



CITY COUNCIL AGENDA REPORT

DATE: 10/30/2013

AGENDA OF: 11/12/2013

DEPARTMENT: Economic Development

SUBJECT: FEMA Flood Insurance Premium Increase. (ED)

RECOMMENDATION: Motion expressing support for a three year moratorium on the implementation of flood insurance premium increases pursuant to the Biggert-Waters Flood Insurance Reform Act of 2012.

BACKGROUND: In 1984 the City entered the National Flood Insurance Program (NFIP) administered by the Federal Emergency Management Agency (FEMA). The City was required to enter this program due to the finding by FEMA that the levees along the San Lorenzo River were not adequate to handle a 100-year flood. Since the City entered the National Flood Insurance Program, all properties purchased, refinanced, or improved with a loan from a federally insured financial institution have been required to purchase FEMA flood insurance. At present there are 1358 flood insurance policies in affect in the City of Santa Cruz which pay over \$1.2 million in annual premiums.

The Biggert-Waters Flood Insurance Reform Act of 2012 was passed by Congress with the intent to make the FEMA National Flood Insurance Program financially self-sustaining. This legislation was a direct result of Hurricane Sandy and other recent storms which have caused damage well in excess of annual NFIP flood insurance premium payments. The NFIP collects more than \$3.5 billion in annual premium revenue, and FEMA estimates that an additional \$1.5 billion annually is needed from NFIP policyholders for it to make the program financially self-sustaining. Due to this continuing gap the NFIP now owes the U.S. Treasury \$24 billion in funds borrowed to pay past flood losses.

To bridge this gap Congress passed the Biggert-Waters Flood Insurance Report Act of 2012 which ended the federal subsidy of the NFIP and required the NFIP to become financially self-sustaining. To bring about this financial self-sufficiency a number of actions are now being taken to implement the Biggert-Waters Act. The following is a brief summary of the Biggert-Waters provisions which most directly impact the City of Santa Cruz and its residents:

Already underway:

- Full-risk rates now are being applied to newly purchased property, to property not previously insured, and to policies that are re-purchased after a lapse.

Beginning October 2013,

- Routine rate revisions will include a 5% assessment to build a catastrophic reserve fund.

Anticipated late in 2014,

- Premiums for properties affected by map changes (see below) will increase by 20% each year to reach full-risk rates.

Who won't be affected?

- Owners of primary residences in Special Flood Hazard Areas (SFHAs) will keep the subsidized rates until the home is sold; the policy is allowed to lapse; a new policy is purchased; or a string of severe losses is experienced.

DISCUSSION: How this affects properties in the City of Santa Cruz depends on the properties location or a property sale.

In terms of location the vast majority of the City properties in a FEMA flood plain are located in the FEMA A-99 Flood Zone, (properties protected by the San Lorenzo River flood control levees). Flood insurance premiums in this area will increase, but not to the extent of other areas of the City and only when the property sells. In the case of a sale, the premiums for flood insurance will increase about 10%-20% dependent on future loss experiences in the U.S.

However, in a small neighborhood along May Street between Water Street and Soquel Avenue, east of Ocean Street, there will be a significant impact since these properties are not in the A-99 Zone. For example, one three-bedroom home in this neighborhood with an insured value of \$248,000 paid an annual premium of \$1,448 in 2012 and now pays an annual premium of \$1,590 in 2013 even after the FEMA discount \$200 due to the City's participation in the FEMA Community Rating System. This one property has experienced nearly a 10% increase in one year and the Biggert-Waters Act allows continued increases until there is a financially self-sustaining national flood insurance program.

The continued effect of these large percentage increases will at some not too distant point make properties in the May Street neighborhood much less affordable for new potential buyers and perhaps lead to a long term decline. Several other small areas in the City along Carbonera and Branciforte Creeks are similarly affected.

Santa Cruz is just one of thousands of communities in the U.S. which are grappling with the effects of the Biggert-Waters Act. Due to this widespread impact the House of Representatives recently voted to delay flood insurance premium increases for three years. Whether the Senate takes a similar action is not known at this time.

The proposed Council action is a motion to support the three-year moratorium approved by the House of Representatives and communicate this support to the City's two U.S. Senators.

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Staff has also contacted the City's Washington Assistant to determine what actions on this matter are being taken by various national municipal and county organizations.

FISCAL IMPACT: No immediate fiscal impact; potential future negative impacts due to property valuation decreases if moratorium is not approved in the Senate.

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ATTACHMENTS:

Summary of Biggert-Waters Flood Insurance Reform Act