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OLR BACKGROUNDER

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OLR BACKGROUNDER: NEW FEMA FLOOD MAPS AND CONNECTICUT

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This report describes the impact of the 2012 changes to the National Flood Insurance Program (NFIP) and new Federal Emergency Management Agency (FEMA) flood maps on Connecticut residents. It is based in part on a story in the June 7, 2013 edition of the *Branford Eagle*.

CHANGES IN FEDERAL LAW

The NFIP enables property owners in participating communities to purchase flood insurance if the community has adopted floodplain management ordinances and minimum standards for new construction. FEMA administers the program, but the insurance is sold through nearly 90 private insurance companies. Rates for the program are set by the federal government and do not vary from one insurance agent to another. The insurance is mandatory for homeowners with a federally backed mortgage if they live in an area subject to flooding, among others.

Historically, many homeowners and businesses received subsidized flood insurance rates that did not reflect their true risk of flooding. The Biggert-Waters Flood Insurance Reform Act of 2012 extends the NFIP for five years, but changes the program's major components, including flood insurance, flood hazard mapping, grants, and the management of floodplains. A FEMA website,

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http://www.fema.gov/library/viewRecord.do?id=7187, describes the major changes in English and Spanish. Many of these changes are designed to make the NFIP more financially stable and ensure that flood insurance rates more accurately reflect the real risk of flooding.

Rate changes will be largest for properties that (1) are located within a Special Flood Hazard Area; (2) were built before a community adopted its first Flood Insurance Rate Map, typically in the 1970s and 1980s; and (3) have not been elevated since then. Special Flood Hazard Areas include any land having a 1% chance of being flooded in any one year. While these are often called 100-year floods, they actually occur more frequently; there is a 26% chance of flooding occurring in such areas during the term of a 30-year mortgage, according to FEMA.

About 20% of NFIP policies have subsidized rates. The 2012 law phases in actuarial (cost-based) rates by increasing premiums 25% per year for certain second homes, flood-damaged properties that have received flood payments equal to or exceeding fair market value, business properties, and properties that have had severe repetitive losses. The law also:

1. prohibits FEMA from providing subsidized rates for new policies, for newly purchased properties, and certain other policies;

2. establishes minimum annual deductibles ranging from $1,000 to $2,000, depending on when the building was constructed and its value; and

3. allows policyholders who are not required to escrow their premiums and fees for flood insurance to pay their premiums in installments.

The 80% of policies that already pay full-risk premiums will also see rate increases. Most policyholders will see a new charge on their premiums to cover the Reserve Fund assessment that is mandated by the 2012 act. Initially, there will be a 5% assessment to all policies except preferred risk policies. The Reserve Fund will increase over time and will also be assessed on the preferred risk policies at an undetermined future date. Additional changes to premium rates will occur upon remapping, with this change taking effect in the latter half of 2014.

NEW FLOOD MAPS

As part of the NFIP, FEMA identifies flood hazard areas, which are identified on flood insurance rate maps. The current flood maps for Connecticut are available online at www.fema.gov.

FEMA updates flood maps periodically. The new maps for New Haven County went into effect on July 8, 2013; new maps for the rest of the state will be released later. The new maps are not projections based on anticipated increases in sea level attributable to climate change, but rather are based on historical data and other technical factors. FEMA has an on-line tutorial on how to read flood maps, http://www.fema.gov/library/viewRecord.do?id=2324.

Properties that are newly designated as being in high-risk areas must obtain flood insurance. In addition, the 2012 act requires that the premium on existing policies be adjusted to reflect the current risk of flood in areas whose flood rating has been revised, with any increased rate phased in over 5 years at 20% per year. Conversely, properties mapped out of a high-risk area will generally see reduced flood insurance costs. Residents who live in low or moderate risk areas (1) are typically not required to purchase insurance even if they have a mortgage and (2) may be eligible for a preferred risk policy at lower rates if they choose to buy the insurance.

According to FEMA, flood insurance in low-to-moderate risk areas can cost from about $129 to $1,798 per year for a residential building and its contents. Rates for high risk residential areas can range from an estimated $580 to $7,173 per year. Renters can choose to insure the contents only. These figures are estimates, and actual rates depend on factors such as risk, building elevation, and age of construction.

FEMA has a webpage, http://www.floodsmart.gov/floodsmart/pages/landing_pages/landing0000_1.jsp, that allows a person to determine the flooding risk for his or her property by entering its address. The website also provides information on agents selling flood insurance in the person's neighborhood. Properties that have had limited or no flood losses may be eligible for reduced rates under the preferred risk policy program. Further information about this program is available at http://www.floodsmart.gov/floodsmart/pages/flooding_flood_risks/prp_extension_for_property_owners.jsp.

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