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SERVING AND STRENGTHENING VERMONT LOCAL GOVERNMENTS

Change is Coming to the National Flood Insurance Program

Last year, the U.S. Congress passed the Biggert-Waters Flood Insurance Reform Act of 2012. In addition to reauthorizing the National Flood Insurance Program (NFIP) through September 2017, the law is attempting to make the NFIP more financially stable by raising artificially low flood insurance premium rates which, at present, do not reflect the true flood risk. You may hear emergency managers and insurance agents refer to the new law as “B-W” or “BW-12.”

How We Got Here. In 1968, Congress created the NFIP to allow property owners to insure against flood loss. Since most homeowners’ insurance policies do not cover flood damage, property owners who suffered flood damage were often financially devastated and unable to rebuild. With participation agreed upon between local communities and the federal government, the program established standards for new construction and development for local adoption to reduce future flood risks in exchange for federally funded insurance protection that property owners could purchase. Flood Insurance Rate Maps (FIRMs) identified high risk areas called Special Flood Hazard Areas (SFHAs) where these new construction and development standards would be applied.

However, buildings located in an SFHA built before a community received its first FIRM – and therefore not built to the new construction standards, (so-called pre-FIRM structures) – could remain as is. Owners of these pre-existing properties could obtain flood insurance at a subsidized rate that did not reflect the property’s true risk of flooding. The NFIP was set up to be self-sustaining; during episodes of higher than normal flood insurance claims, the program borrows money from the U.S. Treasury, which the NFIP theoretically pays back with interest. Then came Katrina, Rita, Irene, Sandy and who knows who’s-next, resulting in billions of dollars of debt. So Congress decided it was time to “modernize” the program.

What is Changing Now? Approximately 20 percent of NFIP policies nationwide are subsidized for pre-FIRM structures. In Vermont, however, the number of pre-FIRM subsidized NFIP policies is much larger. Notably, Vermont is in the top five states with the highest percentage of current pre-FIRM policies at over 50 percent.

Here is what is changing under BW-12:

- Subsidized rates for **secondary (non-primary) residences** in an SFHA will increase 25 percent annually until the rates reflect the true risk actuarial rate (began January 1, 2013).
- Subsidized rates for **property that has experienced severe or repeated flooding** will increase 25 percent annually until rates reflect the true risk actuarial rate (will begin October 1, 2013).
- Subsidized rates for **non-residential properties** (which includes municipal structures insured under the NFIP) located in an SFHA will increase 25 percent annually until rates reflect the true risk actuarial rate (will begin October 1, 2013).
- Subsidized rates for **residential properties** in an SFHA will increase 20 percent annually until the rates reflect the true risk actuarial rate (will begin October 1, 2013).
- An additional five percent charge will be added to all insurance policies (including post-FIRM policies reflecting the true risk actuarial rate) to establish a reserve fund for the NFIP (upon renewal).
- New policies and policies renewed after October 1, 2013, will require an Elevation Certificate to determine the true risk actuarial rate for the policy.

As described above, pre-FIRM flood insurance policy rates will increase gradually 20 or 25 percent each year to the true risk actuarial rate unless or until:

- the owner sells the property;
- the owner allows the policy to lapse;
- the owner experiences severe, repeated flood losses; or
- the owner purchases a new policy.

Any of these actions will trigger an immediate rate increase to the full risk actuarial rate.

Grandfathering Changes Expected in 2014. The NFIP allows "grandfathered rates" for eligible property owners of structures built in compliance with a prior flood rate map after a new one has been released. Under BW-12, these grandfathered rates will be phased out. For residents living in a community that adopts a new, updated FIRM, discounts – including grandfathered rates – will be phased out. This will happen gradually, with new rates increasing by 20 percent per year for five years. Implementation is anticipated in 2014.

Calculation of BW-12 Rate Increase. In Vermont, an average, continually maintained pre-FIRM residential policy costs approximately $1,600 annually for a house insured for $170,000. A new policy for the same pre-FIRM residential structure with the non-subsidized risk-based actuarial rate will cost approximately $4,000 annually.

A $4,000 per year insurance rate in a high risk area will tally up to $40,000 over ten years or $120,000 over the life of a 30-year mortgage. By converting the basement to a flood-vented crawl space or elevating the lowest floor above the base flood elevation, the cost may be dramatically reduced.

What Can Be Done to Lower Costs? For home owners and business owners:

- Talk to your insurance agent about your insurance options. Each property's risk is different. Some policy holders may reach their true risk rate after a couple of years of increases, while other increases may go beyond the five years to get to the full risk rate required by the new law. The insurance rate tables on the true risk actuarial rate were not available until June, 2013.
- Higher deductibles may lower your premium.
- Building or rebuilding at a higher elevation will lower flood risk and could reduce the premium.
- Add vents to the foundation.
- Discuss community-wide mitigation steps with local officials.

For municipal officials:

- Join the Community Rating System (CRS) or increase your CRS activities to lower premiums for residents. (See sidebar.)
- Help organize community-wide mitigation steps.
- Talk to the Vermont Division of Emergency Management and Homeland Security about grants. The Federal Emergency Management Agency (FEMA) issues grants to states, which can then distribute the funds to communities to help with mitigation and rebuilding.

Summary. The Biggert-Waters Act requires the National Flood Insurance Program to charge actuarial rates to pay off accumulated debt, resulting in a significant rate increase for many Vermonters. Current insurance policy premiums are rising 20 to 25 percent annually until they reach actuarial costs. Residential and non-residential owners should talk to insurance agents about available options. Starting this October, Elevation Certificates will be required upon renewal of a pre-FIRM flood insurance policy to identify how high flood waters will rise relative to the elevation of the lowest floor of the structure during a flood. Allowing an existing pre-FIRM policy to lapse or selling the property will result in an immediate rate increase to the full risk actuarial rate. Incorporating flood mitigation measures into remodeling or rebuilding will make your structure safer, reduce the risk of damage, and most likely decrease the cost of flood insurance.

For more information on the Biggert-Waters Flood Insurance Reform Act, contact:

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The National Flood Insurance Program's (NFIP's) Community Rating System (CRS) is a voluntary incentive program that recognizes and encourages community floodplain management activities that exceed the minimum NFIP requirements. In return for a community's adoption of such standards, flood insurance premium rates for residents in the participating community are discounted. The discounts – which vary according to the community's level of effort – reflect the reduced flood risk to property owners resulting from the community's floodplain management activities.

CRS communities are awarded points for their local floodplain management activities that exceed the NFIP minimum standards. Activities include restricting development within high risk areas, enforcing higher regulatory standards, preserving open space, managing stormwater, initiating conservation agreements, and citizen education programs. Communities are placed into classes ranging from Class 10 (lowest) to Class 1 (highest), based on the number of points accrued and other specific CRS requirements. All participating communities start out at Class 10, which offers no flood insurance premium discount. Each class increase results in an additional five percent premium discount. Bennington, Brattleboro, and Montpelier, currently the only Vermont communities taking part in the CRS, participate at Class 9.