November 14, 2019

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives
Washington, DC 20515

The Honorable Steve Scalise
Minority Whip
U.S. House of Representatives
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
House Committee on Financial Services
Washington, DC 20515

Dear Minority Leader McCarthy, Minority Whip Scalise, and Ranking Member McHenry:

Our organizations write in response to the recent letter from 64 members to House leadership requesting changes to H.R. 3167, National Flood Insurance Program Reauthorization Act of 2019. While further reforms to the NFIP are necessary, we have concerns about any effort to cancel the Trump administration's Risk Rating 2.0 initiative, whose implementation already has been delayed until October 2021, or to otherwise reverse hard-won policies that bring the deeply indebted NFIP closer to fiscal solvency.

For the past 50 years, the National Flood Insurance Program (NFIP) has been Americans' primary source of flood insurance coverage. However, as currently designed, the program is structurally unsustainable, with many policies charging insufficient premiums to cover expected losses. As a result, the NFIP has periodically borrowed from taxpayers to cover its shortfalls.

As of Sept. 30, 2019, the NFIP's debt to the U.S. Treasury stood at $20.5 billion, but this figure vastly understates the real magnitude of the program's fiscal dysfunction. In October 2017, Congress voted simply to forgive $16 billion of the program's debt to allow it to continue paying claims from that year's storms. Moreover, the nonpartisan Congressional Budget Office (CBO) estimates that, as currently structured, the NFIP's average annual expenses are expected to exceed its revenues by $1.4 billion.

By providing access to subsidized flood insurance, the NFIP not only has crowded out private market competition, but it has served to perpetuate a vicious cycle by encouraging development in risk-prone areas. A recent survey of U.S. Census Bureau data by *Governing* magazine found that the population of census tracts that lie within zones designated by the Federal Emergency Management Agency (FEMA) as 100-year floodplains grew by 14 percent between 2000 and 2016, faster than the 13 percent growth seen outside of flood zones. Another recent report by Climate Central and Zillow finds that, in a third of all coastal states, housing growth rates in the most extreme flood zones—where flooding is expected every ten years—are faster than outside such zones.

In recognition of these unsustainable patterns, Congress in 2012 passed the Biggert-Waters Flood Insurance Reform Act of 2012, which placed many subsidized and grandfathered policies on a glidepath to actuarially sound rates. After further amendments in 2014, current law requires rates for all policies to rise until they reach risk-based levels, with annual rate increases capped at 18 percent for primary residential properties and 25 percent for commercial policies and second homes.

Risk Rating 2.0 is an important initiative that will allow property owners, developers, and communities to be better informed about the risks they face by using state-of-the-art technology to craft rates appropriate for each individual policy. Over the long run, it also should better protect taxpayers from being asked to bail out the NFIP. FEMA will continue to be bound by existing caps on annual rate increases, which will ease the impact of the transition. Moreover, H.R. 3167 already proposes an expansive new affordability program to provide support to policyholders who might reasonably have difficulty with higher rates.

As the NFIP comes up for reauthorization once again Nov. 21, we would caution strongly against proposals to delay the impact of Risk Rating 2.0 or to scale back statutory rate caps from their current levels. Even without these changes, the Congressional Budget Office already estimates that H.R. 3167 would increase spending by $3.51 billion over the next decade. Looking to turn back the clock on flood insurance reform would not only raise that figure even higher, it would further exacerbate the moral hazard and perverse incentives Congress has worked diligently in recent years to correct.

Sincerely,

R Street Institute
American Consumer Institute

Council for Citizens Against Government Waste
Competitive Enterprise Institute
National Taxpayers Union
Taxpayers for Common Sense