

Witness Testimony Housing Subcommittee
Two Floods and You Are Out of the Taxpayer's Pocket Act
April 1, 2003
Congressman Doug Bereuter

Good Afternoon. Thank you Mr. Chairman for having this Subcommittee hearing on the subject of the National Flood Insurance Program (NFIP). In January of this year, Congressman Earl Blumenauer (D-OR) and I reintroduced the "Two Floods and You Are Out of the Taxpayer's Pocket Act (H.R. 253)." We introduced similar versions of this legislation, in both the 106th and 107th Congresses. This bill represents a continuation of my long-term interest and my past efforts in the House to reduce the extraordinary costs of repetitive losses from the NFIP as administered by Federal Emergency Management Agency (FEMA).

At the outset, I would like to thank Mr. Blumenauer for his dedication and devotion to the principles and details of this legislative effort. I would also note that during the 106th Congress, FEMA, under the direction of Director James Lee Witt, was involved in assisting us in drafting our legislation and was supportive of our legislation. Furthermore, I would also like to extend my appreciation to Congressman Richard Baker (R-LA), who is also testifying today, for his efforts and concern about the functioning of the NFIP. I look forward to working with Mr. Baker on the subject of repetitive loss properties.

This legislation is very important because the authorization of the NFIP expires on December 31, 2003. Our legislation would extend the authorization of the NFIP until 2007 and make essential changes to the program as it relates to repetitive loss properties.

According to FEMA, as of January 31, 2003, the NFIP program insured over 48,000 repetitive loss properties. Repetitive loss properties are those which have two or more NFIP claims each over \$1000 within a 10-year period. These properties represent 1% of the properties that are currently insured by the NFIP, but, in an average loss year, they account for 25% of the NFIP flood claim dollars. The NFIP pays out, on average, more than \$200 million annually to address repetitive loss properties.

If enacted, the "Two Floods and You Are Out of the Taxpayer's Pocket Act" will help turn the tide against the huge costs associated with repetitive loss properties. 25% all current NFIP policies are subsidized and thus do not pay actuarial rate for their coverage. A significant number of these subsidized policies are for repetitive loss properties. Moreover, the NFIP has had the unintended effect of helping people stay in areas which are repeatedly flooded when it would be in their long-term best interests and those of FEMA and other policyholders of the NFIP to mitigate the flood vulnerability of these properties or move elsewhere.

This legislation, H.R. 253, authorizes a \$400 million increase in the FEMA Mitigation grant assistance program over four years to be used to relocate or elevate properties that have sustained the most repetitive loss flood damage. Furthermore, this legislation addresses repetitive loss property in a simple, straightforward manner; the owner of a repetitive loss

property will be charged the actuarial, risk-based rates for their national flood insurance policy if two conditions prevail.

The first condition is that two or more NFIP claims must have been paid on an individual property, each over \$1,000, within a 10-year time period. This definition is different than the one used in our legislation in the 106th and 107th Congresses which included flood insurance claims under \$1000 within the definition of a repetitive loss property. This was in response to the concerns brought to us, by various Members and interests.

Second, the owner of the property must have refused a federally funded buyout or federally funded mitigation measure, such as an elevation of the structure or property. Of course, mitigation offers would be made only when there is a cost-effective mitigation option for the property. FEMA has testified in the past that properties which have suffered more repetitive NFIP claims and/or losses will in general be those which are more cost-effective to mitigate. It is important to note that this Act will not in any manner deny national flood insurance coverage to any interested owner, renter, or occupant of a property, but they must pay realistic actuarially-sound rates.

I have co-authored H.R. 253 for numerous reasons; however, the following reasons are the most significant grounds for this legislative initiative:

1. Some policyholders of repetitive loss properties are able to take advantage of and abuse the NFIP by making claim after claim on the same flood-prone properties;
2. Federal taxpayer money will be saved under H.R. 253;
3. Through the policies and practices of the currently constituted NFIP, the Federal Government is encouraging development by giving subsidized flood insurance to these high-risk areas through the excess insurance premiums and costs to other policyholders; and
4. There is a demographic trend of far more and a higher percentage of Americans living closer to United States coastlines which will in the absence of reform legislation result in a greater number of repetitive loss claims.

Today, I would like to use this opportunity to explain, in greater detail, these four reasons for my support of H.R. 253. First, I support this legislation due to fact that policyholders of the NFIP are not paying the actuarial rate for their flood insurance. According to FEMA, there is a category of 10,000 repetitive loss target properties which meet one of the two definitions. These target properties either have had 4 or more total NFIP losses no matter their value or they have had 2 or 3 losses where the cumulative NFIP payments are equal to or greater than the building's value. For example, one of the most egregious examples among a great many examples of abuse of the NFIP was a home in Houston, Texas, which was valued at \$114,480, yet it has received \$806,591 in flood insurance payments over the last 18 years.

It is important to note that some NFIP repetitive loss policyholders are not intending to abuse the NFIP, but instead are trapped in a cycle of loss after loss and mitigation is their only solution for this property. In fact, in some repetitive loss properties, the value of a person's home is now less than their mortgage. It is important to note that FEMA is the only willing buyer of many repetitive loss properties.

Furthermore, under the NFIP, a very large regional cross-shifting of the cost of flood insurance is occurring; the policyholders in non-repetitive loss areas of the country by their higher than appropriate premiums are subsidizing the policyholders in repetitive loss areas of the country. In FEMA's defense, it does not have the congressionally mandated tools to address the costs and cost-shifting caused by their repetitive loss property. The "Two Floods and You Are Out of the Taxpayer's Pocket Act" will give FEMA the authoritative tools to gradually reduce the number of repetitive loss properties and to stop this cost-shifting to other NFIP policyholders.

Second, our legislation, H.R. 253, will save Federal taxpayer dollars. According to FEMA, \$1.2 billion of the over \$12 billion in past NFIP Flood losses has been funded by general taxpayer funds. While this money has finally been repaid by FEMA to the Department of the Treasury, I certainly know of no private insurance company that can long stay in business if it disregards good actuarial practices. American NFIP policyholders and taxpayers are paying the costs for those individuals who choose to live in high flood risk areas and who fail to take the prudent mitigation actions. This bill will help to ensure the future solvency of the NFIP and reduce the future need for the NFIP to borrow from the Treasury.

Moreover, this bill will also save substantial taxpayer money in the costs of Federal disaster relief assistance as many properties will be bought out, and removed from Federal disaster-aid prone areas. This bill, H.R. 253, explicitly provides that many types of Federal disaster relief assistance will not be given to the owners of repetitive loss properties -- but only if they refuse to accept mitigation assistance.

Third, my support for this legislation is based on the fact that the NFIP gives subsidized flood insurance to disaster prone areas. Many interests, including taxpayer organizations, floodplain managers, and environmental groups, have argued that the NFIP encourages people to live in repeatedly flooded areas. The question needs to be asked whether rebuilding in repetitive loss high risk areas is a sensible and economically justified policy? I believe in many cases the answer certainly will be "no." The Federal Government should not encourage development of even more repetitive loss properties.

Fourth and lastly, the demographic reality is that more and more Americans each year have residential properties along our coasts and rivers. For example, according to the United States Census Bureau, within the next 10 years, 75% of the United States population will live within 100 miles of the U.S. coastline. Due to this demographic trend, the time is certainly upon us when Congress should change the structure of the NFIP and encourage proper mitigation action.

To further illustrate this point, I support H.R. 253 because of a predicted future change in weather patterns. Dr. William Gray, a highly respected Professor of Atmospheric Science at Colorado State University, predicted that over the next few decades the East Coast and Gulf Coast will be subject to more frequent and forceful tropical storms, including hurricanes. Due to the number of repetitive loss properties on the coasts, additional hurricanes will result in huge numbers and amounts of additional claims under the NFIP. It is imperative that the NFIP is changed before the eye of yet another hurricane is upon us.

In summary, the title of the legislation is “Two Floods and You Are Out of the Taxpayer’s Pocket Act.” We need to stop treading through the water of repetitive loss after repetitive loss. Passing this legislation is the right thing to do at the right time. In fact, Congress has delayed far too long in making the obvious reforms needed in the NFIP. I look forward to the other testimony today and to working with the Housing Subcommittee on the reform of the National Flood Insurance Program this year. Thank you.