INFORMATION MEMO

National Flood Insurance Program

Learn how the National Flood Insurance Program (NFIP) protects cities from flood damage.

I. League of Minnesota Cities Insurance Trust flood coverages

The League of Minnesota Cities Insurance Trust (LMCIT or Trust) property coverage provides some protection for flood damage to city buildings in certain circumstances. One way in which city buildings are not covered for flood damage is if buildings are in a flood hazard area. In most situations, this is an area within the 500-year floodplain as mapped by the NFIP. It can also be considered a flood hazard area if it is unmapped.

For buildings in a flood hazard area, cities must decide whether to add the supplemental flood coverage which the Trust makes available as an additional coverage option. However, this coverage is only available if cities have NFIP flood insurance for buildings at the maximum limit available. LMCIT’s supplemental flood coverage will then cover the cost of flood damage the NFIP policy doesn’t cover, such as replacement cost or certain contents.

II. National Flood Insurance Program (NFIP)

NFIP is a federal program managed by the Federal Insurance Administration (FIA) to make flood insurance available to property owners who might not otherwise be able to buy it. Following is a summary of some key points regarding the NFIP.

A. Community participation

Property owners are eligible to purchase NFIP flood insurance if the city in which they live (or the county, for residents of unincorporated areas) is a program participant. Cities must first become an NFIP participating community before cities can purchase NFIP flood insurance for their own buildings.

This material is provided as general information and is not a substitute for legal advice. Consult your attorney for advice concerning specific situations.
To qualify for participation in NFIP, the community must meet NFIP’s minimum standards, which include adopting and enforcing flood plain zoning regulations. Minnesota statutes require the city adopt a flood plain management ordinance if there is a flood plain within the city. State law also requires a city to participate in the NFIP, if the Department of Natural Resources (DNR) Commissioner or FEMA determines the city has any areas that are “subject to recurrent flooding.”

B. Purchasing NFIP insurance

Most NFIP flood insurance is written by private insurance companies under NFIP’s “Write Your Own” (WYO) program. It’s available through most agents. The policy forms are standardized, and the coverages and premium rates are set by the FIA, so the cost and coverage will be the same regardless of which insurance company writes the insurance. The flood insurance buyer pays a premium to the insurer and receives a standard NFIP flood insurance policy. The company keeps part of the premium as profit and to cover its expenses, and forwards the rest to the FIA. The FIA acts as a reinsurer for the insurance company and reimburses the insurance company for any flood insurance claims it pays.

C. NFIP policy coverage

In very general terms, the NFIP policy would pay for the actual cash value of flood damage to a building and its contents. It will also pay for the cost of protective measures such as sandbagging to protect the building.

Coverage is limited for below-ground contents and fixtures. In general, an NFIP policy would only cover structural damage to basement walls or foundations, damage to heating and cooling equipment for the building’s operations, and clean-up costs. It wouldn’t cover other equipment or contents, or any costs for carpeting, painting, finishing, and so on.

D. City buildings eligible for coverage

There’s a common misconception that NFIP coverage is only available for buildings in a flood hazard area. Most city buildings are eligible for NFIP coverage, regardless of their location. NFIP premiums are substantially less for buildings outside the 100-year flood plain.

Certain buildings are not eligible for NFIP coverage at all. If more than 49 percent of the value of the building and contents are below ground, the building is not eligible unless the lowest basement floor is above the 100-year flood level. Water and sewer plants are sometimes ineligible for NFIP coverage because of this restriction.
Many homeowners share that same misconception that they can’t buy NFIP flood insurance if their home or building isn’t in a flood plain. Assuming the city is a participating community, those homes and buildings are eligible for NFIP flood insurance, and at much less expensive rates.

**E. Deductible options**

Optional deductibles are available on NFIP flood coverage. Using a large deductible can reduce the cost of NFIP flood insurance significantly. This insurance continues to be relatively expensive, so many cities may want to consider a larger deductible. Choosing a large deductible means the city will be financially responsible for that amount if a loss occurs. One option to consider is using the Trust’s extraordinary expense coverage to cover that deductible if a flood loss occurs.

**F. NFIP Community Rating System**

The NFIP Community Rating System (CRS) offers discounts from standard NFIP rates for buyers in cities that have taken extra steps to reduce flood risks, beyond the minimum needed to qualify for participation in the NFIP. If the city qualifies for CRS discounts, both the city itself and every private purchaser of NFIP flood insurance within the city receive the discount on their premiums.

Briefly, the CRS gives the city points for a variety of activities related to public information about flood risks and preparedness; open space preservation and storm water management; relocation and retrofitting activities; and flood warning and safety systems. Based on what the city has done to reduce the risk of flood damage, the CRS assigns the city a grade. The better the city’s CRS grade, the greater the discount city residents receive on flood insurance premiums.

The potential premium savings can be substantial in a city with a good CRS grade, but the CRS system seems to be little used in Minnesota. According to the FIA, only a few Minnesota communities have qualified for discounts. There are probably several reasons for this. Some cities may not be aware of the CRS program, or may not understand the premium savings it can produce. City staff time and effort required to assemble the needed information and documentation could be a significant deterrent. But in a city where a substantial number of property owners purchase flood insurance, it may make sense for the city to invest that time and effort in view of the potential savings for its residents.
1. **Factors for CRS ratings**

The CRS uses a point system to evaluate city activities in four major areas: public information, mapping and regulation, flood damage reduction, and flood preparedness. In some cases, there are also specific requirements the city must meet to qualify for specific CRS grades. Activities for which a city can receive CRS credit include the following.

### a. Public information

- Maintaining and making available elevation certificates for property in the city.
- Maintaining and making available the NFIP Flood Insurance Rate Maps.
- Outreach projects to inform citizens about flood hazards, flood insurance, and flood protection.
- Systems to assure that people who own or are considering buying property know whether it’s in a floodplain.
- Maintaining a library of information on flood hazards, flood insurance, flood protection, etc. for use by the public.
- Providing advice and assistance on how to protect property from flood damage.

### b. Mapping and regulation

These regulatory activities are given even more points in growing communities – the faster your growth rate, the more points you get for your regulations.

- Conducting updated or more detailed flood and hydrological studies.
- Preserving land in the flood plain as open space, through ordinances, purchase, deed restrictions, low-density zoning, etc.
- Adopting stricter regulatory standards than NFIP’s minimum requirement. For example, requiring higher freeboard or flood-proofing for new construction, or prohibiting fill in the floodplain.
- Achieving an Insurance Services Offices (ISO) Building Code Effectiveness Grade of 6 or higher. The city must have a rating of 6 or better to achieve a CRS grade of 7 or higher.
- Identifying and alerting people to areas subject to special flood risks from cause such as ice jams.
- Storm water management activities, such as regulations to help assure that new developments in the watershed don’t increase run-off.
c. **Flood damage reduction**
- Developing and adopting a floodplain management plan.
- Acquiring and removing buildings from a flood hazard area.
- Retrofits that protect existing buildings, such as elevating the building, levees or other barriers, flood-proofing, etc.
- Systems for regularly inspecting and maintaining the city’s storm drainage sewers, ditches, holding ponds, etc.

d. **Flood preparedness**
- Systems to warn the public of impending flooding.
- Planning for safety and maintenance of levees and dams. Minnesota cities that go through the CRS process automatically get credit for the state’s dam safety program.

2. **CRS Process**

The starting point is for the city to complete and submit the CRS Application Form and accompanying documentation. If you’re not sure whether your city wants to go through the process, it may be helpful to obtain a copy of the CRS Coordinator’s Manual from FEMA. It provides information and documentation the city will need to assemble.

The ISO does the actual CRS evaluations on behalf of FEMA. The city’s application is submitted for review to the regional ISO/CRS Specialist, who also does the onsite review and audit.

Going through the CRS process will require significant time and effort. The documentation that’s required is extensive and detailed. The onsite review involves both an audit of the city’s records and documentation, and field surveys of the floodplain areas. Depending on the size of the city, the onsite review may be a multi-day process. Once the city has received a CRS rating, the city will also need to comply with some ongoing record keeping and annual reporting requirements to maintain that rating.

3. **Further assistance**

The Minnesota Department of Natural Resources oversees the NFIP program in Minnesota.