

Testimony of

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I want to begin by thanking the Committee for finding time on a busy legislative calendar to address an issue that is very important not only to FEMA, but more importantly to citizens around the country living in flood-prone areas. The Committee and staff have always been interested and responsive to our work and we appreciate that spirit of cooperation.

We also want to recognize the creativity, hard work, and, especially, the persistence of Representatives Bereuter and Bentsen and Blumenauer and other Members who have long been involved in this issue and have devoted so much staff and personal time and resources to learn the intricacies of the problem and have sought to find workable solutions.

The problem of properties that are damaged repeatedly by flooding and yet are repaired or rebuilt in the same unsafe locations is one that has cost the program millions of dollars over the years and has had tragic consequences for individuals, families, and businesses caught up in the cycle of repetitive flooding. Ironically, the financial impact of repetitive losses on the NFIP is an inevitable result of the very structure of the NFIP as originally designed. Let me explain.

The NFIP is premised on an agreement of sorts that the Federal government makes with local communities. The terms of the agreement call for communities to adopt and enforce building and development standards in their high-risk flood

plains. These standards will ensure that new structures built in these communities are better protected against the peril of flooding than much of the development that had previously taken place over the years with no recognition of the flood hazard.

In exchange for this commitment from communities, the government agrees to make flood insurance, which the private insurance sector does not provide, available to all property owners in these communities, no matter where they are located and how serious their risk. Furthermore, the government agrees to provide this insurance to high-risk properties built before NFIP standards were in place, i.e., pre-FIRM properties, for a premium that does not fully reflect the true risk to which these properties are exposed. The FIRM is the Flood Insurance Rate Map, which delineates the boundaries of a community's special flood hazard areas. While we refer to the premium charged these older properties as "subsidized," the program receives no infusion of funds from any source to offset this premium shortfall. Repetitive loss properties are, for the most part a subset of these pre-FIRM, "subsidized" properties. Let me put them into context.

At the moment, there are 4.26 million NFIP policies in force, approximately 27%, or 1.2 million, of which are pre-FIRM policies that are subsidized. Of this number, approximately 45,000 properties have experienced repetitive losses, meaning that they have had at least two flood losses exceeding \$1,000 within a ten-year period. Combine this number of currently insured properties with about

46,000 others that are no longer insured by the program, and we see that only 91,000 properties, or 15% of the properties that have had any loss at all, have accounted for over \$3.8 billion, or 38%, of our losses over the years.

The original program design contemplated the absorption of heavy losses from a certain number of high-risk properties as an acceptable cost of securing the commitment from local communities to regulate new construction. That commitment has paid off. We estimate that the enforcement of NFIP building standards results in about \$1 billion in annual reduced damage caused by flooding.

At the same time, we can improve the financial condition of the NFIP by identifying properties that are costing the program a disproportionate level of losses and help the owners of these properties to either move out of the flood plain entirely or at least take steps to make their homes and businesses safer. By doing so, we provide these chronic victims of flooding long-term emotional and financial relief.

To that end, we have identified approximately 10,000 of the most vulnerable of these 45,000 insured repetitive loss properties, and targeted them for mitigation that could include buying them out, elevating them, or some other appropriate action that will reduce their risk. This subset of properties includes those that have had four or more flood losses or two or three losses that cumulatively exceed the value of the building. There are a few properties on our list that have

been flooded over 20 times in 20 years, an average of more than once a year. The situation surrounding these properties is critical not only for the homeowners who live in these susceptible areas but also for the NFIP, which cannot sustain this level of claims activity. The NFIP has paid out over \$800 million in claims for these 10,000 properties over the last 21 years. If adjusted for today's dollars, that figure would exceed \$1.3 billion.

Having identified these properties, our primary strategy is to buy out or otherwise mitigate them. Since most of the buildings on our target list were built before communities knew which areas have the highest flood risk and before building codes for these areas adequately reflected the probabilities of flooding, such as building elevation standards, in any given year some of these buildings will be flooded again. When this happens, the owners of the insured properties from this list will again file claims for flood insurance, totaling an average of \$80 million a year. And this will happen every year unless we do something to reduce the hazard of repeat flooding.

We have already begun to use existing programs, to the extent we can, to concentrate on these properties. We are authorized to spend \$20 million a year under the Flood Mitigation Assistance Program (FMA) on mitigation activities and our Regional Offices have directed the states to give priority to these target properties for the use of FMA funds. The same kind of priority has been assigned to the funds made available under the Hazard Mitigation Grant Program

(HMGP). We believe this kind of targeting of funds can be very effective in addressing this problem, because we have already had a high degree of success in reducing flood losses in similar circumstances all over the country.

Since 1989, FEMA and our State partners have approved the acquisition, relocation, or elevation of over 29,000 properties using FEMA mitigation funds under HMGP, FMA, and Hurricane Floyd and Unmet Needs Supplemental funding. Not only have these projects saved untold human suffering, but experience has shown us that these mitigation measures are also cost-effective. To date, 47 States, the District of Columbia, and Puerto Rico have used this funding for buyout and elevation projects.

A few examples will illustrate the effectiveness of these programs.

In Arnold, Missouri, after the 1993 Midwest floods, approximately 250 structures were severely affected by the high waters, despite over 60 sandbag sites, and 528 households applied for Federal disaster assistance, which amounted to over \$2 million apart from flood insurance claims. After this event, the city implemented an acquisition program, based on the city's previously developed floodplain management plan, using HMGP funds. In 1995, the city was again flooded, but the damage was much less severe. As the Arnold City Manager indicated, "Most of the areas affected had been bought out, so the people weren't

there.” Only three or four sandbag sites were needed in 1995, and only 26 households applied for Federal disaster assistance for a total of \$40,000.

In the aftermath of the 1994 flood in Geneva, Alabama, local officials developed what could be considered a model hazard mitigation project. They began an aggressive campaign to convince homeowners in the flood-prone Baptist Bottoms area to sell their homes and relocate out of the floodplain. The community submitted a grant application to FEMA and 30 structures were acquired and removed before the subsequent flood in March 1998.

When the 1998 flood hit, the areas lying outside the town’s protective levee were flooded. The Choctawhatchee and Pea rivers both peaked at over 35 feet—approximately 13 feet above flood stage. However, due in part to the mitigation measures FEMA carried out after the last flood, Geneva suffered far less property damage than in 1994. The buyout of the 30 homes proved to be an effective investment in Geneva. FEMA’s benefit cost analysis software determined that for an upfront cost of approximately \$672,000 to acquire and remove flood-prone properties, over \$1.4 million in damages and losses were avoided. All of the acquired structures lay deep in the floodplain, and would have been flooded had they remained in the flood risk zone. If the Baptist Bottoms area had been redeveloped after the 1994 floods, many houses would have been severely damaged or destroyed in the floods of March 1998.

In 1994, Tropical Storm Alberto devastated central and southwestern Georgia. The river community of Newton, located next to the Flint River, was among the hardest hit by floods from the storm. Newton is a small rural town with a population of less than one thousand. The downtown area was under 12 feet of water for several days, and flood depths in some areas were as high as 20 feet. Over 150 homes and businesses were flooded. According to some local estimates, damages came to \$4.5 million. After the 1994 flood, Newton pursued a mitigation project with FEMA to fund the acquisition and demolition of 20 residential and 19 commercial structures. All but one business moved out of the floodplain.

As a result, many people were spared from the flooding that hit the town in 1998. In the March 1998 flood, the Flint River peaked at 37 feet- 17 feet above flood stage. In some areas of Newton, floodwaters rose as high as nine feet. The buyout of the 39 structures in 1994 proved to be an effective investment in Newton. FEMA's benefit-cost analysis software determined that for an upfront cost of approximately \$750,000 to acquire flood-prone properties, nearly \$2 million in damages and losses were avoided. The figures for avoided damages in 1998 apply to those structures that were deep enough in the floodplain to have been flooded had they remained in the flood-risk zone.

There are examples similar to these all over the country. In the same way that we have been able to alleviate the plight of flood-stricken families and businesses in these cases, we believe we can provide assistance to the owners of these target repetitive loss properties that will be of benefit to the owners and the government alike.

FEMA is currently providing states with insurance data for their repetitive loss properties to help them identify candidates for projects under the Hazard Mitigation Grant Program. We anticipate that the HMGP funds that will be available as a result of the damage caused by Tropical Storm Allison can have an impact on this target group. Of the 10,000 target repetitive loss properties, 1,267 are in Texas. Most of these are in the counties affected by the flooding from Allison. The State is working closely with FEMA to implement an accelerated acquisition program. In Friendswood, for example, the State has submitted an application for 200 properties. Of those 200 hundred properties, 122 are repetitive loss properties, and almost 20% of them are on the repetitive loss "target list".

In general, States are very receptive to targeting repetitive loss properties, especially when armed with lists of such properties. However, it should also be noted that State and local governments also have other issues associated with buyouts that they must grapple with, such as contiguous properties that also make sense to buy out but which may not include a repetitively-damaged

building. Clearly, targeted resources, as called for in your legislation, make sense.

In the case of funds that are invested in these targeted repetitive loss properties, we estimate that the costs associated with buying or otherwise mitigating a property will be recouped in seven to nine years. To the extent that funds are made available specifically for repetitive loss properties, it would be particularly effective if they can be made available in a way that provides the program with a maximum amount of flexibility as how we are able to target the funds.

A factor to be considered in offering assistance to the owners of these target properties --- whether they choose to move out of the flood plain or to improve their properties ---- is how to treat those who refuse such an offer. Most people living in these high-risk areas are looking for help to alleviate their plight.

However, there will be those who, for various reasons, are reluctant to move.

This approach to addressing repetitive loss properties will receive public acceptance only if it is voluntary, and it will be important to provide an insurance consequence to the decision not to accept an offer of assistance. Alternatives proposed have included denying further insurance coverage, requiring that full actuarial rates be paid for future coverage, and substantially increasing deductibles to have those who refuse to move shoulder a greater portion of their cost of recovery. It is our belief that shifting more of the financial burden to the property owner is a more effective incentive than the denial of insurance.

In addition to the offer of financial assistance to property owners, FEMA will also be incorporating repetitive loss data into the five-year update process for NFIP flood hazard maps to help identify areas for study and re-mapping. Furthermore, the NFIP Community Rating System (CRS) credits have been increased for acquisition, relocation, and retrofitting of flood-prone properties with bonuses added for repetitive loss buildings.

The various pieces of legislation under discussion today take several different paths to reach the same laudable goals; helping some homeowners out of a difficult predicament while preventing anyone from taking inappropriate advantage of the flood insurance program. And through all of these approaches we create safer communities.

The Administration's budget proposal for FY2002 seeks to recognize the importance of this issue and its relevance to public and fiscal policy. The Administration proposal in the budget is similar to the legislation under discussion today in its intent to reduce subsidized flood insurance on repetitively flooded properties while building safer communities. While there is, as yet, no Administration position on the legislation being considered today, we do applaud the analysis that has resulted in the bills as well as the concern for homeowners and the NFIP program that is their basis. In that regard, we believe it to be very important to take into account the special circumstances of low-income

homeowners and devise equitable solutions that will not aggravate other problems confronting them. FEMA has worked with all sponsors in providing information and staff advice in the development of the legislation and will continue to do so.

We regard the challenge of identifying and providing remedies to these especially vulnerable properties as an indication of the long-term success of the NFIP. The program has paid over \$10 billion in losses since its inception in 1968 at a total cost of only \$1.2 billion to the taxpayer, an amount appropriated prior to 1986 that can reasonably be regarded as program capitalization. Even if a significant portion of program losses have been paid to a small number of problem properties, the benefits that the program has derived from local enforcement of safer building standards has made that investment in local communities worthwhile. And the combination of identifying and treating the worst of the existing properties with preventing the construction of new buildings in such unsafe locations will inevitably improve the financial well-being and stability of both the citizens of this country and the National Flood Insurance Program.