AFD Ep 401 Links and Notes - National Flood Insurance Program [Bill/Rachel] - Recording Nov 28 2021

- [Rachel] NFI Act of 1968 after Hurricane Betsy (1965) and amended several times since: https://en.wikipedia.org/wiki/National_Flood_Insurance_Program
  - Origins: It was originally designed to share the risk of flood damage through flood insurance and reduce flood damage by restricting floodplain development (didn't really succeed at Goal #2). The program enables property owners in participating communities to purchase insurance protection, administered by the government, against losses from flooding, and **requires** flood insurance for all loans or lines of credit that are secured by existing buildings, manufactured homes, or buildings under construction, that are located in the Special Flood Hazard Area (SFHA) in a community that participates in the NFIP. U.S. Congress limits the availability of National Flood Insurance to communities that adopt adequate land use and control measures with effective enforcement provisions to reduce flood damages by restricting development in areas exposed to flooding. These areas are determined by the area of "the flood which has a one percent chance of being equaled or exceeded in any given year" aka the 100-year flood.
  - Participation in the NFIP is based on an agreement between local communities and the federal government that states that if a community will adopt and enforce a floodplain management ordinance to reduce future flood risks to new construction in Special Flood Hazard Areas (SFHA), the federal government will make flood insurance available within the community as a financial protection against flood losses. The SFHAs and other risk premium zones applicable to each participating community are depicted on Flood Insurance Rate Maps (FIRMs). The Mitigation Division within FEMA manages the NFIP and oversees the floodplain management and mapping components of the Program.
  - The intent was to reduce future flood damage through community floodplain management ordinances and provide protection for property owners against potential losses through an insurance mechanism that requires a premium to be paid for the protection. In 2003, the Government Accountability Office found that repetitive-loss properties cost the program about $200 million annually. Congress originally intended that operating expenses and flood insurance claims be paid for through the premiums collected for flood insurance policies. NFIP borrows from the U.S. Treasury for times when losses are heavy, and these loans are paid back with interest.
  - Between 1978 and year-end 2014, the U.S. federal government has paid more than $51 billion in claims under the National Flood Insurance Program.
  - Implications on home construction/land use (and on the private insurance sector)
    - Positives and negatives
    - The NFI Act does restrict land use in areas at high risk for flooding that want to participate in the NFIP:
      - utilize base flood elevation and floodway data
      - require permits for all development in Zone A
      - determine whether proposed developments will be reasonably safe from flooding
      - determine that all necessary permits have been received from Federal and State government agencies, including section 404 permits of the Federal Water Pollution Control Act Amendments of 1972

    - require within flood-prone areas that new and replacement water supply systems to be designed to minimize or eliminate infiltration of flood waters into the systems
    - require within flood-prone areas that new and replacement sanitary sewage systems to be designed to minimize or eliminate infiltration of flood waters into the systems and to minimize or eliminate discharges from the systems into flood waters
    - require within flood-prone areas that onsite waste disposal systems to be located to avoid impairment to them or contamination from them during flooding
    - notify adjacent communities prior to any alteration or relocation of a watercourse
    - determine that the flood carrying capacity within the altered or relocated portion of any watercourse is maintained
    - require that manufactured homes must be elevated and anchored to resist flotation, collapse, or lateral movement
- They also encourage communities to go above these minimum requirements, such as not placing public utilities in flood-prone areas, and provide access to homes that ensures that houses do not become isolated during flooding.
- One big negative is that vulnerable people are pushed into flood-prone areas, which increases demand for disaster aid. Flood insurance for properties in flood-prone areas is mandatory only to secure loans, which makes it somewhat more likely that flood prone properties will be owned by seniors who have paid off their mortgages, or investors who have acquired the property for rental income. Flood insurance only covers losses for the owner of the property, and claims are subject to caps, which further increases the likelihood that the property will be occupied by renters rather than the property owner. Flood prone properties are more likely to be offered for rent because of the owners' increased risks and/or costs associated with occupying the property themselves. Flood-prone properties are more likely to be offered for rent at a discount, which attracts lower income groups, seniors, and infirm groups.
- Another big negative of the NFIP is that there are no real penalties for rebuilding on flood-prone land. According to critics of the program, the government's subsidized insurance plan "encouraged building, and rebuilding, in vulnerable coastal areas and floodplains." Stephen Ellis, of the group Taxpayers for Common Sense, points to "properties that flooded 17 or 18 times that were still covered under the federal insurance program" without premiums going up. Critics say this program is underperforming because it is starved for funding compared to disaster response and recovery, and the process of applying for a buyout of a flood-damaged house is unreasonably slow. https://www.npr.org/2017/09/27/553934600/debt-laden-fema-is-slow-to-act-on-program-that-buys-flooded-houses
- Many Americans vastly underestimate their flood risk. Only 3% of homeowners believe that they are at moderate-to-severe risk of flooding within the next 2 years. However, 99% of counties were impacted by flooding between 1996 and 2019. Currently, only 15% of homeowners have flood insurance.

        - There are private flood insurers, but they can be picky about who they offer plans to; if you've had flood damage in the past or live in a high-risk area, you likely can't access a private plan. NFIP is available to all homes within SFHAs, but the payouts are capped vs. private, and disaster aid may be slow to arrive, as FEMA funds may be distributed through insurance companies that FEMA has outsourced policies to.
        - Because only the riskiest properties are in the NFIP pool, premiums would be high to cover that risk. However, rates for many are subsidized, or lower, older rates are "grandfathered" in, which creates a perverse incentive to continue building in flood-prone areas.
    - The Act has been amended several times since 1968. In 1973, the Flood Disaster Protection Act of 1973 made flood insurance mandatory for the protection of property within SFHAs. In 1982, the Coastal Barrier Resources Act designated areas that were ineligible for federal insurance or other financial aid. This was designed to protect fragile coastal barriers from development, as well as discourage development of land at severe risk of flooding and avoid wasteful federal expenditures. In 1994, the National Flood Insurance Reform Act codified the Community Rating System, which incentivizes going above the minimum requirements of the NFIP. And in 2004, the Flood Insurance Reform Act, sought to reduce "losses to properties for which repetitive flood insurance claim payments have been made."
    - Floodplain status determination - Engineers determine the floodplain by evaluating a community's rainfall and river flow data, topography, wind velocity, tidal surge, flood control measures, building development (existing and planned) and community maps. The floodway is the area of the floodplain where velocities and water depths are the greatest during flooding. The flood fringe is the portion of the floodplain outside of the floodway. Many factors can change the floodplain status of an area, which would then need to be amended. Errors in topographical readings can occur, or elevation can change over time. The manual addition of fill can raise the elevation of land out of the floodplain. However, a revision of floodplain delineations based on topographic changes must demonstrate that any topographic changes have not resulted in a floodway encroachment.
    - Development increases runoff in urban areas, which increases flood risk. If flood maps were created before development occurred, the flood maps can be out of date and require revision. Construction that narrows the floodplain increases flow rates, which can cause higher flood waters and greater backflow in an area which increases the damage.
    - If changes to an area that affect flooding conditions are discovered, the information must be submitted to the NFIP Administrator within 6 months. This is so premium rates and floodplain management requirements are based on current data.
- [Bill] More recently National Flood Insurance Program Reforms
    - 2011/12: Biggert–Waters Flood Insurance Reform Act of 2012 tried to more accurately price the legitimately high flood risks to some properties into their owners' federal flood insurance costs, partly to contain disaster relief cost burdens for the government, but also partly to start trying to light a fire under people to get out of recurring flood areas or make changes to their property to mitigate flooding. This became law several months before Hurricane Sandy later in 2012, a timing which likely contributed to its nearly immediate rollback in the next Congress. (Or at least a rollback of the insurance cost and discount changes, though not some of the other reforms about floodplain mapping.)

- 2014: Homeowner Flood Insurance Affordability Act signed into law in March 2014, essentially delaying (perhaps indefinitely) the 2012 reforms that would have reduced premium subsidies and jacked up the artificially and unreasonably low federal flood insurance rates for homeowners in risky areas. One argument used to justify rolling back the 2012 reform from two years earlier was that it had been unfair because only a small share of properties were getting increased insurance costs under the plan and plenty of other properties would have seen no change despite themselves being very frequently flooded. One of the members of Congress demanding the repeal of Biggert-Waters was Maxine Waters herself, who seemed startled by the backlash. https://en.wikipedia.org/wiki/Homeowner_Flood_Insurance_Affordability_Act_of_2013
    - *"At present, approximately 5.5 million properties are covered by the program, with twenty percent of them receiving discount rates of less than half what a private insurance company would charge them."*
    - Howard Kunreuther, a professor at the Wharton Risk Management and Decision Processes Center at the University of Pennsylvania, along with other people there, proposed a different approach to the risk incentives problem: *"a system of vouchers that help people who need help to pay their rising insurance rates — on the condition that they take measures to make their properties less vulnerable. To finance the improvements, the government would offer low-interest loans. And presumably, by the time the work was done, the property owner's risk, and therefore his or her insurance rates, would have come down substantially."* https://grist.org/cities/flood-pressure-how-climate-disasters-put-femas-flood-insurance-program-underwater/
- 2015 and 2017: Pres. Obama issued an executive order in 2015 on Flood Risk Management and factoring in future climate change effects. Pres. Trump canceled this executive order in 2017 around half a year into his term.

- [Bill] A related topic tie-in with recent news coverage: federal emergency payments for disaster relief under certain programs can be so slow that private companies have begun to financialize the time gap ...
    - NY Times Nov 23 2021: [“As Federal Disaster Aid Languishes, Private Lenders Are Filling the Gap”](): “A new program allows Morgan Stanley to front money for disaster repairs and then get paid back, with interest, by taxpayers.” This specific program is aimed at serving owners of large apartment buildings, as opposed to individuals affected by disasters, and it is structured as a loan advance of the expected disaster payouts. The federal government's Department of Housing & Urban Development would then eventually provide the funds to the property owner to not only repay the loan but also pay interest as compensation to the institutional lender fronting that money to the large property owner. In a sense, by agreeing to this program, the federal government is arguably contracting out the claims processing phase because their own staff and local municipal staff don't have enough resources or employees to handle claims in a timely manner – but just as importantly it also reflects the byzantine structure of Congressional disaster funding appropriations which are done one at a time and increasingly slowly, as opposed to consistently pre-funding a reserve account for inevitable and increasingly frequent natural disasters. For the institutional investors there's also an added benefit on top of the government interest payments, which is that they are probably the same companies backing these large rental property

buildings in the first place and getting repairs done quickly and renters back in units is critical to the cashflow on one of these buildings.

    - One citation in the Times article is research from the Urban Institute on federal disaster aid, which found that “Most FEMA assistance ends after 18 months, if not earlier. At that point, the average [Community Development Block Grant Disaster Recovery] housing activity has yet to spend its first dollar. We found that the average CDBG-DR housing activity started distributing funds 20 months after the disaster and was still distributing funds two years after that.”
    - Experts quoted in the Times piece all basically said the same thing: The federal disaster money programs are indeed extremely slow and need to respond faster but this financialization lending scheme is clearly another step in a dangerous direction of creating new profit streams out of a collapsing climate, which hardly incentivizes real fixes, either to the climate itself or to our response strategies to climate-fueled natural disasters. It was also difficult to see a clear relationship between faster private loans to large residential landlords after a disaster and the renter residents themselves benefiting, which in theory is the point of getting building repair payments made faster.
- Bill’s wild speculation: The likely next logical step down this neoliberal avenue would be a financialization program that profits by paying ordinary people with federal claims in cash quickly for an amount less than the expected payout and claiming the full payout from the federal government. There are already a number of private sector models for this in other arenas, such as slow invoice payments for freelancers on the small end and the now disgraced Greensill’s discounted advances on major corporate accounts-receivable cash flows, which are now under various investigations around the world.