CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 9, 2017

H.R. 1558
Repeatedly Flooded Communities Preparation Act

As ordered reported by the House Committee on Financial Services on June 21, 2017

SUMMARY

The Federal Emergency Management Agency (FEMA) provides flood insurance coverage to property owners through the National Flood Insurance Program (NFIP). Property owners who buy coverage through the NFIP pay annual premiums, which are credited to the National Flood Insurance Fund and used to pay flood damage claims submitted by policyholders. Those collections and payments are not subject to annual appropriation.

H.R. 1558 would direct FEMA to require certain communities that participate in the NFIP to implement community-wide plans for flood mitigation. H.R. 1558 also would require FEMA to allow certain NFIP policyholders to pay their annual premiums in monthly installments.

CBO estimates that implementing the bill would have no significant effect on spending subject to appropriation in any year. Enacting H.R. 1558 would affect direct spending; therefore, pay-as-you-go procedures apply. However, CBO estimates that, on net, those effects would not be significant. Enacting the bill would not affect revenues.

CBO estimates that enacting H.R. 1558 would not significantly increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2028.

H.R. 1558 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The costs of this legislation fall within budget function 450 (community and regional development). Enacting the bill could affect claims and premiums but any such effects would be offset by changes in collections or costs, so that the net effect would not be significant.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 1558 will be enacted near the end of fiscal year 2017.

Community Accountability for Repetitively Flooded Areas

H.R. 1558 would direct FEMA to create regulations that requires communities that choose to participate in the NFIP to implement mitigation plans designed to reduce the risk and cost of potential damage from floods in future years. The regulations would be aimed at communities that have:

- 50 or more repetitive loss structures,
- 5 or more severe repetitive loss structures, or
- A public or private nonprofit facility that has been damaged by flooding and received federal assistance to repair it in the past 10 years.

H.R. 1558 would define a "repetitive loss structure" as a structure that has had, within a 10-year period, two or more flood claims totaling over $1,000 each. A severe repetitive loss structure is currently defined as:

- A structure that has received four or more separate NFIP claims payments, with the amount of each such payment exceeding $5,000, or
- A structure that has received two separate NFIP claims payments with the cumulative amount surpassing the value of the structure.

Under the bill, regulations would include appropriate sanctions for communities that do not adequately implement a mitigation plan. Such sanctions would be left to the discretion of FEMA.

Based on the cost to FEMA of implementing similar regulations and on the types of sanctions likely to be adopted, CBO estimates that increased administrative costs under this section would total less than $500,000 in any year. Such spending would be subject to the availability of appropriated funds.

CBO has no basis to evaluate the extent or the effectiveness of any mitigation measures that may be adopted by communities as a result of the proposed regulations. Depending on the level of state and local community spending on the targeted properties, such mitigation measures could significantly reduce the cost of future NFIP claims. However, adopting measures to make individual structures more resilient to flood damage also would reduce the risk-based premiums that policyholders pay to FEMA for insurance. Furthermore, because implementing flood-mitigation measures for individual properties is costly for local communities, whether or not those communities would devote significant resources to this effort is unclear. Therefore, CBO expects that the program's net costs would be little changed by this provision.

Monthly Installment Payment of Premiums

Under current law, FEMA must provide certain NFIP policyholders who are not required to escrow their premiums and fees for flood insurance the option to pay premiums on either an annual or monthly basis. Because FEMA has not issued regulations implementing that requirement, all NFIP policyholders not subject to escrow requirements currently pay their premiums annually. CBO estimates that under current law only a small number of policies could pay premiums on a monthly basis because most properties are subject to mortgages with a lending institution that require them to escrow their insurance payments. The institutions remit those premiums directly to FEMA on the homeowners' behalf, usually on an annual basis.

H.R. 1558 would direct FEMA to implement a pilot program to allow eligible policyholders to pay premiums in monthly installments without first implementing the relevant regulations. The pilot program would last for one year before phasing into a regular program.

During the pilot program FEMA would be authorized to charge policyholders who opt to pay their premiums on a monthly basis a fee of up to $25 a year. That fee would be used to offset any administrative costs associated with collecting, storing, and processing payments on a monthly basis. After the first year, FEMA would be authorized to adjust the fee to cover the total added cost of collecting premiums on a monthly basis for all eligible policyholders who choose to pay on such a schedule.

If large numbers of eligible policyholders elected to pay their premiums on a monthly basis the timing of when insurance premiums are collected would change, but there would otherwise be no significant effect on the cost of insurance claims or purchase of insurance.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. NFIP collections are classified as offsetting receipts (a reduction in direct spending). Enacting H.R. 1558 could change collections from policyholders, but any such collections would be offset by additional administrative costs. Therefore, CBO estimates that the bill's net effect on direct spending would be insignificant in 2018 and negligible each year thereafter. Enacting H.R. 1558 would not affect revenues.

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting the bill would not significantly increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2028.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1558 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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