CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 3, 2003

H.R. 253

Two Floods and You Are Out of the Taxpayers' Pocket Act of 2003

As ordered reported by the House Committee on Financial Services on July 23, 2003

SUMMARY

H.R. 253 would extend authority to operate the National Flood Insurance Program (NFIP) within the Department of Homeland Security (DHS) until 2008. Under current law, the program's authority expires on December 31, 2003. The bill also would establish a pilot program to give states and local communities financial assistance for mitigating severe repetitive loss properties (properties that have made four or more flood insurance claims exceeding $5,000 each under the National Flood Insurance Program). The bill would authorize the appropriation of $40 million a year over the 2004-2008 period for this new pilot program. H.R. 253 also would increase the amounts authorized to be appropriated for the existing flood mitigation program by $40 million a year over the 2004-2008 period. Finally, the bill would authorize the appropriation of an additional $10 million a year for mitigation of individual properties in states and communities that do not have the capacity to manage their own mitigation programs.

Assuming appropriation of the authorized amounts, CBO estimates that implementing the bill would cost $315 million over the 2004-2008 period. Enacting H.R. 253 would affect direct spending, but CBO estimates that impact would be insignificant each year relative to the budget resolution baseline (which assumes the flood insurance program is extended).

H.R. 253 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). State, local, and tribal governments may benefit from the grant program to reduce the number of claims made by certain property owners. Any costs associated with this program would be a condition of aid and thus would be incurred voluntarily.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 253 is shown in the following table. The costs of this legislation fall within budget function 450 (community and regional development).

	2004	2005	2006	2007	2008
	By Fiscal Year, in Millions of Dollars				
CHANGES IN SPENDING SUBJECT TO APPROPRIATION[a]					
Authorization Level	90	90	90	90	90
Estimated Outlays	18	45	72	90	90

a. H.R. 253 also would reduce direct spending by less than $1 million a year.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 253 will be enacted early in fiscal year 2004 and that the authorized amounts will be appropriated each year. Estimates of outlays are based on historical spending patterns of similar programs and information from the Department of Homeland Security.

Spending Subject to Appropriation

H.R. 253 would authorize the appropriation of $90 million a year over the 2004-2008 period and an additional $10 million a year after 2008 for mitigation programs to address repetitive losses from floods. Assuming appropriation of the authorized amounts, CBO estimates that implementing this bill would cost $315 million over the 2004-2008 period.

According to DHS, there are currently around 48,000 insured properties that have experienced multiple floods and would benefit from mitigation activities such as elevation, relocation, demolition, or flood-proofing. Mitigating those properties could result in fewer claims paid following a subsequent flood. According to DHS, it would take 10 to 12 years to realize sufficient savings to pay for the cost of mitigating a repetitive-loss property. CBO expects that this program would yield savings to the NFIP; however, no savings can be attributed to H.R. 253 because the size and duration of any mitigation program would depend on amounts provided in future appropriation acts.

Under the bill, if an owner of a property refuses to participate in federal mitigation programs, then the property would no longer be eligible for subsidized insurance premiums. Making the insurance rate actuarially sound would result in an increase in premiums collected to the federal government. (In addition, that same property owner who refuses mitigation would not be eligible for disaster relief funding if a subsequent flood damages their property.) The amount of any additional premiums collected under this provision would also depend on the parameters of the mitigation program which would be determined in future appropriation acts and thus cannot be attributed to H.R. 253.

Direct Spending

Reauthorization of the National Flood Insurance Program. H.R. 253 would reauthorize the NFIP through 2008. Consistent with section 257 of the Balanced Budget and Emergency Deficit Control Act, which specifies that certain expiring programs should be assumed to continue for budget projection purposes, the baseline projections underlying the current Congressional budget resolution assume that the National Flood Insurance Program continues beyond its scheduled expiration date. Over the near term, CBO projects that premiums collected by the National Flood Insurance Fund equal claims paid from the fund. That assumption is used because, while projecting premiums paid to the NFIP is straightforward, the level of claims paid in any year is a function of the incidence and severity of floods which cannot be projected on an annual basis. Over the long term, the NFIP is not considered to be actuarially sound because some properties receive subsidized insurance.

Actuarial Rate Properties. H.R. 253 would make certain federally owned coastal and river properties that are leased to nonfederal entities subject to actuarially sound insurance premiums. CBO estimates that this provision would increase the amount of premiums collected, but the increase would be less than $1 million a year because of the small number of properties involved.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 253 contains no intergovernmental or private-sector mandates as defined in UMRA. State, local, and tribal governments may benefit from the grant program to reduce the number of claims made by certain property owners. Any costs associated with this program would be a condition of aid and thus would be incurred voluntarily.

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