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Before the

Subcommittee on Insurance

Committee on Banking, Housing, and Urban Affairs

United States Senate

on

Alternative Approaches for Converting

Communities in the National Flood Insurance Program

from the Emergency Phase to the Regular Phase

Mr. Chairman and Members of the Subcommittee:

We welcome your invitation to discuss our ongoing review of the Federal Emergency Management Agency's (FEMA's) progress in converting flood-prone communities from the emergency phase to the regular phase of the National Flood Insurance Program. I will highlight the tentative findings of our review and present options we believe the Congress could consider in

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connection with the expiration of the emergency phase of the program in May 1983. I will also briefly summarize the findings in our January 3, 1983, report entitled "National Flood Insurance Program--Major Changes Needed If It Is To Operate Without A Federal Subsidy." This report reviewed how FEMA sets the rates policyholders pay for flood insurance and how flood insurance is financed.

In summary, Mr. Chairman, we have found that FEMA will not meet the August 1983 deadline contained in the National Flood Insurance Act of 1968 for providing flood insurance rate maps for all the Nation's flood-prone communities. FEMA was expected to map over 17,000 communities in the last 15 years. Our tentative findings indicate that faced with this task, FEMA relied primarily on a technique for producing rate maps which was both costly and time consuming. FEMA did not make as much use as it might have of alternative approaches. Without any action by the Congress, about 291,000 policyholders will soon lose their flood insurance coverage. To avoid this result, we believe the Congress needs to consider and select an optional approach to complete the mapping project.

THE NATIONAL FLOOD INSURANCE PROGRAM-- ITS OBJECTIVE AND OPERATION

Before the establishment of the National Flood Insurance Program, flood victims turned to Federal and State governments for most of their relief and rehabilitation needs. To stem the growing demand for Federal disaster assistance, the Congress passed the National Flood Insurance Act of 1968. Under the provisions of the 1968 act, as amended, property owners in flood-prone areas are eligible to purchase flood insurance but only if their community, such as a city or county, joins the program and adopts and enforces adequate flood plain management regulations designed to protect lives and property from future floods.

Under the original approach for determining what insurance rates would be charged in a community, a flood insurance rate map, which shows the various zones of flood risk, had to be prepared. Once the rate map was completed, a community could enter the program. The rates a policyholder paid for flood insurance depended on which risk zone he was in as shown on the rate map. Policyholders in zones which border a river or coastline generally face a greater risk, and thus are charged higher rates.

Because of start-up problems and the need to collect detailed engineering data in each community, preparing these rate maps proved to be time consuming and inhibited communities' ability to join. In fact, in the program's first year of operation, only four communities joined and only a handful of insurance policies were sold.

To allow easier entry into the program, the Congress, in December 1969, amended the 1968 act to create an "emergency" phase. This phase permitted a community to be admitted without a flood insurance rate map. Instead, a flood hazard boundary map--a less detailed map which broadly identified a community's flood-prone areas--was used to admit a community to the emergency phase. As with the "regular" phase, FEMA requires an emergency phase community to adopt flood plain management regulations to guide new construction in flood-prone areas. These regulations are less stringent in the emergency phase than those in the regular phase reflecting the reduced level of detail in the flood hazard boundary map. In addition, because the flood hazard boundary maps identify only broad areas of risk, a flat insurance rate is charged all policyholders regardless of how they are situated relative to the source of flooding.

FEMA WILL NOT MEET THE 1983 DEADLINE--THOUSANDS OF COMMUNITIES REMAIN IN THE EMERGENCY PHASE

The emergency phase is a temporary aspect of the program that is reauthorized periodically and is currently set to expire in May 1983. The emergency phase was expected to expire eventually because FEMA was to have completed, by August 1983, the development of the flood insurance rate maps used to convert communities to the regular phase of the program. FEMA will not meet the August deadline for developing flood insurance rate maps for all the Nation's communities. Currently, about 17,300 communities are participating in the National Flood Insurance Program; however, only about 8,600 are in the regular phase of the program, while about 8,700 remain in the emergency phase. FEMA is in the process of mapping about 1,400 emergency phase communities. This leaves almost 7,300 emergency phase communities still in need of a flood insurance rate map in order to be converted to the regular phase.

Given that the 1968 act provided 15 years for developing the rate maps and that over $606 million has been appropriated for mapping, the question arises: What has prevented FEMA from developing flood insurance rate maps for all the Nation's flood-prone communities? Our review has suggested several factors.

An initial factor was the unexpected magnitude of the undertaking. When the 1968 act was passed, it was estimated that there were about 5,000 flood-prone communities in the Nation. However, as the process of identifying flood-prone communities proceeded, the total proved to be over 20,000, or four times the original estimate. Eighty-seven percent of those communities elected to join the program.

Our audit work to date indicates that FEMA, faced with developing flood insurance rate maps for over three times the number of communities in the original estimate, did not consistently use available alternative techniques for producing rate maps which were less costly and less time consuming.

There are three basic techniques for producing a rate map. The first is to develop hydrologic and engineering data and create a detailed rate map, showing, for example, the height of flood waters during a 100-year flood and the various flood risk zones. This mapping technique can provide useful information for large, developing areas to use in setting and enforcing flood plain management regulations designed to prevent future flood losses. This process has cost, on the average, about $50,000 per community and usually takes about 4 years.

A second technique is to produce a rate map using available existing data on a community's flood experience and its potential for future flooding. This technique does produce a less detailed map than the first approach, but FEMA has estimated that this technique can cost significantly less, about $8,000, and usually takes about 2 years.

A third technique is to simply convert the less detailed flood hazard boundary map, which is used to admit the community to the emergency phase, into a rate map. This last approach can be used in areas where flood plain management information is judged to be less critical, can cost as little as $1,000, and usually takes less than 2 years.

FEMA has relied on the detailed map technique for most of the program's life. Between 1968 and 1972, FEMA developed the methods for producing rate maps using the detailed map technique. For the next 5 years it produced primarily detailed rate maps.

Beginning in 1977, FEMA began to explore using the less costly alternative mapping techniques. In March 1979, we issued a letter report to the Secretary of Housing and Urban Development that expressed concern about whether FEMA would meet the 1983 deadline. FEMA responded by placing more emphasis on alternative mapping techniques. FEMA used these techniques to produce rate maps for several hundred communities. However, FEMA officials, in March 1981, adopted the view that the alternative techniques were no longer advisable and the emphasis returned to the detailed study technique.

Recently, FEMA proposed in its fiscal year 1984 budget to once again make use of alternative techniques for producing rate maps. However, the net result has been that since 1968, in the three FEMA regions we visited, about 82 percent of almost 4,200 regular phase communities were converted using the more expensive and time consuming detailed mapping technique.

OPTIONS ARE AVAILABLE TO THE CONGRESS REGARDING THE REMAINING EMERGENCY PHASE COMMUNITIES

Allowing the current emergency phase to lapse without taking any further action, in our view, is simply not a desirable course of action. After their policies expire, about 291,000 policyholders living in communities now in the emergency phase would be without flood insurance. Further, about 8,700 communities would no longer have the incentive Federal flood insurance provides to enforce even the minimal flood plain management regulations required in the emergency phase. Without the availability of insurance and the enforcement of flood plain management regulations designed to reduce future flood losses, the demand for Federal disaster assistance could increase, contrary to a basic objective of the National Flood Insurance Act.

As an alternative, FEMA has proposed to the Congress extending the mapping deadline and reauthorizing the emergency phase of the program until September 1987. The obvious benefit of this option is that flood insurance and flood plain management regulations would continue in force for the 8,700 emergency phase communities. However, without any substantive changes in how FEMA performs the mapping function, this could be a costly, time consuming alternative.

FEMA has estimated that it would take about $153 million in current dollars to complete the mapping effort. This estimate, to FEMA's credit, assumes reduced reliance on detailed mapping and increased emphasis on the less costly alternative techniques. Our review, however, suggests that FEMA's estimate may understate the total cost. The estimate assumes that the cost of a detailed map will be $50,000. However, for fiscal year 1983, the cost of a detailed map will average around $88,000. If future costs reflect 1983 averages, instead of FEMA's current estimate, the total mapping cost could run much higher.

Even with less reliance on detailed mapping, FEMA is still proposing to convert almost 3,000 communities with the detailed maps that take about 4 years to complete. Consequently, we believe it is unlikely that the effort will be completed by FEMA's proposed 1987 expiration date. We believe that it will probably take more time--possibly an additional 5 years. In our discussions with FEMA officials they also agreed that the effort could extend well beyond 1987.

If the mapping effort is extended, we believe that the Congress, either through legislation or committee report, could require FEMA to review each community and select the optimum conversion method which balances the extra information obtained by detailed mapping against the need for that information when less costly alternatives are available. This action is important because we found that FEMA has not set any priorities for its mapping effort, allowing its various regions to select communities for mapping based on widely different criteria. This resulted in some undeveloped, relatively less flood-prone communities receiving rate maps, while other more flood-prone areas remained in the emergency program. In addition, based on our review, we believe that very few of the 7,300 communities still in need of rate maps will require a detailed map. By reviewing each community and selecting the optimum conversion method, FEMA will be able to develop concrete information for the Congress on how long the mapping will take and how much it will cost.

Another option is to convert the remaining emergency phase communities into the regular phase using the less detailed flood hazard boundary maps. To avoid a prolonged conversion program the Congress could amend the 1968 act to require FEMA, before the August 1983 mapping deadline, to use the flood hazard boundary maps as a basis for establishing insurance rates for emergency phase communities. FEMA has already used boundary maps to produce acceptable rate maps in less developed areas typical of those remaining in the emergency phase. This option would be considerably less expensive than the option of continued mapping since it would involve primarily the administrative cost of informing the communities of the change. It could also be accomplished quickly.

A drawback of this option is that the extra flood plain management information which the detailed maps provide, such as the height of flood waters during a 100-year flood, would not be available. This information is used to establish and enforce flood plain management regulations and, based on our review, appears to be critical only where an area is developing or is likely to develop. Our limited review of communities remaining in the emergency phase indicates that they are largely areas that have few insurance policies--96 percent of them have less than 100 insurance policies in force--and are unlikely to see significant development. Therefore, we believe that the additional information a detailed map can supply may not be worth the cost for the vast majority of the 7,300 communities still needing rate maps. In any event, the act could be amended to make clear that FEMA can perform detailed mapping where it is necessary to collect additional data to identify detailed flood risk zones. However, similar to our proposal for the first option, we believe the Congress needs to require FEMA to make a positive determination on which areas need detailed rate maps before proceeding with the maps. In this situation, a detailed map would be an exception to the rule of converting using the flood hazard boundary map. We are prepared to assist the subcommittee in developing the necessary amendments to implement this option.

OTHER IMPROVEMENTS CAN BE MADE TO THE FLOOD INSURANCE PROGRAM

Over the last several years we have issued numerous reports suggesting improvements in the flood insurance program. Our January 3, 1983, report entitled "National Flood Insurance Program--Major Changes Needed If It Is To Operate Without A Federal Subsidy" reviewed how FEMA sets rates for flood insurance and how the program is financed. Appendix I of my statement contains a complete list of our reports on the flood insurance program.

The program has two rate classes. Unsubsidized rates are charged policyholders insuring new structures built after the flood insurance rate map is put into effect. Subsidized rates are charged policyholders insuring existing buildings built before the flood insurance rate map.

We found that because of data and methodological weaknesses, the program's unsubsidized rates had not generated enough premium income to cover associated claims and operating costs and were, in fact, being subsidized by the Federal Government. Between 1978 and 1981, the aggregate deficit per policy ranged from about $20 to almost $200. We also found that despite three rate increases since January 1981, the rates were still inadequate. We noted that FEMA was aware of these weaknesses and had taken some action to improve its ratesetting process. Nevertheless, we made a series of recommendations to the Director, FEMA, to improve the ratesetting process so that the unsubsidized rates would produce adequate premium income as required by the act, as amended.

Regarding the intentionally subsidized rates, we reviewed alternatives for eliminating the Federal subsidy these rates contain. We did this because FEMA has proposed terminating the program's Federal subsidy by 1988. The alternatives we identified included increasing the intentionally subsidized rates, reducing the amount of coverage, cross-subsidizing with a surcharge on unsubsidized ratepayers, or a combination of these options. We noted that such actions could cause some policyholders to drop their flood insurance policies and increase their reliance on Federal disaster relief in the event of a flood, contrary to the program's objectives. We recommended that FEMA establish a monitoring program to detect any adverse impacts which increases in intentionally subsidized rates or decreases in coverage provided at the intentionally subsidized rates could have on the flood insurance program's objectives. FEMA has begun collecting data to perform such monitoring.

We also noted that FEMA's proposal to eliminate the Federal subsidy was a pronounced departure from how the program had been administered since 1968. Consequently, we suggested that the Congress itself might wish to address the question of whether it wants the subsidy eliminated and, if so, how the elimination should be accomplished.

To finance flood insurance, the Congress established a revolving fund and gave FEMA $1 billion in borrowing authority. Such funds are typically used to finance Government programs which are business-like in their operation.

Our views on the use of revolving funds have been governed by our concern about the Congress weakening its control over program activities when it authorizes this funding mechanism. Consequently, it has been our view that revolving funds may be appropriate when (1) a continuing cycle of operations generates receipts, principally from the public, (2) a substantial need exists for flexibility, and (3) the fund is or likely will be self-sustaining.

Because premium income did not cover costs, the Agency financed the insurance program's losses by borrowing funds from the Treasury. Between 1970 and 1980 it borrowed about $854 million and by the start of fiscal year 1981 had almost exhausted its borrowing authority. Appropriations in fiscal years 1981, 1982, and 1983 repaid this borrowing and in the process restored FEMA's borrowing authority to just under $1 billion.

Although it borrowed money each year, FEMA was not required by its enabling legislation to regularly request appropriations to repay its borrowings. We believe that the lack of a regular requirement to request appropriations to repay borrowings has reduced the ability of the Congress to oversee the flood insurance program and to identify why the program has been operating at a deficit. We offered the Congress two options to increase its control over the program's financing. These options were to (1) retain the revolving fund but amend the 1968 act to give the Congress greater control over how FEMA finances its losses or (2) amend the 1968 act to eliminate the revolving fund and finance the program through direct appropriations. We believe retaining the revolving fund is appropriate if the subsidy will be eliminated within the foreseeable future. If, on the other hand, the subsidy will remain a long-term feature of the program, we believe a direct appropriation would be a preferred approach. The amendments necessary to implement either of these options are in appendix II of my statement.

Mr. Chairman, that concludes my prepared statement. I would be happy to answer any questions the subcommittee might have. Thank you.

GAO REPORTS ON THE NATIONAL FLOOD INSURANCE PROGRAM

Report Title	Issue Date	Reference Number
Actions Needed to Provide Greater Insurance Protection to Flood Communities - Federal Insurance Administration	7-19-73	B-178737
National Attempts to Reduce Losses from Floods by Planning for and Controlling the Uses of Flood-Prone Lands - Multiagency	3-7-75	RED-75-327
Tulsa, Oklahoma's Participation in the National Flood Insurance Program - Federal Insurance Adm.	9-19-75	RED-76-23
Formidable Administrative Challenge Achieving Natonal Flood Insurance Program Objectives	4-22-76	CED-76-94
Report to HUD Secretary: Financial Controls Over National Flood Insurance Program	3-21-77	CED-71-47
Report to Senator Eagleton: The Johnstown Area Flood of 1977: Case Study for the Future	5-5-78	CED-78-114
Report to Senator Eagleton: FIA's Conversion of National Flood Insurance Program from Industry-Operated to Government-Operated	5-31-78	CED-78-122
Report to HUD Secretary: Efforts to Reduce Flood Losses: FIA's Flood Insurance Program	3-22-79	CED-79-58
Examination of Financial Statements of the National Flood Insurance Program as of December 31, 1977	6-1-79	CED-79-70
How Do Federal Agencies Assure That Disaster Loan Recipients Maintain Mandatory Flood Insurance?	6-1-79	CED-80-10
Report to Senators Garn and Metzenbaum: Termination of the Map Information Facility Contract by FEMA	5-12-81	CED-81-99

Report Title	Issue Date	Reference Number
Terminating the Audit of the National Flood Insurance Program's Fiscal 1980 Financial Statements	9-21-81	AFMD-81-93
Claims processing procedures of the National Flood Insurance Program	3-5-82 5-19-82	AFMD-82-56
Follow-up on claims processing procedures of the National Flood Insurance Program	7-22-82	GAO/AFMD-82-56S
National Flood Insurance: --Marginal Impact on Flood Plain Development --Administrative Improvements Needed	8-16-82	GAO/CED-82-105
National Flood Insurance Program--Major Changes Needed If It Is To Operate Without A Federal Subsidy	1-3-83	GAO/RCED-83-53
The Effect of Premium Increases on Achieving the National Flood Insurance Program's Objectives	2-28-83	GAO/RCED-83-107

PROPOSED AMENDMENTS TO THE

NATIONAL FLOOD INSURANCE ACT OF 1968

TO INCREASE CONGRESSIONAL OVERSIGHT AND CONTROL OF THE

NATIONAL FLOOD INSURANCE FUND

Section 1: This act may be cited as the "National Flood Insurance Act Amendments of 1983."

Section 2: Section 1309 of the National Flood Insurance Act of 1968, as amended (Public Law No. 90-448, 82 Stat. 577) is amended--

(a) By adding at the end thereof the following new subsection:

> "(c) The Congress shall periodically review the authority of the Secretary under this section and determine the extent to which it is adequate and necessary for carrying out the flood insurance program. Such review shall include a finding whether the authority granted to the Secretary by this section should be continued."

(b) In subsection (a) by (i) inserting the words "paying only extraordinary losses incurred in" between the words "of" and "carrying" in the first sentence; (ii) striking the words "request the approval of the President" and inserting in lieu thereof the words "exercises his authority to borrow funds" in the second sentence thereof.

(c) In subsection (b) by adding the following new sentence at the end thereof:

> "Request for annual appropriations under section 1310(g)(1) shall include an amount equal to the total funds borrowed by the Secretary."

Section 3: Section 1310 of the National Flood Insurance Act of 1968 is amended by adding at the end thereof the following new section:

> "(g) The Secretary shall estimate in each fiscal year the 'deficiency costs' of the flood insurance program for the next fiscal year. Based on this estimate,

the Secretary shall submit a request for appropriations for the next fiscal year that is sufficient to pay the estimated 'deficiency costs' of the program in such fiscal year. Such request shall be submitted along with the annual budget required by subsection (e).

"(l) In the event that the funds appropriated or collected under subsections (b)(2), (b)(3), (b)(4), (b)(5), and (b)(6) of this section are not sufficient to pay all the costs of the program in any fiscal year; or the Secretary exercises his authority under section 1309 to borrow funds during any fiscal year; the Secretary shall before the end of such fiscal year submit, along with his request for appropriations to pay the estimated 'deficiency costs' for the next fiscal year, a request to Congress for appropriations sufficient to pay all the 'deficiency costs' of the program for any current fiscal year, and to repay total borrowings from the Treasury for any such fiscal year, if applicable. 'Deficiency costs' are the difference between the amounts received by the flood insurance fund under subsections (b)(2), (b)(3), (b)(4), (b)(5), or (b)(6) of this section, and all the applicable costs and operating allowances expended to carry out the flood insurance program during a fiscal year."

SECTION-BY-SECTION ANALYSIS

Section 1. Title of enactment. The purpose of these amendments is to implement the legislative recommendations GAO developed during its review of the National Flood Insurance Fund. These proposed amendments are designed to improve Congress' oversight and control over the expenditures of the National Flood Insurance Program.

Section 2. GAO concludes that Congress needs to consider whether the flood insurance fund is now the appropriate method for funding the flood insurance program. The amendments set out in section 2 are designed to improve Congress' control over the flood insurance fund should it determine that the fund is still the best vehicle for financing the program. This section amends the act to: (a) require periodic congressional review of the borrowing authority of the Secretary; (b) limit the Secretary's borrowings from the Treasury to pay for only extraordinary losses and require notification to Congress if borrowing occurs; (c) require the Secretary to seek annual appropriations from Congress to repay in the next fiscal year the Treasury funds borrowed during the current fiscal year.

Section 3. In addition to providing that the Secretary must seek appropriations to repay Treasury borrowings, this amendment is intended to require the Secretary to estimate and to seek annual appropriations to pay for the "deficiency costs" of the flood insurance program. "Deficiency costs" are the difference between the amount received by the flood insurance fund under subsections (b)(2), (b)(3), (b)(4), (b)(5), or (b)(6) of section 1310, and all the applicable costs and operating allowances expended to carry out the flood insurance program. Thus, for example, where the rates charged are insufficient to pay for annual loss claims and costs for these policies, a "deficiency" or "subsidy" occurs in the program. Under such circumstances, the Secretary must request appropriations for the next fiscal year to pay for the current year's deficiency, and to pay any estimated deficiency for the next fiscal year.

PROPOSED AMENDMENTS TO THE NATIONAL FLOOD INSURANCE ACT OF 1968 TO FINANCE FLOOD INSURANCE THROUGH A DIRECT APPROPRIATION

Section 1. This act may be cited as the "National Flood Insurance Act Amendments of 1983."

Section 2: Section 1309 is repealed.

Section 3: Section 1310 of the act is amended by striking all that follows "Treasury of the United States" and inserting in lieu thereof the following: "an Emergency Flood Insurance Loss Fund (hereinafter referred to as the "fund") which shall be funded and available without fiscal year limitation to pay unanticipated losses or expenses resulting from the occurrence of an emergency, or for other purposes authorized by Congress in appropriation or other acts. The Secretary shall report to the Committee on Banking and Currency in the House and to the Committee on Banking, Housing and Urban Affairs in the Senate at any time he exercises his authority to make payments from the fund. Further, the Secretary shall seek in his next request for appropriations sufficient funds to replenish the fund if he exercises his authority under this section."

> "(b) An annual business-type budget for the flood insurance program shall be prepared and transmitted each fiscal year to Congress along with the Secretary's request for appropriations. Such budget shall include a statement of the premiums, fees, and other revenues received from carrying out the flood insurance program (including appropriations) and shall separately show the "surplus or deficiency," as defined in section 1370(d), for (i) the flood insurance program in general, (ii) the insurance provided at risk premium rates, and (iii) the insurance provided at less than risk premium rates. The budget shall be submitted to the Committee on Banking and Currency in the House and to the Committee on Banking, Housing and Urban Affairs in the Senate in the fiscal year that preceeds the year to which the budget is applicable. Congress shall consider and enact the budget in the manner prescribed by law for wholly-owned Government corporations."

Section 4: Section 1376 is amended--

(a) In subsection (a) by: (1) striking the entirety of subpart "(2)" and "(2)(A)" and "(2)(B)"; and (ii) striking the number "(3)" in subpart (a)(3) and redesignating it as subpart (a) "(2)."

(b) In subsection (b) striking the words "without fiscal year limitation" and inserting the following in lieu thereof: "for use on a fiscal year basis."

Section 5: Section 1370 is amended by adding at the end thereof the following new subsection:

> "(d) The term 'surplus or deficiency' (as used in section 1310(b)) means (i) the sum of all appropriations, receipts, premiums, or other revenues collected during a fiscal year less (ii) the sum of all applicable costs and operating allowances disbursed during the same fiscal year."

SECTION-BY-SECTION ANALYSIS

Section 1: Title of enactment. The purpose of these amendments is to implement the legislative recommendations GAO developed during its review of the National Flood Insurance Program. GAO concludes that the Congress needs to gain more direct control over the expenditures of the flood insurance program. If the Congress determines that the flood insurance fund is no longer the appropriate mechanism for financing the program, GAO recommends that the Congress amend the act to require direct appropriations to finance the flood insurance program.

Section 2: This section implements the aforementioned recommendation by abolishing the National Flood Insurance Fund and by operation making the program's funding subject to direct appropriations.

Section 3: To maintain flexibility in the funding of the program, an emergency loss fund is established which would be used to pay for unanticipated losses and expenses resulting from the occurrence of an emergency, or for whatever purposes Congress might specify in appropriation or other acts. While no attempt is made to describe the conditions under which the Secretary may determine an "emergency" exists warranting use of the fund, it is anticipated that the fund would normally be available to supplement appropriations when, due to the occurrence of unforeseen circumstances beyond the control of the Secretary, available financial resources are or will be depleted. Funding levels would be maintained by direct appropriations requests each fiscal year if the fund is used.

This section also requires the Secretary to prepare and submit an annual business-type budget each fiscal year along with his request for annual appropriations. A requirement is established for the budget to show the "surplus or deficiency," as defined in new section 1370(d), for (1) the overall flood insurance program, (2) the class of insurance for which risk premium (actuarial) rates are charged, and (3) the class of insurance for which less-than-risk premium (actuarial) rates are charged. The purpose of this requirement is to give the Congress the information it needs to determine the extent to which Federal funds subsidize the overall flood insurance program and, at a minimum, two classes of policies for which different rates are charged.

Section 4: This section sets out technical amendments that conform existing provisions of the act to the elimination of the flood insurance fund and the conversion of the program's funding to the direct appropriation method.

Section 5: A definition of "surplus or deficiency" is added to the act by this section to make it clear that the "surplus or deficiency" set out in the budget for the overall program and for at least two classes of insurance should be calculated by totaling all revenues received and subtracting the sum of all applicable costs and allowances.