coalition for sustainable flood insurance

Testimony of Michael Hecht, President and CEO of Greater New Orleans, Inc.
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Good Morning Chairman Crapo, Ranking Member Brown, and Members of the Committee. I am honored to speak to you today about reforming and modernizing the National Flood Insurance Program (NFIP). My name is Michael Hecht, and I am the President and CEO of Greater New Orleans, 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. CSFI was formed in the wake of the implementation of the Biggert-Waters Act, when homeowners across the nation 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.

As was made clear in those debates, there is no simple answer to the complex problem of maintaining premium affordability, keeping the NFIP on sound financial footing, and accurately communicating risk. And it is in the national interest to recognize that many communities exposed to flood risk are hubs of domestic energy production, international trade, national and international finance, agriculture production, and other nationally-significant economic and defense activities. Affordable and sustainable flood insurance is an integral component of ensuring these communities continue their vital contributions to America. CSFI is now focused on advocating for a stronger policy framework for the NFIP that recognizes the economic, cultural, defense, and other national contributions made by communities exposed to flood risk.

There are four primary policy areas CSFI has focused on that will provide for this stronger framework, denoted by the acronym "**MMAP**":

- **Mitigation -** A comprehensive approach to reducing flood losses before a disaster occurs is a more effective means to reducing economic loss and protecting taxpayer interests, than ejecting households and businesses from NFIP via unaffordable flood insurance premiums
- **Mapping –** Enhancing the way we assess and communicate risk through improvements to the mapping process will protect communities and the NFIP over the long-term
- **Affordability** – Premiums must remain affordable in order to keep communities across America economically viable
- **Program Participation** – Adopting policies that encourage more people to buy flood insurance will help to bring the program's costs in line with revenues in a responsible way and help communities recover more quickly following a flood event

My testimony today will explain the policy suggestions we've proposed in this framework. CSFI has also produced a whitepaper series, which has been submitted for the record, that makes the case for these proposals in greater detail.

Of note, last week, Senator Bill Cassidy and Senator Kirsten Gillibrand released a discussion draft that includes many of the provisions for which CSFI is advocating. The Cassidy-Gillibrand legislation will reform and modernize the NFIP; improve how risk is assessed and communicated; keep insurance affordable; increase options for mitigation; and, allow for some responsible private market entry provisions, among other policy priorities. I strongly urge this committee to give the legislation thoughtful consideration as we move towards reauthorization on September 30.

Mitigation

Flooding is the most common natural disaster in the United States, affecting communities in each of the fifty states and territories. Across the nation, states and municipalities have worked diligently to reduce the frequency and impact of flooding in their communities even while resources to reduce flood losses remain limited.

Effective flood mitigation is a multi-faceted enterprise. The federal and state governments share significant responsibilities in the planning, design, construction, and maintenance of major flood control projects that protect hundreds of millions of homes and businesses. At the community level, particularly those communities participating in the National Flood Insurance Program (NFIP), governments adopt and enforce floodplain management standards and building codes. County and parish governments that adopt stronger standards and participate in the Community Rating System (CRS) achieve a greater level of flood protection for the community that is reflected in reduced flood insurance premiums.

Property owners have a key responsibility to reduce flood damage and secure resources to comply with floodplain management and building code requirements. Property owners may fulfill this responsibility to protect property by purchasing flood insurance and Increased Cost of Compliance (ICC) coverage. Appropriate flood insurance and ICC coverage ensures flood damage is repaired and that damaged structures are restored to a higher level of flood protection if required by current floodplain management standards and building codes. Property owners further have the obligation to work through local, state, and federal programs to mitigate high-risk structures having sustained repetitive flood loss events.

Despite this coordinated, multi-layered approach to flood mitigation, substantial sums of taxpayer funds are appropriated each year in response to disaster damage caused by flooding. This raises important questions about the efficacy of the national flood loss mitigation strategy and the efficiency of deploying substantial taxpayer funds for disaster response while making limited investments in disaster mitigation by comparison. Aggressively addressing flood risks at the regional and community levels, while providing homeowners options and resources to lower flood risks will save lives and property, reducing flood damage, flood insurance claims, and flood insurance premiums.

Federal policymakers must work with state and local governments and individual property owners to reduce the frequency and expense of flood losses. This necessarily requires allocating resources for disaster prevention and flood loss mitigation. Reducing the exposure of our communities, homes, and businesses to flood losses is a more efficient and effective use of taxpayer resources and will reduce future disaster costs and preserve flood insurance affordability.

Policies that would increase mitigation include:

- **Redirecting Premium Surcharges Included in HFIAA –** The Cassidy-Gillibrand legislation would require FEMA to reallocate the existing surcharges established in HFIAA to better finance the Pre-Disaster Mitigation and the Flood Mitigation Assistance Programs. This proposal to redirect existing fees would yield approximately $400 million annually for flood mitigation activities
- **Modernize Increased Cost of Compliance (ICC) Coverage** - Currently, ICC claims payments must be used to fund up to $30,000 in compliance costs associated with State or local floodplain management laws or ordinances, which typically require structure elevation. The limit of $30,000 is inadequate to elevate most structures. Under the Cassidy-Gillibrand legislation, FEMA will be required to increase ICC coverage to $75,000 with $30,000 of ICC payments allowed to occur outside policy limits
- **Provide a Premium Credits to Offset the Cost of Obtaining an Elevation Certificate** – This proposal would offer policyholders without an elevation certificate a one-time rate credit of $500 for the cost of obtaining elevation data. Knowledge of flood risk and accuracy of a structure's base flood elevation information will be enhanced by removing or reducing the financial barrier associated with the acquisition of elevation certificates. This policy proposal is included in the Cassidy-Gillibrand legislation
- **Facilitate Mitigation Credits that Reduce Premium Rates** - The Cassidy-Gillibrand legislation would require FEMA to develop meaningful cost reductions, in excess of 10% of the current risk premium rate for a property, for flood mitigation activities undertaken on properties in all zones, including moderate risk zones
- **Partner with participating communities and state governments to obtain elevation data -** NFIP should offer Community Rating System (CRS) credit for participating jurisdictions that require an elevation certificate to be prepared at a subsequent transfer of title for structures in a flood zone where elevation data are not available
- **Provide Effective Oversight of the U.S. Army Corps of Engineers –** While this is not germane to reauthorizing the NFIP, I want to urge Congress to conduct effective oversight of U.S. Army Corps of Engineers (USACE) procedures and project approval timelines to ensure authorized flood control projects do not languish, needlessly putting communities, homes, and businesses at risk of flood damage

Mapping

Accurate mapping is fundamental to assessing and communicating risk, and to pricing it appropriately. The current mapping process often results in communities having to fight inaccurate maps that do not take into account locally built flood protection features and communities building off of outdated mapping, which results in artificially inflated risk. We must question whether we can truly determine actuarial rates if they are based on flawed mapping. Further, many areas of the country are not mapped or mapped accurately, which results in communities who are at risk of flooding unaware of the risk.

For example, in the August 2016 floods in Baton Rouge, Louisiana, over 80% of flood survivors did not have flood insurance. I know it is easy for those of you not from Louisiana to question why these people did not have flood insurance given what has occurred in Louisiana over the last twelve years. Here's the answer: many of those communities were not mapped into a flood zone or were only in optional purchase areas. Updated and accurate mapping and better communication about risk when purchasing property could have limited the number of uninsured properties significantly. This in turn could have resulted in these affected communities needing less post-disaster funding, thus saving the taxpayer. Technology around assessing and communicating risk is also rapidly evolving, and FEMA should embrace this technology to provide more accurate maps for America.

Proposals that could improve the way we assess and communicate risk include:

- **Increasing the authorization for the National Flood Mapping Program to $500M –** The government funding bill currently being debated provides $177M for the National Flood Mapping Program, which is a good start. For the next funding cycle, I urge Congress to increase the authorization of the National Flood Mapping Program to $500M, which would allow FEMA to accelerate the completion of mapping of the entire country, would help communities better understand and plan for risk
- **Allowing Counties to Adopt Portions of Maps at a Time –** Congress should require FEMA to allow communities to adopt portions of a flood map that they agree with at one time while still allowing for map appeals in other areas of the community. The current policy puts the entire county's new map on hold during the appeals process, which results in the entire community planning land use policies around outdated maps and some residents paying higher than necessary rates

The Cassidy-Gillibrand legislation also includes several policy suggestions that would enhance the mapping process and should be included in reauthorization, including:

- **Provide Mapping Standards and Guidelines for Nongovernmental Entities** – This proposal would authorize the Technical Mapping Advisory Council (TMAC) to develop map standards for FEMA and non-government entities, thereby giving communities additional avenues to streamline the FEMA mapping process and develop maps that use updated community data & technology
- **Encourage the Use of High-Resolution Mapping Technology –** This proposal would instruct FEMA to facilitate, partner, and leverage current high-resolution topographic data (e.g., Light Detection and Ranging [LiDAR] data, or other new and emerging technologies) in the development of flood insurance rate maps
- **Improve the Flood Mapping of Levee-Protected Areas –** This proposal would require FEMA to replace its "Zone D" designation (defined as an area of undetermined/undefined risk) in levee-protected areas with risk zones that are more appropriate for the level of protection that the flood mitigation features afford

Affordability

Following the Biggert-Waters Act, when homeowners across the nation faced skyrocketing premiums, legislators reasserted the long-held view that premium affordability is a fundamental tenet of national flood insurance. In HFIAA, policymakers addressed premium affordability concerns by restoring the practice of rate "grandfathering", reversing the elimination of pre-FIRM subsidized (PFS) policies, eliminating the property sales trigger, and increasing damage and improvement thresholds. Those policies must be maintained in reauthorization.

In HFIAA, Congress revised key policies driving substantial increases in flood insurance premiums yet retained the Biggert Waters Act imperative to reduce or eliminate certain premium subsidies. In general, HFIAA limits year-over-year premium increases to 18 percent for individual properties and 15 percent for the average of all premium increases within a risk classification. Premiums for most subsidized policies must, by law, increase at least 5 percent on an annual basis, subject to the overall limitation that NFIP not charge rates greater than a classification's determined risk. Further, certain property classifications will see premium increases designed to rapidly eliminate subsidies.

Policies to maintain affordability include:

- **Formalizing 1% cost to value ratio –** This proposal means that no premium could be more than 1% of the policy value. So, for example, a policy worth $250,000 could never cost more than $2,500. Language was included in the Homeowner Flood Insurance Affordability Act that FEMA should strive to accomplish this policy, and the Cassidy-Gillibrand legislation strengthens that language. Congress should consider this policy as a way to easily address affordability
- **Maintaining Current Rate Structure –** Proposals to increase the floor of rate increases from 5% to 10% or up should be avoided. According to FEMA, beginning April 1, 2017, premiums are increasing an average of 6.3%. Increasing the floor rate of increases to 10% or higher would represent a substantial premium increase on homeowners
- **Preserving grandfathering** – Preserving grandfathering is of critical importance. Meaning, if you built your house to according to FEMA's base flood elevation at the time of construction, you will not be penalized when new maps are introduced. The confluence of removing grandfathering and the introduction of new maps are what drove skyrocketing rates post Biggert-Waters, which was unfair to homeowners who built as they should. Congress must maintain grandfathering permanently. The Cassidy-Gillibrand legislation maintains this provision
- **Addressing the NFIP's debt –** Congress should consider forgiving the NFIP's debt, which currently stands at $24.6 billion, at least the portion related to the federal levee failures following Hurricane Katrina. At a minimum, Congress should stop the requirement of FEMA to pay interest on this debt, which next year will cost $400M. That $400M could be used to build reserves or provide greater funding for mitigation. To require the NFIP to pay this debt back to the US Treasury is robbing Peter to pay Paul

The Cassidy-Gillibrand legislation also includes some additional affordability proposals, including vouchers for low to moderate income Americans that are worthy of consideration.

Program Participation

Sustainability and affordability of flood insurance coverage is a growing concern as NFIP is experiencing a year-over-year decline in several key metrics. According to FEMA data, NFIP policies-in-force peaked in 2009 at 5,700,235. As of June 30, 2016, the number of policies-in-force was 5,083,071, a decline of almost 11 percent from 2009. Total coverage-in-force is also in decline after peaking at approximately $1.3 trillion in 2013 and as of June 30, 2016, is approximately $1.25 trillion. For only the second time since 1978, total premium earned has fallen from the previous year, with $3.54 billion of premium earned in 2014 compared to $3.44 billion in 2015.

This is not sufficient evidence to validate a long-term forecast of year-over-year decline for NFIP, but policymakers must be mindful of data showing declines in core program variables over the short-term. It must also be noted that key coverage-in-force and premium earned declines have largely occurred post-Biggert Waters Act.

For policymakers to more fully achieve the core purposes of national flood insurance—floodplain management, limiting government disaster costs, and facilitating property owner purchase of insurance—the NFIP must be designed with the interests of end users as preeminent. Increases in both policies written and coverage in force will bring greater stability to communities and provide greater protection for the federal treasury. Simply put, with both the severity and frequency of floods increasing, we need more people buying flood insurance.

Policies to increase program participation include:

- **Offering a default "opt-out" flood policy as standard part of homeowners insurance package -** NFIP should be directed to engage in product testing that offers consumers a "default" insurance option where consumers are required to actively decline (opt-out) flood insurance coverage. Based on the outcome of consumer testing, NFIP and NAIC should move to expand "default" options that include NFIP coverage as appropriate
- **Expanding the definition of the Special Flood Hazard Area -** Congress should authorize a study to assess the effectiveness of the mandatory purchase requirement; assess the benefit of mandatory purchase to taxpayers, communities, and households; and identify areas outside designated SFHAs or adjacent thereto where mandatory purchase would have a demonstrable, positive cost-benefit impact for taxpayers and property owners
- **Mandatory purchase of flood insurance for properties that have experienced a loss and federal disaster assistance was accepted to repair or replace the structure** - Congress should consider requiring mandatory purchase of flood insurance for at least ten years for properties that have experienced a flood loss event and federal disaster assistance was accepted to repair or replace the damaged structure and contents. The mandatory purchase requirement should attach to the structure and the requirement should be noted in local land records in a manner that is readily apparent to title researchers, lenders, appraisers, borrowers, and other parties interested in the transfer of property

The Role of the Private Market

Another concept being widely discussed as we move towards reauthorization is the role of the private market. While a fuller entry of the private market would bring needed competition and discipline to the flood insurance market, I urge Congress to be mindful of the risk of cherry-picking. A scenario where the private market comes in and takes all of the low risk properties while leaving the NFIP with nothing but high risk properties will not serve the policy holder well and leaves the NFIP open to needing further loans from the US Treasury. An increase in private market coverage should occur parallel to a healthy and sustainable NFIP.

The Cassidy-Gillibrand legislation includes policy solutions to ease private market reentry in a responsible way, and those proposals should be included in reauthorization. One policy related to the private market that must be included in reauthorization is:

- **Including continuous coverage language in reauthorization** – Language should be included in reauthorization that allows policyholders to maintain continuous coverage, which would allow them to leave the NFIP for the private market and subsequently return to the NFIP while proving continuous coverage, and thus maintain a grandfathered rate. This policy is key to providing consumers with the assurance needed that the NFIP will be available should they be priced out of the private market or should private flood insurance become unavailable. Under current law, policy holders who may have access to more affordable, comprehensive private market coverage are not incentivized to leave the NFIP

Multi-Year Reauthorization
It is critically important that we reauthorize the NFIP for a multi-year period. Short-term extensions, and especially lapses in authorization, have real world implications. Lapses in authorization stall or kill home closings. Particularly with a September 30 expiration – in the middle of hurricane season – American home and business owners need to be able to rest assured that the flood insurance they have purchased and relied on will be available should a flood happen. A multi-year reauthorization is needed to bring certainty to consumers and real estate markets.

Again, thank you for the opportunity to speak to you today about the reauthorizing and reforming the National Flood Insurance Program, and for your service. CSFI stands ready and willing to assist the Committee as we work to reauthorize the NFIP by September 30.