Congressional Budget Office
Cost Estimate

October 4, 2019

At a Glance

H.R. 3167, National Flood Insurance Program Reauthorization Act of 2019

As ordered reported by the House Committee on Financial Services on June 11, 2019

By Fiscal Year, Millions of Dollars	2020	2020-2024	2020-2029
Direct Spending (Outlays)	15	302	678
Revenues[a]	0	-5	-27
Deficit Effect	15	307	705
Spending Subject to Appropriation (Outlays)	141	2,669	3,506

Statutory pay-as-you-go procedures apply?	**Yes**	**Mandate Effects**	
		Contains intergovernmental mandate?	**No**
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2030?	**< $5 billion**	Contains private-sector mandate?	**No**

a. Estimate provided by the staff of the Joint Committee on Taxation.

The bill would

- Extend the authority of the National Flood Insurance Program (NFIP) to operate through fiscal year 2024
- Change premium amounts for some policyholders
- Authorize appropriations for several grant programs related to mapping flood zones and mitigating flood risks

Estimated budgetary effects would primarily stem from

- Changing policyholders' premiums and coverage
- Changes in the number of people who choose to purchase NFIP policies
- Amounts appropriated for various NFIP grant programs

Areas of significant uncertainty include

- Estimating the number of affected policyholders and properties
- Estimating policyholders' responses to changes in incentives to purchase or drop insurance coverage
- Estimating how many policyholders and communities would appeal changes to flood maps and how the results of those appeals would affect premiums

Detailed estimate begins on the next page.

See also *CBO's Cost Estimates Explained*, www.cbo.gov/publication/54437;
How CBO Prepares Cost Estimates, www.cbo.gov/publication/53519; and *Glossary*, www.cbo.gov/publication/42904.

Bill Summary

H.R. 3167 would authorize the National Flood Insurance Program, which is administered by the Federal Emergency Management Agency (FEMA), to enter into and renew flood insurance policies through fiscal year 2024. Under current law, that authority expires on November 21, 2019.

The bill also would change the program to reduce the cost of flood insurance for some policyholders. CBO estimates that enacting H.R. 3167 would reduce some premiums and would affect, in different ways, the number of property owners who purchase insurance through the NFIP.

Finally, H.R. 3167 would authorize FEMA to perform other activities, such as funding grants for flood mitigation, improving the quality and use of flood zone maps, and changing administrative processes.

Estimated Federal Cost

The estimated budgetary effect of H.R. 3167 is shown in Table 1. The costs of the legislation fall within budget function 450 (community and regional development).

Table 1.
Estimated Budgetary Effects of H.R. 3167

	By Fiscal Year, Millions of Dollars											
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020-2024	2020-2029
	Increases in Direct Spending											
Estimated Budget Authority	15	32	71	83	101	74	74	76	76	76	302	678
Estimated Outlays	15	32	71	83	101	74	74	76	76	76	302	678
	Decreases in Revenues											
Estimated Revenues	0	0	-1	-2	-2	-3	-4	-5	-5	-5	-5	-27
	Net Increase in the Deficit From Changes in Direct Spending and Revenues											
Effect on the Deficit	15	32	72	85	103	77	78	81	81	81	307	705
	Increases in Spending Subject to Appropriation											
Estimated Authorization	784	794	791	792	292	16	9	9	9	9	3,454	3,506
Estimated Outlays	141	423	619	794	692	566	220	33	9	9	2,669	3,506

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Components may not sum to totals because of rounding.

Basis of Estimate

CBO assumes that the legislation will be enacted by the end of 2019, that changes in NFIP premiums would take effect gradually for new and renewed policies beginning in the spring of 2020, and that the authorized and necessary amounts will be appropriated for each fiscal year.

Background

The NFIP was established to encourage property owners to purchase flood insurance in the communities that have adopted minimum guidelines for floodplain management and that enforce building codes designed to mitigate flood damage.

Terms of Coverage. If a property is in a special flood hazard area (SFHA, a location estimated to have at least a 1 percent chance of being flooded in any year) and is financed by a federally regulated lending institution, a government-sponsored enterprise for housing, or a federal lender, it must be covered by flood insurance. That coverage mandate is known as the mandatory purchase requirement (MPR). Property that does not meet those criteria may be covered by an NFIP policy at the owners' discretion.

Premiums. Property owners who buy coverage through the NFIP pay annual premiums that are deposited into the National Flood Insurance Fund and used to pay damage claims submitted by policyholders. Owners of most covered properties—about 80 percent—are charged a premium based on FEMA's estimate of the expected cost to insure those properties against damage that the property will incur, in an average year, from flooding (known as actuarial premiums).

Premiums for the remaining 20 percent of properties are subsidized, and policyholders pay less than the expected cost.[1] Throughout the program's history, the Congress has directed FEMA to set premiums below full-risk rates for properties built before a community's flood insurance rate map (FIRM) was completed, or before 1975, whichever is later. FEMA estimates that, on average, premiums for those pre-FIRM properties are set at about 55 percent to 60 percent of the expected cost. Pre-FIRM properties constitute the majority of subsidized properties. A few post-FIRM properties also are eligible for discounted premiums. Some properties that have been newly mapped into SFHAs are charged lower rates for one year. In other cases, premiums are reduced for properties close to levees or other structures that, although originally built to mitigate flooding, are not functional.

FEMA is gradually increasing premiums for properties with explicit subsidies, aiming to phase out those subsidies eventually. For most policies, such as those for primary residences,

1. For details about subsidized premiums, see Congressional Budget Office, *The National Flood Insurance Program: Financial Soundness and Affordability* (September 2017), www.cbo.gov/publication/53028, and *The National Flood Insurance Program: Factors Affecting Actuarial Soundness* (November 2009), www.cbo.gov/publication/41313.

increases are capped at 18 percent per year. In fiscal year 2018, FEMA collected about $3.5 billion in premiums from roughly 5 million policyholders.

Additional Collections From Policyholders. All policyholders pay two extra fees: an NFIP Reserve Fund assessment set at 15 percent of the premium (or $115 per policy, on average), and a surcharge of $25 for primary residences or $250 for nonprimary residences and commercial properties.[2] In 2018, $880 million from those fees was deposited into the NFIP Reserve Fund to pay claims.

The NFIP's Ability to Pay Claims and Other Expenses. In addition to receipts from premiums and fees, the National Flood Insurance Fund and the NFIP Reserve Fund may be credited with annual appropriations, interest earned on fund balances, and amounts borrowed from the Treasury. For 2018, the Congress appropriated $204 million to the National Flood Insurance Fund, and the NFIP borrowed and spent $6.1 billion in 2018, mostly to cover claims from Hurricanes Harvey, Irma, and Maria, which made landfall in 2017.

In 2018, the NFIP also spent $400 million to secure private reinsurance. If an individual flood generates losses above a specified amount, the reinsurer pays a claim to the NFIP, which reduces borrowing from the Treasury. In 2018, the program recovered more than $1.0 billion in reinsurance claims to pay NFIP policyholders' claims after Hurricane Harvey.

Most of the NFIP's expenses consist of claims resulting from coverage in force. In 2018, the program spent $9.7 billion on claims and $2.6 billion on other expenses—for administering maps of flood zones, securing reinsurance, and paying commissions to private insurance companies that administer NFIP policies, for example. In 2018, the program's costs totaled 220 percent of premiums and other receipts.

Historically, actual expenses for claims (not including other program expenses) have varied widely from year to year, ranging from less than 10 percent to almost 900 percent of the premiums collected. CBO estimates that annual expenses will, on average, exceed annual income.

Direct Spending

Section 101 would authorize FEMA to continue selling and renewing policies through September 2024; under current law that authority is set to expire on November 21, 2019. The cost of extending the program through 2024 would total $2.1 billion but those costs are already included in CBO's baseline projections of spending (consistent with the rules governing baseline projections as specified in the Balanced Budget and Emergency Deficit Control Act of 1985). Thus, extending the NFIP's authority to continue operations would

2. A primary residence is a single-family dwelling, condominium unit, apartment, or unit within a cooperative building in which the policyholder resides for more than half of the days in a calendar year, or for less than half of the year if the policyholder has one residence and does not lease it to another party. Nonprimary residences typically are vacation homes or rental properties.

have no effect on direct spending, relative to CBO's baseline projections. CBO estimates that enacting the changes in H.R. 3167 that are not related to extending the program would, on net, increase direct spending by $678 million over the 2020-2029 period as shown in Table 2. Over the next 10 years, the total cost of continuing to operate the NFIP under the bill would be $4.0 billion—$3.3 billion assumed in CBO's baseline and $0.7 billion stemming from changes in the bill.

Table 2.
Estimated Changes in Direct Spending and Revenues Under H.R. 3167

	By Fiscal Year, Millions of Dollars											
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020-2024	2020-2029
	Increases or Decreases (-) in Direct Spending											
Increased Cost of Compliance												
Estimated Budget Authority	15	30	30	30	31	31	31	31	31	31	136	291
Estimated Outlays	15	30	30	30	31	31	31	31	31	31	136	291
New Zone for Areas with Levees												
Estimated Budget Authority	0	0	3	11	24	42	43	44	45	45	38	257
Estimated Outlays	0	0	3	11	24	42	43	44	45	45	38	257
Low-Income Pilot Program												
Estimated Budget Authority	0	0	35	40	45	0	0	0	0	0	120	120
Estimated Outlays	0	0	35	40	45	0	0	0	0	0	120	120
Adoption of Partial Flood Maps and Appeals of Existing Maps												
Estimated Budget Authority	0	2	3	3	3	3	3	4	4	4	11	29
Estimated Outlays	0	2	3	3	3	3	3	4	4	4	11	29
Coverage for Cooperatives												
Estimated Budget Authority	*	*	-1	-2	-3	-3	-4	-4	-5	-5	-6	-27
Estimated Outlays	*	*	-1	-2	-3	-3	-4	-4	-5	-5	-6	-27
Small-Loan Exception to Purchase Requirement												
Estimated Budget Authority	*	*	1	1	1	1	1	1	1	1	3	8
Estimated Outlays	*	*	1	1	1	1	1	1	1	1	3	8
Total Changes												
Estimated Budget Authority	15	32	71	83	101	74	74	76	76	76	302	678
Estimated Outlays	15	32	71	83	101	74	74	76	76	76	302	678
	Decreases in Revenues											
Estimated Revenues	0	0	-1	-2	-2	-3	-4	-5	-5	-5	-5	-27
	Net Increase in the Deficit From Changes in Direct Spending and Revenues											
Total Changes	15	32	72	85	103	77	78	81	81	81	307	705

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

* = between -$500,000 and $500,000.

National Flood Insurance Program Premiums. H.R. 3167 also would affect direct spending by adjusting premiums or by changing the number of policies purchased. Most of the changes would decrease premiums; two would affect the number of NFIP policies purchased by property owners. The estimates for the following provisions are made under the assumption that all of the policies proposed in H.R. 3167 would be enacted together.

Repeal Surcharges. Section 103 would repeal the annual $25 surcharge for coverage of a primary residence and the $250 surcharge for a nonprimary residence or commercial property. Those amounts are deposited into the NFIP Reserve Fund, along with the additional assessments for that fund—currently 15 percent of a policy's premium. In 2018, FEMA collected $383 million in surcharges and $497 million in assessments and thus deposited $880 million into the reserve fund.

Under current law, FEMA must build up the fund's balances by depositing specified amounts from surcharges and assessments.[3] H.R. 3167 would repeal the surcharge, but it would not change that mandate to contribute the minimum amount necessary each year. Based on information from FEMA officials, CBO expects that to compensate for the elimination of the surcharge under H.R. 3167, FEMA would administratively increase the assessment from 15 percent to about 26 percent, on average. As a result, CBO estimates, the cost of the provision would be fully offset over the 2020-2029 period through collections of larger assessments, but there would be no net change in total receipts collected by the program.

Increased Cost of Compliance. Section 301 would allow NFIP policyholders to purchase coverage under the Increased Cost of Compliance (ICC) program, which helps defray the cost of mitigation projects that reduce a property's risk of flood damage. Under current law, if a building covered by an NFIP policy sustains a flood loss and is declared substantially damaged or has been flooded repeatedly, ICC coverage provides up to $30,000 to bring the building into compliance with state or community floodplain management laws or ordinances. Spending for the ICC program is offset by premiums collected from policyholders. The annual ICC premium is currently capped at $75.

Under H.R. 3167, policyholders could purchase additional coverage up to $30,000, bringing the maximum coverage to $60,000 for a single property. The bill also would expand the list of permissible uses of ICC funds to include new methods of mitigation, such as retrofitting property with flood-proof materials or relocating vulnerable structures. CBO expects that those changes would increase both the demand for ICC policies and the amount of the

3. The Biggert-Waters Flood Insurance Reform Act of 2012 requires FEMA to deposit those collections to build a financial reserve that will meet the program's expected future obligations. Each year, the agency deposits at least 7.5 percent of its reserve ratio—equal to 1 percent of the program's total potential loss exposure for all outstanding policies in force in the prior fiscal year. Coverage in force is currently about $1.3 trillion; the reserve ratio is approximately $13 billion. FEMA must deposit at least 7.5 percent of that amount each year until the balance reaches the reserve ratio. See 42 U.S.C. 4017a(d).

average ICC claim. Using information provided by FEMA, CBO estimates that the cost per ICC policy would increase by 150 percent under H.R. 3167.

Because the bill would not authorize FEMA to increase ICC premiums, CBO estimates that the provision would increase net direct spending for that extra coverage. Using information from FEMA, CBO estimates that enacting that provision would increase direct spending by about $30 million annually and by $291 million over the 2020-2029 period.

New Zone for Areas with Levees. Section 209 would require FEMA to establish and map new flood zones (termed AL-E zones) for areas affected by the presence of levees. According to FEMA, 625,000 policyholders now reside in zones with levees; about 190,000 of those policies are in places where the levee system does not meet minimum standards for accreditation.

Under the bill, communities with levee systems could apply to FEMA to remap their areas into AL-E zones. If FEMA determines that levees in those communities cannot be accredited, policyholders would be eligible for reduced rates associated with areas of moderate flood risk and would pay those lower rates until FEMA sets actuarially sound rates that account for the level of flood risk reduction provided by a particular levee system. Accordingly, CBO expects that enacting the provision initially would result in policyholders in AL-E zones paying lower premiums than under current law. The associated cost would increase over time, as more communities apply for AL-E designation, fail to achieve accreditation, and the policyholders thus begin to pay lower premiums.

Using information from FEMA, CBO expects that the agency's levee review process would identify the first unaccredited levees two years after enactment. Beginning in 2022, CBO estimates, about 10,000 policies each year would become eligible for subsidized rates, and each year's cohort of AL-E applicants would pay those rates for an average of four years—the period that CBO estimates that FEMA would need to set new AL-E rates for each zone. That estimate is based on information from the agency's Technical Mapping Advisory Council, which reported in 2015 that the production of a new or revised flood map typically takes three to five years. CBO estimates that the cost of the subsidized premiums would compound each year because more policyholders would become eligible and their properties would otherwise have been subject to a 15 percent annual premium increase. CBO estimates that enacting the provision would increase direct spending by $257 million over the 2020-2029 period.

Low-Income Pilot Program. Section 102 would direct FEMA to implement a five-year demonstration project (ending on May 31, 2024) that would offer discounted premiums to policyholders in residential households with income below 80 percent of the median income in the area. Under the bill, FEMA would consult with the Department of Housing and Urban Development to determine eligibility and offer qualifying policyholders annual premiums that did not exceed 2 percent of that area's median income. CBO expects that FEMA would require two years to set up the program so that the agency could establish data collection agreements with other agencies and develop new information systems to identify eligible households and verify incomes.

Using information from FEMA, CBO estimates that approximately 60,000 current policyholders would meet the income requirement and we assume that the premium for eligible households would be set at a flat rate of 2 percent of an area's median income. On that basis, CBO estimates that enacting the provision would cost about $35 million in 2022 and that those costs would increase in 2023 and 2024 as more policyholders apply for and receive the discounted premium. The pilot program would terminate in 2024. CBO estimates that enacting the provision would reduce premiums and therefore increase direct spending by $120 million over the 2020-2029 period.

Adoption of Partial Flood Maps and Appeals of Existing Maps. Section 208 would allow local governments to delay the finalization of portions of flood maps in areas where the special flood hazard area expands and to expedite the finalization of changes in areas where the SFHA decreases. If communities delay adoption of flood maps with expanded SFHAs, some property owners would not be subject to the mandatory purchase requirement for flood insurance despite being in a high-risk flood zone. Furthermore, premiums in those areas would not be commensurate with actual flood risk, thus increasing the number of subsidized policies insured by the program. As a result, enacting section 208 would increase direct spending.

The cost of enacting section 208 would depend on administrative decisions in the thousands of communities that participate in the NFIP and on the resulting differences in risks and premiums that would be created for particular portions of each community's flood map. Using information from FEMA, CBO expects that relatively few communities—roughly 10 to 20 per year—would pursue partial appeals of flood maps and that those appeals would delay finalization of map changes by 1.5 years, on average. CBO estimates that forgone premiums from 5,000 to 10,000 policies each year would increase direct spending by $20 million over the 2020-2029 period. There is significant uncertainty surrounding that estimate. Spending could be higher or lower depending on how many communities appeal map changes and on how long those subsidized premiums are in place.

Section 205 of the legislation also would increase costs by making the program's mapping update process more favorable to those seeking a revision. The provision would allow a state or local government, or a property owner, to appeal a denial for a formal map update if that entity has information that the flood elevation or some other aspect of the map is technically inaccurate or if the appellant can prove that factors exist that mitigate the risk of flooding. In the case of a successful appeal, the provision would require FEMA to refund excess premiums. Under current law, FEMA receives appeals for about 5 percent of all flood map studies before they take effect. Refunds, in a limited set of cases, average about $3,100 per policy. Using information from FEMA, CBO estimates that the changes to the appeals process would result in several hundred additional policyholders receiving refunds each year and would increase direct spending by $9 million over the 2020-2029 period.

Changes That Would Affect the Number of NFIP Policies Purchased. Two provisions of H.R. 3167 would directly affect the number of policies purchased through the NFIP. All policies—whether actuarial or subsidized—generate income for the program in the form of surcharges and reserve fund assessments. Thus, changes to the program that reduce the number of policies purchased reduce income from those fees, effectively increasing the program's reliance on existing balances (or borrowing) to pay claims and therefore increasing direct spending. Simultaneously, any reduction in the number of subsidized policies would contribute to the actuarial soundness of the program because the expected costs of those policies are greater than the premiums paid for them.

Coverage for Cooperatives. Under current law, individual owners of condominiums may purchase flood insurance under the program but residents who own shares in housing cooperatives—called co-ops—cannot. Instead, a cooperative can purchase a master policy for a shared building. Section 304 would require FEMA to make flood insurance available to co-op members at terms that match those for condominium owners. CBO expects that enacting the provision would increase the number of NFIP policies.

Using information from the Census Bureau, CBO estimates that the number of condominium units nationwide is more than seven times the number of co-op units. The NFIP currently insures about 86,000 individual condominium units. Assuming that a similar percentage of co-op owners would purchase insurance, CBO estimates that, under H.R. 3167, about 12,000 co-op owners would purchase NFIP policies over the next few years, of which 20 percent would be subsidized. Using information from FEMA, CBO estimates that, on average, condominium owners pay more on premiums than the expected cost of their policies. On that basis, CBO estimates the provision would reduce direct spending by about $27 million over the 2020-2029 period.

Small-Loan Exception to Purchase Requirement. Under current law, owners must carry flood insurance if their properties are within an SFHA and financed by a federally regulated lending institution, government-sponsored enterprise for housing, or federal lender. Insurance coverage under those policies must at least equal either the outstanding principal balance of the loan (usually a home mortgage) or the maximum limit of coverage made available for the particular type of property, whichever is less. An exception is made for small loans: Flood insurance is not required for properties with an outstanding principal balance of $5,000 or less and a repayment term of one year or less.

Section 103 would exempt property owners with an outstanding principal balance of $25,000 or less from the MPR. Using a database of NFIP policy information, CBO estimates that roughly 63,000 policyholders have outstanding mortgages between $5,000 and $25,000. CBO estimates that about 39,000 own properties in SFHAs that are subject to the MPR.

CBO anticipates that some of those policyholders would drop their coverage. In 2014, the Government Accountability Office reported that many property owners underestimate both the risk of a flood and the amount of damage a flood might cause.[4] On average, affected policyholders' premiums total about $170 annually to cover the remaining mortgage principal owed on their properties. CBO is unaware of any data about the propensity of policyholders to drop insurance when given the opportunity. However, we expect that a significant number of people would drop coverage if the requirement changed. In the absence of more specific information, CBO assumes that under the bill about half of that group of roughly 39,000 policyholders would drop their coverage within a few years.

Using information from FEMA on premiums and assessments paid by those policyholders, and on the expected cost to insure them, CBO estimates that enacting section 103 would increase net direct spending by $8 million over the 2020-2029 period. The lost premiums and fees would be partially offset by a reduction in claims; in particular, property owners with subsidized policies who dropped coverage would reduce net spending because their expected cost to the NFIP exceeds premiums paid for the coverage. CBO's estimates of those costs are uncertain and could be significantly greater or smaller, depending on the number of dropped policies and whether those policies are subsidized.

Revenues

Section 105 of the bill would authorize the appropriation of $250 million over the 2020-2024 period for FEMA to make grants to capitalize state revolving loan funds, from which states would in turn make loans and grants to finance flood mitigation projects. The staff of the Joint Committee on Taxation (JCT) expects that states would use a portion of those grants to leverage additional funds by issuing tax-exempt bonds. JCT estimates that issuing additional tax-exempt bonds would reduce federal revenues by $27 million over the 2020-2029 period (see Table 2 on page 5).

Spending Subject to Appropriation

H.R. 3167 would authorize appropriations totaling $3.5 billion over the 2020-2024 period for FEMA to administer several grant programs, to modernize the agency's process for producing flood maps, and to make other changes to the program (see Table 3). CBO estimates that implementing those provisions would increase spending by $2.7 billion over the 2020-2024 period, assuming appropriation of the authorized and necessary amounts.

4. See Government Accountability Office, *Overview of GAO's Past Work on the National Flood Insurance Programs*, GAO-14-297R (May 2014), www.gao.gov/products/GAO-14-297R.

Table 3.
Estimated Increases in Spending Subject to Appropriation Under H.R. 3167

	By Fiscal Year, Millions of Dollars					
	2020	2021	2022	2023	2024	2020-2024
Flood Mapping and Floodplain Management						
Authorization	501	504	500	500	0	2,006
Estimated Outlays	101	201	352	502	400	1,556
Flood Mitigation Funding						
Authorization	270	277	277	277	277	1,378
Estimated Outlays	27	209	253	277	277	1,043
Administrative and Other Costs						
Estimated Authorization	13	13	14	15	15	70
Estimated Outlays	13	13	14	15	15	70
Total Changes						
Estimated Authorization	784	794	791	792	292	3,454
Estimated Outlays	141	423	619	794	692	2,669

Components may not sum to totals because of rounding.

Flood Mapping and Modernization of Floodplain Management. Section 201 would authorize the appropriation of $500 million a year over the 2020-2023 period for FEMA's Risk MAP (Mapping, Assessment and Planning) program. Based on historic patterns of outlays for that program, CBO estimates that implementing those provisions would increase spending on flood mapping and floodplain management by $1.6 billion over the 2020-2024 period and by $450 million after 2024. Section 203 would authorize the appropriation of specific amounts for 2020 and 2021 that would total $6 million for a new program to improve mapping of urban flood risks.

Flood Mitigation Funding. Several provisions in H.R. 3167 would authorize appropriations for efforts to mitigate flood damage. Section 306 would authorize the appropriation of $200 million a year over the 2020-2024 period for FEMA's Flood Mitigation Assistance grant program. In fiscal year 2018, that program received appropriations of $175 million to make grants to state and tribal governments and to NFIP communities for mitigation projects and planning.

Section 105 would authorize the appropriation of $50 million a year over the 2020-2024 period for FEMA to make grants to capitalize new revolving funds administered by states. From those revolving funds, states would make loans and grants to local governments, homeowners, and other property owners for flood mitigation projects, such as elevating or relocating buildings.

Section 308 would authorize the appropriation of $20 million a year over the 2020-2024 period for FEMA to carry out a floodplain management grant program. In addition, section 307 would authorize the appropriation of $7 million a year over the 2021-2024 period for the agency to make grants to facilitate participation in the program's Community Rating System—a voluntary program that offers communities incentives to exceed the minimum requirements for floodplain management.

Based on historical patterns of outlays for those or similar grant programs, CBO estimates that implementing those provisions would increase spending by about $1.0 billion over the 2020-2024 period and by about $300 million after 2024.

Administrative Changes and Other Costs. In addition to amounts specifically authorized in H.R. 3167 for updates to the mapping program and for mitigation grants, CBO estimates that FEMA would require $70 million over the 2020-2024 period to implement several other provisions in the bill.

Most of the estimated amounts would cover the costs of hiring additional employees (assuming an average cost of $150,000 per employee), making necessary investments in information management systems, and providing for contract support. Specifically, over the 2020-2024 period, CBO estimates the following costs:

- $30 million to implement the pilot program for low-income households authorized by section 102 and the new grant programs under sections 203 and 307;
- $18 million under section 404 to create and administer an electronic system for sharing property-specific information with private flood insurance companies and with policyholders;
- $11 million under sections 205 and 206 to respond to appeals of rate map changes and under section 208 to oversee a new process to allow partial adoption of flood maps;
- $6 million to pay independent actuaries for annual studies of program finances and for the Government Accountability Office to study ways to increase participation in the NFIP;
- $3 million to develop guidance and processes for administering umbrella insurance policies; and
- $2 million for a pilot program that offers communitywide flood insurance.

Uncertainty

CBO's cost estimate for H.R. 3167 reflects uncertainty in several areas:

- Estimating the number of policyholders and properties that would be affected by changes in the bill, including what flood zones and policy types apply to each;
- Estimating policyholders' responses to incentives to purchase insurance if it becomes available or drop insurance if it is no longer required; and
- Estimating the effect of changes in the bill on the amount of premiums paid and on the amount of risk that drives the cost of providing coverage.

For this estimate, there is substantial additional uncertainty concerning the effects of sections 205, 206, and 208, which would amend administrative processes to allow policyholders and NFIP communities to appeal changes to flood maps. In particular, section 208 would allow interested parties to delay finalizing map panels in areas where a special flood hazard area expands and to speed up finalizing maps in areas where an SFHA decreases.

The effect of those provisions would vary widely across the country and would depend on the administrative decisions of thousands of individual policyholders and their participating communities. CBO's estimates of costs are therefore uncertain and could be significantly different, depending on the extent to which individual policyholders and communities appeal decisions, how many policyholders receive premium reductions, and on how long those gaps between premiums and risk are sustained.

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. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in Table 4.

Table 4.
CBO's Estimate of the Statutory Pay-As-You-Go Effects of H.R. 3167

	By Fiscal Year, Millions of Dollars											
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020-2024	2020-2029
	Net Increase in the Deficit											
Pay-As-You-Go Effect	15	32	72	85	103	77	78	81	81	81	307	705
Memorandum:												
Changes in Outlays	15	32	71	83	101	74	74	76	76	76	302	678
Changes in Revenues	0	0	-1	-2	-2	-3	-4	-5	-5	-5	-5	-27

Increase in Long-Term Deficits

CBO estimates that enacting H.R. 3167 would not increase on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2030.

Mandates: None.

Estimate Prepared By

Federal Costs: Jon Sperl

Federal Revenues: Staff of the Joint Committee on Taxation

Mandates: Rachel Austin

Estimate Reviewed By

Kim Cawley
Chief, Natural and Physical Resources Cost Estimates Unit

H. Samuel Papenfuss
Deputy Assistant Director for Budget Analysis