NFIP REFORM:
A LOCAL PERSPECTIVE
ASFPM 2014

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Recovery Assistance and Mitigation Planning Division
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Brief Insurance Introduction/Parish Background
Select BW-12 HFIAA 14 Changes
NFIP reform impacts specific to mitigation
General disconnect between governance and insurance
Suggestions for resolution of these issues or pursuit of opportunities
In 1968 Congress established the National Flood Insurance Program (NFIP) through the National Flood Insurance Act.

The intended purpose of the program was to reduce the overall costs of floods by incentivizing flood risk management and to pool flood risks nationally to lessen the blow to individuals hit by major floods.

The program was first amended by the Flood Disaster Protection Act of 1973, which made the purchase of flood insurance mandatory for federally-backed mortgages on property within Special Flood Hazard Areas (SFHAs).
NFIP IN TERREBONNE

- Joined the NFIP in 1970
- Effective/Insurance map - 5/1/1985 or 1992 partial update
- Hurricanes Katrina and Rita precipitated the Advisory Base Flood Elevations in 2006
- The proposed Digital Flood Insurance Rate Maps posted 7/30/2008 (under appeal)
- Community Ratings System Rating of 6 = 20% discount in SFHA
- 92% parish environmentally sensitive
FLOODPLAIN MITIGATION

- 909 homes have been elevated in Terrebonne Parish since 2008.
- 100 homes acquired by the Parish, 48 by state
- Over 800 homes demolished to avoid slum and blight (most funded by Public Assistance due to imminent threats to public health)
- $200M expended on flood gates and uncertified levees
- Suite of coastal restoration activities
IMPACTS TO LOCAL GOVERNMENT

- Economic “domino” effect on communities.
- Flawed FEMA flood mapping.
- Increased operational costs to insure municipal buildings and properties.
LOSS OF GRANDFATHERING

Premium will go from $633 to $28,554 per year.

- 14272 Highway 23, Plaquemines Parish, LA
- $350,000 current value
- Built in 1998, fully to code
- Built 2’ above FEMA required elevation at the time
- No repetitive loss
NEW MAPS = SKYROCKETING PREMIUMS

Premium will go from $5,698 to $53,662 per year.

- Car Dealership
- St. Tammany, LA
- Built fully to FEMA requirements at 9’ BFE
- Never flooded
COMMERCIAL ENTITIES STILL AT RISK

Premium will go from $1,522 to $103,197 per year.

- Microtel Inn and Suites by Wyndham
- Belle Chasse, LA
- Built fully to FEMA requirements at +1 BFE
- Never flooded
IMPACTS TO LOCAL GOVERNMENT

- Properties become uninsurable
- Properties become unsellable
- Property values go to zero
- Owners lose everything
- Banks lose mortgage portfolio
- Real estate market freezes
- Companies lose workers
- Local governments lose tax base
LOCAL CREDIBILITY

- Local governments must enact NFIP-compliant regulations
- Flood compliance enforced by local government
- Permits and approvals for building provided by local government
- Risk of legal liability for permit decisions increasing
- Risk of permit decisions being undermined by retroactive federal actions increasing
- Could lead to lack of confidence in the jurisdiction/litigation

Resolution
- Recognize compliance in perpetuity
  - Keep grandfathering
  - Avoid retroactive laws
- Include local government in process
SELECTED IMPACTS AFTER HFIAA 2014

- **Restoration of Grandfathered Rates**
- PreFIRM rates on primary residences to rise at 5-18% per year until actuarial
- Other categories will increase 25% per year until actuarial
  - Secondary residences
  - Business properties
  - Severe repetitive loss properties (1-4 residences), and properties where claims payments exceed fair market value
- New policies to be issued at full-risk rates
  - After a lapse in insurance coverage if mandatory when lapsed
  - After substantial damage/improvement (50%)
  - Policy jumps to actuarial if mitigation funding offer is refused
COMMUNITY RATING SYSTEM

- Voluntary program for communities
- Need to adopt a flood prevention ordinance that meets minimum NFIP criteria
- Provides up to 45% off premiums in the special flood hazard area
- Terrebonne Parish is a Category 6 earning a 20% discount
- Recertify activities and enforcement every 5 years
- Can ask for a reduction in class any time.
COMMUNITY RATING SYSTEM

- Higher discounts unnoticed due to consistent premium increases
- FEMA risk assessments suspect
- CRS requires taxpayer investments in:
  - Administrative costs/ Staff
  - Higher Regulatory Standards
  - Media and other Outreach Programs
  - Training of staff and ability to provide technical assistance
  - Enforcement and implementation of all activities
- To build better and safer requires builder/buyer investment to meet higher regulatory standards or voluntary inclusion of freeboard, wet floodproofing, etc.

Resolution
• Congress and FEMA provide consistent leadership that won’t undermine confidence or devalue investments.
RECOMMENDED HIGHER STANDARDS

- Eliminate hazardous waste or landfills from the SFHA
- Require disclosure of flood history/record substantial damage determinations
- Limit fill/slub construction in the floodplain
- Freeboard requirements – 1 to 2 feet
- Limit enclosures -299 sf for structures over 4 ft.
- Regulate the Coastal A Zone like a V Zone
- Increase design standard to 50 or 100 years
- Require erosion control plans for ½ acre disturbances
NEED BETTER EXPLANATION OF DATA

What is the:

» Perceived risk and the cost of potential damages?
» Value of revenues from the expanded flood maps?
» Revenue if collected from the estimated 25% noncompliant?
» Reasonable payment for insurance companies bearing no risk?
» Rationale for bonuses for companies due to increased sales?

Resolution

• Implement GAO recommendations on insurance compensation
• Develop program liabilities based on logic and data.
• Keep the premiums not paid out in claims in the reserve fund
SECOND HOMES

Rental Market Transformed

- Primary resident defined as “any individual”
- Original House Bill 1026 authored by Ms. Waters

“(3) NON-PRIMARY RESIDENCES.—Any residential property that is not the primary residence of any individual, including the owner of the property or any other individual who resides in the property as a tenant.”

- FEMA interpretation limits this to the “homeowner”
- Renters will bear the increase in costs for properties owned by owners who require mortgages
- Properties may be sold to investors or those who don’t need a mortgage
- Absentee landlords likely to burden communities with nuisance claims and maintenance

Resolution

- FEMA adopts text as written allowing all homes that are primary to “any individual” to protect renters
- Primary class still protected
- Rates will increase gradually protecting the often LMI community
Maps recognize structural measures that are not complete but will protect to 100 yr level.

Recognize demolition reconstruction in the Flood Mitigation Assistance Program.

Alternative flood insurance products proposed.
Reconstructions recognized in BW-12 as mitigation method

Benefits include
  » Better resulting housing stock
  » More cost effective cradle to grave
  » May be more cost effective than elevation or buyout
  » Keeps the property in commerce

Current Issues:
  » Not preferred by states
  » Not preferred in ranking by FEMA
  » Guidance from Wilma, Katrina and Rita
  » Specifically disallowed in HMGP programs

Resolution
  • Consistently available
  • Consistent application nationwide
  • Let local government set the priorities
  • Approve if positive benefit cost ratio
APPROACHES TO CONTROL PREMIUMS

 Other insurance provision methods
  » Private industry
  » Community-based insurance

 Higher deductibles

 More coverage available

 Mitigate to avoid risks

 Higher regulatory standards to earn discounts under the Community Ratings System

• These are supposed to be studied, but Congress has included studies since at least 2011
• Higher deductibles for affordability may leave the people without real coverage
• High deductibles policies shouldn’t be used to show affordability – full coverage
Section 26 requires FEMA to “issue guidelines for property owners that provide alternative methods of mitigation efforts...to reduce flood risk to residential buildings that cannot be elevated due to their structural characteristics”

Commercial enterprises can already dry or wet floodproof facilities

Why not allow these to be used when it is technically feasible and cost effective in numbered A zones?

Expansion

- BCA is exceptionally low for some substantially damaged structures with shallow, frequent flooding.
- Why not allow these to be used when it is technically feasible and cost effective in A zones?
NEW CHALLENGES FOR MITIGATION

- Combined Flood Mitigation Assistance Program
  - SRL is a priority for whole program now
  - Local applicants can’t prioritize substantially damaged properties even if noncompliant and needing funds
- Penalty triggered of refusing mitigation confusing
- Distrust of FEMA quashing mitigation applications
- Insecurity about investing in a volatile climate
- CRS Promotion Not Embraced
Participation decreases

Approach may encourage people to avoid mitigation programs due to the risks.

- Grant funds can take 3 years to get on the ground
- Many people cancel only if they can’t afford to continue
- People have health issues and other setbacks
Insurance Proceeds

- HMGP needs to be available when the insurance proceeds are available
  - People would have match available
  - ICC would be in the earlier term
  - Repairs would not be complete leaving more mitigation options available

- Data slow to get to local government due in part to privacy regulations
  - Local jurisdiction needs to have insurance claim information to more efficiently declare properties substantially damaged and require mitigation with repair
Insurance Proceeds, continued

- Could monitor substantially damaged properties to limit to only emergency repairs
  - Permit offices need to know who needs permits
    - 23,000 households south of the intercoastal canal
    - 10,400 structures reviewed over __ time after Gustav/Ike
  - NFIP damages data needed soon poststorm
SUPPORT FOR LOCAL GOVERNMENT

- Pursue affordability study on a community level as required
- Accountability to explain basis for rates and expenditures that reflect risk
- Provide rate/risk maps that reflect both the risks and actions taken by communities to reduce risk
- Align insurance and mitigation funds
- Support cost effective mitigation options
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