



City of Virginia Beach

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July 19, 2013

The Honorable William D. Sessoms, Jr.
Members of City Council

Dear Council Members:

Subject: Changes to National Flood Insurance Program Policy Rates

On July 16, 2013, City staff participated in an information session held by Rich Sobota, FEMA Region III Insurance Specialist, regarding changes that are already underway and additional proposed changes to the National Flood Insurance Program (NFIP). Attached for your information is a copy of a fact sheet, the PowerPoint presentation, and a meeting summary prepared by City staff from the session.

As a related matter, an interdepartmental City work group has been created and is addressing revisions that the City needs to make to our current floodplain regulations to bring them into compliance with minimum state and federal requirements. The City is also anticipating that new draft flood insurance rate maps (FIRMs) recently released for Virginia Beach will be adopted in early to mid-2014. These new maps will modify how some properties in the City are affected by floodplain regulations, with some properties not previously included being added and others currently included being deleted from regulated floodplain areas. The work group is also beginning to explore strategies that may afford the City and its residents better management practices to respond to recurrent flooding, storm and sea level rise matters as they relate to hazard management and mitigation, including both engineering and land use planning approaches.

Should the City Council desire a briefing on the flood insurance rate changes, we will schedule a briefing with FEMA representatives. We will also be happy to brief City Council on the work of the floodplain work group as their efforts and recommendations are finalized.

The Honorable Mayor and Members of City Council
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If you have any questions please feel free to contact Clay Bernick by phone at 385-4899 or by e-mail at cbernick@vbgov.com.

With Pride in Our City,

A handwritten signature in black ink, appearing to read 'James K. Spore', written over the printed name.

James K. Spore
City Manager

JKS/HCB/mrg

Attachment

c: Robert S. Herbert



Impact of National Flood Insurance Program (NFIP) Changes

Note: This Fact Sheet deals specifically with Sections 205 and 207 of the Act.

In 2012, the U.S. Congress passed the Biggert Waters Flood Insurance Reform Act of 2012 which calls on the Federal Emergency Management Agency (FEMA) and other agencies to make a number of changes to the way the NFIP is run. Some of these changes have already been put in place, and others will be implemented in the coming months. Key provisions of the legislation will require the NFIP to raise rates to reflect true flood risk, make the program more financially stable, and change how Flood Insurance Rate Map (FIRM) updates impact policyholders. The changes will mean premium rate increases for some – but not all -- policyholders over time.

What this means:

The new law encourages Program financial stability by eliminating some artificially low rates and discounts. Most flood insurance rates will now move to reflect full risk, and flood insurance rates will rise on some policies.

Actions such as buying a property, allowing a policy to lapse, or purchasing a new policy can trigger rate changes. You should talk to your insurance agent about how changes may affect your property and flood insurance policy. There are investments you and your community can make to reduce the impact of rate changes. And FEMA can help communities lower flood risk and flood insurance premiums.

What is Changing Now?

Most rates for most properties will more accurately reflect risk. Subsidized rates for non-primary/secondary residences are being phased out now. Subsidized rates for certain other classes of properties will be eliminated over time, beginning in late 2013. There are several actions which can trigger a rate change, and not everyone will be affected. It's important to know the distinctions and actions to avoid, or to take, to lessen the impacts.

Not everyone will be affected immediately by the new law – **only 20 percent of NFIP policies receive subsidies**. Talk to your agent about how rate changes could affect your policy. Your agent can help you understand if your policy is impacted by the changes.

- Owners of subsidized policies on **non-primary/secondary** residences in a Special Flood Hazard Area (SFHA) will see 25 percent increase annually until rates reflect true risk – began January 1, 2013.
- Owners of subsidized policies on **property that has experienced severe or repeated flooding** will see 25 percent rate increase annually until rates reflect true risk – beginning October 1, 2013.
- Owners of subsidized policies on **business/non-residential properties in a Special Flood Hazard Area** will see 25 percent rate increase annually until rates reflect true flood risk -- beginning October 1, 2013.

(Each property's risk is different. Some policyholders may reach their true risk rate after a couple years of increases, while other policyholder increases may go beyond five years to get to the full risk rate required by the new law. Rate tables on true risk will not be available until June 2013.)

Primary residences in SFHAs **will be able to keep their subsidized rates** unless or until:

- The property is sold;

- The policy lapses;
- You suffer severe, repeated, flood losses; or
- A new policy is purchased.

Grandfathering Changes Expected in 2014

The Act phases-out grandfathered rates and moves to risk-based rates for most properties when the community adopts a new Flood Insurance Rate Map. If you live in a community that adopts a new, updated Flood Insurance Rate Map (FIRM), grandfathered rates will be phased out. This will happen gradually, with new rates increasing by 20% per year for five years.

What Can Be Done to Lower Costs?

For home owners and business owners:

- Talk to your insurance agent about your insurance options.
- You will probably need an Elevation Certificate to determine your correct rate.
- Higher deductibles might lower your premium.
- Consider incorporating flood mitigation into your remodeling or rebuilding.
 - Building or rebuilding higher will lower your risk and could reduce your premium.
 - Consider adding vents to your foundation or using breakaway walls.
- Talk with local officials about community-wide mitigation steps.

For community officials:

- Consider joining the Community Rating System (CRS) or increasing your CRS activities to lower premiums for residents.
- Talk to your state about grants. FEMA issues grants to states, which can then distribute the funds to communities to help with mitigation and rebuilding.

Background:

In 1968, Congress created the National Flood Insurance Program (NFIP). Since most homeowners' insurance policies did not cover flood, property owners who experienced a flood often found themselves financially devastated and unable to rebuild. The NFIP was formed to fill that gap and was designed to incorporate community adoption of minimum standards for new construction and development to minimize future risk of flood damage. Pre-existing homes and businesses, however, could remain as they were. Owners of many of these older properties were eligible to obtain insurance at lower, subsidized rates that did not reflect the property's true flood risk.

In addition, as the initial flood risk identified by the NFIP has been updated, many homes and businesses that had been built in compliance with existing standards have received discounted rates in areas where the risk of flood was revised. This "Grandfathering" approach prevented rate increases for existing properties when the flood risk in their area increased.

After 45 years, flood risks continue and the costs and consequences of flooding are increasing dramatically. In 2012, Congress passed legislation to make the NFIP more sustainable and financially sound over the long term.



FEMA

Changes Coming to the National Flood Insurance Program – What to Expect

Impact of changes to the NFIP under Section 205 of the Biggert-Waters Act



Changes are Coming to the NFIP

- Congress passed the Flood Insurance Reform Act of 2012 (Biggert Waters 2012), which will:
 - Make the NFIP more financially stable by raising rates on certain classes of property to reflect true flood risk; and
 - Trigger rate changes for certain properties within a revised or updated map area to accurately reflect the flood risk.
- The changes will mean rate increases for many policyholders over time.
- Buying or selling a property, or allowing a policy to lapse may trigger rate changes.
- There are investments you and your community can make to reduce the impact of rate changes.

What is Changing?

■ Flood insurance rates

- Rates for most properties will more accurately reflect risk.
- Subsidized rates for non-primary residences are being phased out now.
- Other subsidized rates will be eliminated over time:
 - New policies sold after July 6, 2012 to cover previously uninsured properties; and
 - Purchase of a property, allowing a policy to lapse, repetitive loss or cumulative damage, or other events, could trigger rate changes beginning in 2013.
- When a community adopts a new flood map, discounts like grandfathering will be phased out – meaning premiums will increase over time. Expected in 2014

■ Flood risks and the costs of flooding

- Weather patterns, erosion, and development are a few factors increasing flood risk in many communities.
- Better science, improved tools and more data are providing more accurate definition of flood hazards.
- More buildings and other infrastructure are being built in areas at risk for flooding and replacement costs continue to grow.

Who Will Be Affected by Subsidy Changes?

- **Not everyone** – only 20% of NFIP policies receive subsidies – and an even smaller number will see immediate changes.
- Owners of subsidized non-primary residences in a Special Flood Hazard Area will see 25% increase annually until rates reflect true risk – began January 1, 2013.
- Owners of subsidized property that has experienced severe repetitive flood losses or that has incurred flood cumulative damage with flood insurance payments exceeding the value of the structure will see 25% rate increase annually until rates reflect true risk – beginning late 2013.
- Owners of subsidized business properties in a Special Flood Hazard Area will see 25% rate increase annually until rates reflect true risk -- beginning late 2013.
- Owners of substantially damaged or substantially improved subsidized property will see 25% rate increase.

Who Won't Be Affected by Subsidy Changes?

- Owners of primary residences in SFHAs will be able to keep their subsidized rates **unless or until:**
 - You sell your property (new rates will be charged to next owner if they insure;)
 - You allow your policy to lapse;
 - You suffer severe, repeated flood losses; or,
 - You purchase a new policy (after July 6, 2012).

When Will Changes Occur?

- **Now – Changes underway:**
 - Full-risk rates will apply to property not previously insured, newly purchased, or to a policy which is repurchased after a lapse.
 - Premiums for older (pre-FIRM) non-primary residences in a Special Flood Hazard Area will increase by 25 percent each year until they reflect the full-risk rate – began January 1, 2013.
- **Later in 2013:**
 - Premiums for pre-FIRM business properties, severe repetitive loss properties (1-4 residences), and properties where claims payments exceed fair market value will increase by 25 percent each year until they reflect the full-risk rate.
 - Normal rate revisions which occur annually, and increases will include a 5% assessment to build a catastrophic reserve fund.
- **Late 2014:**
 - Premiums for properties affected by map changes will increase over five years at a rate of 20 percent per year to reach full-risk rates.

Why the Changes to the NFIP?

- 1968: Congress created the NFIP to make affordable flood insurance generally available (flood damage is not covered by most homeowners' insurance policies) and to decrease Federal disaster assistance expenditures.
- To participate, communities adopt and enforce floodplain management measures for all new development.
- For structures built before FEMA mapped the Special Flood Hazard Area (SFHA) (called pre-FIRM properties), the NFIP made flood insurance available at subsidized rates that did not reflect the true risk of flooding.
- 45 years later: Flood risks continue, and the costs and consequences of flooding are increasing.
- Artificially low rates and discounts no longer are sustainable.
- In 2012, Congress passed legislation to make the program more sustainable and financially sound over the long term.

What Can I Do to Lower Costs?

- **Home and business owners:**

- Talk to your insurance agent about your insurance options
 - You'll probably need an Elevation Certificate to determine your correct rate
 - Higher deductibles might lower your premium
- Consider remodeling or rebuilding
 - Building or rebuilding higher will lower your risk and could reduce your premium
 - Consider adding vents to your foundation or using breakaway walls
- Talk with local officials about community-wide mitigation steps

- **Community leaders:**

- Consider joining the Community Rating System (CRS) or increasing your CRS activities to lower premiums for residents.
- Talk to your state about grants. FEMA issues grants to states which can distribute the funds to communities to help with mitigation and rebuilding.

What Do I Need to Remember?

- **Many changes are coming to the Flood Insurance program**
 - Congress acted to make program stronger financially.
- **On many more policies, flood insurance rates will reflect full risk.**
 - Insurance rates will rise on some policies; and
 - There are specific actions which will trigger rate changes.
- **Talk to your insurance agent about how changes may affect your property and flood insurance policy.**
- **Building or rebuilding higher can lower your flood risk and could save you money.**
- **FEMA can help communities lower flood risk and flood insurance premiums through:**
 - CRS program;
 - Various mitigation grants; and
 - Technical advice on building and rebuilding to mitigate future flood damage.

July 16, 2013 Meeting Summary – Rich Sobota, FEMA Region III Insurance Specialist

On Tuesday, July 16, 2013, Rich Sobota, insurance specialist for the Federal Emergency Management Agency (FEMA) Region III, briefed City staff on changes to the National Flood Insurance Program (NFIP) as a result of the Biggert-Waters Flood Insurance Reform Act of 2012. Biggert-Waters extends the NFIP until 2017 and encourages financial stability of the program by increasing flood insurance premium rates to actual risk rates for some subsidized properties.

The two classes of properties that will be affected by these rate increases are 1) Pre-FIRM properties and 2) Grandfathered properties. **Pre-FIRM properties** are those properties in an area with a 1% annual chance of flooding (100-year floodplain) that were built before the first Flood Insurance Rate Map (FIRM). In Virginia Beach, these are properties built before October 1, 1970. **Grandfathered properties** are properties that previously had flood insurance, but as the result of a FIRM change are now mapped into a higher risk flood area. In the past, they were allowed to keep paying their old, lower rate.

Nationwide, approximately 20% of properties covered under the NFIP currently receive these subsidized rates. Beginning January 1, 2013 owners of subsidized non-primary residences will begin to experience an annual rate increase of 25% with their premium renewal bills until premiums reflect the full risk rate. Beginning October 1, 2013 the following group of policies will also experience annual rate increases of 25% with their premium renewal bills until premiums reflect the full risk rate:

- Owners of subsidized business properties
- Owners of subsidized properties with four or more separate claims with payouts of over \$5,000 or two separate claims where the cumulative amount exceeds the value of the property (severe repetitive loss properties)
- Owners of properties with cumulative flood insurance payouts that exceed the value of the structure
- Owners of all properties with policies purchased after July 6, 2012

Owners of primary residences in areas with a 1% annual chance of flooding can keep their subsidized rates until they experience one or more of the following triggers: 1) they sell their property; the new owner will have to pay the actual risk rate, 2) they allow their policy to lapse, 3) they suffer severe, repeated flood losses, or 4) they purchase a new policy.

Another round of increases is planned to go into effect in late 2014. This round will impact grandfathered properties receiving subsidized rates as a result of being mapped into a higher risk area. These properties will see rate increases of 20% per year until they reach full risk rates. This provision will also impact properties affected by new FIRMs. In Virginia Beach, new FIRMs are anticipated to be adopted in 2014.

Virginia Beach has the largest number of flood insurance policies of all communities in FEMA Region III. Of the approximately 25,000 flood insurance policies in effect for Virginia Beach, the following currently receive subsidized rates:

- Non primary residences (132 policies)
- Business properties (27 policies)
- Pre-FIRM Severe Repetitive Loss properties (28 policies)
- Properties subject to rate increases by experiencing triggers (757 policies)
- Grandfathered properties (83 policies)

It should be noted that the number of grandfathered properties impacted is subject to increase when the new FIRMs are adopted next year.

To prevent or decrease the impact of these insurance rate increases, property owners have several options. The first step all policy holders should take is to talk with their insurance agent about their options. Based on their specific situation their insurance agent will most likely recommend obtaining an elevation certificate to accurately determine their true risk rate based on the elevation of their home in relationship to the 1% annual chance flood elevation. An elevation certificate can be obtained from a licensed surveyor at the property owners expense. Another option is for policy holders to increase their deductible.

Property owners can also make structural changes to their property to lower their flood risk. These options include elevating their structure and adding vents or using breakaway walls for enclosed spaces below the 1% annual chance flood elevation.

In addition, the City of Virginia Beach can lower insurance rates for all residents by joining the Community Rating System (CRS). Participation in the CRS gives the City credit for specific actions the City takes that satisfy certain FEMA criteria. The level to which a community participates can result in a 5% to 45% decrease in flood insurance premiums for residents. Virginia Beach can also pursue FEMA grants to elevate flood prone structures, as we have already done for nine properties that are expected to initiate elevation work in the next month.

A copy of the PowerPoint presentation given by Rich Sobota from FEMA Region III is attached.