolocation in Risk Rating 2.0: "Policyholders want to provide additional detail to FEMA to refine the flood insurance price including correctly identifying latitude and longitude for geolocating the structure. To determine elevations and distance to flood sources, FEMA geolocates the address provided and determines the latitude and longitude. For almost all existing construction, the latitude and longitude are correct. However, in newer developments and very rural areas, the geolocation may be off enough to raise concerns about rating accuracy. Currently, there is not a mechanism for agents or policyholders to correct inaccurate latitudes and longitudes."

Risk Rating 2.0 intends to calculate flood insurance premiums for individual properties based on actual flood risk. But, as explained by OFIA, there are cases where Risk Rating 2.0 incorrectly identifies latitude and longitude for the structure.

There are other known issues with data granularity across rating factors, from distance to coast to levee quality. Yet, there is no appeals process – for policyholders or communities – to ensure that FEMA's data is accurate and that rating factors are refined at the property-, community-, or state-level. Furthermore, there is no disputes process for policyholders to challenge the accuracy, or fairness, of chargeable premiums.

In the "Risk Rating 2.0 Methodology and Data Sources" document, FEMA's contractor speaks to data reliability: "In performing the services, we relied on data and other information provided to us by FEMA and other sources. We did not audit, verify or review the data and other information for reasonableness and consistency. Such a review is beyond the scope of our assignment. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete. In that event, the results of our analysis may not be suitable for the intended purpose."

It also appears that there has never been an independent third-party peer review of the Risk Rating 2.0 methodology. GAO has conducted a review of Risk Rating 2.0; however, it was not a technical review nor an audit for accuracy. GAO said, "In performing this analysis, we relied on actuarial reports and documentation provided by FEMA. We reviewed the documents for reasonableness but did not audit them for accuracy. To the extent that there are material deficiencies in completeness and accuracy in FEMA's actuarial reports, the actuarial premium estimates may be materially different from those shown in the reports had these deficiencies not been present. This review is not a technical review, and we did not verify the accuracy of the calculations performed by the actuaries who developed the full-risk premiums."

Proper programmatic improvements to address data accuracy and methodology development are outstanding. To address this, FEMA can arrange for a third-party review of the methodology and data sources. FEMA can accept more input from agents, policyholders, floodplain managers, and technical experts. This will refine Risk Rating 2.0 based on specific, local, or technical knowledge. Furthermore, this can empowering policyholders and communities, making them more likely to reduce their flood risk exposure and take on mitigation activities. Until then, identified frustrations above, and their impacts identified below, are expected to continue.

b. National Impact of Risk Rating 2.0

On average, under Risk Rating 2.0, an NFIP policy will be $1,808, which represents a 103.6% increase over legacy rates. Although much of the public outcry about Risk Rating 2.0 has been from Louisiana, Louisiana is far from the most affected state. In terms of full-risk rates, there are 17 states with higher average rates than Louisiana. Rates will increase by over 50% in 41 states. States with the highest average full-risk rates are:

1. **Hawaii: $3,653 (+154.1%)**
2. **West Virginia: $3,074 (+171.2%)**
3. **Connecticut: $3,000 (+88.6%)**
4. **Maine: $2,700 (+183.2%)**

5. **New Hampshire: $2,545 (+109.2%)**
6. **Vermont: $2,248 (+87.7%)**
7. **Florida: $2,213 (+131.1%)**
8. **Kentucky: $2,201 (+107.6%)**
9. **New York: $2,197 (+85.5%)**
10. **Mississippi: $2,137 (+149.1%)**

In CSFI's 2022 white paper, "An Evaluation of Risk Rating 2.0 on NFIP Affordability," a literature review of NFIP price elasticity found that a price increase of 1% causes a decreased demand of 0.11% to 0.87% for flood insurance policies. Before Risk Rating 2.0 was implemented, an internal FEMA study estimated that that 20% of policyholders nationwide would ultimately leave the program due to premium increases. We are watching this prediction unfold.

NFIP's participation peaked around 5,700,235 in 2009. On the day before Risk Rating 2.0's implementation in October 2021, there were 4,899,114 policies in force nationally. As of December 2023, there are now 4,683,971 policies in force nationally. Thus, NFIP has lost over 215,000 policyholders, or 4.39% of all policyholders, since Risk Rating 2.0's implementation. 121,739 policies have been lost in Texas alone. Participation has already fallen by over 5% in 26 states and by over 10% in 14 states. These 14 states with the greatest declines in policies in force, by percentage of policies, are:

1. **West Virginia: -2,428 (-19.44%)**
2. **Oklahoma: -2,050 (-17.74%)**
3. **Texas: -121,739 (-15.50%)**
4. **North Dakota: -1,198 (-14.55%)**
5. **Iowa: -1,602 (-14.10%)**
6. **Minnesota: -919 (-11.29%)**
7. **South Dakota: -327 (-10.89%)**
8. **Missouri: -1,933 (-10.64%)**
9. **Louisiana: -53,558 (-10.54%)**
10. **Nebraska -886 (-10.54%)**
11. **Kansas: -848 (-10.35%)**
12. **Arkansas: -1,354 (-10.15%)**
13. **Ohio: -2,665 (-10.07%)**
14. **Mississippi: -6,086 (-10.00%)**

Clearly, Americans are not yet benefitting from Risk Rating 2.0. Risk Rating 2.0 is proving cost prohibitive to policyholders and is posing a burden to FEMA itself. David Maurstad said that, "Since 2017, hundreds of FEMA staff, over a dozen contractors pursuant to over two dozen different contracts, thousands of staff and insurance agents from the 47 WYO companies participating in the NFIP, and 5 vendors have worked on the development and implementation of Risk Rating 2.0. This effort has cost the federal government over 80 million dollars, all of which would be wasted if the implementation of the current rates were permanently enjoined."

CSFI supports Congressionally-proposed, FEMA-supported, and private market-backed provisions that can provide coverage. For example, CSFI supports allowing for private flood coverage to satisfy continuous coverage requirements, which would allow policyholders to switch between public and private coverage without permanently sacrificing benefits of NFIP's annual rate increase limit. This priority is more urgent with a growing private market and a less affordable NFIP.

c. <u>Regional Impact of Risk Rating 2.0</u>

Across the country, NFIP allows working communities to continue working. Our region – Greater New Orleans – is essential to the national economy, and even global food and energy security. NFIP simply does not take these factors into account. NFIP has not conducted a comprehensive assessment of the economic and social impacts of implementing Risk Rating 2.0, which would demonstration ripple effects on government revenues, property values, national security, and more.

Illustrating the importance of Greater New Orleans, over 50% of all U.S. grain exports travels through the Port of South Louisiana. Under Risk Rating 2.0, flood insurance premiums are increasing by 239.2% in St. Charles Parish, where many of the port's workers reside. While many federal levees in the National Levee Database are considered by Risk Rating 2.0 – like the $14.5B Hurricane & Storm Damage Risk Reduction System surrounding our region. However, St. Charles Parish has invested in local levees and pump stations which are not accounted for in ratemaking. For example, near a local flood control structure that FEMA doesn't recognize, an X Zone home in Des Allemandes, LA will see premiums increase from $572 to $6,131.

Higher costs of living and higher costs to employ logistics and trade workers will be passed on to consumers nationwide. Eventually, by pricing out workers within our region, farmers in Nebraska and agricultural workers across the Midwest won't be able to export grain produced. Moreover, the U.S. would lose competitive advantages in logistics and trade. The U.S. would also sacrifice the agility to stabilize global markets, as seen in recent years, when Ukraine's grain exports are constricted.

The largest private investment human history – a $21B LNG export facility – is currently under construction in Plaquemines Parish, near the mouth of the Mississippi, for the benefit of the American economy, global security, and global climate (switching Asia from coal to gas). In Plaquemines Parish, the average full-risk premium is $5,431 per year, an increase of 545.3% compared to legacy rates. A property in Belle Chasse, LA is seeing an increase from $572 to $8,828. This is a parish with a poverty rate of 16.4%, five percentage points above the national average. The median value of owned-occupied homes is $253,300, compared to $281,900 nationally. And, due to NFIP floodplain management requirements, in some parts of the parish, a new home (or a substantially damaged property) must be built or elevated to a base flood elevation of 18 feet. NFIP is wreaking havoc on critical communities like this, which will inevitable have cascading consequences, without Congressional intervention.

Meanwhile in Plaquemines Parish, in addition to historic industry investment, there is historic environmental investment. The largest ecosystem restoration in the nation's history has broken ground. The $2.9B Mid-Barataria Sediment Diversion will harness the land-building power of the Mississippi River to build and sustain up to 26,000 acres of wetlands in the Barataria Basin. This project is part of Louisiana's' 50-year, $50B Coastal Master Plan, which is not clearly factored into rates.
Since 2016, Louisiana has restored and maintained 26,000 acres of coastal land and improved 83 miles of levees. The projects identified in the 2023 Coastal Master Plan will restore and maintain over 300 square miles of Louisiana's coastal wetlands and reduce expected annual damage by up to $15 billion. Instead, through catastrophe modeling and Risk Rating 2.0's "disaster to coast" factor, Louisiana may be

being punished for a century of coastal land loss, largely due to federal management of the Mississippi River and largely out of communities' control.

Implementing all projects in Louisiana's Coastal Master Plan over 50-year period could reduce risk from tropical storms and hurricanes to coastal communities to less than what the current risk level is today, even considering sea level rise projections. But, communities – and entire states – are not necessarily being given credit for their investments in resilience nor incentivized to do so. Thus, considering residents' cost-prohibitive premiums, communities could be left with fleeing populations and cratering tax bases. They will be unable to pay for necessary adaptations from their self-generated revenues, and they will have to rely more heavily federal funding, both for public improvements and for residents' flood losses.

Still, the City of New Orleans is wisely investing in green infrastructure and smarter storm water management practices, as advised by GNO, Inc.'s 2013 Greater New Orleans Urban Water Plan. The Mirabeau Water Garden is converting the site of a former convent, flooded by Hurricane Katrina, into a 10 million gallon detention pond and an urban water management educational center. Despite being funded through FEMA's own Hazard Mitigation Grant Program (HMGP), this project won't necessarily reduce neighbors' NFIP premiums, although it will reduce flooding by up to 14 inches. Moreover, when neighbors drop NFIP coverage or move due to heighted premiums, this can affect a projects' benefit cost analysis (BCA) of projects and impact their eligibility for federal funding.

Throughout the Gentilly neighborhood where Mirabeau lies, through a "community adaptation program," approximately 200 households have installed various property-level retrofits to reduce their flood risk. These property-level flood adaptations – permeable pavement, stormwater planter boxes, tree plantings, infiltration trenches, rain barrels, and rain gardens – are also not considered in Risk Rating 2.0. While these property owners have reduced flood risk for themselves and their neighbors, they are not being credited by NFIP for doing so.

Across the state, we're also adapting by installing FORTIFIED roofs, a construction method that reduces the chance of wind-related losses through stronger roofs. The FORTIFIED Program, a program of the Insurance Institute for Business & Home Safety (IBHS), is a strong model for resilient building practices and relevant incentivization. In Louisiana, state law requires actuarially-sound premium discounts to be provided to policyholders who install FORTIFIED roofs. Similarly, NFIP policyholders could be incentivized to install floodproofing adaptations, from permeable pavements to rain gardens, in exchange for appropriate NFIP premium discounts.

Oddly, rates in our region are being treated as an anomaly, according to FEMA's "Risk Rating 2.0 Methodology and Data Sources" technical document. With no further explanation, the document reads, "As in the non-leveed analysis, GLMs were used to develop geographic rating factors for leveed areas. For the non-leveed analysis, separate models were fit by segments that consisted of groups of states. For the leveed analysis, there was a smaller volume of data that was more highly geographically concentrated. Using the same segments as the non-leveed analysis would have produced policy counts that were too low within a segment. Instead, the GLMs were fit on the countrywide data. Upon reviewing the residuals, Milliman created an interaction term in the Inland Flood model to allow for elevation as a rating variable in Louisiana. Without this rating variable, AALs were underpredicted in low elevation areas, especially areas with negative elevation in New Orleans. Milliman also found it necessary to create separate GLMs for Louisiana Storm Surge."

Maybe regions like ours – communities that are economically important to protect, and imperative for the national economy to exist near water – should be treated differently in ratemaking than some second-home, vacation communities. This differentiation is seen in some parts of NFIP. For example, the HFIAA surcharge is $25 for primary residences and $250 for second homes. Annual premium increases are capped at 18 percent for primary residences but at 25 percent for secondary home and severe repetitive loss properties. A future affordability program to help working Americans could be only open to primary residences that are not severe repetitive loss properties.

Our community is like many of the 22,500+ in NFIP – a hardworking community that serves America through water resources. Over half of America's population lives in a coastal county, and over half of all jobs are located in coastal counties. Moreover, 57% of the country's GDP is produced from counties by the coast (Emsi). A flood insurance program should allow coastal economies to not only exist, but provide for rest of our country through trade, logistics, agriculture, advanced manufacturing, energy production, and all industries that are dependent on proximity to water.

And beyond the coast, flooding still occurs – as you'll remember 99% of U.S. counties have been impacted by a flooding event since 1996; in 2019, of the ten states with the most flooding events, only three were coastal states (FEMA). Fairly priced flood insurance – and complementary investments in mitigating flood risk – is essential to the American economy, in Greater New Orleans, and everywhere.

III. Reform Priorities

With this understanding of NFIP's importance and current concerns, NFIP should be reauthorized and reformed. Although Congress did not cause the Risk Rating 2.0 predicament, fortunately, it can take action to address it in a manner that improves economies, empower communities, and protects policyholders.

We underscore the following reform priorities for consideration by the 118th Congress. These priorities are informed by legislation introduced this Congress, like the National Flood Insurance Program Reauthorization and Reform Act (NFIP-RE) of 2023, as well as CSFI's white paper on affordability and our coalition members' insight.

1. **Require a peer-review of the Risk Rating 2.0 methodology and an analysis of Risk Rating 2.0's economic impacts –** An independent actuarial review performed on an ongoing basis by a team of experts could heed improvements to the Risk Rating 2.0 methodology, while establishing insight into Risk Rating 2.0. This review may work to improve data resolution issues and a perceived undervaluation of certain factors, like first floor height and other mitigation measures. Congress can simultaneously require FEMA to review national impacts of Risk Rating 2.0. For example, the Risk Rating 2.0 Transparency Act would mandate FEMA that "complete and publish a comprehensive assessment of the economic and social impacts of implementing Risk Rating 2.0" over a 20-year period.

2. **Mandate FEMA's transparency through the release of a public-facing rate calculator and establishment of rating factor appeals process** – Policyholders demand a way to review rating factors, validate property-level inputs, understand their comprehensive risks, and see the impact on premiums from undertaking mitigation measures. The NFIP-RE Act would mandate that FEMA "establish a tool that allows members of the public to estimate premium rates for covered properties under the Risk Rating 2.0 program (or any similar methodology) within a reasonable margin of error based on user inputs." Furthermore, the NFIP-RE Act would "establish a fair, transparent, and streamlined process to manage disputes regarding chargeable premium rates prescribed." This appeals process is necessary so that policyholders can ensure Risk Rating 2.0's data accuracy at the property-level.

3. **Lower annual premium increases to nine percent** – Cutting the annual rate hike cap in half, from 18% to 9%, cuts anticipated NFIP participation decreases in half, according to statistical models of NFIP price elasticity. NFIP participation has already decreased by over 4% since Risk Rating 2.0's implementation. Congress should cap single-family primary residential annual premium increases to a maximum of 9% each year, to stabilize program participation and serve as a bridge to a permanent affordability program. The Flood Insurance Affordability Act would accomplish this.

4. **Enact a means-tested assistance program with housing burden as a targeting factor** – Under Risk Rating 2.0, the median percentage of household income represented by the full-risk premium will exceed 1 percent in 45 states and will equal or exceed 2 percent in 10 states. FEMA has proposed to administer an affordability program for certain NFIP policyholders, but this requires Congressional authorization. This program should be authorized and made available to both current and prospective policyholders, with scaled discounts to assist those most in need, in order to encourage NFIP participation growth. The NFIP-RE Act proposes eligibility for policyholders earning up to 140% of AMI, which CSFI supports. However, in lower income areas with higher costs of living, 140% of AMI may still be insufficient to reach homeowners in need. Beyond AMI, there are other cost of living measures – most relevantly housing burden – that can be used to determine eligibility or discount distribution.

5. **Forgive NFIP's debt or freeze interest payments** – Congress should forgive NFIP's debt, given that it was accumulated under a legacy pricing system. FEMA will pay the U.S. Treasury $619M this year to service $20.5B of NFIP debt, much from policyholders who have left the program or mitigated their properties. According to FEMA, approximately 11% of each current policyholder's premium is applied towards these payments, equating to about $132 per policyholder per year. At the least, Congress should grant forbearance for interest payments over a defined period of time. The NFIP-RE Act would pause interest payments for five years, and deposit these savings into a National Flood Mitigation Fund.

The policies above – intended to resolve common equity, affordability, transparency, and accuracy concerns – would serve to stabilize participation, sustain the program, and support communities across the country.

These policies are just the beginning. Other reforms called for by NFIP stakeholders include Increased Cost of Compliance modernization, flood mapping modernization, claims process reform, among many more. Furthermore, Congress could work to address global insurance challenges that put pressure on NFIP, such as skyrocketing reinsurance costs. For example, a federal reinsurance commission could be established to study options for federal intervention, as well as associated savings to FEMA and other federal agencies, and then propose solutions.

Again, thank you for the opportunity to testify today about the reauthorizing and reforming the National Flood Insurance Program. We appreciate your recognition of NFIP's value to local communities and the American economy.

All stakeholders across the country interested in sustainable flood insurance are welcomed to join our coalition. CSFI stands ready and willing to assist the Committee as we work to reauthorize the NFIP by March 8, and as we pursue long-term solutions that improve NFIP and our country's sustainability.