NFIP REFORM AS A DRIVER FOR URBAN BLIGHT

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OVERVIEW

• Much has been made of the impact of NFIP reform (BW12 and HFIAA) premium increases on individuals, but there has been little discussion of how these increases will impact flood-prone communities.

• Dramatic premium increases, such as those contained in BW12, serve as a disincentive to homeownership, which is a proven driver of urban blight.

• The reforms impacting Pre-FIRM structures contained in HFIAA should serve to lessen these impacts.

• Communities can take action to reduce blighting influences related to flooding and the structure of the NFIP by enacting certain higher standards.
SCOPE OF DISCUSSION

• Focus is on residential areas already subject to blighting influences – older homes, possible nuisance flooding, etc.
• These conditions are more likely to be found in riverine situations, simply because the economics of coastal floodplains are significantly different.
• Commercial structures are not immune from blight, but they tend not to be arranged in the same dense configurations as residential neighborhoods. Anecdotal evidence from rural Oklahoma has, however, shown that more than one small town is at risk for losing its only convenience store/grocery as a result of premium increases resulting from an ownership change following NFIP reform.
WHAT IS NEIGHBORHOOD BLIGHT?

• Neighborhood blight can be defined a lot of ways, but nearly always takes the form of depressed property values (and rental rates), low homeownership rates, and increased demand for public services (police, fire, code enforcement, animal control, etc.).

• There is great debate within the planning community about whether decreases in homeownership are a cause or a symptom of neighborhood blight. The best literature seems to indicate that both can be true – property owners can be motivated to flee an area experiencing blighted conditions, but an increase in rental properties and/or vacancies can also cause blighted conditions.

• In either case, property ownership rates tend to serve as a very good proxy for neighborhood health.
It is dangerous to continue a discussion about blight and economics without highlighting the idea of risk reduction.

That said, the NFIP has encouraged development of and continued investment in areas subject to flood risk by facilitating the availability of credit.

NFIP minimum standards may have provided some level risk reduction for Post-FIRM development, but Pre-FIRM development has been allowed to be sustained and property owners have been permitted to reinvest, subject only to the high Substantial Damage/Substantial Improvement threshold.

Certainly the NFIP did not cause Pre-FIRM development in flood hazard areas, but it did allow the areas to be sustained nearly as if they were not subject to hazard. It can be said that heavily subsidized Pre-FIRM rates have allowed property owners to “forget” that they are in a high risk area.

Any end to those subsidized rates will cause the entire system to come crashing down, being that it has been constructed on artificial pricing and not on sound economics.
CREDIT CRISIS

• Certain provisions contained in BW12, particularly those related to ending eligibility for Pre-FIRM rates, would have created an effective credit crisis.

• The NFIP has facilitated extension in credit in at-risk areas by allowing lenders to indemnify flood risk. If a Pre-FIRM structure subject to mandatory purchase was no longer eligible for Pre-FIRM rates, significant barriers would exist to prevent a seller from obtaining financing, including cost of insurance and delay while obtaining an Elevation Certificate.

• This effective credit crisis would encourage property owners to sell at a discount to cash buyers, the largest of which are well-capitalized property management corporations (often “absentee landlords”).

• HFIAA will likely decrease the level of impact that would have been seen had BW-12 been fully implemented.
IF THAT WASN’T BAD ENOUGH....

- As property owners sell to cash buyers because flood insurance rates become not economically realistic for the quality/age/condition of homes, the homes do not merely become rental properties – they become rental properties that are unlikely to be adequately indemnified against future losses.
- An uninsured structure subject to nuisance flooding (or worse) is likely to be allowed to deteriorate, as there is no incentive to adequately repair flood damage (or damage from other perils).
- This projected deterioration in property condition and lack of incentive for reinvestment is the real blight driver, even more so than lack of owner occupancy.
WILL HFIAA HELP?

• It appears that the Pre-FIRM reforms contained in BW-12 would have been most likely to cause these sort of blighting impacts.
• For the most part, HFIAA has staved off the projected credit crisis, and thus has at least delayed widespread blight impacts.
• Premium increases alone will eventually lead to the development of the same sort of blighted conditions, but the mechanism may be more so by depressing property values rather than by reducing owner-occupant levels.
SHOULD HFIAA HAVE HELPED?

• To this point, NFIP reforms that could lead to blighted conditions by means of the mechanisms that have been described have been portrayed negatively. Certainly, there is nothing positive about urban blight, but....

• Subsidized rates for Pre-FIRM structures are really just a temporary fix. They have allowed credit to be available so that the homes could be bought and sold. The flood risk is barely noticed, since the premium rate is subsidized to a “tolerable” rate.

• What happens when Pre-FIRM structures reach the end of their usable life? They cannot be legally substantially improved, and any rebuilding would have to come into compliance (which may be nearly impossible). So....are we just delaying the inevitable?

• Perhaps the best thing for the communities, and for the financial solvency of the NFIP, and for the overall risk picture, would have been to allow the BW-12 reforms to stand. The only clear loser is the property owner....
A BETTER SOLUTION

• A better solution would recognize that premiums should reflect risk for a number of reasons, but they cannot without “bursting the bubble” that was created by subsidizes rates.
• Instead of bursting the entire bubble at once, a number of initiatives could be used, including:
  • Lowering the threshold for substantial damage. Uninsured property owners would suffer, but indemnification opportunity exists in the form of ICC coverage (for flood perils) and Law and Ordinance coverage (for other perils).
  • Increase the applicability of ICC coverage to include all perils.
  • Further revise standards for mitigation grants to allow acquisition of structures within the SFHA without regard for actual flood history (in some ways, this only seems just...). Incentivize acquisition by requiring any property rejecting a mitigation offer to be rerated at full risk rates.
  • Permit CDBG funding to be used as match for acquisition projects in eligible census tracts.
Questions?

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