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Using Increased Cost of Compliance in Local Hazard Mitigation Projects

The National Flood Insurance Program (NFIP) Increased Cost of Compliance (ICC) coverage can provide significant benefits to the NFIP policyholder whose community is requiring mitigation following a substantial or repetitive flood damage declaration. This article focuses on effectively using ICC as a source of funding to elevate, floodproof, or demolish buildings damaged by flood.

What is ICC?

ICC provides up to \$30,000 to help NFIP policy holders comply with local flood hazard regulations following substantial flood damage. This benefit is in addition to the policy's building coverage for structural damage. The amount paid for structural damage plus ICC cannot exceed the NFIP maximum limits of coverage for the type of building. NFIP policyholders file an ICC claim with their flood insurance agent when the community declares their structure to be substantially damaged by flood, or the building has sustained certain repetitive flood losses.

When can ICC be claimed?

ICC may be claimed when the community requires by regulation that a flood-damaged building be brought into compliance with current flood hazard regulations. For most communities, a building located in the Special Flood Hazard Area (SFHA) that sustains substantial damage will trigger the need for the entire building to be brought into compliance. Substantial damage is minimally defined by the NFIP as damage where cost to repair the damage equals or exceeds 50% of the market value of the structure before the damage occurred. As of April 1, 2011, the NFIP allows a lower substantial damage threshold as long as it is adopted, and enforced uniformly in the community floodplain management ordinance or law. Lower substantial damage thresholds are rare in Region X, but in light of the revised substantial damage definition communities may wish to review their flood mitigation strategies and ordinances.

ICC is also available to policyholders whose buildings have sustained repetitive losses. As before, the community must have provisions in its floodplain ordinance requiring repetitive loss buildings to be brought into compliance for the policyholder to qualify for ICC.

Outside the SFHA, ICC is available for substantially damaged or repetitive-loss buildings only if the community regulates an inundation area larger than the SFHA to a flood elevation, such as the water surface elevation of the flood of record, or to the 0.2 percent annual-chance, also known as the 500-year flood, elevation reported in the Flood Insurance Study.

What can ICC be used for?

ICC can be used to elevate, floodproof, or demolish a substantially damaged or repetitive-loss building. Building owners may use ICC to help pay for a contractor directly to complete the

required mitigation or they may use ICC to provide some or all of the non-Federal funds required to participate in a local hazard mitigation project.

How can ICC be used as part of a flood mitigation project?

FEMA grants often provide funding to mitigate buildings vulnerable to damage from a variety of natural hazards. Most of these grants require a non-Federal match. When NFIP-insured buildings are damaged by flood, ICC can be a valuable source of non-Federal match.

Communities manage local hazard mitigation projects, but ICC is an NFIP insurance benefit provided to the individual building owner. One of the challenges faced by communities who wish to use ICC as local match is accounting for how the ICC settlement is used. Asking the building owner to assign the ICC settlement to the community is one way to ensure that funds are used for their intended purpose.

What are the benefits of assigning ICC to the community?

ICC assignment can simplify community hazard mitigation grant project management and accounting. The community must ensure that grant funds are not used to pay for activities that were also funded by another source. This type of double dipping is known as “duplication of benefits.” Since ICC is made available to pay for mitigation activities on a specific structure, the entire ICC settlement must be applied to that structure before grant funds are used. It can be difficult to ensure that grant funds are not duplicating benefits when the ICC settlement is paid directly to the NFIP policy holder.

Whether ICC is paid directly to the policy holder or assigned to the community, it is essential that the community closely manage the project to document how much ICC was paid and whether the funds were used for eligible mitigation activities on the same building to which ICC settlement was directed. In other words, assigned ICC cannot be pooled into a common match fund to be used for any building participating in the local hazard mitigation grant project.

For more information on the ICC benefit and a list of resources, including steps for assigning ICC to the community, visit www.starr-team.com.