Flood Insurance Changes Come to Virginia

Wetlands Watch, October 2013

Major changes to the National Flood Insurance Program (NFIP), including rate increases that will affect many Middle Peninsula residents, arrived this month. The changes are a result of the Biggert-Waters Flood Insurance Reform Act, passed by Congress in July 2012. Among other changes, the Act is intended to reduce the debt of the NFIP, which stands at $24 billion. This is a debt to the national Treasury, which is in effect a debt to the American people. Since the 2005 hurricane season, the NFIP has been unable to pay off its debt, and experts agreed that to do so the Program would need significant reforms.

The primary reforms from the Biggert-Waters Act that affect policyholders are the removal of subsidies and grandfathering provisions. These allowed properties that existed before the creation of the program to remain in their existing locations without imposing high-cost flood insurance based on risk, and allowed those who built to code at the time of construction to continue to pay reasonable rates even when risk increased. While these provisions provided significant benefits to many property-owners in the form of low-cost rates, they do not convey the true level of risk and are no longer sustainable.

It is important to keep in mind that not all policyholders will see major rate increases. Only about 15% of policyholders in Virginia have subsidized policies (those that will see the largest rate increases). Further, only those properties located in the Special Flood Hazard Area, made up of zones A and V, are likely to see major rate increases.

Not all communities will be impacted equally; those with desirable beachfront real estate may see a gentrification of the coast as the wealthy buy properties the middle class can no longer afford, while other communities with lower property demand may experience a "hollowing-out" as the cost of property ownership becomes more expensive but wealthy investors are uninterested in buying. Conditions are likely to get worse as sea levels rise and storms increase in intensity, bringing higher and more frequent flooding.

While the Biggert-Waters reforms are necessary to keep the NFIP sustainable, they pose unfair and unanticipated consequences for some families and communities. There have already been numerous attempts to reform the Biggert-Waters Act to slow rate increases and conduct an affordability study, but thus far none have been successful. Many Congressmen and women continue to pursue legislation to change the Act. If successful, rate increases are likely to be delayed, although financial pressures are too great to expect the increases to be eliminated.

Rate Increases

The first round of major rate increases are already in effect. In January of this year 25% rate increases became effective for secondary residences (vacation and second homes). Rates will continue to increase 25% per year for these properties until full rates (based on the flood risk of the structure) are reached.

A number of additional rate increases began on October 1 of this year. These changes included a 25% rate increase for subsidized business properties, severe repetitive loss properties and those whose flood losses have cumulatively totaled more than the value of the structure, and any structure that has been damaged more than 50% of the market value or is improved (renovated, additions, etc.) 30% or more of the market value.

October 1 also saw major changes for different types of "first time" policy purchases. Any new policy will now immediately be charged actuarial rates. If a policy has lapsed, at the time of renewal the full rate will be charged. Perhaps most importantly, when a property is sold, any new flood insurance policy for that property will be charged full rates: no flood insurance policy may be transferred from former to new owner. This provision is likely to produce one of the most significant fallouts from the Act, with fears that it might result in reduced home sales, reduction in property values, and an increase in foreclosures for those who are required to carry flood insurance to maintain a mortgage.

The second and final round of major rate changes is scheduled to come October 1, 2014. As the Act stands now (which is potentially subject to change), these rate increases will phase out all subsidizes and grandfathering provisions for any remaining properties that were not affected by the 2013 changes. The phase-out will not begin exactly on October 1, 2014, but after this date when new maps become effective for each community. At this time, subsidized policyholders will see a 20% annual increase in their rates for 5 years until premiums reach full actuarial rates. This provision may have significant consequences, because it imposes higher rates on primary homeowners that may be required to carry flood insurance by their mortgage company, and these higher rates were unanticipated when the home was purchased and may not be affordable.

The key to this provision is the adoption of new maps. All Middle Peninsula counties are in the process of updating their flood maps, and only Gloucester will finish the process before October 1, 2014. This means that all other localities will be affected by map-driven rate increases. To see the update schedule for your locality, visit www.rampp-team.com/va.htm. Residents can view preliminary maps by visiting county offices or the websites below. Some properties are being removed from high-hazard flood zones, so flood insurance rates will decrease. If a property owner disagrees with the flood zone designation for his property, he may dispute it with guidance from a floodplain manager.

What You Can Do

Most importantly, find out if your property is subsidized or grandfathered. This is based on the date your structure was built in relation to the date your community joined the NFIP, what flood zone you are in, and whether your flood zone has changed since construction. Talk to your insurance agent or floodplain manager for more information.

Do not let your policy lapse. If you do, you will have to pay the full rate immediately upon renewal. This is particularly important for subsidized and grandfathered primary homeowners who would otherwise be unaffected by rate increases until after 2014.

If you do not have an elevation certificate and your structure is subsidized, you should hire a surveyor to complete the certificate. This certificate is what FEMA will use to determine your risk of flooding. If you do not have an elevation certificate, your insurance rates will continue to increase indefinitely if you are located in an A or V zone.

Talk to your floodplain manager or insurance agent about small fixes that can provide big savings over many years, such as installing flood vents.

Elevating or relocating your property is likely to have the largest impact on reducing your flood insurance costs, but is an expensive up-front investment. FEMA offers grants for elevation, relocation, and even acquisition of property. These funds are limited, there is often a waiting list, and the projects typically take a few years to complete, but these grants have been very useful for many property owners. Talk to your floodplain manager if you are interested in applying.

What Your Community Can Do

Your community can also help lower flood insurance costs. FEMA operates a program called the Community Rating System (CRS), which offers discounts on flood insurance rates for all policyholders within a community when that community strengthens its floodplain management program. Points are earned for various floodplain management activities, and total points correspond to different ratings (known as classes), which in turn correspond to flood insurance discounts for each policyholder. Communities earn discounts in 5% increments, and can earn up to a 45% discount.

Virginia communities can join the CRS or continue to improve their CRS ratings and earn higher discounts for their policyholders. It should be noted that improving the CRS rating can be very costly and time-consuming, meaning that some communities with fewer resources may struggle. Still, the benefits are great, and participation in the CRS is one of the most effective ways to lower costs for all policyholders, a benefit gaining more attention in light of the Biggert-Waters Act.

→For more information, visit www.wetlandswatch.org/WetlandScience/SeaLevelRise/FloodInsurance.aspx or www.fema.gov/flood-insurance-reform-act-2012.

→To compare current and preliminary flood zones, visit maps.riskmap3.com, choose your locality, and enter your address. If your locality is not listed, you may be able to view your preliminary map at hazards.fema.gov/femaportal/prelimdownload and your current effective map at www.arcgis.com/home/webmap/viewer.html?webmap=cbe088e7c8704464aa0fc34eb99e7f30.

Biggert-Waters Flood Insurance Reform Act of 2012:

What You and Your Constituents Need to Know

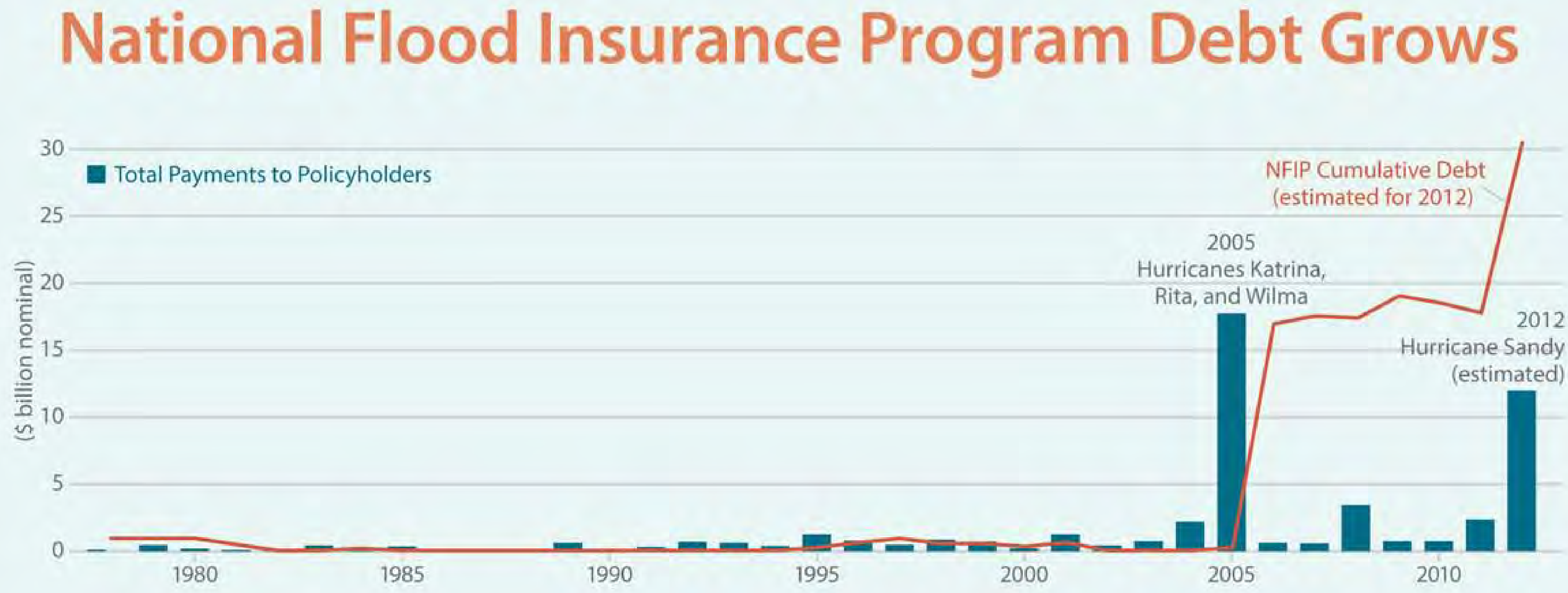
Shannon Hulst, Wetlands Watch

October 23, 2013

Wetlands Watch and Insurance

- Interest in coastal open space, mechanisms for maintaining/creating open space
- Insurance study
  - www.wetlandswatch.org
- Private insurance and flood insurance costs are increasing

Background: Flood Insurance

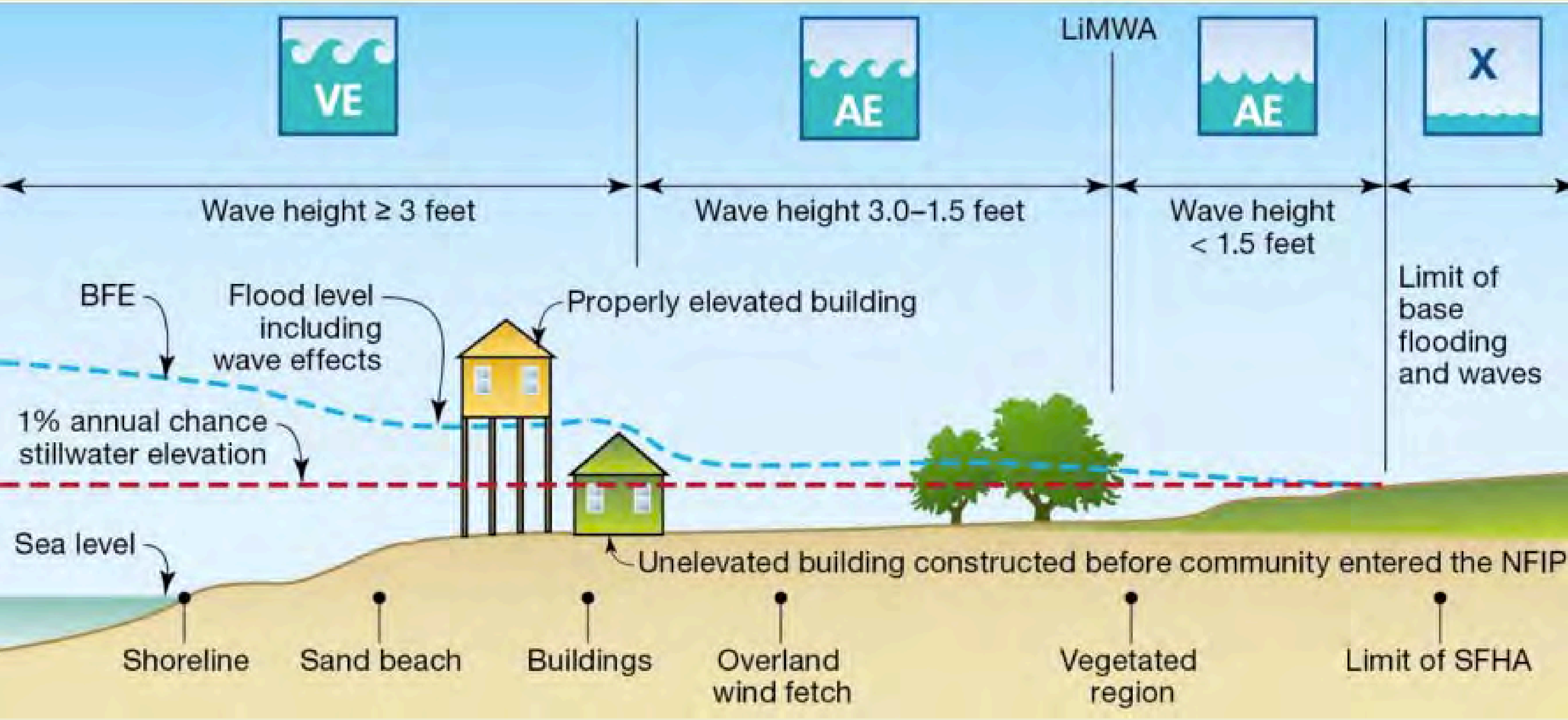


Sources: FEMA 2013a; estimate for 2012 NFIP payments for Hurricane Sandy from King 2013; estimate for 2012 NFIP debt based on its borrowing limit of $30.4 billion set by the Hurricane Sandy Relief Act.

Biggert-Waters Intent

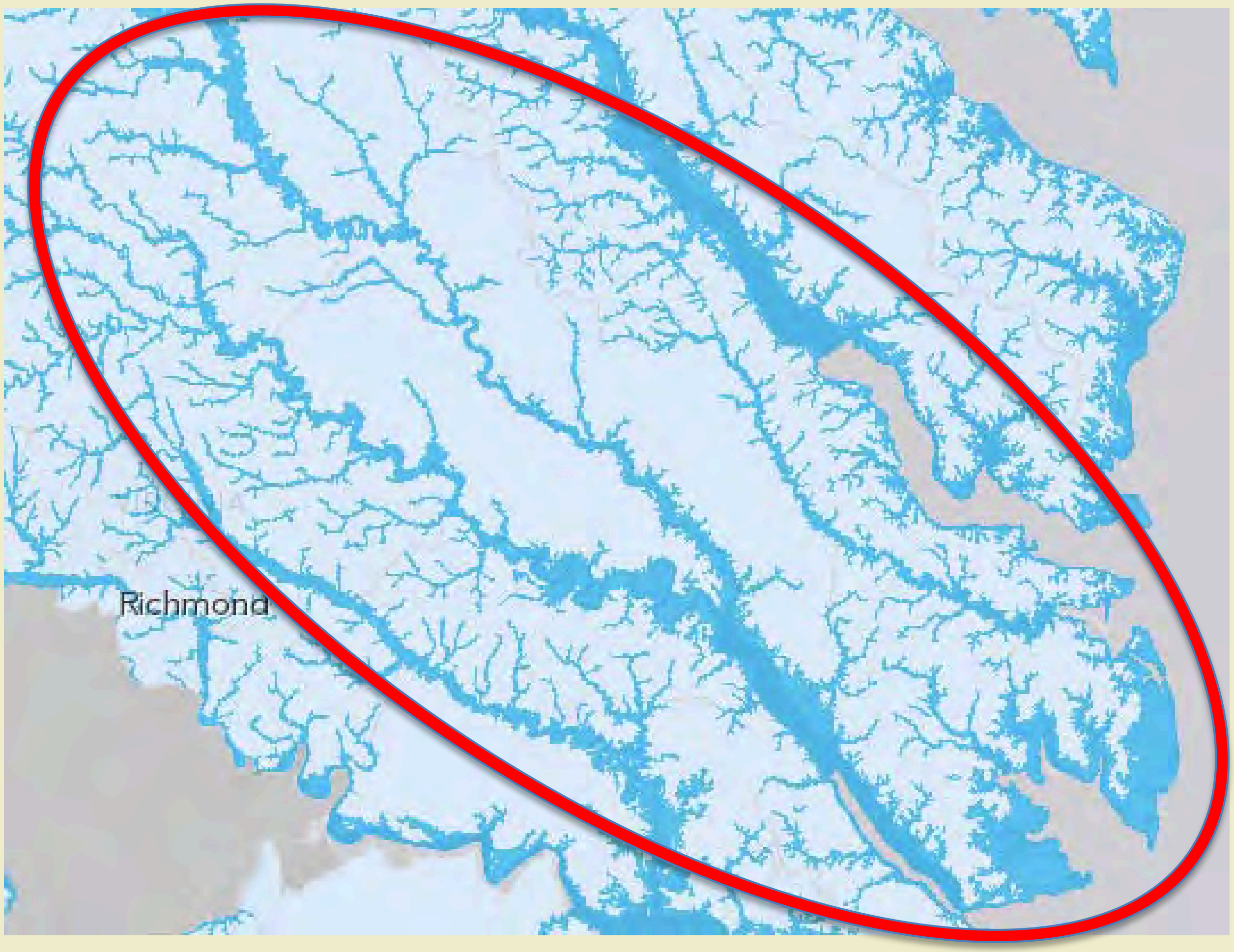
- Purpose: Financial stability for NFIP
- Removes subsidies and grandfather provisions
- Creates catastrophe fund
- Allows NFIP to use most accurate/predictive flood data
- (In theory) allows NFIP to pay off $24 billion debt to Treasury/federal taxpayers

What is Affected: SFHA



Source: https://www.rampp-team.com/county_maps/virginia

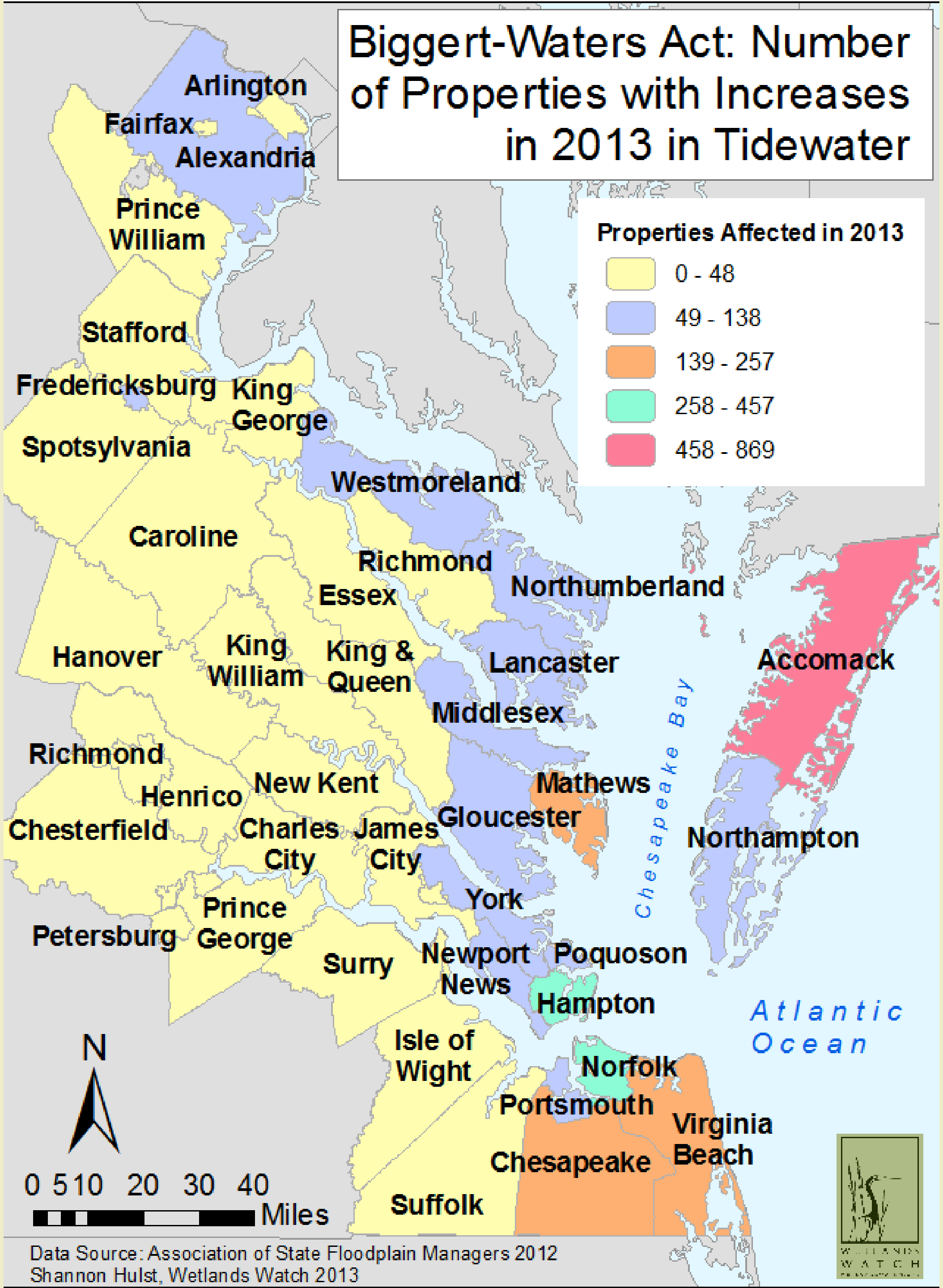
What is Affected: SFHA



Source: http://www.arcgis.com/home/webmap/viewer.html?webmap=e9aa2179f31b4b9cbe5c7f8b1b91cea3

25% Rate Increases Now in Effect

- Subsidized non-primary residences
- Subsidized business properties
- Severe repetitive loss/properties with cumulative flood claim damage totaling more than the value of the property
- Improvements of 30% or more, or damages of 50% or more



See the Wetlands Watch website for more Biggert-Waters impact maps: http://www.wetlandswatch.org/WetlandScience/SeaLevelRise/FloodInsurance.aspx

WETLANDS WATCH

Full Rates Now in Effect

- First-time policy purchase
- Renewal after a policy lapse
- Policy purchase after a property sale

20% Rate Increases Effective 2014

- All remaining subsidized or grandfathered properties
- Dependent on map changes
- Projected final effective dates:
  - Essex: 1/16/15
  - Gloucester: 7/16/14
  - King and Queen: 2015?
  - King William: 2015?
  - Mathews: 11/5/14
  - Middlesex: 2015?

Flood Map Changes

← Original map

Legend
Pink: V-Zone (SFHA)
Blue: A-Zone (SFHA)
Yellow: X-Zone

New map →

Source: http://**maps.riskmap3.com/**

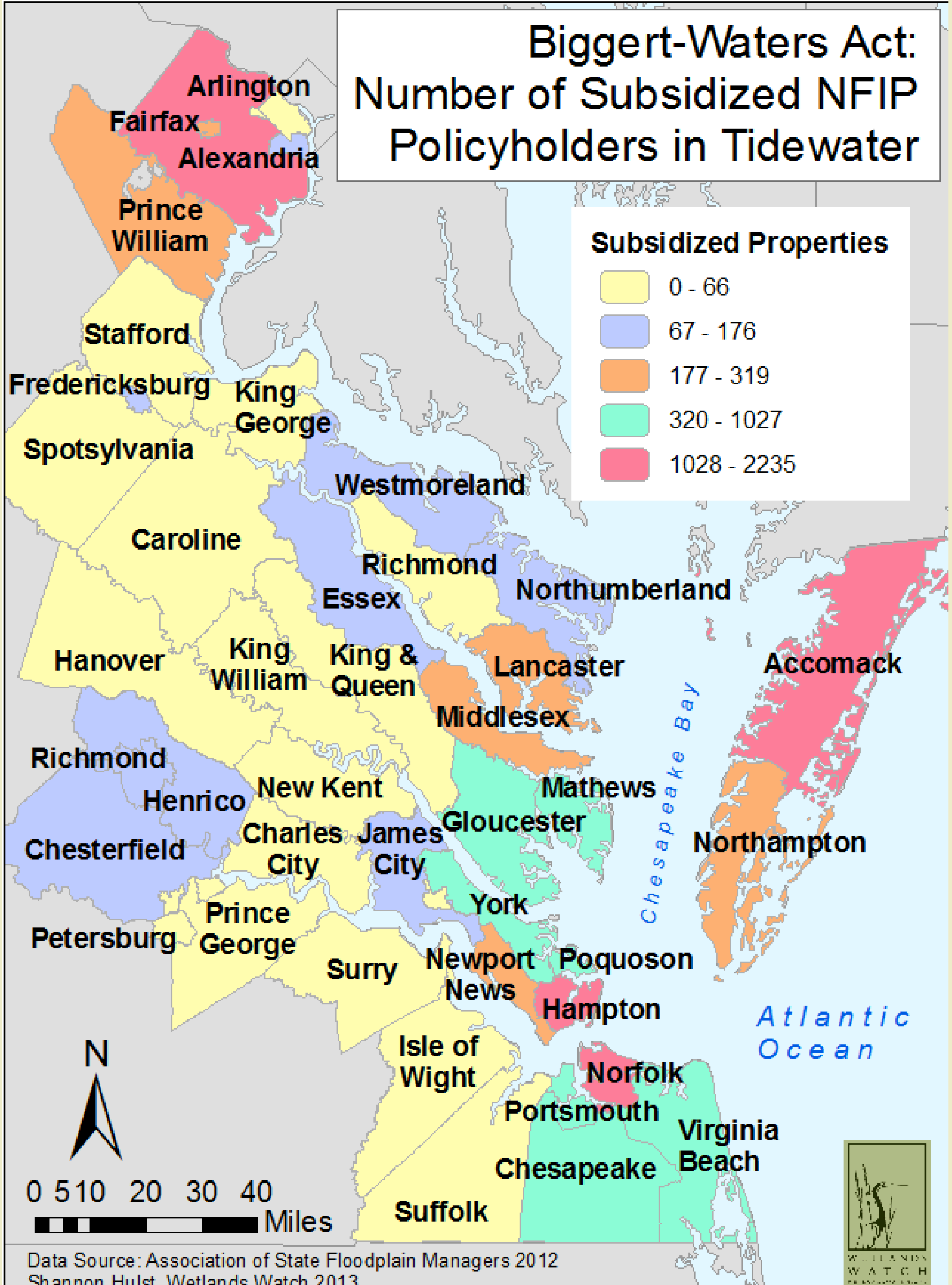
Flood Map Changes

← Original map

Legend
Blue: A-Zone (SFHA)
Yellow: X-Zone

New map →

Source: http://**maps.riskmap3.com/**



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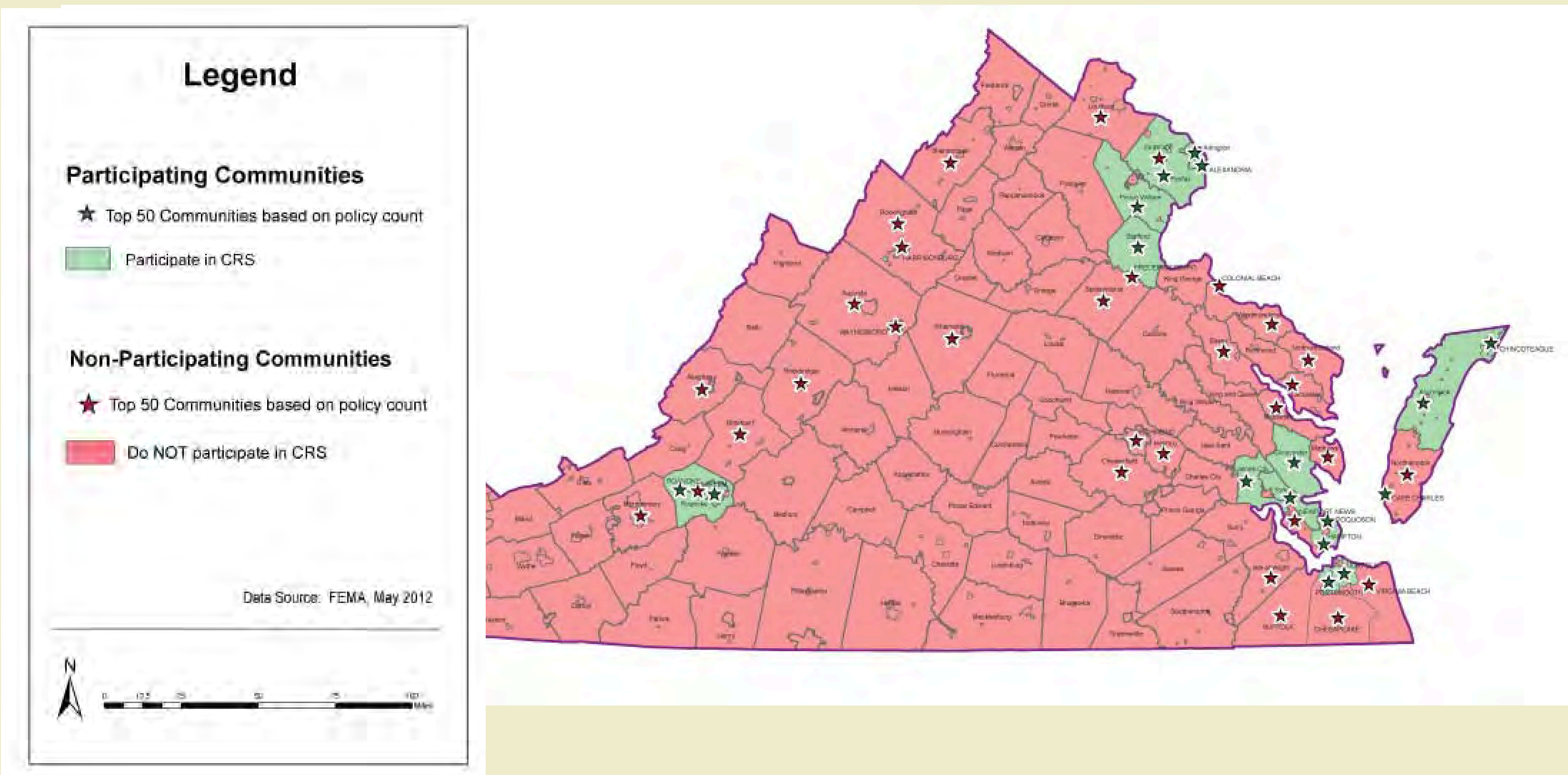
What Property Owners Can Do

- Find out if the property is subsidized/grandfathered
- Get an elevation certificate
- Do not let coverage lapse
- Small fixes (e.g. flood vents)
- Elevate
- FEMA grants for elevation or acquisition

What Communities Can Do: CRS

Community Rating System Participation in Virginia



CRS Discounts

TABLE 2. CRS PREMIUM DISCOUNTS

CLASS	DISCOUNT	CLASS	DISCOUNT
1	45%	6	20%
2	40%	7	15%
3	35%	8	10%
4	30%	9	5%
5	25%	10	–

SFHA (Zones A, AE, A1–A30, V, V1–V30, AO, and AH): Discount varies depending on class.

SFHA (Zones A99, AR, AR/A, AR/AE, AR/A1–A30, AR/AH, and AR/AO): 10% discount for Classes 1–6; 5% discount for Classes 7–9.*

Non-SFHA (Zones B, C, X, D): 10% discount for Classes 1–6; 5% discount for Classes 7–9.

* In determining CRS Premium Discounts, all AR and A99 Zones are treated as non-SFHAs.

Source: http://www.fema.gov/media-library-data/20130726-1651-20490-3916/_19_crs_may2013_3.14.13.pdf

CRS Activity Examples

- Public Information
  - Elevation certificates, outreach, hazard disclosure
- Mapping and Regulations
  - Open space preservation, stormwater management
- Flood Damage Reduction
  - Acquisition/relocation, floodplain management planning
- Warning and Response
  - Flood warning and response, dams, levees

Social Impacts

- Home sales, removal of subsidies/grandfathering, mandatory purchase requirements
  - Gentrification
  - Hollowing out
- CRS provides opportunity to mitigate potential negative impacts, strengthen floodplain management, and increase community resiliency

Questions?

Flooding in Gloucester, VA

Source: www.wavy.com