

**Testimony of
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Committee on Financial Services
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Good morning Chairman Oxley, Ranking Member Frank, and Members of the Committee. I am David Maurstad, Mitigation Division Director and Federal Insurance Administrator for the Federal Emergency Management Agency (FEMA) within the Department of Homeland Security. I appreciate the opportunity to appear today before the Committee to discuss FEMA's Mitigation Strategy and the National Flood Insurance Program (NFIP).

After three declared flood events in Pennsylvania and Bucks County in the past 21 months, I am pleased to say that the Mitigation Division – through FEMA's Region III Office in Philadelphia – has worked well with Pennsylvania State and local government officials to effectively carry out an integrated Mitigation Strategy of Analyzing Risk, Reducing Risk, and Insuring Against Risk.

In the Risk Analysis arena, our experts coordinate with State and local officials to constantly collect, study, and distribute pre- and post-event data, carry out technical activities, and develop relevant policy and guidance as needed. For instance, the Federal Coordinating Officer in Harrisburg's Joint Field Office recently allocated \$1 million for FEMA Region III to work with the Pennsylvania Emergency Management Agency, the Delaware River Basin Commission and others to reevaluate the flood risk along the Delaware and Susquehanna Rivers in Pennsylvania, and correct any inaccurate flood hazard data. Results from this review will be combined with new, digital topographic data and other risk analysis information to help Pennsylvania and its communities rebuild stronger and plan wisely before the next flood event – and building stronger and smarter are the primary components of our Mitigation Strategy's second element: Risk Reduction.

The Mitigation Division's Risk Reduction efforts help States and communities plan for the future with an assistance strategy featuring pre-disaster mitigation planning and hazard mitigation projects.

In the area of pre-disaster mitigation planning, the Disaster Mitigation Act of 2000 requires States, local governments, and tribes to develop Hazard Mitigation Plans as a condition for receiving non-emergency disaster assistance, such as Hazard Mitigation Grant Program (HMGP) funds. There are two levels of State multi-hazard mitigation plans – standard and enhanced.

A standard plan is a demonstration of a State's commitment to reduce risks from natural hazards, and it entitles States to receive HMGP funding after a disaster. The amount of post-disaster funding available for mitigation is equal to 7.5 percent of disaster assistance funding (Public Assistance plus Individual and Household Assistance). All 50 States and more than 10 Tribal

governments have an approved standard-level mitigation plan in place. In Bucks County, 28 (52 percent) of the County's 54 communities have FEMA-approved local mitigation plans.

The enhanced plan entitles the State to receive additional funding of up to 20 percent of disaster assistance funding. The enhanced plan must meet all of the standard plan requirements, document the State's proactive approach and commitment to mitigation, and certify its capability to manage the increased amount of funding that such a plan could generate. Pennsylvania's Emergency Management Agency has been working closely with FEMA Region III on a State enhanced plan. FEMA has recently reviewed a preliminary revision to the Enhanced Plan submitted by the State and is looking forward to receiving the final revised Enhanced Plan for formal review in the near future.

State plans are the "gateway" to the Hazard Mitigation Grant Program, which provides 75 percent of the funding for activities such as elevating flood-prone homes or businesses; acquiring flood-prone homes from willing owners and returning the property to open space; and retrofitting buildings to minimize damage from high winds, flooding, and other hazards.

The States administer the HMGP and are responsible for establishing priorities, setting timelines for accepting applications, and awarding grants based on State criteria and available funding. One of Pennsylvania's primary mitigation priorities is the acquisition and demolition of flood-prone structures. HMGP projects must be cost-effective, with a calculated benefit/cost ratio no less than one.

Mitigation responsibilities, however, do not rest solely with the States or the Federal Government. Communities have mitigation responsibilities as well, such as educating citizens about the natural hazards threatening them; integrating mitigation into land-use planning and management decision making; and becoming adept at using the mitigation resources available to them. The mitigation planning and grants processes help communities with these important tasks. Ideally, when a community guided by a mitigation plan is hit with a natural hazard; that area is resilient – ready to capitalize on mitigation resources and support, and in a better position to recover faster.

This leads to the essential third priority of our Mitigation Strategy – Insuring Against Flood Risk. The National Flood Insurance Program, with its floodplain management criterion and flood insurance protection, is a cornerstone of FEMA's mitigation strategy. Like most mitigation strategies, the NFIP is simple:

- Communities join the Program and adopt building codes and land-use planning policies to mitigate flood dangers;
- Residents in NFIP communities can then purchase flood insurance – which standard homeowners coverage does not provide;
- The Federal government provides insurance coverage to policyholders after they suffer a loss.

The NFIP is a solid program that effectively takes care of its policyholders – people who have done the right thing by protecting their investments with the safety net of flood insurance. FEMA demonstrated this in the aftermath of Hurricane Katrina and the remainder of the 2005 hurricane season. Now, thanks to the promulgation of the Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004 (Reform Act), the NFIP is stronger – with an improved information base, new flood insurance training and education requirements, a claims appeals rule, and a repetitive loss mitigation initiative.

Since publication in August 2005, two Reform Act informational documents – the *Flood Insurance Claims Handbook* and the *NFIP Summary of Coverage* – have helped thousands of NFIP Policyholders clearly understand their flood insurance coverage. These succinctly written, easy to understand documents were immediately available to our Gulf Coast policyholders after Hurricane Katrina, and they played a pivotal role in the NFIP’s ability to close most of our 2005 Gulf Coast claims promptly and fairly. In Pennsylvania areas affected by the June floods (DR1649), these materials have been widely distributed, and we are mailing these documents to new and renewing policyholders across the country as required. Finally, these important informational materials are available to anyone, and we encourage Pennsylvania State and local officials to have a supply on-hand to address flood insurance inquiries.

The Reform Act also strengthened the NFIP by requiring the publication of flood insurance agent training and education requirements, which we published in the *Federal Register* in September 2005. Property and casualty insurance agents are a critical part of the Mitigation Division’s awareness efforts, and their importance to sound floodplain management and insurance strategies cannot be overlooked. We are now working with the States and our insurance industry partners to inform insurance companies and agents of these requirements.

Pennsylvania’s Department of Insurance has proactively informed insurance companies and agents in the State of the new training and education requirements, and FEMA is pleased that the Department will process continuing education credits for those insurance producers who successfully complete relevant insurance workshops.

Of course, FEMA would like to see all of the States make flood insurance training mandatory for agents. We continue to encourage the States that already have minimum training and education criteria to place these requirements in their licensing and continuing education programs. FEMA is committed to providing technical assistance and resources to all the States as appropriate. One such resource is Agents.FloodSmart.gov. As part of our FloodSmart marketing campaign, this website provides extensive information for flood insurance agents, including links to educational and training programs.

We also published in the *Federal Register* the interim final Flood Insurance Claims Appeals rule. This Reform Act requirement formalizes a process through which flood insurance policyholders may appeal the decisions of adjusters, agents, insurance companies, or FEMA – regarding claim settlements. The interim final rule speaks to the issue of mediation, and we emphasize that mediation is most effective when it occurs early in the claims process. We are encouraging companies that sell flood insurance under the NFIP to make, or continue to make, this alternative dispute option available to policyholders. I continue to work with FEMA’s Office of Chief Counsel on ideas of how mediation may be expanded within the NFIP.

Finally, I would like to thank the House Financial Services Committee for the increased mitigation tools that are provided in the Reform Act. The Severe Repetitive Loss Pilot Program, created largely through the efforts of this Committee, is in its final stages of development. Last fall, Congress authorized FEMA to transfer up to \$40 million from the National Flood Insurance Fund to mitigate severe repetitive loss properties, which the Act defines as: properties that have experienced four or more flood losses of at least \$5,000 each, with at least two claims payments occurring in a 10 year period, and with the total claims paid exceeding \$20,000; or properties that have received cumulative flood claims payments that equal or exceed the value of the property. The Act also authorizes a new \$10 million Repetitive Flood Claims Program, which also makes severe repetitive loss properties a priority, and we are in the final stages of selecting applications for award under this program. Additionally, the Reform Act provides authority for

increased funding under our existing Flood Mitigation Assistance Program, and I am pleased to announce that this Program's funding has increased to \$28 million this year, as opposed to \$20 million in past years. These mitigation tools will become critical components in our efforts to reduce repetitive loss structures and eliminate the flood-rebuild-flood cycle that Bucks County residents have become so familiar with.

As Pennsylvania and Bucks County residents know, hurricanes are not the only cause of flooding. Rivers and streams can wreak significant damage during spring rains, no-name tropical waves and nor'easters throughout the year; yet year-in and year-out, vulnerable areas flood, and the victims often lack flood insurance. Studies indicate that inside the Northeast region's Special Flood Hazard Areas (SFHAs), approximately 28 percent of the homes are covered by NFIP flood insurance, compared to the National average of 48 percent. In Pennsylvania, roughly 25 percent of SFHA homes are covered by flood insurance; in Bucks County, about 31 percent. Mr. Chairman, I have attached to my prepared statement a compilation of NFIP statistics for Pennsylvania, Bucks County and Yardley, and would ask that this material be included in the hearing record.

The Mitigation Division, the NFIP, States, communities, and citizens must do better at making sure that homes and businesses in high flood-risk areas have flood insurance coverage. The requirement that Federally-backed mortgagors in high risk areas must have flood insurance helps, but property owners without mortgages, or with other than Federally-backed mortgages – and very importantly – renters – are not touched by this regulatory requirement.

All homeowners, renters, and businesses located in the Nation's Special Flood Hazard Areas should be insured against flood – 100 percent. This is a sensible goal; because no matter how well our communities plan, manage, and mitigate – floods can happen almost everywhere, any time of year. It only makes sense to protect our mitigation and floodplain management investments with the financial safety net of flood insurance.

After three declared flood events in 21 months, Pennsylvanians know that such hazards cannot be eliminated. However, through a coordinated strategy of analyzing risk, reducing risk, and insuring against risk, the impacts of flooding, as well as other natural hazard events, can be dramatically reduced. FEMA, the Mitigation Division, and the NFIP will continue strengthening our partnership with Pennsylvania, so that future flooding events can be managed through sound mitigation planning, not disaster declarations. I will be happy to answer any questions that the Committee might have. Thank You.

FLOOD INSURANCE STATISTICS

- According to a recent Rand Corporation study, only 28% of homes in high-risk Special Flood Hazard Areas (SFHAs) in the Northeastern United States are covered by federal flood insurance, compared to 61% in the South. Outside high-risk areas, just 0.6% of homes in the Northeast are covered by flood insurance.
- There are more than 4.7 million households in Pennsylvania (2000 US Census) and 62,931 flood insurance policies in force (PIF) throughout the state (5/31/06), equal to a 1.3% flood insured penetration rate in the state. Coverage in Force is nearly \$9.2 billion.
- Bucks County, Pennsylvania has suffered a major flood in each of the last three years. There are approximately 4,545 policies in force in the county, with a 2.1% overall penetration of flood insurance coverage (both inside and outside high-risk flood areas), one percent higher than the state total. In the Special Flood Hazard Area, the county has approximately 2,591 PIFs.
- Yardley (located in Bucks County) has nearly 300 PIFs, an overall coverage penetration of 30%.
 - Pennsylvania PIF : 62,931
 - Bucks County PIF: 4,545
 - Yardley PIF: 297
- Percent Market Penetration in the SFHA (approx.)
 - Pennsylvania: 25%
 - Bucks County: 30%
 - Yardley: 85%
- Percent Market Penetration outside the SFHA (approx.)
 - Pennsylvania: .7%
 - Bucks County: 1.5%
 - Yardley: 2.3%
- Bucks County and the State of Pennsylvania have suffered three significant floods in the past 2 years: June 2006 (DR1649), April 2005(DR1587) and Hurricane Ivan in September 2004(DR1557). The Bucks County flood insurance payments for 2004 – 2005 totaled nearly \$50 million.

HISTORICAL FLOODS

Pennsylvania, Bucks County and Yardley

JUNE FLOODS (June 22 – June 30, 2006)

- As of August 4th, approximately 3,300 flood insurance claims have been submitted to the NFIP for damages suffered from the June floods in Pennsylvania.
- The June floods caused an estimated \$30 million worth of property damage in Bucks County. As of August 4th, 539 claims have been submitted to the NFIP in Bucks County.
- Of the 23 Pennsylvania counties affected by the June floods, Bucks County had the most damage, with 953 buildings affected and three destroyed. Nearly 20 percent of the statewide damage occurred in Bucks County (source: PEMA).
- In Yardley, approximately 150 homes were impacted by the flooding (source: *Trentonian*).
- Eight counties have been approved for federal aid to repair infrastructure damage, and 22 counties have been designated to receive federal assistance for individuals. More than 8,000 Pennsylvanians have registered for individual flood assistance, and \$6.3 million has been distributed to 3,358 people (source: PEMA).

APRIL FLOODS (April 2005)

- State and federal disaster officials distributed about \$3.2 million statewide to help people recover from April flooding, with 40 percent of the total being paid to Bucks County residents (*Allentown Morning Call*).
- In Bucks County, officials have said 1,182 homes and businesses were damaged, including eight homes destroyed and 489 homes and businesses with major damage (source: *Allentown Morning Call*, Bucks County Officials quoted).
- The April 2005 Floods resulted in 1,342 flood insurance claims and \$49.3 million in damages statewide. In Bucks County flood insurance claims totaled \$29.1 million, **60 percent of the statewide total**. In Yardley, 188 claims totaled \$7.7 million (as of 6/30/06).

HURRICANE IVAN (September 2004)

- In 2004, Hurricane Ivan produced widespread rains of up to 7 inches causing extensive flood damage in New Hampshire, New Jersey, New York and Pennsylvania (source: NOAA).
- \$180.2 million in claims were paid to policyholders in Pennsylvania alone. In Bucks County flood insurance claims totaled \$20.5 million, 11 percent of the state's total losses. In Yardley, 87 claims totaled \$4.6 million, 22 percent of the county's total losses (as of 6/30/06).
- Many people don't realize it, but the state with the second highest flood claims from the 2004 Hurricane Season was not Texas, not Georgia or North Carolina, but Pennsylvania (2nd only to Florida).

GENERAL AREA AND FLOOD MAP STATISTICS

- Population: (U.S. Census 2005)
 - Pennsylvania – 12,429,616
 - Bucks County – 621,342

- Single Family Homes: (U.S. Census 2000)
 - Pennsylvania – 4,777,003
 - Bucks County – 218,725

- Land Area: (U.S. Census 2000)
 - Pennsylvania - 44,817
 - Bucks County – 607

- Bucks County has 59 square miles (688 linear miles) of floodplain.

- The current Bucks County flood maps are nearly 30 years old and they don't reflect the growth of the area. The county's flood maps are currently being updated and replaced, with new maps expected to be released in 2007 (Region III Flood Hazard Mapping Contacts).

- Repetitive Loss Properties:
 - Pennsylvania: 2,113 (as of 5/31/06)
 - Bucks County: 143 (as of 5/31/06)
 - Yardley: 8 (as of 5/31/06)