

MEMORANDUM

To: Members of the Committee on Financial Services

From: FSC Majority Staff

Date: June 2, 2017

Subject: June 7, 2017, Full Committee Hearing Entitled “Flood Insurance Reform: A Taxpayer’s Perspective”

On Wednesday, June 7, 2017, at 10:30 a.m. in Room 2128 of the Rayburn House Office Building, the Financial Services Committee will hold a hearing entitled “Flood Insurance Reform: A Taxpayer’s Perspective.” This hearing will examine the National Flood Insurance Program (NFIP) and six legislative concepts to reform the program. Accordingly, witnesses will discuss how the reforms would strengthen taxpayer protections; provide greater private market access, competition, and consumer choice; enhance mitigation efforts; encourage flood mapping fairness; address consumer costs and affordability; and incorporate NFIP claims processing reforms.

This will be a one-panel hearing with the following witness:

- Mr. Steve Ellis, Vice President, Taxpayers for Common Sense
- Mr. Josh Saks, Legislative Director, National Wildlife Federation
- Mr. R.J. Lehmann, Senior Fellow, R Street Institute

Background on the NFIP

In 1968, Congress created the NFIP, which is administered by the Federal Emergency Management Authority (FEMA) and provides flood insurance to policyholders in the United States and its territories. Residents and business owners in participating communities are able to buy flood insurance through insurance agents and companies that participate as third-party administrators in the NFIP’s Write Your Own (WYO) program.

Property owners can purchase flood insurance through the NFIP only if their communities participate in the NFIP. To participate in the NFIP, communities must agree to mitigate flood risks. For example, participating communities must adopt

building codes that require new structures built in floodplains (high-risk areas) to be protected against flooding or to be elevated above the 100-year floodplain level. FEMA calculates flood insurance premiums according to average expected annual losses resulting from a natural disaster event with a probability of occurring once every 100 years.

Currently, the NFIP has about 5.1 million policies providing over \$1.2 trillion in coverage in 22,235 communities in all 50 states and 6 territories. The NFIP has an outstanding debt of \$24.6 billion borrowed from taxpayers, with \$5.825 billion remaining of its total temporary \$30.425 billion Treasury borrowing authority.

Legislative Proposals

The witnesses will comment on the following discussion drafts:

Affordability and Consumer Costs – H.R. __, the “National Flood Insurance Program Policyholder Protection and Information Act of 2017”

This discussion draft limits annual premium increases by lowering the cap on annual rate increases from 18 to 15 percent per year and limits the chargeable risk premium for single family residences to \$10,000 per year. The draft also includes a flood insurance affordability program; and requires FEMA to incorporate up-to-date replacement cost values for structures when determining a property’s premium, among other things.

Private Market and Consumer Choice – H.R. __, the “Private Flood Insurance Market Development Act of 2017”

This discussion draft incorporates the text from H.R. 1422, the Ross-Castor Flood Insurance Market Parity and Modernization Act, which provides greater private market access to the flood insurance marketplace. Also included are provisions that eliminate the non-compete clause for Write Your Own insurers. The draft also requires FEMA to develop an open-source data system to allow public access of flood related information or data used in assessing flood risk or identifying and establishing flood elevations and premiums, among other things.

Reform the Flood Mapping Process – H.R. __, the “National Flood Insurance Program Mapping Fairness Act of 2017”

This discussion draft includes H.R. 2246, the “Taxpayer Exposure Mitigation Act,” which allows localities to use their own resources to develop community-specific alternatives to NFIP-developed flood maps. This draft also has language to require the FEMA Administrator to consider other risk assessment tools, in addition to flood maps, when determining premium rates; and, streamlines the mapping and appeals processes.

Enhance the NFIP's Mitigation of Properties that Flood Frequently – H.R. __, the “Flood Risk Mitigation Act of 2017”

This discussion draft expands mitigation efforts and places a greater focus on mitigating high-risk properties, especially pre-disaster, to prevent problems before they occur. H.R. 1558, the “Repeatedly Flooded Communities Preparation Act,” is included, which requires communities to develop a plan to mitigate high concentrations of multiple loss properties. Additionally, this draft increases the Increased Cost of Compliance (ICC) coverage from \$30,000 to \$60,000; and creates a pilot program for investigating pre-existing structural conditions of insured and potentially insured properties.

Strengthen Taxpayer Protections – H.R. __, the “National Flood Insurance Program Integrity Improvement Act of 2017”

This discussion draft requires the FEMA Administrator to provide for an annual independent actuarial study of the NFIP; includes H.R. 2246, the “Taxpayer Exposure Mitigation Act of 2017,” to require the FEMA Administrator to use risk-transfer tools to reduce taxpayer exposure; and, the text adjusts surcharges authorized under the Homeowner Flood Insurance Affordability Act of 2014. This draft no longer makes NFIP coverage available for certain high-risk properties after January 1, 2021, unless the FEMA Administrator determines the private market is either not available or not affordable. These structures include any new structures in today’s high-risk special flood hazard areas, as well as residential structures with a replacement cost value exceeding \$1 million. Also included is a limitation on allowances to WYOs not to exceed 25 percent of the chargeable premium.

Implement NFIP Claims Processing and Superstorm Sandy Reforms – H.R. __, the “National Flood Insurance Program Administrative Reform Act of 2017”

This discussion draft requires FEMA to identify and eliminate fraudulent practices in the flood insurance claims process and ensure that all policyholders receive the full benefit of the insurance coverage they purchased. Included are: penalties for fraudulent practices and false statements; enhanced policyholder appeals rights; prohibition on hiring disbarred attorneys; improved disclosure requirements for policies; and, a Government Accountability Office (GAO) study of claims adjustment practices.