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Community Rating System: Effectiveness and Other Issues



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PREFACE

October 31, 2002

This report presents the results of our review of the Community Rating System administered by the Federal Insurance and Mitigation Administration (FIMA) within the Federal Emergency Management Agency.

The report contains recommendations for corrective action. Accordingly, it is being sent to the Administrator of FIMA.

The Inspection Division, Office of Inspector General, prepared this report. Questions may be addressed to Clifford N. Melby, Assistant Inspector General for Inspections, at (202) 646-3338. Key contributors to this report were Marcia Moxey Hodges and Melissa S. Smith.

George J. Opfer
Inspector General

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EXECUTIVE SUMMARY

The Federal Insurance and Mitigation Administration (FIMA) oversees the Community Rating System (CRS). The CRS is a voluntary program that provides policyholders discounted flood insurance in recognition of floodplain management programs and practices that exceed National Flood Insurance Program (NFIP) minimum floodplain management requirements. There are currently 948 communities participating in the CRS and they account for approximately \$94 million in premium savings to policyholders.¹ The objective of our review was to determine the effectiveness of CRS as a tool to improve local floodplain management policies and practices.

Data is not currently available to confirm that CRS activities effectively reduce dollar exposure to the NFIP. Nevertheless, CRS is a disciplined program with well-defined requirements, clearly written guidelines, and detailed rating processes and procedures. These attributes should improve a community's ability to implement sound floodplain management practices and activities.

FIMA could further enhance the effectiveness of the CRS program, however, by: (1) performing Community Assistance Visits in all CRS communities, (2) marketing the CRS to communities having greater exposure for NFIP, (3) providing credit for increasing flood insurance coverage in the community, and (4) providing claims data access to CRS Coordinators.

Also, FIMA should consider: (1) discontinuing CRS discounts for Pre-FIRM Properties, (2) requiring insurance to the cumulative level of assistance provided, and (3) requiring a greater commitment to uniform building codes and measurable criteria for entry into CRS. These actions, in our opinion, would not only improve the effectiveness of the CRS, but would also reduce exposure to the NFIP and lessen disaster costs.

FIMA generally agreed with our recommendations. We have made changes to the draft report where deemed appropriate, including removing one recommendation. FIMA's comments are included as Appendix D.

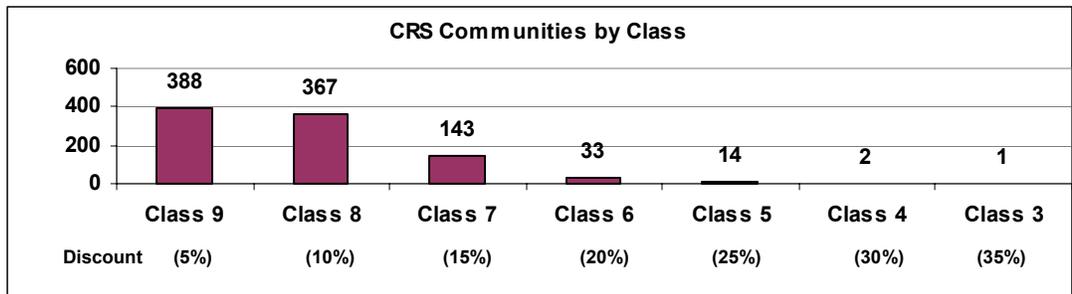
¹ National Flood Insurance Program, Community CRS Class Status Effective May 1, 2002, provided by FIMA, Office of Deputy Administrator for Insurance

BACKGROUND

The Community Rating System is a voluntary program that provides discounts for flood insurance premiums to policyholders in communities where floodplain management activities exceed the minimum requirements of the National Flood Insurance Program standards.

The CRS became operational in 1990. Before a community may apply to CRS, there are two prerequisites that must be satisfied: the community must have been in the regular NFIP program for at least one year and it must be in full compliance with the minimum requirements of the NFIP. At any time, communities may apply for CRS classification.

The goals of CRS are: (1) reduce flood losses, (2) facilitate accurate insurance ratings, and (3) promote the awareness of flood insurance. The amount of discount a community receives is contingent on the number of creditable activities implemented and the sum of the scores associated with those activities. The higher the score, the greater the premium discount. There are 10 CRS Classes, Class 1 receives the highest premium discount of 45 percent and Class 10 receives no discount. Figure 1 shows the current community rating distribution by CRS Classes:



Source: FIMA Community Assistance Branch, May 2002

Figure 1 – Number of Communities in each CRS Class as of April 2002

Insurance Services Office, Inc. (ISO) administers the CRS on behalf of FIMA. CRS credit points are assigned by ISO from observations made during verification site visits and by the level of documentation provided to support eighteen (18) creditable floodplain management activities grouped under four categories: Public Information, Mapping and Regulation, Flood Damage Reduction, and Flood Preparedness. See Appendix A for points associated with each creditable activity.

Each year, the community must re-certify that it continues to perform the activities for which it receives credit under CRS. Recertification is an annual community activity that includes progress reports for certain activities.

Reverification takes place every 5 years for Classes 6 to 9 and every 3 years for Classes 5 or better. If a community is not properly or fully implementing CRS activities, credit points, and possibly its CRS classification, will be revised and/or rescinded. Conversely, a community may implement additional activities in order to improve its CRS classification. All communities have the opportunity to earn more points to receive larger discounts.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of our review was to determine the effectiveness of the CRS program as a tool to improve local floodplain management policies and practices. We reviewed and analyzed the following:

- Documentation pertinent to the NFIP, CRS, including background information, FIMA policy memorandums and guidance documents;
- National Flood Insurance Program Community Compliance Program Guidance, FEMA Manual 7810.3, July 1986;
- National Flood Insurance Program Community Rating System: Phase 2, Report on the Activity Weighting Forum, December 1989;
- National Flood Insurance Program, Guidance for Conducting Community Assistance Contacts and Community Assistance Visits, FEMA Manual 7810.4, August 1989;
- An Evaluation of the National Flood Insurance Program Community Rating System, October 1998;
- CRS Coordinator's Manual, January 1999;
- CRS Application, January 1999;
- Evaluation of CRS Credited Activities During Hurricane Floyd, URS Greiner Woodward Clyde Federal Services, September 2000;
- National Flood Insurance Program Stakeholder's Report 2000; and
- National Flood Insurance Program, Program Description, March 2002.

We interviewed Federal Insurance and Mitigation Administration officials at FEMA Headquarters, FIMA Regional staff, and conducted phone interviews with FIMA Regional Offices, State officials responsible for the implementation of the NFIP, and contractors who assist in the implementation of CRS program administration and community compliance. In addition, we attended a Community Rating System Task Force (CRSTF) meeting and forum discussions on CRS credited points and activities.

During the review, we met with local officials and staff in Florida, Louisiana, New Jersey, North Carolina, Mississippi, and Pennsylvania. Our sample represented four FEMA Regions as well as coastal and riverine communities with a past flood history or potential for flooding. We also reviewed data in FIMA's Federal Insurance and Mitigation Administration National Flood Insurance Program Database (FIANet), Community Information System (CIS), TRIM® database, and requested data runs of CRS Communities by the Computer Science Corporation (CSC), Inc.

We conducted our fieldwork from March through April 2002. Our inspection was conducted under the authority of the Inspector General Act of 1978, as amended, and according to the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

RESULTS OF INSPECTION

We reviewed community insurance characteristics and demographics, as well as factors that contribute and inhibit the successful implementation of the CRS. The effectiveness of the program is difficult to measure as data is not easily quantifiable. Nevertheless, the program is well defined and offers the potential to enhance floodplain management practices and activities. There are opportunities, however, to improve the program's effectiveness.

I. CHARACTERISTICS OF CRS COMMUNITIES

CRS communities are present in all States, except West Virginia.² Although participation is spread across the country, over half of the communities are concentrated in California, Colorado, Florida, Louisiana, New Jersey, North Carolina, and Texas. Florida is the largest participating State with 206 or 22 percent of CRS communities. CRS communities also account for the majority of flood insurance policies.

A. Community Insurance Demographics

Currently, CRS communities represent only 5 percent of all NFIP communities; however, they account for over 62 percent of flood insurance policies. These communities represent 55 percent of flood insurance premiums, 38 percent of recorded flood losses, and 37 percent of claims paid.

The populations of CRS communities range in size from under 500 with 3 policies in force (PIF)³ to over 2 million with 191,000 PIF.⁴ Geographically, the communities represent both coastal and inland regions and are subject to all types of flood hazards from hurricanes to riverine flooding to stormwater overflow.

The CRS communities represent a disproportionately high number of NFIP communities that have over 1,000 PIF. Figure 2 shows the distribution of PIF for NFIP and CRS:

² The distribution of communities is shown in Appendix B.

³ FIANet, February, 2002: Town of Arrowsic, Maine

⁴ FIANet, February, 2002: Dade County, Florida

Number of Policies	Number of NFIP Communities	Number of CRS Communities	CRS % of Total Policies
0 - 50	12,157	111	1%
51 - 100	1,487	92	6%
101 - 500	1,816	246	14%
501 - 1000	318	105	33%
1000 <	580	314	54%
	16,358	868	5%

Source: FIANet, February 2002

Figure 2 – Distribution of Policies In Force

The 21 communities in our sample mirror varied insurance characteristics. Figure 3 shows selected demographics of the sample:

State	Community	CRS Class	Population (year-round)	Policies in Force	Percentage of Pre-Firm Properties	Number of Overall Community Losses	Total NFIP Claim Payments
Florida	Delray Beach	9	50,000	8,995	41%	532	\$1,447,227
Florida	Palm Beach	8	1,165,000	56,827	20%	1733	\$8,333,508
Florida	Sarasota	8	320,000	38,839	46%	2843	\$20,736,404
Florida	Sarasota City	7	55,000	7,529	68%	747	\$6,046,262
Florida	West Palm Beach	7	95,000	5,652	54%	247	\$981,706
Florida	Juno Beach	5	3,200	1,762	28%	26	\$204,955
Louisiana	Livingston	9	90,000	5,838	56%	2564	\$22,459,483
Louisiana	St. John	9	43,000	4,702	38%	410	\$2,928,055
Louisiana	Jefferson Parish	8	450,000	85,873	62%	41953	\$455,053,034
Louisiana	New Orleans	8	484,000	80,527	79%	42807	\$313,196,303
Mississippi	Jackson	8	184,000	4,794	84%	2964	\$38,641,791
Mississippi	Hattiesburg	8	55,000	615	83%	1030	\$4,828,065
Mississippi	Waveland	7	7,000	1,152	55%	185	\$414,103
New Jersey	Long Beach	7	85,000	6,998	66%	1968	\$12,164,169
New Jersey	Avalon	7	2,100	4,780	45%	1235	\$7,634,046
North Carolina	New Bern	9	22,000	1,182	61%	448	\$2,739,392
North Carolina	Carolina Beach	7	75,000	3,053	21%	2298	\$29,974,640
North Carolina	Wrightsville Beach	5	3,000	2,607	42%	3065	\$45,407,870
Pennsylvania	Kingston	9	3,800	3,279	90%	122	\$104,789
Pennsylvania	Wilkes-Barre	8	43,123	2,835	91%	371	\$1,569,577
Pennsylvania	Harrisburg	7	48,900	1,282	91%	847	\$7,524,445

Source: FIANet, February 2002

Figure 3 – Selected Insurance Demographics of CRS Community Sample

B. Factors Contributing to Success

There are three key factors that enhance a community's ability to achieve a better CRS rating:

- ***Local Political Support*** - Local political support for CRS is critical, from initial program application to continued implementation, maintenance, as well as improvement in Class rating. In communities with better ratings, the backing and interest of elected officials is more prevalent and the program is viewed as an incentive for marketing the community to investors, stakeholders, citizens, and potential residents. In addition, pressure from neighboring CRS communities with better ratings, does factor into the level of support for the program.
- ***State and Federal Support*** - CRS affords States the opportunity to assume a role that directly contributes to participation. By adopting what the CRS Coordinator's Manual refers to as State Mandatory Regulatory Standards and Uniform Minimum Credit, States that implement floodplain management activities that exceed minimum NFIP requirements result in additional credits to participating CRS communities. In States that adopt higher standards, the benefit for local communities is twofold. First, the community receives points that apply towards their CRS rating, and second, it ensures all CRS communities are on an even playing field.

A commitment of resources, technical assistance, and monitoring by FIMA officials also plays an important role in community participation. Local officials who participated in FEMA-sponsored CRS training, received technical advice during a Community Assistance Visit (CAV), and/or attended workshops on NFIP and CRS following a disaster declaration, indicated that they were more likely to improve their current CRS rating. The officials volunteered that without attending any one of those activities, they would have been unaware that credit was available for floodplain management practices.

- ***Awareness of Vulnerability*** - Understanding a community's threat and vulnerability to flooding is another key dynamic for CRS participation. Communities participate because they acknowledge flood risks and associated hazards. The impact of flooding and the potential for reduced revenue from the community's tax base also factor into participation. Many creditable activities under CRS are marketed to communities as measures that reduce threat and vulnerability to flooding. Communities more readily undertake those activities that

will minimize losses and attain maximum credit points to reduce flood insurance premium rates.

C. Factors Inhibiting Success

There are several factors that need to be addressed in order for the CRS program to realize its maximum potential: commitment, agency coordination, information access, institutional knowledge, and resources.

Commitment – CRS activities were not a priority in the majority of communities -- particularly in Class 9 communities, which represent 41 percent of all CRS communities. With few exceptions, CRS coordinators are responsible for other duties ranging from building inspector to emergency management official. Varied job duties often leave the coordinators with competing priorities, commitments, and limited opportunities to maintain and/or move the CRS program forward. Recognizing the problems associated with relying on one person to implement the CRS, some communities have instituted a team approach to administering the CRS program. According to community officials, the team approach is proving successful and resolves problems associated with program administration.

Agency Coordination – Communication between local agencies responsible for various facets of the CRS program is not as effective as it should be. Success of the program relies on coordination of many agencies including planning and zoning entities, stormwater management, emergency management agencies, public libraries, and local officials. The few communities that utilize a team approach minimize this problem. The approach promotes “buy-in” from agencies, opens lines of communication, and facilitates the sharing of information.

Local officials identified areas where additional support from FEMA could facilitate program efficiency. First, the solicitation lists used to recruit local professionals to attend CRS regional training sessions are outdated and of limited use. Updating these lists and making them available to the communities would be beneficial for all concerned. Second, there is currently no accessible database that shows attendees of Emergency Management Institute (EMI) and ISO courses. And finally, some officials suggested targeting political officials for training because their support is needed for an effective program.

Coordination also can be improved with other FEMA programs. Communities should not only have access to disaster data, but greater emphasis needs to be placed on how the Flood Mitigation Assistance

(FMA), Hazard Mitigation Grant Program (HMGP), and Pre-disaster Mitigation programs can be used to further CRS efforts. The CRS and those programs should be seen as complimentary and used together to improve floodplain management activities and issues.

- **Information Access** – Communities do not have routine access to flood insurance claims data. Access to accurate and timely claims data and PIF by flood zone would provide communities with a more realistic picture of their floodplain management challenges and assist in administering CRS programs more effectively.
- **Institutional Knowledge** – Another observation among the communities was a lack of institutional knowledge. In many cases, one person coordinates the CRS program and maintains the documentation. This presents a problem should that individual choose to leave. Many officials told us that the previous CRS Coordinator left without leaving instructions for a successor. In some cases, CRS documentation was taken by the departing official and the new CRS Coordinator essentially had to start from scratch. Again, the team approach helps to solve this vulnerability as the knowledge is shared among a group of stakeholders.
- **Resources** – A concern expressed by all communities was the issue of limited resources to accomplish the wide range of duties required in a local community. Most community officials told us that while there is political support for the program, it rarely is considered a priority.

II. PROGRAM EFFECTIVENESS IS DIFFICULT TO MEASURE

Currently, data is not available to confirm that CRS activities effectively reduce exposure to the NFIP. The program, however, is well defined and offers the potential to enhance floodplain management practices and activities. Nevertheless, we identified opportunities to enhance the CRS's effectiveness.

A. Not Easily Quantifiable

There is very little definitive data to substantiate that participation in CRS reduces flood losses and/or disaster costs.

1. Savings Claimed

Savings usually associated with CRS are the total value of discounts under the program. These savings are quantifiable using an actuarial formula that incorporates CRS discounts. As of May 1, 2002, the program resulted in \$94 million savings to policyholders.

FEMA also estimates savings to the mitigation of flood-prone structures and the implementation of floodplain management activities. These savings have been cited to be over \$1 billion per year in damages avoided.⁵ FEMA officials are continuing efforts to refine these estimates including estimates of savings attributed to participation in CRS.

2. Impact of CRS on NFIP

CRS communities have less flood loss claims than non-CRS communities even though 2.7 million policies or 62 percent are in CRS communities. Figure 4 illustrates the comparison:

	Number of Communities	Total Premium Amount	Total Policies	Total Flood Losses	Total Claim Dollars Paid
Non-CRS Communities	15,984	\$732,782,663	1,683,643	659,389	\$6,840,488,384
CRS Communities	867	\$974,065,042	2,692,928	445,233	\$4,446,567,889
Total Communities	16,851	\$1,706,847,705	4,376,571	1,104,622	\$11,287,056,273
CRS %	5%	57%	62%	40%	39%

Source: FIANet, February 2002

Figure 4 – NFIP Claim History⁶

While the data suggests that CRS communities have benefited the NFIP, there are several qualifications that need to be recognized. The totals do not take into account the number or severity of flood events. It is possible that the CRS communities as a whole have not encountered the same degree of flood damage as the non-participating communities. Also, the overall totals do not consider the types of structures damaged or any price differences. Without a baseline of a community prior to entry into the CRS program, it is difficult to relate savings to CRS activities.

⁵ Summer 2002 *Watermark*, Message from FIMA's Deputy Administrator for Insurance.

⁶ This data was pulled from cumulative available information in FIANet as of February 2002.

B. Program Management Appears to Have Direction

CRS is a disciplined program with well-defined requirements, clearly written guidelines, and very detailed rating processes and procedures. This enhances the prospects for the program's success, increased mitigation, and ultimately measurable savings and documented success stories.

Since inception of the program, reasonable efforts have been made to evaluate creditable activities. The multidisciplinary approach used to develop and implement the CRS also offers potential to enhance the program's overall effectiveness. Because the rating system addresses all aspects of a community's floodplain management program, a Community Rating Task Force (CRSTF) was created to ensure that all related disciplines were thoroughly examined.

CRSTF membership is comprised of rotational FIMA Headquarters and Regional Staff, State and local officials, Write Your Own NFIP Insurance Agents, ISO, and other governmental entities. The CRSTF functions as a governing body for the CRS with representation from fields of floodplain management, insurance actuarial and underwriting, engineering, and property inspection. It provides the forum for review of the 18 creditable floodplain management activities and the credit to be awarded for each activity.⁷

The CRSTF developed the goals and guidelines for the rating system and determined the grading schedule for classifying communities by using technical advisors from three fields: floodplain management, community officials, and field representatives from ISO who had experience in calculating insurance credits for community fire protection programs. We reviewed the methods used to assign credits and concluded it is fair, consistent, and most importantly, dynamic. Points and weights are modified as activities are added and are continually subject to change as experience and new information is gained.

The CRSTF meets regularly and evaluates operations and program materials, recommends changes to FEMA and has advocated many initiatives to improve the program's effectiveness. In addition, FEMA has benefited from its association with ISO. Initially, ISO was consulted because of its knowledge of the Public Protection Grading System. This system is used by the insurance industry to set fire insurance premiums based on a community's firefighting and prevention capabilities.

⁷ See Appendix A for the Creditable Floodplain Management Activities and points associated with those activities.

The FEMA/ISO partnership is critical to the success of CRS. ISO reviews applications, provides technical assistance to current and potential CRS communities, and conducts community cycle visits that establish or reevaluate a community's CRS Class. All ISO representatives have experience in the insurance industry and/or floodplain management field and must complete rigorous training before being permitted to work with communities on FEMA's behalf. The CRS communities visited provided unsolicited praise for ISO representatives for both technical knowledge and proactive approaches in providing assistance. Even communities that were not satisfied with their cycle visit points acknowledged that their ISO representatives had worked with them to gain as many points as possible and had thoroughly explained what would be required for improving their Class rating.

FEMA is taking steps to improve the effectiveness of the program by making training readily available to local community officials. Relevant floodplain management classes are now offered at regional institutions, over the Internet, and as home-study courses. Additionally, five-day courses are available at EMI. Local community officials told us the courses improved the way they administered the CRS program.

In our opinion, the design and implementation of CRS is sound and provides the catalyst for communities to pursue and improve floodplain management activities.

C. Opportunities to Enhance Effectiveness

FEMA can enhance the effectiveness of CRS and NFIP objectives by (1) performing Community Assistance Visits (CAVs) in all CRS communities, (2) marketing CRS to communities having greater exposure for NFIP, (3) providing credit for increasing flood insurance coverage in the community, and (4) providing claims data access to CRS Coordinators.

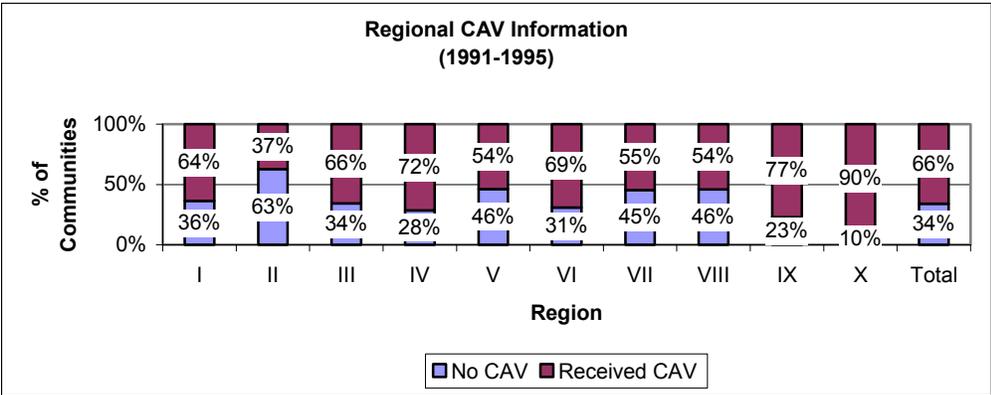
1. Make Community Assistance Visits to All CRS Communities

CAVs have not been conducted for a substantial number of communities participating in CRS. FEMA provides funds⁸ to States to build and sustain local communities' floodplain management capabilities in support of the NFIP. The States primarily accomplish this through a CAV, providing an on-site assessment of a community's compliance with numerous NFIP standards of floodplain management, building codes, permitting programs, inspections, and reporting procedures.

⁸ Grants are provided to States through the Community Assistance Program – State Support Services Element.

Recognizing the importance of CAVs to the CRS program, FEMA has required all communities applying to CRS, since 1996, to successfully pass a CAV before entry into the program. Prior to 1996, FEMA had not been diligent in requiring CAVs for communities that entered CRS. For the period 1991 – 1995, 678 communities were accepted into CRS. Of these, 230 or 34 percent have not received a CAV. There are 638,000 PIF in those communities that are receiving discounts without validation that minimum NFIP floodplain management standards are being met. Overall, of the 948 communities in CRS, 328 or 35 percent have not received a CAV.

There are differences among FEMA Regions in the number of CAVs performed. For example, 77 percent of communities in Region IX received a CAV versus 37 percent in Region II. Figure 5 shows CAV data for all FEMA regional offices.



Source: CIS, April 2002

Figure 5 – Percentage of Communities with CAVs versus Communities without CAVs in each FEMA Region

CAVs are extremely important to obtaining first-hand knowledge of a community’s compliance with NFIP floodplain management requirements. They are even more important for CRS communities because they are expected to exceed NFIP minimum standards as well as provide assurance that flood insurance premium discounts are warranted.

2. Focus Marketing Efforts on Communities Having Greater Exposure to the NFIP

By concentrating marketing and recruiting on communities within the top 5 percent of PIF, FEMA could reach 85 percent of the current NFIP policy base. The top 5 percent represents 898 communities that have 500 or more PIF.

Figure 6 outlines the policy demographics for both the NFIP and CRS. The data illustrates the vast majority of CRS communities (76 percent) have over

500 PIF, whereas most of NFIP communities (74 percent) have less than 50 PIF.⁹

Ranges for Number of Policies	Number of NFIP Communities	Number of CRS Communities
0-50	12157 (74%)	111 (13%)
51-100	1487 (10%)	92 (11%)
101-500	1816 (11%)	246 (28%)
501-1000	318 (2%)	105 (12%)
1000<	580 (3%)	314 (36%)

Source: FIANet, February 2002

Figure 6 – Number of PIF by Ranges in NFIP and CRS Communities

The concentration of PIF in CRS indicates that these communities represent a significant portion of the nation’s flood risk areas. Focusing on communities with the greatest exposure to the NFIP would provide potentially greater returns to the NFIP through improved floodplain management and provide a larger forum to effectively address repetitive loss properties.

3. Provide Credit for Increase Policies In Force

One of the three core goals of CRS is to “Promote the Awareness of Flood Insurance.” FIMA has established the goal of achieving a 5 percent net growth in new flood insurance policies. A catalyst for achieving this goal is FIMA’s *Cover America* marketing and advertising campaign. The campaign uses paid advertising and public relations to reach consumers, insurance agents, and other NFIP stakeholders. While CRS communities account for 62 percent of the insurance policy base, more could be done to give communities incentive to promote the awareness of flood insurance. Even though credit points are given for promoting awareness, communities are not rewarded for net growth in the number of policies. Providing points for achievement of net growth in PIF could provide additional motivation within communities to promote the sale of flood insurance and enhance the NFIP.

4. Provide Access to Flood Insurance Claims Information

We discussed the difficulties associated with substantial damage determinations and declarations in our 1999 report, *Audit of the Effectiveness of the Substantial Damage Rule, H-03-99*. We also stated that “the rule could be an effective mitigation tool if NFIP communities did a better job in identifying and declaring substantial damage. The objective of the substantial damage rule is to replace or elevate existing properties to the same standards as new construction.” Community officials need tools and information to achieve this objective. Community officials told us that it is imperative that they receive flood insurance claims information to aid in achieving this

⁹ Ibid, p. 10.

objective. Such information could complement the permitting process to gauge substantial damage.

FIMA has created the Repetitive Loss Target Group (RLTG) as part of an initiative to reduce claims under the NFIP with respect to properties that have sustained multiple losses. Repetitive loss is generally defined as properties that have had at least two losses of \$1,000 or more within any 10-year period. The RLTG is a subset of those properties that include currently insured properties that have either two or more losses that in the aggregate, equal or exceed the current value of the insured property, or four or more losses.

As FIMA is in the process of developing a proposed rule and revision of an existing system of records for the RLTG, there should be consideration for including CRS Coordinators on a list of Routine Users of the records maintained in the system. This would permit access to cumulative claims history for properties using the RLTG subset of properties.

Recommendations

We recommend that the Administrator of the Federal Insurance and Mitigation Administration:

1. Incorporate a provision in the Community Assistance Program Guidance Objectives that emphasizes the completion of CAVs for all CRS communities.

Management Comment and IG Analysis

FIMA agrees that conducting Community Assistance Visits (CAVs) for all CRS communities is necessary and appropriate and also agrees that there are some CRS communities that did not receive CAVs prior to joining CRS and have not received CAVs since. FIMA does not agree that this number is as high as 35 percent. We derived this number by using the Community Information System (CIS) database. However, apparently some of FEMA Regions and States have not entered all of their CAVs into the CIS. Whatever the true balance of CRS participating communities not receiving a CAV actually is, FIMA will require that all CRS communities be covered by a CAV over the next 3-5 years. Additionally, FIMA will direct FEMA Regions and States to enter all CRS CAVs they have conducted into the CIS. We concur.

2. Market the CRS program to communities that have greater exposure to the NFIP by developing a strategy to concentrate efforts on non-participating communities with 500 or more policies.

Management Comment and IG Analysis

FIMA indicates that in 2001/2002 it undertook a marketing strategy to encourage NFIP communities to participate in CRS and that the methodology for selecting which communities to target was based on 100 policies in force (PIF) totaling 1698 communities and those with 10 or more repetitive losses totaling 212 communities, representing 1910 total communities. FIMA considers the results of this on-going marketing effort to be successful with 578 communities who have asked for additional information. FIMA's marketing effort is commendable. The point of our recommendation is to focus marketing efforts on communities with the greatest exposure to the NFIP, and in doing so FIMA could concentrate on 898 communities representing 85 percent of the NFIP policy base. We also believe this is prudent from a business standpoint.

3. Develop procedures that recognize net growth in PIF as a creditable activity under CRS. This would require establishing a baseline for measurement.

Management Comment and IG Analysis

FIMA has considered this recommendation for years with the prevailing view that this would not be an equitable basis for discounts as the basic premise of CRS is to reward communities that take actions that go beyond minimum NFIP requirements. FIMA has included CRS credits for activities such as outreach and providing risk information to property owners and that crediting definitive community activities is a preferable means of recognizing marketing differences over measures of market penetration. FIMA has recently decided that communities reaching the best CRS Class (Class 1) should be undertaking sufficient outreach and floodplain management activities to achieve NFIP policy penetration of at least 50 percent. In the future, FIMA will look for other opportunities for credit that can be provided equitably and consistently for activities that promote the purchase and retention of policies. We concur.

4. Include CRS Coordinators on the list of Routine Users of the records maintained in the system and allow their access to be limited to only flood insurance claims information pertinent to the community for which they are the CRS Coordinator.

Management Comment and IG Analysis

FIMA believes the routine users and purpose detailed in the most recent Privacy Act (01-23-02, Federal Register Volume 67, No. 15) meets the overall intention of the IG recommendation as users are defined as USCOE, state and local government agencies and municipalities. FIMA will review the data

access and request procedures to see how they can be streamlined. We concur.

III. OTHER CONSIDERATIONS

Following are additional considerations that we believe could improve the effectiveness of CRS in reducing exposure to the NFIP and minimizing disaster costs: (1) discontinue CRS discounts for Pre-FIRM Properties, (2) require insurance to the cumulative level of assistance provided, and (3) employ a greater commitment to uniform building codes and measurable criteria for entry into CRS. While we believe these actions have merit, we have not made formal recommendations because of our limited fieldwork.

A. Discontinue Discount for Pre-FIRM Properties

Within our sample, Pre-FIRM properties account for 85 percent of the claims filed and 90 percent of the losses paid. There are approximately 126,000 PIF on Pre-FIRM properties and 113,000 PIF on Post-FIRM properties. Pre-FIRM properties receive a subsidy as well as a CRS discount. In the sample communities, claims for Pre-FIRM properties greatly exceed those for Post-FIRM properties. Figure 7 illustrates the disparity in claims.

TYPE	PIF	CLAIMS	CLAIMS PAID
PRE-FIRM	126,000	55,314	\$340,000,000
POST-FIRM	113,000	7,355	\$39,000,000

Source: CSC Data Run, May 2002

Figure 7 – Sample Communities by PRE/POST-FIRM PIF, Claims and Claims Paid

In addition, the bulk of repetitive losses occur on the Pre-FIRM housing stock and, as stated by FIMA in the NFIP 2000 Stakeholder’s Report, repetitive losses “have a major, adverse financial impact on the NFIP.” The losses experienced on Pre-FIRM properties continue to be the NFIP’s “worst offenders” and account for the greatest exposure. Currently, there is little incentive for curtailing this exposure to the NFIP. Insofar as policyholders in Pre-FIRM structures receive a subsidy, it may be prudent to consider whether a CRS discount is warranted.

Management Comment and IG Analysis

FIMA responded that although Pre-FIRM policyholders are eligible for discounts in the CRS, there is no increase in the total subsidy level of the NFIP as a result. The policy base rates are set in such a way that the net effect

of the CRS premium discounts is revenue neutral. FIMA stated that a community's entire tax base usually contributes to the cost of carrying out CRS activities, activities can substantially reduce losses to Pre-FIRM buildings, and providing the discount in a more general way provides FIMA with a simpler means of meeting the objective of encouraging loss reduction measures for Pre-FIRM buildings and believes these are good arguments for providing CRS discounts to all policy holders. FIMA will take our consideration under advisement for the future.

B. Require Insurance to Cumulative Level of Assistance Provided

With the passage of the Disaster Mitigation Act of 2000, FEMA intends to incorporate the flood insurance maintenance requirements in the Individuals and Households Program (IHP). The flood insurance maintenance requirement will exist when a real or personal property loss occurs due to flooding in a Special Flood Hazard Area (SFHA). The owner of the flood-damaged property will have a life-long flood insurance maintenance requirement on the property and a renter's maintenance requirement will apply as long as the renter lives in the rental unit.¹⁰ The required amount of flood insurance coverage will be equal to the annual maximum IHP award, currently \$25,000. Insurance must be maintained at this level in order to receive any Federal assistance for future flood damage to any insurable property.

Consideration should be given to requiring insurable coverage equal to the maximum IHP grant or actual disaster losses experienced, whichever is higher. For example, under current rules, if a property in a SFHA receives \$10,000 of disaster assistance under IHP in disaster A, the flood insurance maintenance requirement is \$25,000. If the same property received subsequent flood damages in disaster B in the amount of \$30,000, \$25,000 would be paid from flood insurance and \$5,000 could be paid under IHP, but the flood insurance maintenance requirement would remain at \$25,000. We are suggesting the new flood insurance maintenance requirement be placed at \$30,000, as this approach would take into account the actual exposure of flood damage to property and provide flood insurance coverage to the level of risk experienced.

¹⁰ Information provided by FEMA's Recovery Division, Community and Family Services Branch, July 2002.

Management Comment and IG Analysis

FIMA indicated that this consideration is broader than CRS. FIMA did indicate that it would be willing to discuss this issue with the OIG. We plan to begin dialogue with FIMA on this issue.

C. Require the Adoption of Building Codes and Measurable Criteria for Entry into CRS

The implementation of the Disaster Mitigation Act of 2000 establishes a new requirement that local mitigation plans be in place as of November 1, 2003. The goal is to consolidate the planning requirements for different mitigation programs so that one local plan will meet the minimum requirements for the different programs such as the FMA Program, CRS, Pre-Disaster Mitigation Program, and HMGP. In addition, FIMA believes the plans may serve to integrate other plans and documents produced to support emergency management programs.

We believe an opportunity exists for FIMA to require communities entering CRS to adopt higher codes, standards, and ordinances within State mitigation plans. The CRS program currently requires adoption of the Building Code Effectiveness Grading Schedule (BCEGS) as a prerequisite for achieving higher levels of class such as 7. The BCEGS measures communities' adoption and enforcement of codes. We believe it may be prudent to require adoption of BCEGS as a prerequisite to entry into CRS. Such a requirement could further the mitigation objectives of the program.

Management Comment and IG Analysis

FIMA responded that BCEGS is a grading system that measures the codes the community has adopted and the processes and resources in place to enforce the code and CRS uses BCEGS rating as a way of verifying that the community does have a code in place and can enforce it. The issue of whether to require building code adoption as a prerequisite for joining CRS has been debated extensively by the CRSTF and is not required entry to allow some of the more rural communities, where building code adoption is not likely, to join the CRS. Communities must have a BCEGS rating of 6 or lower to be a Class 7 CRS community and believes this is a good compromise, at least until building code adoption and enforcement is more common in rural communities. As we stated in our consideration, we believe an opportunity exists for FIMA to require communities entering CRS to adopt higher codes, standards, and ordinances within State mitigation plans. We still believe that, for entry into CRS, communities should have some level of grade from BCEGS.

APPENDIX A: CREDITABLE FLOODPLAIN MANAGEMENT ACTIVITIES OF CRS

The CRS has 18 floodplain management activities available for credit divided into four categories.

Public Information (Series 300)

This series credits programs that advise people about the flood hazard, flood insurance, and ways to reduce flood damage. These activities also provide data needed by insurance agents for accurate flood insurance rating. They generally serve all members of the community and work toward all three goals of the CRS.

- 310 Elevation Certificates (142 pts. max.)
- 320 Map Information (140 pts. max.)
- 330 Outreach Projects (290 pts. max.)
- 340 Hazards Disclosure (81 pts. max.)
- 350 Flood Protection Library (30 pts. max.)
- 360 Flood Protection Assistance (71 pts. max.)

Mapping and Regulations (Series 400)

This series credits programs that provide increased protection to new development. These activities include mapping areas not shown on the FIRM, preserving open space, enforcing higher regulatory standards, and managing storm water. The credit is increased for growing communities. These activities are directed to work towards the first and second goals of the CRS, Damage Reduction and Accurate Insurance Rating.

- 400SH Special Hazard Areas
- 410 Additional Flood Data (1,230 pts. max.)
- 420 Open Space Preservation (900 pts. max.)
- 430 Higher Regulatory Standards (1,750 pts. max.)
- 430LZ Low Density Zoning
- 440 Flood Data Maintenance (226 pts. max.)
- 450 Stormwater Management (670 pts. max.)

Flood Damage Reduction (Series 500)

This series credits programs for areas in which existing development is at risk. Credit is provided for a comprehensive floodplain management plan, relocating or retrofitting flood-prone structures, and maintaining drainage systems. These activities are directed to work towards the first goal of the CRS, Damage Reduction.

- 510 Flood Management Planning (235 pts. max.)
- 520 Acquisition and Relocation (3,200 pts. max.)
- 530 Retrofitting (2,800 pts. max.)
- 540 Drainage System Maintenance (330 pts. max.)

Flood Preparedness (Series 600)

This series credits flood warning, levee safety, and dam safety programs and these activities are directed to work towards the first and third goals of the CRS, Damage Reduction and Hazard Awareness.

- 610 Flood Warning Program (200 pts. max.)
- 620 Levee Safety (900 pts. max.)
- 630 Dam Safety (120 pts. max.)

APPENDIX B: CRS PARTICIPATION BY STATE

State	Number of CRS Communities	Have Received a CAV	Have Not Received a CAV	State	Number of CRS Communities	Have Received a CAV	Have Not Received a CAV
AK	3	0	3	MT	11	3	8
AL	13	9	4	NC	73	56	17
AR	12	12	0	ND	1	1	0
AZ	24	21	3	NE	2	2	0
CA	55	41	14	NH	3	1	2
CO	41	21	20	NJ	42	25	17
CT	7	7	0	NM	9	1	8
DE	7	7	0	NV	7	6	1
FL	206	156	50	NY	25	6	19
GA	22	16	6	OH	13	8	5
HI	1	1	0	OK	11	11	0
IA	2	2	0	OR	20	14	6
ID	20	16	4	PA	13	4	9
IL	27	8	19	RI	3	1	2
IN	14	10	4	SC	28	11	17
KS	4	4	0	SD	1	1	0
KY	14	12	2	TN	6	1	5
LA	34	27	7	TX	39	14	25
MA	12	12	0	UT	10	1	9
MD	6	5	1	VA	17	14	3
ME	17	8	9	VT	3	2	1
MI	10	5	5	WA	23	19	4
MN	3	3	0	WI	11	3	8
MO	3	1	2	WV	0	0	0
MS	17	10	7	WY	3	1	2
Total					948	620	328

Source: FIMA Community Assistance Branch, May 2002 and FIMA's Community Information System database May 2002

APPENDIX C: ACRONYMS

BCEGS – Building Code Effectiveness Grading Schedule
CAV – Community Assistance Visit
CIS – Community Information System
CRS – Community Rating System
CRSTF – Community Rating System Task Force
CSC – Computer Science Corporation, Inc.
EMI – Emergency Management Institute
FEMA – Federal Emergency Management Agency
FIA Net – Federal Insurance and Mitigation Administration National Flood Insurance Program Database
FIMA – Federal Insurance and Mitigation Administration
FIRM – Flood Insurance Rate Map
FMA – Flood Mitigation Assistance
HMGP – Hazard Mitigation Grant Program
IHP – Individuals and Households Program
ISO – Insurance Services Office, Inc.
NFIP – National Flood Insurance Program
PIF – Policies In Force
SFHA – Special Flood Hazard Area
SMS – State-Mandated Regulatory Standards
RLTG – Repetitive Loss Target Group
UMC – Uniform Minimum Credit

APPENDIX D: FEDERAL INSURANCE AND MITIGATION RESPONSE TO OIG DRAFT REPORT



Federal Emergency Management Agency

Washington, D.C. 20472

OCT 1 2002

MEMORANDUM FOR: Clifford N. Melby
Assistant Inspector General for Inspections
Office of Inspector General

FROM: Anthony S. Lowe
Administrator
Federal Insurance and Mitigation Administration

SUBJECT: Review and Comment on the Office of Inspector General's
Draft Report I-03-02, "Community Rating System:
Effectiveness and Other Issues "

In a memorandum August 27, 2002, from Clifford Melby, Assistant Inspector General for Inspections, Office of Inspector General, the Federal Insurance and Mitigation Administration (FIMA) was asked to review and comment on the Office of Inspector General's draft report I-03-02, "Community Rating System: Effectiveness and Other Issues." We thank you for the opportunity and would like to offer the following comments and observations for your consideration.

We have organized our response into two sections. In the first, we note specific references within the report that could use further clarification or correction. In the second section, we respond to the specific recommendations and considerations as outlined in the report.

I. Areas Needing Clarification or Correction

Page 4: Objectives, Scope, and Methodology, Third Paragraph. Please change the "Community Rating Task Force (CRTF)" to "Community Rating *System* Task Force (CRSTF).

Page 8, Agency Coordination:

Report states: "Coordination also can be improved with other FEMA programs. Communities should not only have access to disaster data, but greater emphasis needs to be placed on how the Flood Mitigation Assistance (FMA), Hazard Mitigation Grant Program (HMGP), and Pre-disaster Mitigation programs can be used to further CRS efforts. The CRS and those programs should be seen as complimentary and used together to improve floodplain management activities and issues."

FIMA Response: While there is always room for improvement, we believe fairly close coordination currently exists between the CRS, FMA, HMGP, and the new Pre-Disaster Mitigation (PDM) programs. Each is housed in the same HQ directorate (FIMA), the same regional office division (FIMD), and usually in the same office in most states. Each regional office FI&M Division assigns a CRS Coordinator who coordinates common issues between these programs.

Moreover, since the planning requirements of the CRS, HMGP, and FMA programs are consistent with the new all hazard PDM (DMA 2000) planning requirements, additional coordination should occur as communities use one planning process.

Page 9, Information Access:

Report states: "Communities do not have routine access to flood insurance claims data. Access to accurate and timely claims data and PIF by flood zone would provide communities with a more realistic picture of their floodplain management challenges and assist in administering CRS programs more effectively."

FIMA Response: CRS communities do receive annual listings of their repetitive loss properties for updating and planning purposes. In addition, under the Privacy Act, all NFIP communities are listed as routine users and may obtain and "review NFIP policy and claims files to assist them in hazard mitigation and floodplain management measures duly adopted by the community." However, due to the protections of the Privacy Act and Internet security reasons, it is easier to provide these data upon request than provide on-line access. We agree that this information must be provided to communities, and we commit to making that happen in as efficient manner as possible.

Page 9, Institutional Knowledge.

Report states: "Another observation among the communities was a lack of institutional knowledge. In many cases, one person coordinates the CRS program and maintains the documentation. This presents a problem should that individual choose to leave. Many officials told us that the previous CRS Coordinator left without leaving instructions for a successor. In some cases, CRS documentation was taken by the departing official and the new CRS Coordinator essentially had to start from scratch. Again, the team approach helps to solve this vulnerability as the knowledge is shared among a group of stakeholders."

FIMA Response: This is a continual problem for the NFIP and not just the CRS. We constantly have to respond to turnover by local officials and the resulting changes in local programs. However, we agree more can be done. Accordingly, we will formalize our current (optional) policy to require ISO to follow-up by phone call or visit, when they become aware of any new CRS community official. Since CRS communities must annually recertify their programs, changeover in staffing should be discovered fairly quickly, and outreach will be provided.

Page 9, A. Not Easily Quantifiable:

Report states: "There is very little definitive data to substantiate that participation in CRS reduces flood losses and/or disaster costs." and

Page 10, paragraph 1.

Report states: "There are two ways FEMA relates savings to the CRS program. Savings usually associated with CRS are the total value of discounts under the program. These savings are quantifiable using an actuarial formula that incorporates CRS discounts. As of May 1, 2002, the program resulted in \$94 million savings to policyholders. While this represents savings in premiums to policyholders, it also results in lost revenue to the NFIP."

FIMA Response: The report mentions two ways that FEMA relates savings to the CRS program. We would like to clarify that we do not use either method to measure loss avoidance savings resulting from CRS community activity.

The first measurement the report mentions is the savings per policyholder. Current savings to policyholders is calculated as \$94 million. That is the reduction those policyholders realize from the reductions to the current NFIP base rates. But those base rates are set in such a way that the net effect of the CRS premium discounts is revenue neutral. The final result is that there is no "lost revenue to the NFIP" because of CRS discounts.

The costs of administering the program and providing premium discounts are all considered and internalized in the general rate levels established for the NFIP. Because many of the activities for which communities are receiving credit were already being carried out before the CRS, their influence on flood losses may already be reflected in NFIP experience. Additionally, the value of many activities being credited under the CRS is not yet directly measurable in terms of reduced flood insurance losses. Over time, as CRS activities undertaken by communities result in lower losses to the NFIP, premium requirements will be reduced.

The methodology employed to assure that there is no lost revenue can be briefly described. First the aggregate premium needed by the NFIP is calculated and then the initial base rates are calculated that will generate that premium. Next an estimate is made of the average CRS premium discounts as a percentage of the total NFIP premium (currently estimated at 5.4%). Finally, the initial base rates are increased the appropriate amount to arrive at the final base rates. The end result is that after CRS premium discounts are applied, the NFIP collects the needed aggregate premium.

So as a result of the revenue-neutral manner with which CRS has been implemented, the NFIP does not forego any revenue because of CRS. In fact, we currently collect the same amount of premium after all CRS discounts that we would collect even if CRS did not exist and no one got a discount.

We hope that this misunderstanding of the revenue-neutral manner in which CRS discounts have been implemented has not led to conclusions about the program that would otherwise not be made. In particular, the recommendation to discontinue CRS credits for Pre-FIRM structures seems like it could be motivated by a desire to reduce the amount of revenue foregone by the program. We address that in more detail in our response to that recommendation.

The second measurement the report mentions is the average annual savings to the program from losses avoided. The report states:

“The second way FEMA is attempting to measure savings is to attach dollars to the mitigation of flood-prone structures and the implementation of floodplain management activities. These savings have been cited to be over \$1 billion per year in damages avoided. However, we could not find definitive evidence to support this claimed cost avoidance. FEMA officials acknowledge the lack of data and are looking into ways to improve the collection of this information.”

The \$1 billion annual savings that the report references is not a measurement of savings attributable to CRS; instead it is a measurement of the savings that this country benefits from as a result of FEMA's NFIP floodplain management requirements. Since the inception of the NFIP, a growing number of local communities have adopted and enforced these minimum floodplain management requirements. As a result, the housing stock that has been built in the decades since have been built in compliance with those floodplain ordinances and are much less prone to loss from floods. The aggregate annual savings from reduced flood losses is estimated to be \$1 billion. These savings are reduced physical damages to post-FIRM buildings and their contents. A paper outlining the calculation and explaining what is included and what is not can be provided.

The savings due to CRS activities resulting in reduction of flood damage have been estimated using a variety of means. In 1989, prior to the implementation of the CRS, a forum of experts was convened in order to apply the necessary judgment to the development of the point system. This development of the point system was accomplished based on the advice of these experts, as well as employing the NFIP actuarial models to quantify estimates of damage reduction for certain CRS activities that lend themselves to such calculation.

Beginning in 1995, a thorough evaluation of the CRS was conducted. Part of the purpose of the CRS evaluation was to assess whether changes should be made to the point and classification system to better reflect what the premium discounts should be. One way to do this might be to review flood insurance loss experience by CRS class. Differences in loss experiences for the various classes could indicate the need for adjustments in either the number of points required to achieve certain classes, or in the premium discounts provided to different classes. However, the nature of the flood peril itself, which causes wide swings in loss experience from one year to the next, and the infancy of the CRS,

made and continue to make loss experience an unreliable indicator of how adjustments should be made. Thus, CRS evaluation plans called for a different approach.

Through various data collection and analysis techniques, including questionnaire/surveys, technical studies, and site visits, FEMA assessed the intrinsic value and relative merit of the CRS creditable activities in terms of the three overall goals: flood loss reduction, accurate insurance rating, and flood insurance awareness. This replaced and updated some of the judgment calls that were made in creating the system, and provided some insight into whether the CRS recognizes real differences in risk among the communities.

In order to synthesize the various evaluation results and to develop a coherent set of recommendations for CRSTF deliberation, a Weighting Review (so-called because of the weights assigned to activities in the CRS grading schedule) was held in October 1997. Twenty-five representatives from Federal, State, and local government agencies, the insurance industry and private consultants participated. As with the original Weighting Forum held before the implementation of the CRS, this session's participants, with the benefit of much more CRS experience and detailed information, were charged with reviewing the relative merits of the CRS activities and refining the point system to reflect the flood loss reduction benefits and other overall strategic considerations.

In preparation for the session, estimates were made of the quantifiable benefits for certain activities that lent themselves to such calculations. These "control point" activities included Open Space Preservation, Additional Flood Data, Higher Regulatory Standards, Acquisition and Relocation, and Retrofitting. Using depth-damage and frequency information underlying the flood insurance rate model, percentage reductions in expected losses were estimated and then equated to premium credits. (In the CRS, 500 points are equated to a 5% premium reduction.) Depth-percentage damage values were modified to represent either (1) direct protection to higher levels (e.g., a levee or berm), or (2) the protection afforded by an activity preventing an increase in flood levels from those used to establish rates for the insurance policies.

Ultimately, the point and classification system under the CRS should reflect the NFIP's underwriting experience. Since a statistically credible body of data for these purposes will not be available in the near future, the points assigned today must reflect a projection of the underwriting results.

Certain activities that are credited under the CRS have been reviewed by panels of experts in order to advise FEMA whether the credit criteria are appropriate. In addition, technical studies have been made to refine the estimates of the flood loss reduction potential of various activities included in the grading schedule for the CRS. After Hurricanes Bertha, Fran, and Floyd, the effectiveness of CRS-credited mitigation activities was evaluated in an effort to measure the dollar benefits of certain mitigation measures. One study demonstrated that a 1986 state building code change that required deeper pilings on the coast resulted in "an overall reduction in damage as a percent of the [building's] value from 37% to 15%." The higher code standard was credited under the Activity 430 (Higher Regulatory Standards) section on special hazards.

Another report measured the benefit of preserving floodplains as parkland (Activity 420 (Open Space Preservation). Damage to parks in two North Carolina cities was compared to the damage suffered in neighboring developed areas. "The average damage prevented by preserving 86.4 acres as open space in three City parks in the flood fringe areas of the Tar River in Rocky Mount is estimated at about \$4.1 million, or about \$47,500 per acre. In Wilson, the open space preserved in 50.5 acres in two City parks prevented an estimated \$5.6 million in damage. This is an average savings of more than \$111,000 per acre."

Thus the savings in losses due to CRS activities are embodied in the point system itself, based on a combination of modeling and expert judgment. Approximately 67% of the \$94 million provided in premium discounts is an estimate of the annual reduction in flood losses (or the equivalent) attributed to CRS activities in CRS communities. As more communities carry out more CRS activities, this effect will increase. It is important to note that this estimate of loss reduction is achieved by CRS activities over and above the base requirements of the NFIP.

These concepts have been covered in FEMA CRS reports including: "An Evaluation of the NFIP's Community Rating System" (1998), the 1996 report to Congress on the CRS, and an internal "CRS Evaluation Planning Report" completed in 1994. In addition, a 1997 account of the "Weighting Review" is also available that describes some of the calculations and judgments made regarding the expected effects of CRS activities.

We would be more than happy to meet with the IG's office to answer any questions regarding the actuarial aspects of the CRS.

Page 10. "2. Impact of CRS on the NFIP" Figure 4

Report states: "CRS communities have less flood loss claims than non-CRS communities even though 2.7 million policies or 62 percent are in CRS communities. Figure 4 illustrates the comparison:"

	Number of Communities	Total Premium Amount	Total Policies	Total Flood Losses	Total Claim Dollars Paid
Non-CRS Communities	15,984	\$732,782,663	1,683,643	659,389	\$6,840,488,384
CRS Communities	867	\$974,065,042	2,692,928	445,233	\$4,446,567,889
Total Communities	16,851	\$1,706,847,705	4,376,571	1,104,622	\$11,287,056,273
CRS %	5%	57%	62%	40%	39%

FIMA Response: We agree that it is premature to use comparisons of historical losses to determine the effectiveness of CRS. Although we believe that CRS has made a difference in losses, the differences in Figure 4 could just as easily be due to the geographical distribution of CRS communities in areas such as Florida that have not

experienced as many hurricanes and other floods as could be expected. Large numbers of historic NFIP claims are in states like Louisiana and Texas that do not have large numbers of CRS communities. CRS experience seems to be unfolding in the right direction. However, for the same reasons that the NFIP must rely on engineering studies rather than loss experience to assess risk, it will take time before enough loss experience is gained to properly perform this analysis.

FIMA Response to the Recommendations and Considerations as contained in the IG Report, Section C - Recommendations and Section III Other Considerations:

Recommendation #1: Incorporate a provision in the Community Assistance Program Guidance Objectives that emphasizes the completion of Community Assistance Visits for all CRS communities.

FIMA Response: We agree that conducting Community Assistance Visits (CAVs) for all CRS communities is necessary and appropriate. We also agree that there are some CRS communities that did not receive CAVs prior to joining the CRS and have not received CAVs since. However, since the number of CRS CAVs was derived from the Community Information System (CIS) database, and a large number of FEMA Regions and States have not entered all of their CAVs into the CIS, we do not believe that the number is as high as 35% as the report states, and believe it is likely that many of these communities did have, or since have had, a CAV.

As the report correctly states, beginning in 1996 a "clean" CAV was required before a community was allowed into CRS. This requirement was reiterated in guidance issued to the Regions in an August 8, 2002 memorandum from Howard Leikin, Deputy Administrator for Insurance. This memorandum also instructs the FEMA Regions to schedule CRS communities for CAVs the same as any other community and establishes procedures for resolving compliance issues when they are identified by a CAV in CRS communities prior to removing that community from CRS. Accordingly, whatever the true balance of CRS participating communities not receiving a CAV actually is, we will require that all CRS communities to be covered by a CAV over the next 3-5 years. This will be accomplished through the above-mentioned policy of including existing CRS communities on normal CAV schedules. In addition, we will direct FEMA regions and States to enter all CRS CAVs they have conducted into the CIS, so that the accurate number of CRS communities with CAVs can be maintained.

Recommendation #2: Market the CRS program to communities that have greater exposure to the NFIP by developing a strategy to concentrate efforts on non-participating communities with 500 or more policies.

FIMA Response: Through the CRSTF's recommendation, FEMA undertook a marketing strategy in 2000/2001 to encourage NFIP communities to participate in the CRS. The methodology for selecting which communities to target was based on 100 policies in force (PIF) totaling 1698 communities, and those with 10 or more repetitive losses totaling an additional 212 communities. Marketing notices were sent to all communities

meeting these thresholds (1910), and follow-up phone calls were made to each. ISO has followed up with the 578 communities (30 percent) who have asked for additional information. The first priority was to provide specific information to the 175 communities of this group who asked for CRS applications. The second priority was to contact the balance of communities who asked for additional information, but did not request application information. Follow-up contacts are still being made. However, while we consider this on-going marketing effort to be successful based on the 100 PIF threshold, we would be interested in the IG's perspective of why the recommendation suggests another campaign based on a 500 PIF threshold.

Recommendation #3: Develop procedures that recognize net growth in PIF as a creditable activity under the CRS. This would require establishing a baseline for measurement.

FIMA Response: The CRSTF and the FIMA have considered such a proposal as this, both during the initial development of the CRS prior to its 1990 implementation, and again during the concerted evaluation of the CRS completed in 1998. The prevailing view each time has been that this would not be an equitable basis for discounts.

The basic premise of the CRS is to reward communities that take actions that go beyond the minimum NFIP requirements. The majority of points (and discounts) are available based on the goal of reducing flood losses. Points are also available for activities that contribute to the other two CRS goals of increasing awareness of flood insurance and facilitating the accurate rating of flood insurance.

Marketing analyses have consistently shown that the two main influences for flood insurance policy sales are lender compliance and the occurrence of flooding events. Neither of these is within the control of the community officials. Basing insurance discounts on factors that would be so heavily related to economic conditions affecting construction and property sales, lenders complying with minimum requirements of the law, Flood Insurance Rate Map changes, or to the vagaries of Mother Nature, has not been judged to be equitable.

Nevertheless, we do appreciate the concern that the IG raises and believe that communities can contribute in meaningful ways to encourage the purchase and retention of flood insurance. We have included in the CRS credits for activities such as outreach, providing risk information to property owners, making rating information more easily available to insurance agents, and establishing real estate hazard disclosure requirements. It has been the considered opinion of those overseeing the CRS that crediting definitive community activities that can be consistently observed is a preferable means of recognizing marketing differences over measures of market penetration that can vary from year to year and that encompass significant influences beyond the purview of local communities.

In addition to the above, there is an actuarial consideration that also raises questions concerning the propriety of providing discounts for market penetration in a specific

community. While it does not increase the risk of loss for any single property, such market penetration can work against the ideal insurance goal of spread of “geographic risk”. When insured properties are primarily situated closely together, their simultaneous loss potential substantially increases the program’s maximum probable loss. This is yet one more reason not to provide premium credits. At the same time, FIMA recognizes that the purchase of flood insurance by as many people as possible within each and every community is a public policy objective and that is why we favor providing CRS credits as we have done.

However, with that said, FIMA has decided that a community reaching the best CRS Class (Class 1) should be undertaking sufficient outreach and floodplain management activities to achieve NFIP policy penetration of at least 50%. This requirement for Class 1 qualification was incorporated into the 2002 CRS Coordinator’s Manual. As part of our review for future CRS changes, we will look for other opportunities for credits that can be provided equitably and consistently for activities that promote the purchase and retention of policies.

Recommendation #4: Include CRS Coordinators on the list of Routine Users of the records maintained in the system and allow their access to be limited to only flood insurance claims information pertinent to the community for which they are the CRS Coordinator.

FIMA Response: We believe the routine users and purpose detailed in the most recent Privacy Act (1/23/02 FR Vol 67, No. 15) meet the overall intention of the recommendation, while being less narrowly defined. Specifically, users are defined as the “USCOE, state and local government agencies and municipalities” who may “review NFIP policy and claims files to assist them in hazard mitigation and floodplain management measures duly adopted by the community.” This issue affects all NFIP communities, not just those participating in the CRS. We will review the data access and request procedures to see how they can be streamlined.

Recommendation #5: Provide additional credit points for higher standards by incorporating in the Substantial Damage Rule equation cumulative claims history for repetitive loss properties.

FIMA Response: We agree that implementing a cumulative substantial damage definition that includes tracking all improvements and repairs to floodprone properties could reduce the flood damage potential for a community as well as the insurance liability to FIMA. For these reasons, the CRS has provided credit points (up to 110) for communities that enforce substantial improvements and substantial damages cumulatively. Communities must keep track of improvements or repairs for at least 5 years (25 points) or at least 10 years (45 points). Additional points (20) are available if communities adopt regulatory language that qualifies properties for Increased Cost of Construction (ICC) insurance coverage for repetitive losses. Please refer to the 2002 CRS Coordinator’s Manual for more information.

OTHER CONSIDERATIONS:

Consideration A - Discontinue Discount for Pre-FIRM Properties:

FIMA Response: We wonder if perhaps part of the concern raised by the IG is related to the misunderstanding regarding the revenue neutrality of the premium discounts provided in the CRS. Although pre-FIRM policyholders are eligible for discounts in the CRS, there is no increase in the total subsidy level of the NFIP as a result.

There are a few arguments in favor of providing CRS discounts to all policyholders within the community. First, the entire tax base of the community usually contributes to the costs of carrying out CRS activities. Thus, allowing all policyholders to benefit contributes to maintaining the local support for those activities. Second, the community's CRS efforts do not only have loss reduction and other benefits attributable to Post-FIRM construction. The activities can substantially reduce losses to Pre-FIRM buildings also. Thus, although the Pre-FIRM policyholders may not be paying a full-risk premium, they should still, in a relative sense, pay less than the premium paid by a Pre-FIRM policyholder in a lower class or non-CRS community. Third, over the years we have been asked to recognize, in the NFIP insurance rates, efforts taken to reduce damages to Pre-FIRM properties as a way to encourage such measures. Often, to do this on an individual building basis would introduce complications into the rating system that could further discourage insurance agents to write flood business. Incorporating these considerations in a more general way through the CRS provides us with a simpler means for meeting the objective of encouraging loss reduction measures for Pre-FIRM buildings.

We believe that there are ample good arguments at this time for providing CRS discounts to all policyholders. We will take this consideration under advisement for the future.

Consideration B - Require insurable Coverage equal to the maximum IHP Grant:

FIMA Response: Since this consideration is unrelated to the CRS and this inspection, we do not have a response at this time. However, we would be happy to schedule a meeting to begin discussion of this issue.

Consideration C - Require adoption of Building Codes for CRS entry:

Report states: "We believe an opportunity exists for FIMA to require communities entering CRS to adopt higher codes, standards, and ordinances within State mitigation plans. The CRS program currently requires adoption of the Building Code Effectiveness Grading Schedule (BCEGS) as a prerequisite for achieving higher levels of class such as 7. The BCEGS measures communities' adoption and enforcement of codes. We believe it may be prudent to require adoption of BCEGS as a prerequisite to entry into CRS. Such a requirement could further the mitigation objectives of the program."

FIMA Response: The recommendation is made that communities adopt BCEGS prior to being allowed in CRS. Communities do not adopt BCEGS. States and communities adopt model national building codes and sometimes modify those codes. BCEGS is a grading system that measures the codes the community has adopted and the processes and resources in place to enforce the code. CRS uses BCEGS rating as a way of verifying that the community does have a code in place and can enforce that code.

The issue of whether to require building code adoption as a prerequisite for joining CRS was debated extensively by the CRSTF. It was the Task Force's recommendation that building code adoption not be required for Class 9 and Class 8 communities. This has allowed some of the more rural communities (where building code adoption is not likely) to join the CRS; which provides them with an incentive to undertake floodplain management activities even though it is likely that they would not be able to adopt building codes. Communities must have a BCEGS rating of 6 or lower to be a Class 7 CRS community. We believe that this is a good compromise, at least until building code adoption and enforcement is more common in rural communities.



Federal Emergency Management Agency

Office of Inspector General

Washington, D.C. 20472

CUSTOMER RESPONSE

IG Report No.: I-01-03

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