



September 6, 2024

Deanne Criswell, Administrator  
The Federal Emergency Management Agency

**Re: Request for Information on the National Flood Insurance Program's Community Rating System Redesign Effort (FEMA-2024-0022)**

Environmental Defense Fund ("EDF") respectfully submits the following comments to the Federal Emergency Management Agency ("FEMA") regarding the Request for Information on the National Flood Insurance Program's (NFIP) Community Rating System (CRS) Redesign Effort. One of the world's leading environmental nonprofit organizations, EDF creates transformational solutions to the most pressing climate and environmental challenges. To do so, EDF links science, economics, law, and innovative private-sector partnerships. With more than 2.5 million members, EDF's experts are working in 23 countries and across the U.S. to turn our solutions into action.

CRS is a voluntary incentive program offering NFIP premium discounts to eligible communities that exceed minimum NFIP floodplain management requirements. The program aims to reduce flood damages to insurable property, increase flood insurance uptake, and foster comprehensive floodplain management. A growing number of studies have found that participating in CRS can indeed lead to lower flood losses for insured properties.<sup>1 2 3 4 5</sup> One study led by EDF found that the percent reduction in paid claim amounts associated with various levels of CRS participation was roughly proportional to the premium discounts those communities received through CRS. This study also found that between 1998 and 2020, the cumulative damage reductions attributable to CRS were \$11.4 billion; over the same period, cumulative NFIP premium discounts were \$12.1 billion<sup>6</sup> This highlights the important role CRS plays in fostering flood resilience.

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<sup>1</sup> Gourevitch, J. D., & Pinter, N. (2023). Federal incentives for community-level climate adaptation: an evaluation of FEMA's Community Rating System. *Environmental Research Letters*, 18(3), 034037.

<sup>2</sup> Sadiq, A. A., Tyler, J., Noonan, D. S., Norton, R. K., Cunniff, S. E., & Czajkowski, J. (2020). Review of the federal emergency management agency's community rating system program. *Natural Hazards Review*, 21(1), 03119001.

<sup>3</sup> Frimpong, E., Petrolia, D. R., Harri, A., & Cartwright, J. H. (2020). Flood insurance and claims: The impact of the Community Rating System. *Applied Economic Perspectives and Policy*, 42(2), 245-262.

<sup>4</sup> Highfield, W. E., & Brody, S. D. (2013). Evaluating the effectiveness of local mitigation activities in reducing flood losses. *Natural Hazards Review*, 14(4), 229-236.

<sup>5</sup> Highfield, W. E., & Brody, S. D. (2017). Determining the effects of the FEMA Community Rating System program on flood losses in the United States. *International Journal of Disaster Risk Reduction*, 21, 396-404.

<sup>6</sup> Gourevitch, J.D., Pinter, N. (In review) Federal incentives for community-level climate adaptation: An evaluation of FEMA's Community Rating System. *Environmental Research Letters*.



Even though more than 70% of NFIP policyholders reside in CRS communities<sup>7</sup> and despite the potential benefits, few eligible communities participate in CRS (approximately 1,500 communities of the over 22,000 NFIP communities). Several barriers to participation currently exist that make CRS less accessible to communities with fewer resources, less administrative capacity, and constrained budgets.<sup>8,9,10</sup> EDF supports FEMA's commitment to improve the CRS program to: 1) incentivize communities to take measurable actions and make sustained progress to reduce current and future flood risk; 2) embed equity as a foundation of the CRS program; (3) incentivize communities to encourage property owners to purchase flood insurance and thus reduce their financial exposure to flood risk; and (4) deliver a community participant-centered and modernized program.

EDF offers several recommendations to bolster the effectiveness and accessibility of the CRS program and its role within the NFIP as a tool to promote flood risk reduction and affordable flood insurance. Recommendations focus on: 1) promoting actuarial soundness; 2) reducing administrative complexities; and 3) improving transparency.

### **Redesign CRS to promote actuarial soundness of the NFIP**

Actuarially sound pricing of NFIP premiums is critical to communicating flood risk, reducing moral hazard in development patterns, incentivizing risk reduction, and enhancing affordability.<sup>11,12</sup> The current design of CRS contributes to the pricing of premiums that are both above and below actuarial sound rates, depending on the characteristics of the policyholder and their community. EDF recommends several changes to CRS to improve actuarial soundness.

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<sup>7</sup> <https://www.fema.gov/fact-sheet/community-rating-system-overview-and-participation>

<sup>8</sup> Sadiq, A. A., Tyler, J., & Noonan, D. (2020). Participation and non-participation in FEMA's Community Rating System (CRS) program: Insights from CRS coordinators and floodplain managers. *International Journal of Disaster Risk Reduction*, 48, 101574.

<sup>9</sup> Sadiq, A. A., Tyler, J., & Noonan, D. (2020). Participation and non-participation in FEMA's Community Rating System (CRS) program: Insights from CRS coordinators and floodplain managers. *International Journal of Disaster Risk Reduction*, 48, 101574.

<sup>10</sup> Sadiq, A. A., Tyler, J., Noonan, D. S., Norton, R. K., Cunniff, S. E., & Czajkowski, J. (2020). Review of the federal emergency management agency's community rating system program. *Natural Hazards Review*, 21(1), 03119001.

<sup>11</sup> de Ruig, L. T., Haer, T., de Moel, H., Brody, S. D., Botzen, W. W., Czajkowski, J., & Aerts, J. C. (2022). How the USA can benefit from risk-based premiums combined with flood protection. *Nature Climate Change*, 12(11), 995-998.

<sup>12</sup> de Ruig, L. T., Haer, T., de Moel, H., Brody, S. D., Botzen, W. W., Czajkowski, J., & Aerts, J. C. (2022). How the USA can benefit from risk-based premiums combined with flood protection. *Nature Climate Change*, 12(11), 995-998.



- **Remove cross-subsidization of CRS discounts.** As documented by the Congressional Research Service<sup>13</sup> and the Government Accountability Office<sup>14</sup>, CRS premium discounts are cross-subsidized. This means that all policyholders within a state pay more in premiums to offset the CRS discounts within that state. In effect, policyholders outside of CRS communities are paying higher premiums than are actuarially justified in order to subsidize the discounts received by policyholders in participating CRS communities. Policyholders in non-CRS communities should not be paying above actuarial rates to fill this gap. If left unaddressed, this could worsen affordability issues and contribute to low insurance uptake in non-CRS communities. Eliminating this cross-subsidy would improve the equity of the program and the actuarial soundness of NFIP (**Question 11**).
- **Better align CRS and Risk Rating 2.0 pricing to avoid duplicating discounts.** As noted in **Question 5**, FEMA currently offers premium discounts for some CRS activities, such as property elevations, through the NFIP's current Risk Rating 2.0 pricing methodology. This could result in duplication of discounts for policyholders in CRS communities and potentially results in below actuarial rates for some policyholders. To the extent that CRS activities are accounted for in the NFIP's pricing methodology, we recommend that these activities be removed from CRS (**Question 5a**).

Additionally, there are other CRS activities that reduce flood losses to insured properties not accounted for in the NFIP's current pricing methodology. For example, communities that engage in Activity 450: Stormwater Management and Activity 420: Open Space Preservation experience fewer flood damages than communities that do not engage in those activities,<sup>15 16 17</sup> yet those risk reduction benefits are not reflected in NFIP premiums. Activities shown to reduce flood damage to insured properties, but not accounted for in NFIP pricing, should remain part of CRS as a means to continue to incentivize flood risk reduction measures (**Question 5b**). The points associated with those activities should be aligned with proven risk reduction benefits.<sup>18</sup>

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<sup>13</sup> Congressional Research Service. (2024). *Introduction to the National Flood Insurance Program (NFIP)* (No. R44593). <https://sgp.fas.org/crs/homesec/R44593.pdf>

<sup>14</sup> *Flood insurance: FEMA's new Rate-Setting methodology improves actuarial soundness but highlights need for broader program reform.* (2023, July 31). U.S. GAO. <https://www.gao.gov/products/gao-23-105977>

<sup>15</sup> Gourevitch, J. D., & Pinter, N. (2023). Federal incentives for community-level climate adaptation: an evaluation of FEMA's Community Rating System. *Environmental Research Letters*, 18(3), 034037.

<sup>16</sup> Cunniff, S. E., Environmental Defense Fund, & Graham Institute of Sustainability at the University of Michigan. (2017). *Exploring FEMA's Community Rating System as a tool for improving flood hazard mitigation and use of natural infrastructure: Initial Summary of an EDF Emerging Issues Workshop, August 9-10*

<sup>17</sup> Brody, S. D., & Highfield, W. E. (2013). Open space protection and flood mitigation: A national study. *Land use policy*, 32, 89-95.

<sup>18</sup> Gourevitch, J. D., & Pinter, N. (2023). Federal incentives for community-level climate adaptation: an evaluation of FEMA's Community Rating System. *Environmental Research Letters*, 18(3), 034037.



EDF would also like to flag for FEMA that current catastrophe models used for Risk Rating 2.0 pricing do not reflect all the types of risk reduction measures taken at the community level. EDF encourages FEMA to explore ways to improve modeling to better account for flood risk reduction measures and to ensure that those measures that cannot be incorporated into the models continue to be utilized and incorporated for CRS credit.

- **Continue to Encourage Flood Risk Management.** There are many CRS activities that do not aim to reduce flood losses to insured properties. These activities include those that reduce flood exposure by removing or avoiding development in the SFHA and those that have no bearing on flood risk, but aim to increase flood insurance uptake or improve flood warnings. Providing discounts to policyholders in communities that engage in these activities may result in below actuarial rates and create perverse incentives for development in high-risk flood zones (**Question 7**). We encourage FEMA to explore if there are other possible programs that can better support and incentivize communities in adopting these activities as they are critical to broader flood risk management and resilience across the country.

Additionally, EDF encourages FEMA to explore new tools and levers that can support community-level flood resilience; and consider ways to implement community-level mitigation that allow for NFIP pricing to be actuarially sound.

#### **Reduce administrative complexities and streamline CRS reporting requirements**

In its current form, CRS is not well-designed for many communities. Entry and on-going participation in CRS is time-intensive and often dependent on under-resourced local government staff.

- As found in a 2020 GAO report, many communities face challenges obtaining and retaining the flood management staff required to fulfill CRS requirements. Large communities can struggle to scale staffing and resources to support floodplain management duties, which may require extensive paperwork and oversight, particularly for areas with high density in the floodplain. Additionally, many floodplain management staff, particularly in smaller and under-resourced communities, already balance floodplain management duties with other unrelated responsibilities. As a result, CRS adds additional responsibilities that may exceed the availability of staff-time, resources, and expertise.<sup>19</sup> **Providing technical assistance and resources, particularly to under-resourced communities, could help to address some of these burdens**

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<sup>19</sup> United States Government Accountability Office. (2020). FEMA can improve community oversight and data sharing. In *Report to Congressional Committees*. <https://www.gao.gov/assets/gao-20-396.pdf>



**and fill gaps that may be impacting the ability of a community to actively engage in CRS.<sup>20</sup>**

FEMA should work with participating communities to identify the assistance and resources that will best support their participation (**Question 4**). We encourage FEMA to consider ways to bolster cross-government collaboration across federal, state, and municipal partners to identify and support administrative and financial gaps that may be impacting CRS participation and advancement. This could include exploring ways to enhance the role and the support provided by state NFIP coordinators and floodplain management staff to participating NFIP communities.

- **Streamlining CRS activities and CRS reporting requirements could help to reduce some of the programmatic burdens that hinder advancement through the Program.** As noted by the Association of State Floodplain Managers, extensive paperwork and recordkeeping can be particularly challenging for small communities where the local floodplain manager may have multiple responsibilities.<sup>21</sup> Streamlining and simplifying reporting requirements such as consolidating activities, may allow communities to dedicate more time to the actual implementation flood mitigation strategies (**Question 9**).

Additionally, streamlining activities can give CRS the opportunity to provide greater flexibility to meet conditions of highly variable communities across the country. Currently, CRS scoring is fairly prescribed. This can pose difficulties for some communities to advance in CRS, particularly older, denser cities where traditional flood mitigation strategies are cost-prohibitive or infeasible. Streamlining and consolidating CRS activities can also offer opportunities to reward innovative flood mitigation strategies designed with location and context in mind.

- A 2017 EDF workshop on CRS found that **steps to reduce barriers of entry, such as “on ramp” for communities could drive CRS participation and incentivize flood mitigation.**<sup>22</sup> Auto-enrolling NFIP communities in CRS could minimize some of the initial barriers and capacity constraints communities face when seeking to join CRS (**Question 2**), such as the intensive staff time and documentation required for the prerequisite Community Assistance Visit which can be difficult for underserved communities, as well as those with large, dense floodplains.

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<sup>20</sup> Sadiq, A. A., Tyler, J., & Noonan, D. (2020). Participation and non-participation in FEMA's Community Rating System (CRS) program: Insights from CRS coordinators and floodplain managers. *International Journal of Disaster Risk Reduction*, 48, 101574.

<sup>21</sup> Association of State Floodplain Managers, Inc., & Sears, R. (2021). *Association of State Floodplain Managers, Inc.* <https://asfpm-library.s3.us-west-2.amazonaws.com/Website/Policy/CRS+-+RFI.pdf>

<sup>22</sup> Cunniff, S. E., Environmental Defense Fund, & Graham Institute of Sustainability at the University of Michigan. (2017). *Exploring FEMA's Community Rating System as a tool for improving flood hazard mitigation and use of natural infrastructure: Initial Summary of an EDF Emerging Issues Workshop, August 9-10 2017.* <https://www.edf.org/sites/default/files/CRS-workshop.pdf>



### **Increase transparency of CRS requirements and program rules**

EDF supports steps that improve the transparency of NFIP rules and regulations to policyholders and communities. Given the important role CRS can play in driving flood mitigation it is essential that communities have clear and accurate guidance from FEMA on the steps they can take to further bolster flood mitigation and advance in the CRS program.<sup>23</sup>

- **Providing a report to each community that highlights potential CRS credits, explains strategies to obtain additional CRS points, and flags potential NFIP compliance issues could serve as an important resource to help communities navigate CRS.** This information could also help to incentivize residents and decisionmakers to undertake impactful flood mitigation activities (**Question 1**). As part of any report to a local community, FEMA should also provide access to key data and information, such as the number of NFIP policyholders, repetitive loss information, and NFIP claims data. FEMA should also use this as an opportunity to communicate future risk and help communities understand the types of interventions that may be needed to account for how risk is changing over time. This type of information is essential to help communities as they undertake CRS activities and to help them identify, prioritize, and locate flood mitigation strategies and programs in strategic locations.

### **Additional Recommendations on the NFIP**

In addition to updating CRS, EDF encourages **Congress and FEMA to adopt reforms to the NFIP, including developing a means-tested assistance program, improving flood mapping, increasing transparency of data and pricing, better accounting of future flood risk, and further incentivizing flood mitigation.** We believe these reforms are essential to ensuring all the components of the NFIP, including CRS, can support flood resilience for communities and households across the United States. In particular, while CRS discounts currently offer an important means to address NFIP affordability, it is also essential to address the affordability needs of individual households, which can vary widely across a community. Many low- and moderate-income households already find NFIP to be cost-prohibitive. Congress should adopt a means-tested assistance program to help lower-income households with the cost of flood insurance, as previously designed and proposed by FEMA and the GAO. A means-tested assistance program would complement NFIP premium reductions granted through CRS by ensuring that those policyholders with limited savings can continue to afford NFIP coverage.

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<sup>23</sup> Wetlands Watch. *Improving the Community Rating System (CRS) Program: Recommendations from Coastal CRS Communities & Stakeholders*, October 2018



Overall, EDF commends FEMA on its continued commitment to improve CRS and the NFIP to make it more reflective of the latest climate science, and more accessible and affordable for U.S. households. We appreciate FEMA's attention to these issues and its consideration of these comments.

Respectfully submitted,

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