CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 20, 2007

H.R. 3959

To amend the National Flood Insurance Act of 1968 to provide for the phase-in of actuarial rates for certain pre-FIRM properties

As ordered reported by the House Committee on Financial Services on October 31, 2007

H.R. 3959 would direct the Federal Emergency Management Agency (FEMA) to increase premiums for certain policyholders that pay less than the actuarial cost (the amount estimated to cover expected claims in any given year) of their flood insurance policies. Any premium increase implemented as a result of the bill would yield additional receipts to the National Flood Insurance Program (NFIP); however, CBO estimates that such funds would be spent to cover the ongoing costs of the program, resulting in no significant net effect on direct spending. Enacting this legislation would not affect revenues.

H.R. 3959 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would not affect the budgets of state, local, or tribal governments.

H.R. 3959 would direct FEMA to increase flood insurance premiums for some single-family, primary residences that are purchased after the bill's enactment for at least $600,000. Under current law, FEMA charges some policyholders a discounted premium because their properties were built before the community's flood insurance rate map (FIRM) was completed, or before 1975, whichever is later. Those properties are collectively known as pre-FIRM properties. Under H.R. 3959, premium rates for this subset of pre-FIRM properties would be increased by a maximum of 15 percent a year until 2011, after which all properties in that subset would be charged actuarial rates.

CBO expects that enacting H.R. 3959 would increase premium income to the NFIP over the 2008-2017 period. Based on data from the agency, we estimate that up to 150,000 properties might be charged a higher premium. Assuming that 1 percent of those properties would be sold in each year, we estimate that net income to the program would increase by $65 million over the 2008-2017 period. (Income could vary, depending on the number of properties sold during the next 10 years and the number of policyholders that would drop coverage in the face of higher rates.) CBO anticipates that additional premium receipts generated as a result of this legislation would be used to pay ongoing expenses of the NFIP, including future insurance claims that would not otherwise receive timely benefit payments. As a result, the bill's enactment would not have a significant net budgetary impact.

The CBO staff contact for this estimate is Daniel Hoople. This estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.