

BASIS OF ESTIMATE

Through the NFIP, FEMA offers flood insurance in communities that conform to the program's standards. Under previous law, if premiums and interest income were insufficient to cover the program's costs, FEMA could borrow up to \$18.5 billion from the U.S. Treasury. S. 2275 increases the limit on FEMA's borrowing authority to \$20.8 billion. Based on information from FEMA about the likely need to pay claims in response to Hurricane Katrina and the historical rate of claims processing for major floods, CBO estimates that the agency will exercise that authority in 2006, resulting in an increase in direct spending of \$2.3 billion in this fiscal year.

Current law requires FEMA to repay any borrowed funds (with interest) as it collects premiums, provided that the program's other costs are fully covered. However, CBO expects that the agency is unlikely to repay funds borrowed under S. 2275 within the next 10 years because premium collections over that period will probably be used to pay any remaining claims resulting from Katrina and future flood insurance claims and expenses.

FEMA estimates that an additional \$3.3 billion will be needed in 2006 to pay claims from Hurricanes Katrina, Rita, and Wilma. The agency is likely to face additional claims of \$800 million to \$1 billion during 2006 for flooding events around the country that typically occur each year. FEMA also will face debt service costs of about \$600 million in 2006 and over \$1 billion in 2007 and subsequent years. CBO expects that, under current law, the program will have insufficient funds to meet all of those costs over the next 10 years.

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