

FLOOD INSURANCE REFORM: COSTS ARE EXPECTED TO INCREASE



When the National Flood Insurance Program (NFIP) was established, one of the objectives was to transfer the costs of private property flood losses from the taxpayers to floodplain property owners. Although the program was administered by the federal government, it was not financed by tax dollars. Insured flood losses were paid for by policyholder premiums, thus reducing the need for disaster assistance. This program was financially solvent for more than three decades. However, that ended with the 2005 hurricane season. The NFIP was forced to borrow \$21 billion from the U.S. Treasury to make flood insurance payments for damages from Hurricanes Katrina, Rita, and Wilma.

Recent legislation (the Biggert-Waters Flood Insurance Reform Act of 2012) has reauthorized the NFIP for five years and made numerous changes. The bill addresses the program's insolvency by requiring a ten-year repayment plan for the current insurance fund debt (\$17 billion) and establishing a reserve fund. Increases in flood insurance premiums are required to achieve these goals. Some of the changes are:

- ◆ Insurance subsidies are phased out for some older buildings so that premiums are based on the height of the lowest floor (or non-residential dry floodproofing) relative to the Base Flood Elevation on the current map (or above grade if no flood elevation is provided). These actuarial rates can be quite high, particularly for buildings with basements. **Subsidized rates are eliminated for several classes of structures, including: second homes, business properties, any new policy or lapsed policy, and any policy for a newly purchased property.**
- ◆ The cap on rate increases (within any risk classification) is increased from 10% to 20% per year.
- ◆ Minimum annual deductibles are increased.
- ◆ When flood hazard maps change, a property that has higher rates as a result of the new map shall have the new rates phased in over a five-year period.

- ◆ Premiums can be paid either annually or in more frequent installments.

The Act allows for private insurance to satisfy flood insurance coverage requirements if it meets certain standards. It also requires an assortment of studies, including an analysis of affordability issues. However, the bill does not actually address affordability and will lead to dramatically increased premiums for many policyholders.

Although this bill includes significant changes, it does not constitute sweeping reform of the NFIP. In 2010, STC staff worked with the NYS Floodplain and Stormwater Managers Association to prepare a policy paper, "Rethinking the National Flood Insurance Program" (available in the document library at www.stcplanning.org). That paper states, "The solvency of the NFIP cannot be restored by simply increasing premiums without major rethinking of the price structure." It provided a comprehensive set of recommendations for major revisions to the NFIP. STC staff will continue to advocate for effective reform of all components of the National Flood Insurance Program.

Flood Insurance Policies as of 1/31/12	
Delaware County	1226
Middletown	61
Margaretville	125
Fleischmanns	40