CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 22, 2004

S. 2238
Flood Insurance Reform Act of 2004

As ordered reported by the Senate Committee on Banking, Housing and Urban Affairs on March 30, 2004

SUMMARY

S. 2238 would extend the National Flood Insurance Program (NFIP) within the Department of Homeland Security (DHS) until 2008. Under current law, the program expires on June 30, 2004. The bill also would establish a pilot program to give states and local communities financial assistance for mitigating potential future damages experienced by "severe repetitive loss properties" (properties that have made multiple sizable claims under the NFIP). The bill would authorize the appropriation of $40 million a year over the 2004-2008 period for this new pilot program. S. 2238 also would increase the amounts authorized to be appropriated for the existing flood mitigation program by $20 million each year. Finally, the bill would authorize the appropriation of an additional $10 million a year for mitigating potential flood damage to individual properties in states and communities that do not have the capacity to manage their own mitigation programs.

Assuming appropriation of the authorized amounts, CBO estimates that implementing the bill would result in discretionary outlays totaling $300 million over the 2004-2009 period. CBO also estimates that direct spending would decline by $1 million a year relative to the budget resolution baseline (which assumes the flood insurance program continues over the 2004-2014 period).

S. 2238 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 2238 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					
	2004	2005	2006	2007	2008	2009
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Authorization Level	40	70	70	70	70	30
Estimated Outlays	8	35	55	70	70	62
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	-1	-1	-1	-1	-1
Estimated Outlays	0	-1	-1	-1	-1	-1

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 2238 will be enacted in fiscal year 2004 and that the authorized amounts will be appropriated each year. Estimates of outlays are based on historical spending patterns of similar programs and information from the Department of Homeland Security.

Spending Subject to Appropriation

S. 2238 would authorize the appropriation of $40 million in 2004, $70 million a year through 2008, and $30 million a year after 2008 for programs to reduce potential future damages to properties that have experienced repetitive losses from floods. Assuming appropriation of the authorized amounts, CBO estimates that the resulting outlays would total $300 million over the 2004-2009 period.

According to DHS, about 48,000 properties with federal flood insurance have experienced two or more flood losses. DHS estimates that, under the proposed pilot program in S. 2238, approximately 7,500 severe repetitive loss properties would benefit immediately from mitigation activities such as increased elevation, relocation, demolition, or flood-proofing. Mitigating those properties could result in fewer claims paid by the federal flood insurance program following a subsequent flood.

For example, if DHS first mitigates properties with the highest ratio of benefits to cost—estimated to be 2,500 properties—DHS expects that it would take five to seven years to realize sufficient savings to cover the original cost of mitigation. If DHS then targets the remaining 5,000 that have a high ratio of benefits to costs, DHS expects that it could take eight to 10 years to realize sufficient savings to cover the cost of mitigation.

The average federal cost of a mitigation project is $66,000. CBO estimates that implementing the pilot program and expanding the current mitigation program would cost $300 million over the next five years and could finance the mitigation costs of over 4,500 properties. Over the next 10 years, some or all of such costs would likely be recouped through lower claims payments, depending on the effectiveness of the mitigation efforts and the location and severity of future floods. The amount of such savings is difficult to predict because there is limited information about the effectiveness of prior mitigation efforts. Savings from lower future claims cannot be attributed directly to S. 2238 because the size and duration of any mitigation program would depend on amounts provided in future appropriation acts.

Under the bill, if an owner of a property refuses to participate in federal mitigation programs, the government would increase the premium rate for flood insurance to 150 percent of the chargeable rate for the property at the time of the original mitigation offer. If that same property sustains flood damage and receives a claim payment of $1,500 or more, the government would increase the premium rate again to 150 percent of the chargeable rate for the property at the time of the flood. The premium rate could not exceed the actuarial rate for the area where the property is located.

For example, the average annual subsidized flood insurance premium, according to DHS, is $436. If a property owner with a subsidized premium refused mitigation, the premium would increase to $654. If that same property then sustains damage from a flood and receives a payment of $1,500, the insurance premium for that property would increase again to $981. If 25 percent of the 7,500 properties refused mitigation and then sustain damage from a flood, the National Flood Insurance Fund would collect about $1 million more a year in premiums. The actual amount of any additional premiums collected under that provision also would depend on the scope of the mitigation program, which would be determined in future appropriation acts.

CBO estimates that implementing the administrative provisions in this bill, including a flood insurance claims handbook and a report by the General Accounting Office on the adequacy of the flood insurance program, would cost less than $500,000 over the 2004-2005 period, subject to the availability of appropriated funds.

Direct Spending

Reauthorization of the National Flood Insurance Program. S. 2238 would reauthorize the NFIP through 2008. Consistent with section 257 of the Balanced Budget and Emergency Deficit Control Act, which specifies that certain expiring programs should be assumed to continue for budget projection purposes, the baseline projections underlying the current

Congressional budget resolution assume that the National Flood Insurance Program continues beyond its scheduled expiration date. Over the near term, CBO projects that premiums collected by the National Flood Insurance Fund equal claims paid from the fund. (In fact, claims vary substantially from year to year, and net outlays are unlikely to be zero in a particular year.) In most recent years, premium income has exceeded claims payments, but over the long term, the NFIP is not considered to be actuarially sound because some properties receive subsidized insurance.

Actuarial Rate Properties. S. 2238 would make certain federally owned coastal and river properties that are leased to nonfederal entities subject to actuarially sound insurance premiums. CBO estimates that this provision would increase the amount of premiums collected, but the increase would be less than $1 million a year because of the small number of properties involved.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 2238 contains no intergovernmental or private-sector mandates as defined in UMRA. State, local, and tribal governments would benefit from the new grant program for mitigation projects. Any cost incurred by those governments would be voluntary.

PREVIOUS CBO ESTIMATES

On September 3, 2003, CBO transmitted a cost estimate for H.R. 253, a similar bill that was ordered reported by the House Committee on Financial Services on July 23, 2003. The differences in the CBO cost estimates for those two bills stem from different levels of authorized funding.

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