NATIONAL FLOOD INSURANCE REFORM AS A TOOL FOR MUNICIPAL CLIMATE RESILIENCE ENHANCEMENT

APRIL 22, 2016 – RESILIENCE AND THE BIG PICTURE SYMPOSIUM
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THE NFIP – CHANGE ON THE HORIZON

- Financial stability
  - 2005: $19B from Treasury, $2B repaid by 2011
  - 2012: $10B from Treasury, $1B repaid by 2014

- Changed land use patterns
  - Extensive coastal development
  - Adverse selection, moral hazard

- Climate change
  - SLR means shifting floodplains
  - Increasing storm intensity means increasing risk
  - Risk assessment accuracy

Three Interesting Reform Proposals

- NFIP Privatization
- Voluntary Floodplain Buyout Commitment
- Community-Based Insurance Policies
WHAT HAS BEEN PROPOSED?

- Actuarial rates
  - At what pace?
  - Discounts, tax breaks, exemptions, grants, loans
- Broader, more resilient property base
  - Increase uptake (reduce adverse selection)
  - Decrease repetitive loss
  - Enhance property resilience
- Mapping reform
  - Digitize mapping process, elevation certification, etc
  - Extend SFHAs according to climate models
- Financial reform
  - Program efficiency improvements
  - Reduce or narrow coverage
  - Forgive the debt
  - PRIVATIZE
- New programs
  - Long-Term Flood Insurance
  - Community-Based Policies
PRIVATIZATION

- Structure:
  - Use existing authority or modify the mandate
  - Sell risk to the private market
  - Change MPR eligibility standards

- Purpose:
  - Preserve financial solvency
  - Increase competition

- Flood Insurance Market Parity and Modernization Act (H.R. 2901)

- Impacts on planning:
  - Change compliance documentation
  - FEMA role transitions to information, enforcement
  - Community influence on rate-setting
  - Decreased rates? Decreased coverage?

Cede Risk ➔ Residual Market ➔ Reinsurance ➔ Exit the Game
Voluntary Floodplain Buy-Out Commitment

- **Proponent:** NRDC

- **Structure:**
  - Use existing statutory authority
  - Voluntary program for reduced premium
  - After substantial damage, community buys out the property at pre-flood value
  - Means-tested, targeted to RLs and exposed structures

- **Purpose:**
  - Reduce the burden of repetitive loss structures
  - Incentivize settling out of floodplains

- **Impacts on planning:**
  - Defer costs to the post-disaster aid window
  - Reduce the immediate shock of rate increases
  - Manage expectations
  - Unclear impact on property values
    - Solves the “property trap”
  - Reduce development in exposed areas
  - An alternative to property resilience building
  - Change post-disaster administrative burden
COMMUNITY-BASED INSURANCE POLICIES

- **Structure:**
  - Municipality purchases a community-wide policy
  - Pays off premiums with taxes or fees
  - Pays out recovery funds through local program
  - Premium discounts from community resilience projects

- **Purpose:**
  - More accurate, flexible rate-setting
  - Better integrate community planning with individual property resilience / development decisions
  - Broadens the premium pool

- **Impacts on planning:**
  - Reward community adaptation
  - Integrate community and property mitigation projects
  - More control over risk management, better planning information
  - Funding flexibility and risk sharing
  - Administrative burden
  - Prioritize resiliency over premium reduction
TAKEAWAYS

- Actuarial Rates
- Tax Revenues $\propto$ Property Values
- Integrating Property-scale and Community-scale Improvements
- Practical Implementation
MUNICIPAL CLIMATE CHANGE ADAPTATION

- Policies and Projects
  - Improved infrastructure
  - Increased open space
  - Adaptive building and zoning codes
  - Hazard mapping
  - Open space
  - Managed retreat
- Post-catastrophe decision making
- Funding
  - Tax revenue
  - Federal matching funds:
    - HUD, FEMA, SBA
    - Recovery vs. Resilience
NATIONAL FLOOD INSURANCE PROGRAM

- Regulation
  - Floodplain management ordinance
  - Local official as Floodplain Administrator

- Mapping
  - FIRMs delineate SFHAs
  - Historical analysis

- Insurance
  - MPR for mortgages in SFHAs
  - Write-Your-Own program

- Community Rating System
  - Premium discounts, technical assistance
  - Unified Hazard Mitigation Assistance Grant Programs