



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

November 20, 2007

H.R. 4050 **Levee-Like Structure Consideration Act of 2007**

*As ordered reported by the House Committee on Financial Services
on November 7, 2007*

H.R. 4050 would direct the Federal Emergency Management Agency (FEMA) to create a process to include certain levee-like structures (including any natural or man-made structures that provide some mitigating effect on flood risk but do not meet the definition of a levee set forth by the agency) on updated Flood Insurance Rate Maps (FIRMs). As a part of its current map modernization efforts, FEMA only includes levees on updated FIRMs. Because FEMA uses the maps to determine the premium rates for flood insurance, including levee-like structures could affect direct spending; however, CBO estimates that the net effect would be insignificant over the next 10 years. Enacting the bill would not affect revenues.

H.R. 4050 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

Under the process established by the bill, a community participating in the National Flood Insurance Program (NFIP) could request that an updated flood map include a levee-like structure if the corresponding map in effect on January 2003 also included the structure. Following such a request, the bill would require that FEMA grant provisional accreditation to the structure for a two-year period and issue an updated flood map recognizing the designation. During this time period, the NFIP would charge its policyholders in the affected area a premium for flood insurance that takes into account the amount of flood protection previously attributed to the levee-like structure. Depending on the final determination of FEMA, such structure may or may not be included on any final flood map issued after the two-year period.

CBO estimates that this legislation would likely reduce net income to the flood insurance program. Including levee-like structures on flood maps would lower premium rates for owners of property located near those structures due to a lower estimate of flood risk. Lower rates would decrease receipts to the program, while actual claims would be unaffected—resulting in a net loss to the flood insurance program relative to current law. CBO does not have sufficient information to estimate the number of levee-like structures that would be

included in updated FIRMs, and thus cannot estimate the possible magnitude of such premium losses.

However, CBO estimates that the net effect of any such changes on net outlays of the NFIP would be insignificant over the 2008-2017 period because of the current financial conditions of the flood insurance program. The NFIP may only use premium income and borrowing authority to cover its expenses. The borrowing authority will probably be exhausted in the next few years, and the premium income is not sufficient to cover all likely new claims. Thus, any net loss to the program over the next 10 years would result in a larger backlog of claims relative to current law but would have no net effect on spending over this period.

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