

# Increased Cost of Compliance



### **AFTER A FLOOD EVENT, FLOOD INSURANCE POLICYHOLDERS ARE ASSURED THEIR CLAIM WILL BE PAID AND THEY WILL HAVE ADDITIONAL OPTIONS TO FUND REBUILDING.**

- Flood insurance policyholders also may be eligible for Increased Cost of Compliance (ICC) coverage benefits. ICC coverage is an important part of most flood insurance policies.
- ICC coverage provides:
  - Up to \$30,000 to help property owners who have been substantially damaged to reduce the risk of damage from future floods by elevating, floodproofing (for nonresidential structures), demolishing or relocating their building or home
  - ICC coverage in addition to the building coverage for the repair of the actual physical damages from flooding; however, the total claim payments cannot exceed statutory limits

### **TO BE ELIGIBLE FOR ICC FUNDS, A BUILDING MUST BE INSURED UNDER THE NATIONAL FLOOD INSURANCE PROGRAM (NFIP) AND MUST ALSO EITHER (1) BE DETERMINED BY A LOCAL BUILDING OFFICIAL TO BE SUBSTANTIALLY DAMAGED OR (2) QUALIFY AS A REPETITIVE LOSS STRUCTURE.**

- Substantial damage is flood-related damage that equals or exceeds 50 percent of the value of the building. When repaired, the structure must comply with local floodplain management ordinances. If the total damage from flooding is less than 50 percent of the market value of the building, ICC coverage is not available under the substantial damage provision.
- Repetitive loss is flood-related damage that occurs twice over a period of 10 years, with the cost of each repair averaging 25 percent or more of the pre-flood market value of the building. Because the 25 percent cost is an average, it need not be equally distributed.
  - For example, if the damage was 35 percent of the value of the building in the first event and 15 percent of the value in the second event, the policyholder would qualify for ICC coverage. A flood insurance claim must have been paid in both cases, and it applies only if the community has adopted a repetitive loss provision in its floodplain management ordinance.

### **ICC COVERAGE CAN HELP PAY FOR FOUR DIFFERENT TYPES OF MITIGATION ACTIVITIES TO BRING A BUILDING INTO COMPLIANCE WITH THE COMMUNITY'S FLOODPLAIN MANAGEMENT REGULATIONS. THESE ACTIVITIES INCLUDE ELEVATION, FLOODPROOFING, RELOCATION AND DEMOLITION.**

- **Elevation** is the most common means of reducing a building's flood risk. The process consists of raising the building to or above the Base Flood Elevation (BFE). While NFIP policy requires only the lowest floor of the building to be raised to the BFE, some states and communities enforce a "freeboard" requirement, which mandates that the building be raised above the BFE to meet the community's flood protection level.
  - For example, if the BFE for a structure is 4 feet, and the community adopts a 2-foot freeboard requirement, ICC coverage would help pay the cost of elevating the building 6 feet.



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- **Floodproofing** applies only to nonresidential buildings. For a building to be certified as floodproof, it must be watertight to a level 1 foot above the BFE, or to the level of the freeboard requirement (if the community enforces one). Floodproof means that the walls must be substantially impermeable to water and designed to resist the stresses imposed by floods.
    - Floodproofing techniques include installation of watertight shields for doors and windows, drainage collection systems, sump pumps and check valves; reinforcement of walls to withstand floodwater pressures; use of sealants to reduce seepage through and around walls; and anchoring the building to resist flotation, collapse and lateral movement.
  - **Relocation** involves moving the entire building to another location on the same lot or to another lot, usually outside the floodplain. Relocation can offer the greatest protection from future flooding; however, if the new location is still within the Special Flood Hazard Area, the building must still be NFIP-compliant, meaning it must be elevated or floodproofed (if nonresidential).
  - **Demolition** may be necessary in cases where damage is too severe to warrant elevation, floodproofing or relocation; or the building is in such a poor condition that it is not worth the investment to undertake a combination of the above activities.
    - All applicable permits must be obtained prior to demolishing the building.
    - The property may be redeveloped after demolition is complete, subject to all applicable federal, state and community laws and requirements.

#### **IN SOME CASES, INDIVIDUAL POLICYHOLDERS CAN TAKE ADVANTAGE OF FEDERAL GRANT MONEY TO SUPPLEMENT THE COST OF MITIGATION ACTIVITIES.**

- Policyholders can assign their ICC benefits to their community and enable the community to file a single claim on behalf of a community mitigation project. The Federal Emergency Management Agency (FEMA) counts the ICC claim monies as nonfederal matching funds when applying for mitigation grants, because ICC coverage is a direct contract between the policyholder and the insurer.
- The community can then use FEMA mitigation grant funds to help pay for any additional portion of the cost of elevation, floodproofing, relocation or demolition that is more than the ICC claim payment.
- Individual participation in a FEMA-funded community mitigation project is voluntary, and the community is required to provide mitigation funds to any property owner whose ICC payment was counted toward the matching funds.