# CONGRESSIONAL BUDGET OFFICE
# COST ESTIMATE

July 7, 2017

## H.R. 2868
## National Flood Insurance Program Policyholder Protection Act of 2017

*As ordered reported by the House Committee on Financial Services on June 15, 2017*

## SUMMARY


H.R. 2868 would require the Federal Emergency Management Agency (FEMA) to cap annual premiums charged for certain National Flood Insurance Program (NFIP) policies at $10,000 for five years. The cap would be adjusted for inflation every five years. The bill also would require FEMA to update guidelines on methods to mitigate flood prone properties and to conduct a study on the feasibility of providing NFIP coverage to individual dwelling units in cooperative housing projects.

CBO estimates that enacting H.R. 2868 would increase direct spending by $68 million over the 2018-2027 period. Because enacting H.R. 2868 would affect direct spending, pay-as-you-go procedures apply. Enacting the legislation would not affect revenues. CBO estimates that implementing the bill would have no significant effect on spending subject to appropriation in any year.

CBO estimates that enacting H.R. 2868 would not increase net direct spending or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2028.

H.R. 2868 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 estimated budgetary effect of H.R. 2868 is shown in the following table. The costs of this legislation fall within budget function 450 (community and regional development).

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2017-2022 | 2017-2027 |
| **INCREASES IN DIRECT SPENDING** | | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | 2 | 3 | 4 | 5 | 7 | 6 | 7 | 9 | 11 | 14 | 21 | 68 |
| Estimated Outlays | 0 | 2 | 3 | 4 | 5 | 7 | 6 | 7 | 9 | 11 | 14 | 21 | 68 |

## BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 2868 will be enacted near the end of fiscal year 2017 and that the required changes in NFIP premiums would go into effect in the middle of fiscal year 2018.

### Background

Under current law, property owners can buy flood insurance through the NFIP. Owners of properties that are located within an area designated as having at least a 1 percent chance of being flooded in any year (known as a Special Flood Hazard Area, or SFHA) and that are financed by a federally regulated lending institution, government-sponsored enterprise for housing, or federal lender are required to carry flood insurance. Property owners not receiving financing from those entities or that are located outside a SFHA may purchase flood insurance from a private carrier or the NFIP at their discretion.

Property owners who buy insurance through the NFIP pay annual premiums which are deposited into the National Flood Insurance Fund and are used to pay flood damage claims submitted by policyholders. Those premiums and payments are not subject to annual appropriation.

### Cap on Premiums

H.R. 2868 would require FEMA to cap NFIP premiums for all residential properties with four or fewer residences at $10,000 for the first five years following enactment. Every five years, the cap would be adjusted for inflation. According to data from FEMA, about 800 NFIP policies for single and multi-family homes (about 0.02 percent of all single and multi-family policies in force) had premiums above $10,000 in 2017.

Based on information from FEMA on current NFIP premiums and accounting for anticipated inflation and anticipated growth in the number and cost of NFIP policies, CBO estimates that capping premiums for single and multi-family home policies at $10,000 would lead to a reduction in NFIP receipts, which are recorded as reductions in direct spending. In total CBO expects that the policy would increase direct spending by $68 million over the 2018-2027 period. After 5 years, in mid-2022, CBO estimates the cap in policy premiums would be adjusted to $11,200. That would cause the loss of premium collections in 2023 to be slightly smaller than in 2022 because the higher cap on premiums would affect fewer policies in that year. In 2016 the NFIP collected $3.5 billion in policy premiums.

### Other Requirements

H.R. 2868 also would direct FEMA to reduce the premiums of NFIP policyholders who undergo flood mitigation activities. Under current law, FEMA reduces premiums for structures that are improved to better guard against flooding; therefore, CBO estimates that implementing this requirement would have no effect on the federal budget.

## 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 that are subject to those pay-as-you-go procedures are shown in the following table.

**CBO Estimate of Pay-As-You-Go Effects for H.R. 2868, as ordered reported by the House Committee on Financial Services on June 15, 2017**

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2017-2022 | 2017-2027 |
| | | | | | | NET INCREASE IN THE DEFICIT | | | | | | | |
| Statutory Pay-As-You-Go Impact | 0 | 2 | 3 | 4 | 5 | 7 | 6 | 7 | 9 | 11 | 14 | 21 | 68 |

## INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting H.R. 2868 would not increase net direct spending or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2028.

## INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2868 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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