

Testimony of Congressman Earl Blumenauer
Hearing on the National Flood Insurance Repetitive Losses
U.S. Senate Committee on Banking, Housing, and Urban Affairs
Subcommittee on Economic Policy
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My goal in Congress is to make the Federal Government a better partner in the livability of our communities – ensuring that our families are safe, healthy, and economically secure. The National Flood Insurance Program (NFIP) is crucial to the lives of many people across the country, and is a good example of how the federal government can work with local communities to lessen the impact that disasters have on people's lives and property. It provides benefits for the economy, the environment, and for individual property values.

The NFIP was started in 1968, after private insurance companies experienced such high losses from floods in the first half of the century that they stopped offering coverage for flood damage. The NFIP has been successful in helping homeowners deal with flood losses as well as giving communities tools to prevent future flood damage. It is estimated that the program has lowered flood damage by about 25% below the level that would have occurred without the program. However, as we look towards reauthorization, it is time for the federal government to provide better incentives for individuals, communities, and states to act responsibly.

Unfortunately, our national disaster policy – including the dominant structural model for floodplain and flood management – has a number of problems. Flooding has historically been the most expensive natural hazard – as well as the leading cause of death from natural hazards. Between 1975 and 1998, flood losses averaged more than \$4.4 billion per year. This problem is going to get worse: as more retirees and other Americans flock to coastal states, the number who live in hurricane alleys is expected to double. It is estimated that by 2025, 75% of our nation's population will live in or near coastal communities. Natural forces will continue to confound our best engineering efforts.

In some cases, federal flood control policy actually encourages floodplain development by financing the construction and repair of levees and underwriting the risk of flooding. As both environmental and taxpayer watchdog organizations have argued for years, one major unintended impact of the NFIP has been to encourage construction and reconstruction in high-risk flood plains and coastal areas. Development density in many high-risk coastal areas has increased by more than 60 percent over the last 10 years, and studies have shown that some of this growth can be attributed to the NFIP. By reducing the economic risks of living near the water, the Federal Government has stimulated development there.

The Federal Emergency Management Agency, under both the Clinton and Bush administrations, has recognized the problems of the NFIP. Representative Bereuter and I worked with former FEMA Administrator James Lee Witt to develop our legislation, and

FEMA has been a key partner in our efforts this year as well. The Office of Management and Budget has pointed out that in too many years the program has expenses greater than its revenue from insurance premiums which prevents building long-term reserves to handle the costs of flood insurance. About 25% of the policyholders pay substantially subsidized premiums, with the Federal Treasury and other policyholders paying the difference. This inefficiency means that the losers in the NFIP are the people who live in areas that require flood insurance, even though they do not have their property flood often, nonetheless pay dramatically high rates. It also results in a premium shortfall of about \$700 million annually. The program is currently self supporting from premium income. However, in the 1980s federal taxpayers had to make up a shortfall of \$1.2 billion when the income from the low premiums was not enough to cover the flood claims. The chances of this happening again are high.

Repetitively flooded properties are a significant strain on the NFIP. FEMA reports that just 1% of the properties account for 25% of NFIP flood loss dollars. Many of these properties have received more in flood insurance claims payments than the building's value.

Subsidizing people to live in repetitively flooded areas does not make sense. It is bad for the federal taxpayer, bad for the environment, and bad for the families that are continually placed in harm's way. The majority of these repetitively flooded properties are primary residences. These property owners are often trapped in a dangerous and expensive cycle. We do flood victims no favors by rebuilding their homes in harm's way.

To deal with these problems, Representative Doug Bereuter and I introduced legislation during the last three Congresses to reform the NFIP. The strategy was to avoid many of the injuries, deaths, and damages before they occur, and give property owners the option of moving to a less hazardous area. The bill, H.R. 253, passed the House on November 20, 2003 under the title "The Flood Insurance Reform Act of 2003."

Our approach helps build disaster resistant communities and safe homes by providing mitigation assistance to communities; there is currently more demand for this type of mitigation than FEMA and local governments can provide. The bill authorizes a pilot program that provides funding for communities to help relocate or elevate properties that have sustained repeated flood damage. A property owner is eligible for a mitigation offer if he or she has received four or more separate flood insurance claims payments each exceeding \$5,000 with the cumulative amount of such claims payments exceeding \$20,000 or 2 or more separate NFIP claims payments that cumulatively exceed the value of the insured property. Those who refuse mitigation funding could see their flood insurance rates increase to better reflect the actuarial cost of continuing to live in harm's way. This Act does not deny national flood insurance coverage to any interested owner, renter, or occupant of a property.

This bill has a number of benefits:

- Most importantly, it will move people out of harm's way and discourage newcomers from moving there. This bill will save lives by moving people to higher ground.
- Often overlooked is that the reforms in this bill will save the federal government millions of dollars in avoided flood damages. FEMA reports that mitigation and building standards already in place have resulted in over \$1 billion annually in reduced flood losses. Our bill will significantly increase these savings by increasing funding for the mitigation grant assistance program.
- These reforms will also present significant potential savings to ratepayers in the National Flood Insurance Program. Mitigating repetitively flooded properties will reduce the pressure to raise flood insurance rates. The Association of State Floodplain Managers estimates that avoiding just one 10% rate increase could save the 4.4 million policyholders \$175 million each year.
- Finally, this bill will significantly benefit the environment.
 - If property-owners choose to relocate, the land will convert to open-space.
 - Non-structural approaches to flood control, such as voluntary buyouts and restoration of natural floodplains, are often much more effective in controlling floods than structural approaches.
 - Natural floodplains also prevent pollution problems from flooding.

The change in title of this bill to the "National Flood Insurance Reform Act of 2003" represents a substantive change in the approach to dealing with repetitively flooded properties. As the legislation went through the House Financial Services Committee and to the Floor, we had the opportunity to work with Members from coastal areas to make the reforms more sensitive to the plight of their constituents. I especially appreciated the constructive work of Representative Baker from Louisiana and Representative Gene Green from Texas. As a result of input from these and other stakeholders, more resources in the bill now go to the heavily flooded states; more flexibility is given to FEMA and local governments in the mitigation process; and the bill more sensitive to the problems of families who are continually flood victims.

I respectfully urge the Senate to pass H.R. 253, the "Flood Insurance Reform Act of 2003." This is one of the best fiscal and environmental opportunities for Congress this year.