Department of Homeland Security
Office of Inspector General

FEMA's Implementation of the Flood Insurance Reform Act of 2004

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Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the department.

This report addresses the Federal Emergency Management Agency's Implementation of the *Flood Insurance Reform Act of 2004*. It is based on interviews with employees and officials of relevant agencies and institutions, direct observations, and a review of applicable documents.

The recommendations herein have been developed to the best knowledge available to our office, and have been discussed in draft with those responsible for implementation. We trust that this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report

Richard L. Skinner
Inspector General

Table of Contents/Abbreviations

Abbreviations

FEMA	Federal Emergency Management Agency
SQANet	Simple & Quick Access Network
USACE	U.S. Army Corps of Engineers

Executive Summary

The Federal Emergency Management Agency (FEMA) has implemented key provisions of the *Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004* (PL 108-264), most recently issuing program guidance for the severe repetitive loss grant program on January 14, 2008. Provisions that apply actuarial flood insurance rates to certain river and coastal properties and expand the use of increased cost of compliance coverage have not been implemented.

The number of insured repetitive loss properties in the National Flood Insurance Program increased from 41,443 in December 1999 to 70,226 in December 2007. Nearly 43% of these properties, and 59% of insured severe repetitive loss properties, are located in Florida, Louisiana, and Texas.

FEMA and its state and local partners have mitigated nearly 15,000 repetitive loss properties since 1978, but an average of 5,188 new repetitive loss properties have been added each year outpacing FEMA mitigation efforts by a factor of 10 to 1. The number of insured properties annually incurring second and third flood losses has increased by 68% and 57%, respectively, over the past 20 years. We estimate that it would cost approximately $1.8 billion to mitigate through acquisition the current population of 8,040 severe repetitive loss properties.

Many of the conditions we reported in 2002 regarding the challenges of mitigating repetitive loss properties remain today: (1) FEMA can only promote the notion of mitigation and cannot directly compel property owners in flood hazard areas to mitigate; (2) mitigation professionals need access to accurate information about repetitive loss properties to better manage the repetitive flood loss problem; and (3) the need to impose actuarial rates on repetitive flood loss properties is vital to the financial independence of the National Flood Insurance Program.

Background

The U.S. Congress established the National Flood Insurance Program in 1968 in response to severe flooding following a series of hurricanes in 1963, 1964, and 1965. The key policy objectives of the National Flood Insurance Program were threefold: (1) reduce the Nation's flood risk through floodplain management; (2) improve flood hazard data and risk assessment by mapping the Nation's floodplains; and (3) make affordable flood insurance widely available in communities that adopt and enforce measures that make future construction safer from flooding.

The *National Flood Insurance Reform Act of 1994* (PL 103-325) contained a number of key provisions to strengthen the National Flood Insurance Program that: (1) established fines for mortgage lenders that failed to ensure the mandatory purchase of flood insurance on properties located in special flood hazard areas; (2) increased the coverage limits of National Flood Insurance Program flood insurance policies; (3) provided supplemental increased cost of compliance coverage to assist property owners with the cost of bringing flood-damaged properties into compliance with local ordinances; (4) established the flood mitigation assistance grant program to help states and communities develop and implement mitigation measures that reduce future flood damage; (5) codified the National Flood Insurance Program Community Rating System, which rates communities and provides them financial incentives to adopt floodplain management standards above those set by the National Flood Insurance Program; and (6) required FEMA to assess its flood hazard map inventory at least once every 5 years.

The *Flood Insurance Reform Act of 2004* was enacted June 30, 2004, to reduce or eliminate future losses to properties in the National Flood Insurance Program. It established the repetitive flood claims and the severe repetitive loss grant programs. Repetitive loss properties are insured properties that have incurred two or more flood losses greater than $1,000 within any 10-year period. A subset of these properties are designated severe repetitive loss properties; these are insured properties that have incurred four or more flood-related losses of at least $5,000 each, or at least two separate claims with the cumulative amount of the building payments exceeding the value of the structures on the property. At least two claims under each of these scenarios must have occurred within any 10-year period.

FEMA's Mitigation Directorate manages the National Flood Insurance Program and a range of mitigation programs designed to reduce future losses to homes, businesses, schools, public buildings, and critical facilities. The Mitigation Directorate is composed of three divisions and each plays a role in flood hazard mitigation. These divisions and their primary functions are as follows:

- The **Risk Analysis Division** applies engineering and planning practices in conjunction with advanced technology tools to identify hazards, assess vulnerabilities, and develop strategies to manage the risks associated with natural hazards.
- The **Risk Reduction Division** works to reduce the risk to life and property through implementing grant programs, ensuring compliance with the National Flood Insurance Program, identifying safe building practices, and other tools and technical assistance.
- The **Risk Insurance Division** helps reduce flood losses by providing affordable flood insurance for property owners and by encouraging communities to adopt and enforce floodplain management regulations that mitigate the effects of flooding on new and improved structures.

The National Flood Insurance Program is administered in all 50 states by FEMA's ten regional offices. FEMA provides training, technical assistance, and grants to communities that agree to work cooperatively with FEMA to identify and map flood-prone areas called special flood hazard areas and adopt and enforce local floodplain management measures and building ordinances that meet National Flood Insurance Program regulatory standards.

State and local governments play a major role in coordinating FEMA activities within their state and also work with FEMA regional staff to assist communities in applying for mitigation grants. State Hazard Mitigation Officers and State National Flood Insurance Program Coordinators, working together with FEMA regional staff, assist communities in developing flood maps, ensuring compliance with floodplain requirements, regulating floodplain development, and upgrading local capabilities to meet National Flood Insurance Program standards. Community Floodplain Administrators are the front-line implementers of FEMA's National Flood Insurance Program, responsible for ensuring compliance with all applicable floodplain management ordinances.

The private sector participates actively in the National Flood Insurance Program by writing and servicing flood insurance policies, developing and maintaining the information technology infrastructure, identifying and mapping special flood hazard areas, and providing technical and consultative support to states and communities. Over 80 insurance companies have agreements with FEMA to sell and service flood insurance through the "Write Your Own" program. FEMA also relies on contractors to manage the repository for all National Flood Insurance Program policies for severe repetitive loss properties.

Repetitive flood losses have been a major challenge for FEMA throughout the life of the National Flood Insurance Program. Historically, approximately 1% of the properties insured by the National Flood Insurance Program have accounted for over 30% of claims paid. Nearly one out of every ten homes that experienced repetitive flood losses had cumulative flood insurance claims that exceeded the value of the house. The age of the house is a key factor in this loss rate. FEMA estimates that 90% of all repetitive flood loss properties were built prior to December 31, 1974, or before the adoption of community flood insurance rate maps that properly reflect the probability of flooding in special flood hazard areas.

Results of Audit

Implementing the *Flood Insurance Reform Act of 2004*

FEMA issued program guidance for the severe repetitive loss grant program on January 14, 2008, to reduce or eliminate the long-term risk of flood damage to severe repetitive loss structures. The interim final rule for the severe repetitive loss grant program was published on October 31, 2007. FEMA also implemented the repetitive flood claims grant program on April 20, 2006, to assist communities that do not have the technical or financial capacity to manage mitigation activities.

FEMA has not implemented a provision that applies actuarial flood insurance rates to certain coastal and riverine properties located on government-owned land. Many coastal and riverine properties leased from the federal government for private and commercial uses are located in high-risk hazard areas and receive subsidized flood insurance rates. FEMA continues to work with the U.S. Army Corps of Engineers (USACE), which manages the federal land where many of these properties are located, to identify properties that are impacted by this provision.

FEMA also has not implemented a provision that expands the use of increased cost of compliance coverage to support mitigation projects by offsetting all or part of the cost share requirement. A study[1] commissioned by FEMA in 2006 revealed that property owners and communities that lack financial resources to share the cost of mitigation projects are considerably less likely to pursue mitigation.

There are significant differences in the capacity and will of states and communities to mitigate flood hazards. Some states and communities that have experienced multiple disasters in the past decade have developed a hazard mitigation plan and acquired the capacity to mitigate flood hazards, but other communities lack the necessary expertise, financial resources, and will to develop a hazard mitigation plan or implement mitigation projects.

[1] Dr. Fraser, James, Young, Hannah, DeVries, Danny (2006, June). *Mitigating Repetitive Loss Properties*. University of North Carolina at Chapel Hill, Center for Urban and Regional Studies.

Severe Repetitive Loss Grant Program

The severe repetitive loss grant program is the centerpiece of the *Flood Insurance Reform Act of 2004* and received congressional appropriations of $40 million in 2006 (PL 109-090) and 2007 (PL 109-295), and $80 million in 2008 (PL 110-161).[2] FEMA officials told us the holdup in launching the severe repetitive loss program was due to the delay in receiving Congressional funding for the program and the challenge of developing rules and guidance for a voluntary program that leads to direct financial consequences for insured property owners.

The purpose of the severe repetitive loss grant program is to reduce or eliminate claims under the National Flood Insurance Program through project activities that will result in the greatest savings to the National Flood Insurance Fund in the shortest period of time. The severe repetitive loss grant program differs from FEMA's other mitigation grant programs because a property owner who declines the mitigation offer of assistance may experience increases to his or her National Flood Insurance Program insurance premium rate.

The severe repetitive loss mitigation process occurs when FEMA has awarded the grant to the state and the state awards the subgrant to the local government. A formal offer of mitigation is extended from the local government to the property owner. A pre-award consultation process that notifies the property owner that his or her property has been selected for the program by the local government precedes this offer. Flood mitigation activities eligible under this program include: (1) acquisition and relocation of at-risk structures and conversion of the property to open space; (2) elevation of existing structures to at least the base flood elevation or an advisory base flood elevation or higher; (3) minor physical localized flood reduction projects; and (4) dry floodproofing for historic properties only.

FEMA has targeted 90% of the severe repetitive loss grant program funds to 17 states having 51 or more severe repetitive loss properties. The remaining 10% of the grant program funds will be provided through a competitive grant process to states that have fewer than 51 severe repetitive loss properties. Although FEMA has targeted grant program funds to specific states, the designated states must meet the requirements of the severe repetitive loss grant program and submit a grant application

[2] Per PL 109-295 and PL 110-161, $50 million (FY 2007) and $90 million (FY 2008) were appropriated for flood mitigation actions with respect to severe repetitive loss properties and repetitive insurance claims. In respect to repetitive insurance claims, the Flood Insurance Reform Act authorized an amount not to exceed $10 million and FEMA applied this amount to the repetitive flood claims grant program in both FY 2007 and FY 2008.

to receive funds. If they do not qualify or apply, funding targets are adjusted and the funds are made available to fulfill grant applications from other states. The severe repetitive loss grant program funding targets are in Appendix C.

There are two key requirements outlined in FEMA program guidance that states and communities must meet to receive a severe repetitive loss program grant: (1) communities must participate in the National Flood Insurance Program and agree to adopt and enforce floodplain management ordinances; and (2) communities must have a FEMA-approved local hazard mitigation plan and be able to match up to 25% of the federal funding, or 10% in cases where the mitigation plan includes a strategy for mitigating existing and future severe repetitive loss properties.

The *Flood Insurance Reform Act of 2004* requires FEMA, when mitigating a severe repetitive loss property through acquisition, to offer the property owner the highest of four separate property valuations. One of the property valuation options considers the total amount owed by the owner. This valuation option could provide the property owner more compensation than the fair market value of the property. For example, a property owner with a substantial mortgage could take out an additional home equity loan prior to signing a pre-award consultation agreement with the community. The owner could potentially owe more than the property is worth at current fair market value, especially in light of recent declines in the housing market. According to the severe repetitive loss program guidance, FEMA is required to offer the property owner an amount equal to the balance of all loans secured by the property, even though the acquisition payment would exceed the fair market value of the property.

Repetitive Flood Claims Grant Program

In contrast to the severe repetitive loss grant program and FEMA's other hazard mitigation grant programs, the repetitive flood claims grant program normally does not require any local cost share. FEMA may pay all of the mitigation costs under this program if the applicant or sub-applicant demonstrates that the proposed mitigation activities cannot be funded under the flood mitigation assistance program due to lack of capacity. According to program guidance, a lack of capacity is defined as either an inability to manage the subgrant or lack of the 25% cost share.

The purpose of the repetitive flood claims grant program is to help states and communities reduce flood damages to insured properties that have had one or more claims to the National Flood Insurance Program. Repetitive flood claims grants are provided to eligible state, tribes, and territories that, in turn, provide subgrants to local governments. Mitigation activities eligible under this program include: (1) acquisition of properties, and either demolition or relocation of flood-prone structures, where the property is deed restricted for open spaces uses in perpetuity; (2) elevations; (3) dry floodproofing of nonresidential structures; and (4) minor localized flood control projects. Congress has annually appropriated $10 million to this program since 2006.[3]

FEMA approved 79 properties for mitigation through the repetitive flood claims program in fiscal years 2006 and 2007, and 66 of these properties were mitigated by December 2007. Over half, or 44 of the 79 properties approved for funding, meet the criteria for severe repetitive loss designation.

Imposing Actuarial Rates to Coastal and River Properties

FEMA has not implemented a provision of the *Flood Insurance Reform Act of 2004* charging risk-based premiums for certain coastal and riverine properties leased from the federal government. The Association of State Floodplain Managers testified to Congress in 1999 that large numbers of repetitive loss properties are located on federal land. They endorsed charging full actuarial rates for privately owned and leased buildings on federal land, believing it inappropriate for these properties to receive subsidized flood insurance rates without adhering to community regulations governing floodplain development.

Because state and local building codes and land use ordinances do not generally apply to federal land, many communities cannot regulate floodplain development even when privately owned and leased buildings on federal land receive flood insurance from the National Flood Insurance Program. FEMA now has the authority to charge risk-based premiums for these properties.

Privately owned and leased buildings on federal land are generally nonprimary residences such as vacation cottages. In Illinois, a majority of all severe repetitive loss properties are located on federal land. An Illinois state mitigation official told us the state is collaborating with FEMA and the USACE to implement risk-based premiums for river properties covered by the provision immediately.

[3] See, PL 109-90, 109-295, and 110-161. Pursuant to Section 104 of the Flood Insurance Reform Act of 2004, Congress appropriated an amount not to exceed $10 million to this program.

The severe repetitive loss properties pictured below are located in Illinois on land leased from USACE. These properties, with a total assessed value of $83,500, have received over $293,000 in flood loss payments from the National Flood Insurance Program.

Total Claims Paid: $45,715

Total Claims Paid: $58,952

Total Claims Paid: $129,650

Total Claims Paid: $58,791

FEMA officials told us they have not had sufficient information on properties located on federal lands to impose risk-based premiums. FEMA and the USACE are currently engaged in an effort to address coastal and riverine properties located on USACE-managed lands by: (1) comparing data from their respective databases to identify property owners who are obligated to pay actuarial rates according to the *Flood Insurance Reform Act of 2004*; and (2) drafting an agreement that will govern future development after FEMA mitigates the property through acquisition. FEMA officials told us they will apply actuarial rates to these properties as they are identified and validated beginning May 1, 2009. A chronology of events pertaining to USACE-leased properties is in Appendix D.[4]

[4] Chronology provided by U.S. Army Corps of Engineers, Institute for Water Resources, April 18, 2008.

Increased Cost of Compliance Coverage

FEMA has not expanded the use of increased cost of compliance coverage to offset all or part of the cost-sharing requirements for mitigation projects funded under the flood mitigation assistance program, the hazard mitigation grant program, and the pre-disaster mitigation grant program. Increased cost of compliance coverage is meant to help property owners cover the cost of bringing their property into compliance with certain community floodplain ordinances. FEMA officials told us this provision has been difficult to implement because of the need to revise guidance and regulations for these programs.

The standard flood insurance policy includes a provision called increased cost of compliance that will pay the policyholder up to $30,000 to comply with state or local floodplain management laws and ordinances affecting repair or reconstruction of a structure suffering flood damage. An annual surcharge up to $75 is added to the basic premium to fund this provision. Mitigation activities eligible under this provision include elevation, flood proofing, relocation, demolition, or any combination of these activities.

Prior to Congress giving FEMA the authority to expand the use of increased cost of compliance coverage, a home or business had to be damaged by flooding and the community had to determine whether the damage was substantial or to a point that repairs would cost 50% or more of the building's pre-damage market value. The *Flood Insurance Reform Act of 2004* expanded the use of increased cost of compliance coverage by allowing a community to determine substantial damage based on its floodplain ordinance, thereby giving the community greater flexibility in helping a property owner obtain funds to meet building requirements that reduce future flood damage. It also expanded the use of increased cost of compliance coverage to FEMA's pre-disaster mitigation grant program, which allows a property owner to use increased cost of compliance coverage to mitigate flood hazards.

A study[5] conducted by the University of North Carolina for FEMA in 2006 revealed that homeowners were six and a half times more likely to mitigate when cost sharing is not required. FEMA mitigation grant programs generally require a non-federal cost share of at least 25% of eligible project costs. FEMA does not specify the source or sources of this cost share. It may be provided through any combination of resources provided by the applicant, sub-applicant, or property owner.

[5] Dr. Fraser, James, Young, Hannah, DeVries, Danny (2006, June). *Mitigating Repetitive Loss Properties*. University of North Carolina at Chapel Hill, Center for Urban and Regional Studies.

Congress gave FEMA the authority to expand the use of increased cost of compliance coverage to better encourage mitigation by reducing or eliminating the cost-sharing requirement. FEMA officials told us they are currently finalizing the regulations to expand the use of increased cost of compliance coverage for all qualifying FEMA flood hazard mitigation programs.

Capacity and Resources to Implement Mitigation Strategies

State and local hazard mitigation officials reported wide differences in the capacity and will of communities to plan and implement mitigation strategies. This is important because flood hazard mitigation is a local activity. Although FEMA provides grant funds and administrative support, local floodplain and hazard mitigation professionals develop and implement the mitigation projects. When communities lack capacity to mitigate flood hazards, FEMA's ability to ensure an effective national approach to flood hazard mitigation is diminished.

The lack of local capacity to mitigate flood hazards takes many forms. In some cases, such as in New England and the Mid-Atlantic Region, capacity is often lacking because local governments are small and do not have dedicated flood hazard mitigation officials and resources. In other regions, communities may have experience and expertise in dealing with flood disasters, but lack the financial resources to meet cost sharing requirements. Hazard mitigation experts told us offsetting the cost share requirement for FEMA mitigation programs is important to encouraging flood hazard mitigation.

Conclusion

The implementation of the severe repetitive loss grant program and repetitive flood claims grant program fulfills two key provisions of the *Flood Insurance Reform Act of 2004*. However, we are concerned that a property valuation option for mitigating severe repetitive loss properties through acquisition could provide the property owner more compensation than the fair market value of the property. A provision that applies actuarial flood insurance rates to coastal and riverine properties leased from the federal government has not been fulfilled, which counters the intent of Congress to apply risk-based rates to these properties. FEMA has yet to expand the use of increased cost of compliance coverage, although implementation of this provision is particularly important to communities that lack the capacity to implement mitigation projects.

Recommendations

We recommend that the FEMA Assistant Administrator, Mitigation Directorate:

Recommendation #1: Implement a process to ensure pre-award consultation affirms the total amount owed by the owner for loans secured by a recorded interest on the property is less than or equivalent to the current fair market value of the property.

Recommendation #2: Apply actuarial insurance rates to properties located on leased federal land as they are identified and validated.

Recommendation #3: Finalize and implement regulations to expand the use of increased cost of compliance coverage for all qualifying FEMA mitigation programs.

Management Comments and OIG Analysis

The Office of Program and Analysis did not concur with recommendation 1 and explained that program guidance was crafted to ensure any second mortgages or home equity loans taken out following the initial consultation meeting would not be included in the final offer. It also acknowledged our concern regarding potential discrepancies between fair market value and the balance of all loans.

We recognize that program guidance stipulates that any loans secured by a recorded interest on the property and taken out by a property owner after the initial consultation meeting are not eligible, but we are concerned that the balance of second mortgages or home equity loans taken out before this meeting could exceed the fair market value of the property. This is especially relevant because of recent declines in the housing market and any discrepancy between the fair market value and what is owed by the property owner should be carefully considered before initiating a mitigation offer.

We believe it is prudent that FEMA implement a process to ensure pre-award consultation affirms the total amount owed by the owner so that consideration can be given to any discrepancy with fair market value. This is important so that acquisition projects offering the best return on the investment are selected among eligible properties. We consider this recommendation unresolved and open.

The Office of Program and Policy Analysis concurred with recommendations 2 and 3. We consider these recommendations resolved and open because steps are being taken to implement them; however, these recommendations will remain open until fully implemented.

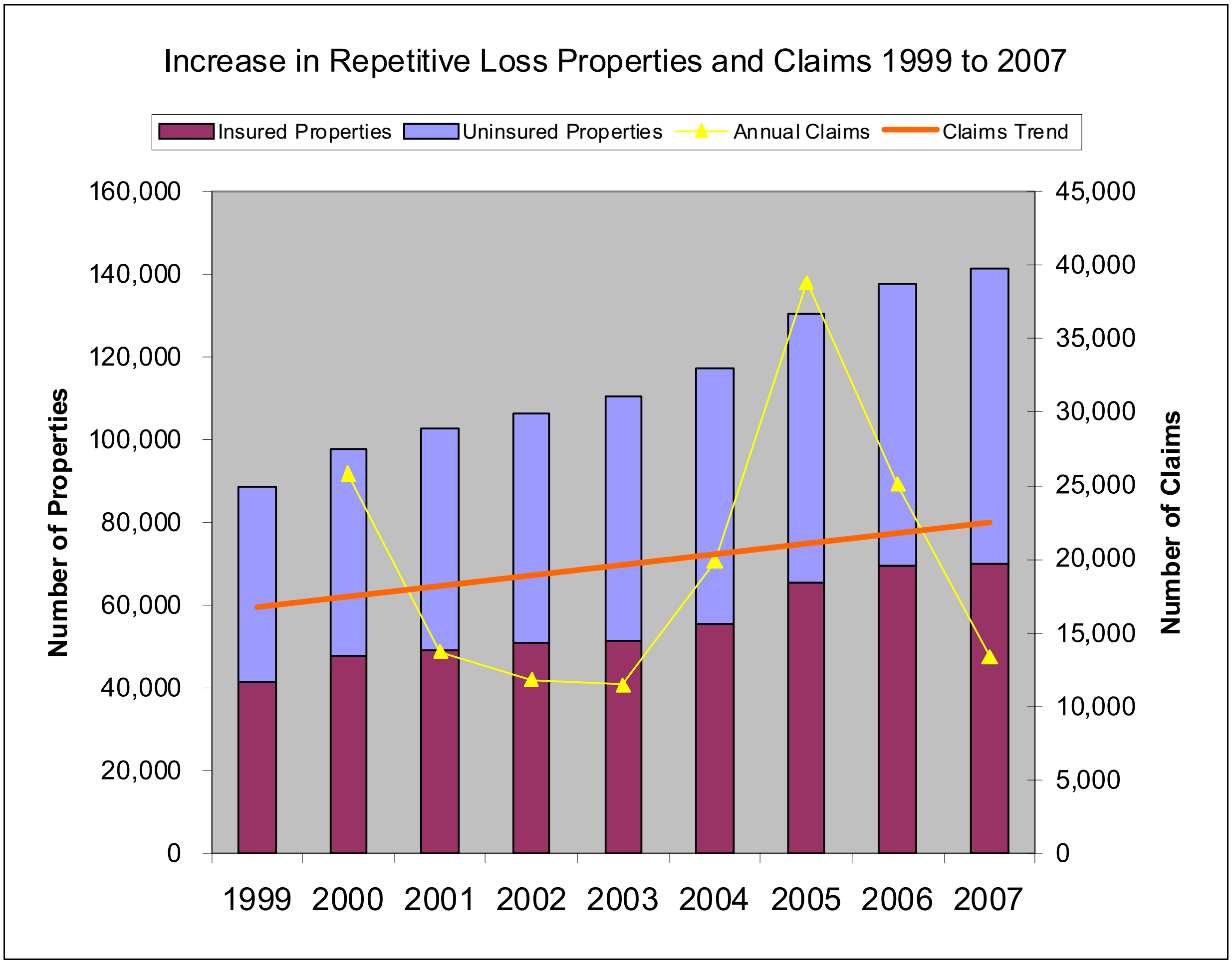
Increasing Inventories of Repetitive and Severe Repetitive Loss Properties

The number of repetitive and severe repetitive loss properties and insurance claims are steadily increasing. The annual increase in new repetitive loss properties is outpacing FEMA mitigation efforts by a factor of 10 to 1. The number of insured properties annually incurring second and third flood losses has increased by 68% and 57%, respectively, over the past 20 years. Excluding the hurricane catastrophe years of 2004 and 2005, the rate of increase in second flood losses is still over 30%. Forty-three percent of insured repetitive loss properties and 59% of insured severe repetitive loss properties are located in Florida, Louisiana, and Texas.

Insured Repetitive Loss Properties

The number of insured repetitive loss properties increased from 41,443 to 70,226 from December 31, 1999, through December 31, 2007. The total number of both insured and uninsured repetitive loss properties increased from 88,813 to 141,525 during the same period. Insured properties have a direct impact on the National Flood Insurance Program because flood insurance claim payments can be made on both the structure and its contents. FEMA tracks the number of uninsured repetitive loss properties to maintain awareness of the trends of repetitive loss properties and previous mitigation efforts.

The number of repetitive loss claims, and the average amount of each claim, has increased over the last 8 years. FEMA has paid an average of \$35,200 for 20,004 repetitive loss claims each year from 1999 to 2007, costing the National Flood Insurance Program \$705 million annually. Since its creation, the National Flood Insurance Program has paid \$9.1 billion for 405,049 repetitive flood loss claims at an average claims payment of \$22,500. The annual increase in repetitive loss properties and claims from 1999 through 2007 is in Appendix E and illustrated in the following graph.



Insured Severe Repetitive Loss Properties

FEMA reported 8,040 validated and pending insured severe repetitive loss properties as of December 31, 2007. FEMA compares recorded data with evidence collected through site visits and examining other relevant data to validate a property. Those defined as pending have not been validated. Of the 8,040 severe repetitive loss properties, 1,088 were pending validation at the end of 2007. The National Flood Insurance Program has paid a total of $1.258 billion since 1978 to settle 44,239 severe repetitive loss claims for an average payment of $28,447 per claim.

The population of insured severe repetitive loss properties comprises single-family and multi-family residences, condominiums, vacation homes, and rental properties. FEMA has identified five properties with the highest net present value of future losses that could be avoided through mitigation, all beachfront condominiums. The four beachfront properties pictured below received $18.2 million in flood claims (in current dollars) from 1979 to 2005. A listing of properties offering the greatest net mitigation benefit[6] is in Appendix F.

Total Claims Paid: $10 million

Total Claims Paid: $4.0 million

Total Claims Paid: $2.2 million

Total Claims Paid: $2.0 million

Owners of beachfront vacation rental properties have also received millions of dollars in payments from the National Flood Insurance Program. FEMA paid a total of $1.57 million in flood claims to the following four severe repetitive loss properties from 1979 to 2005.

[6] Net mitigation benefit is a calculation by FEMA's actuaries that estimates the current value of reduced future claims payments for a specific property based on the actual claims experience for the property and the average expected annual losses for all subsidized policies using the actuarial concept of credibility.

Total Claims Paid: $395,823
Annual Premium: $1,849

Total Claims Paid: $667,189
Annual Premium: $1,369

Total Claims Paid: $313,618
Annual Premium: $1,357

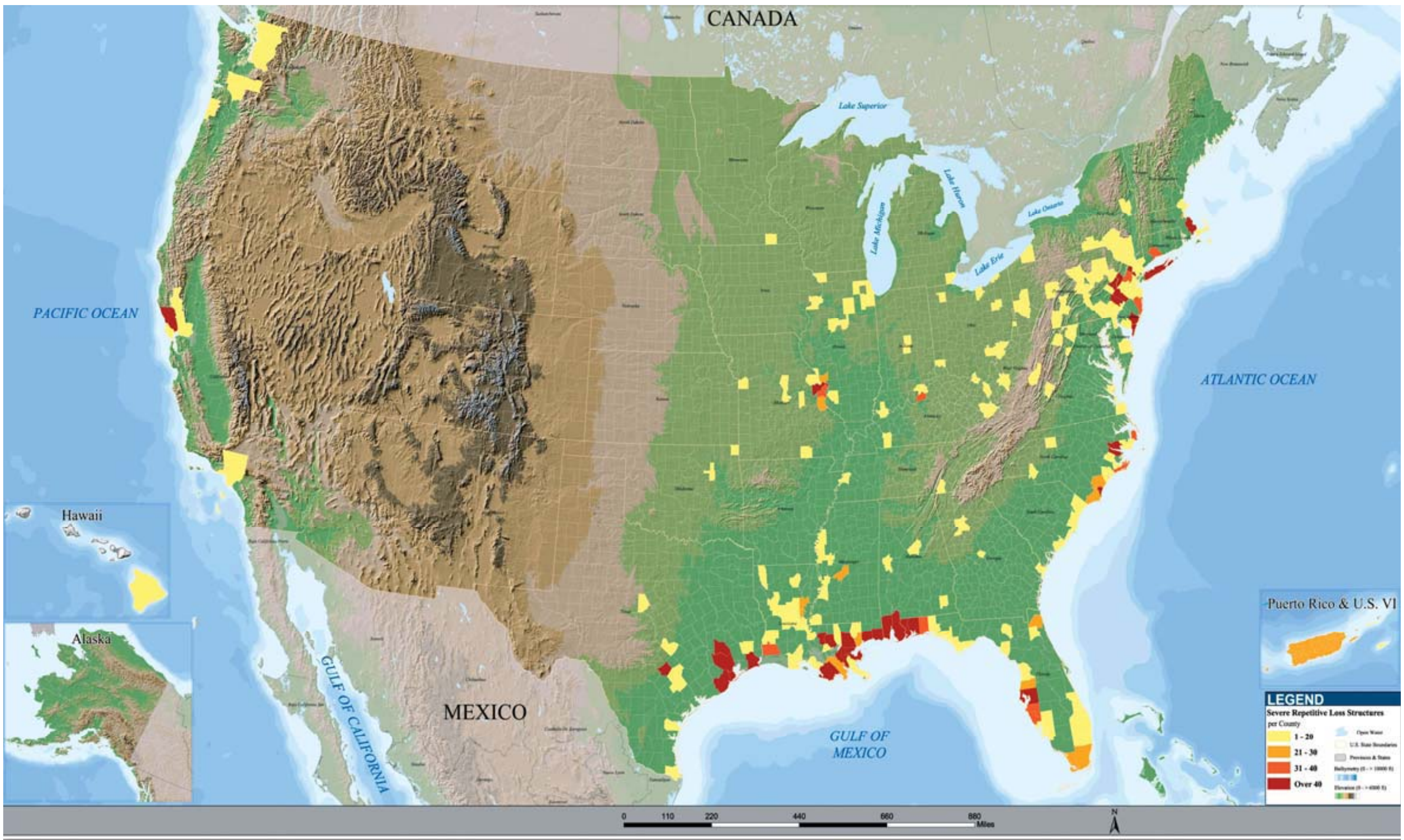
Total Claims Paid: $196,290
Annual Premium: $342

According to real estate listings for these properties, which are all located on Dauphin Island, Alabama, the summer 2008 weekly rental rates range from $1,475 to $3,250. There were 34 severe repetitive loss properties on Dauphin Island, as of December 31, 2007.

Most severe repetitive loss properties, however, continue to be older primary residences, many of which are not suitable for mitigation actions other than acquisition. The average cost of acquiring repetitive loss properties through the repetitive flood claims grant program has averaged $223,775 per property. Applying this cost to the severe repetitive loss properties grant program, we estimate it would cost around $1.8 billion to mitigate through acquisition the current population of 8,040 severe repetitive loss properties. The severe repetitive loss grant program currently has $160 million available.

Location of Repetitive and Severe Repetitive Loss Properties

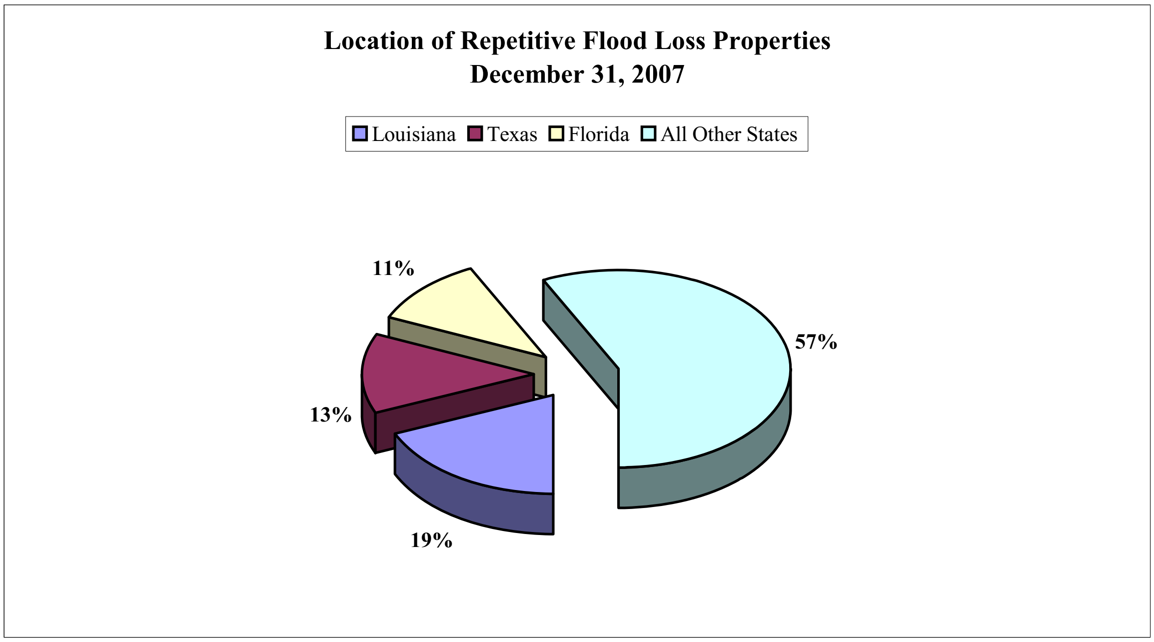
Severe repetitive loss properties exist in all parts of the country, but are concentrated in coastal and riverine areas. The map below illustrates the location of severe repetitive loss properties.

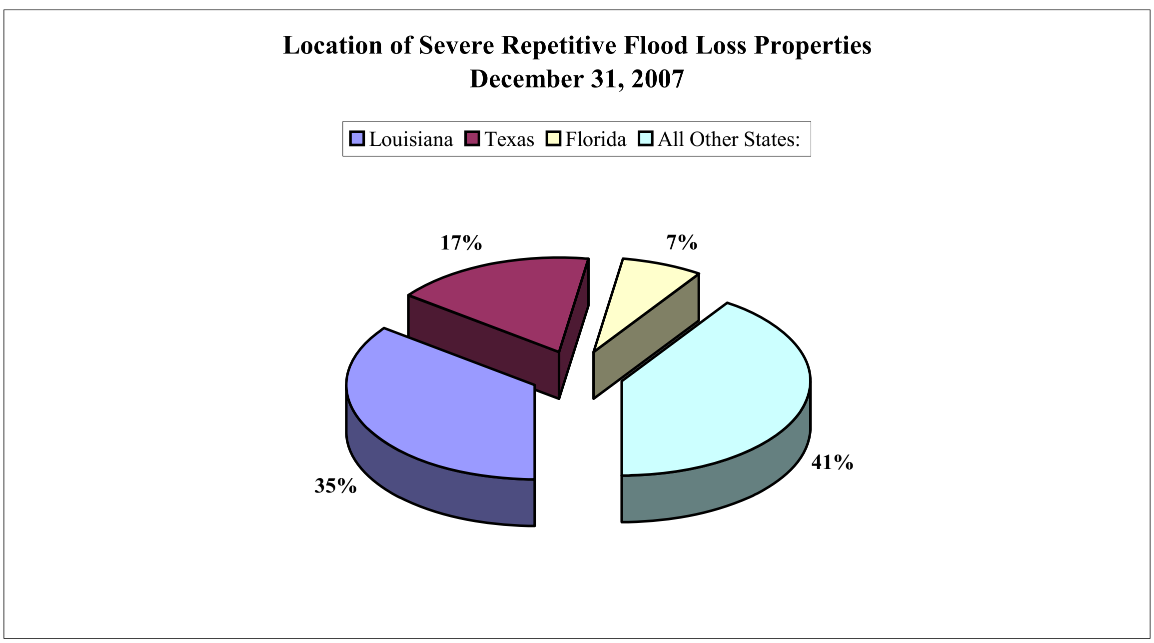


Number of Severe Repetitive Loss Properties per County

1 - 20	21 - 30	31 - 40	Over 40

Forty-three percent of insured repetitive loss properties, and 59% of insured severe repetitive loss properties, are located in Florida, Louisiana, and Texas. The pie charts below illustrate the top three locations of insured repetitive and severe repetitive loss properties in relation to all others.

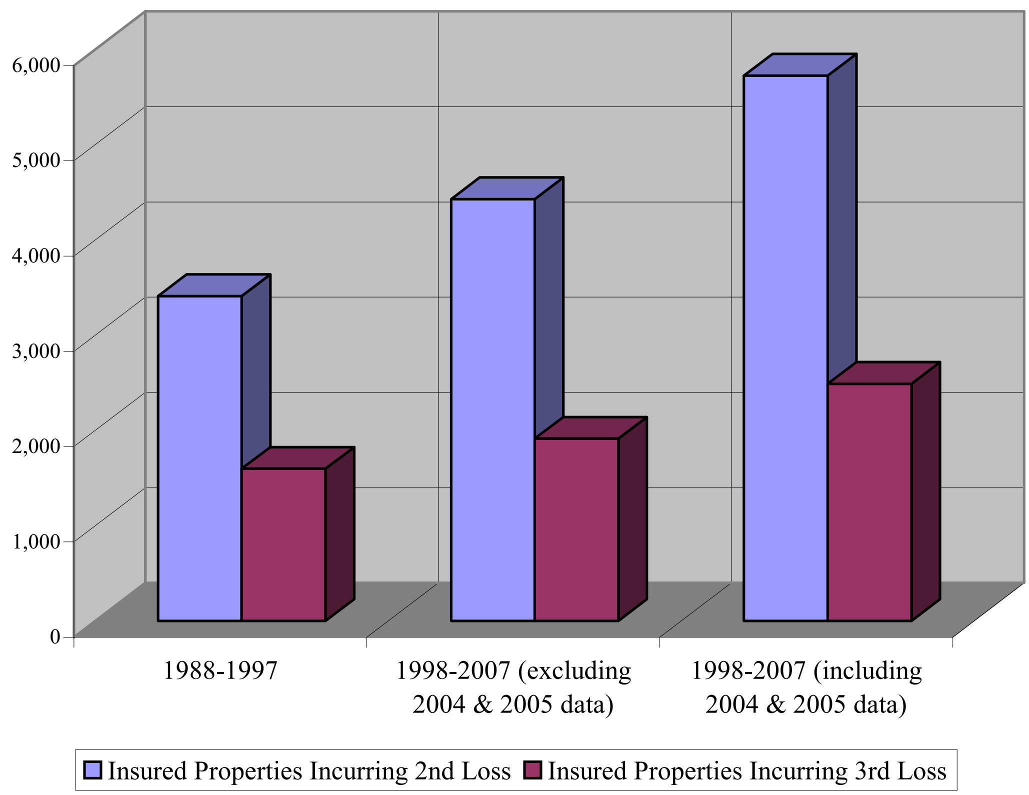




Increase in Second and Third Flood Losses

The number of insured properties incurring a second and third flood loss has increased from the past decade. From 1988 to 1997, 3,411 properties incurred a second flood loss and 1,597 a third. From 1998 to 2007, 5,735 properties incurred a second flood loss and 2,489 a third. Excluding data from the severe 2004 and 2005 hurricane seasons, 4,427 properties incurred a second flood loss and 1,913 a third. The graph below illustrates the increase in insured properties incurring a second and third flood loss.

Average Annual Number of Properties Incurring Second and Third Flood Loss



Increase in Repetitive Loss Properties Is Outpacing Mitigation

An average of 5,188 new repetitive loss properties has been added to the National Flood Insurance Program each year since 1978. FEMA and its state and local partners have mitigated 14,970 repetitive loss properties over this time period, or around 500 a year. The net result is an annual increase of over 4,600 new insured repetitive loss properties. Because of the imbalance between incoming repetitive loss properties and the pace of mitigation, 28,783 new insured repetitive loss properties have been added to the National Flood Insurance Program since 1999. Based on historical trends, approximately 10% of these properties will become severe repetitive loss properties. A summary of repetitive loss properties mitigated by each major FEMA mitigation grant program from 1978 to 2007 is in Appendix G.

FEMA estimates that mitigation of the top-tier of repetitive loss properties can improve the stability of the National Flood Insurance Fund over the long-term, by avoiding an average of $200 million per year in claims. However, the severe repetitive loss grant program is only authorized as a 5-year pilot that will end September 30, 2009. The $160 million for this program may not be used completely by this date because of the time-consuming nature of the grant application, review, and approval process. Additionally, a large percentage of repetitive loss properties are located in areas affected by the hurricanes of 2004 and 2005, so the availability of these programs during reconstruction remains important to help reduce future losses. Extending the duration of the severe repetitive loss grant program is important to addressing the increasing number of severe repetitive loss properties.

Conclusion

The number of repetitive and severe repetitive loss properties and insurance claims has steadily increased over the past 8 years and is outpacing FEMA mitigation efforts. Over a third of all repetitive and severe repetitive loss properties are located in Florida, Louisiana, and Texas. The severe repetitive loss grant program should be extended beyond September 2009 to use all appropriated program funds to mitigate as many severe repetitive loss properties as possible.

Recommendations

We recommend that the Assistant Administrator, Mitigation Directorate:

Recommendation #4: Seek an extension from Congress that waives the termination date of the severe repetitive loss grant program until all appropriated funds are expended to mitigate as many severe repetitive loss properties as possible, and to fully assess the effectiveness of the pilot program.

Management Comments and OIG Analysis

The Office of Program and Policy Analysis concurred with our recommendation. We consider this recommendation resolved because steps are being taken to implement it; however, it will remain open until fully implemented.

Challenges to Mitigating Repetitive and Severe Repetitive Loss Properties

A May 2002 review[7] of FEMA's efforts to address repetitive flood loss revealed three conditions that remain today: (1) FEMA can only promote the notion of mitigation and cannot directly compel property owners in flood hazard areas to mitigate; (2) mitigation professionals need access to accurate information about repetitive loss properties to better manage the repetitive flood loss problem; and (3) the need to impose actuarial rates on repetitive flood loss properties is vital to the financial independence of the National Flood Insurance Program.

Promoting and Enforcing Mitigation

FEMA encourages mitigation by: (1) promoting awareness of the various hazard mitigation grants programs; (2) offering lower flood insurance rates for individuals that mitigate their flood risk; and (3) providing technical guidance and expertise to states and communities on how best to mitigate flood hazards. However, FEMA cannot directly compel property owners in flood hazard areas to mitigate their flood risk. FEMA has the authority to suspend a community from the National Flood Insurance Program for not complying with agreed-on floodplain management regulations, but cannot deny an individual policyholder insurance coverage if they choose not to mitigate.

States and communities that participate in the National Flood Insurance Program can compel property owners in flood hazard areas to mitigate their property through enforcement of local floodplain ordinances. However, compelling property owners to mitigate flood risk is difficult because: (1) communities may lack the capacity to inspect properties and ensure compliance with local floodplain ordinances, particularly in the immediate aftermath of a flood disaster when demands on local resources are immense; (2) community officials are reluctant to impose

[7] Federal Emergency Management Agency, Office of Inspector General, Inspections Division, *Extent That Mitigation Funds Are Used to Address Repetitive Flood Loss and Other Related Issues*, I-01-02, May 2002.

building restrictions on citizens wanting to repair and return to their homes following a disaster; and (3) many communities, particularly smaller and rural communities, do not have the financial and staff resources to identify and develop cost effective and technically feasible pre-disaster mitigation projects that promote compliance with floodplain ordinances.

Insurance agents and flood claims adjusters that support the National Flood Insurance Program can also encourage mitigation by informing property owners of FEMA's mitigation programs, the availability of increased cost of compliance funds, contact information for the local floodplain administrator, and the impact mitigation will have on their insurance premium. For example, a homeowner in Treasure Island, Florida, mitigated her flood risk by elevating her home above the reach of floodwaters and her insurance premiums dropped from $1,200 to $365 per year. FEMA and other mitigation professionals told us the first 2 months after a flood disaster is a critical period to influence property owners to mitigate flood risk. Beyond this period, homeowners are likely to begin rebuilding without considering mitigation options because of their need or desire to return to their home.

Effective mitigation strengthens the financial position of the National Flood Insurance Program by eliminating or reducing the number of insurance claims. FEMA estimates that $1.2 billion in flood losses are avoided annually because communities have implemented floodplain management requirements. The National Institute of Building Sciences, in a 2005 FEMA-sponsored study, determined that effective flood hazard mitigation delivers an overall benefit-cost ratio of 5 to 1.[8] The report also noted that in addition to the direct impact, flood mitigation projects often lead to additional non-federally funded mitigation activities and have the greatest benefits in communities that have institutionalized hazard mitigation programs.

A Common Mitigation Operating Picture

FEMA and mitigation stakeholders have a limited operating picture of flood hazard mitigation activities and outcomes across the nation. Information regarding mitigation activities is currently collected and stored in various electronic and paper-based formats in FEMA regional offices, state emergency management and hazard mitigation offices, local and municipal government offices, insurance and claims adjustment company offices, and others. As a result, it is difficult for

[8] National Institute of Building Sciences, *National Hazard Mitigation Saves: An Independent Study to Assess the Future Savings From Mitigation Activities*, 2005

mitigation professionals to fulfill their role in advancing flood hazard mitigation.

FEMA is currently transitioning its core National Flood Insurance Program database BureauNet to a new database called Simple, Quick, Access Net (SQANet). BureauNet contains the insurance and claims history for around 5.5 million policies. SQANet is expected to improve the timeliness and accuracy of insurance and claims data, as well as provide enhanced access and reporting features. However, SQANet is not designed to provide additional information helpful to mitigation professionals such as the property's base flood elevation, likely source of flooding, potential hydrological impacts, previous mitigation activities undertaken or recommended, net mitigation benefit, etc.

FEMA employs a desktop computer application, the National Flood Mitigation Data Collection Tool, that could provide a common operating picture for mitigation activities and outcomes of severe repetitive loss properties, but the data elements have not been fully populated and the application is largely underutilized. FEMA will investigate the opportunity to place the tool online to capture additional mitigation activity data. A FEMA official told us the primary intent of this application is to develop an effective process to select mitigation projects; a secondary use is to identify and correct national flood insurance program data inconsistencies or errors.

A December 2007 training needs assessment conducted by FEMA's Risk Reduction Division revealed that less than one fourth of respondents were familiar with the benefits of the National Flood Mitigation Data Collection Tool, and half said the purpose and benefits had never been conveyed to them. State and community officials that were part of the training needs assessment also had a number of concerns about the test version of SQANet and commented that SQANet access and navigation was neither easy nor straightforward. A FEMA official told us they have improved the intuitiveness of the SQANet portal and developed training materials for the National Flood Mitigation Data Collection Tool. FEMA believes these new training aids, which will be introduced next fiscal year, will narrow the knowledge gaps identified in the December 2007 training needs assessment.

Subsidized Versus Actuarial Insurance Rates

FEMA estimates that 90% of insured properties built before the introduction of flood insurance rate maps pay subsidized insurance premiums that average 30% to 40% of the actuarial rate. These properties are statutorily entitled to receive subsidized insurance rates based on previously existing circumstances until they are substantially improved or damaged. Eliminating subsidized insurance rates would require a statutory change and affect policyholders that do not have a history of flooding, but it would also enhance the financial independence of the National Flood Insurance Program.

It is important to recognize that exempting certain properties from paying risk-based rates is not a common practice in the commercial insurance market. The National Flood Insurance Program also differs from commercial insurance because it does not collect sufficient premium income to maintain a reserve for catastrophic flood losses. The National Flood Insurance Program borrowed $17.5 billion from the U.S. Treasury in order to pay claims and expenses following the 2005 hurricanes. The claims received and premiums paid by select severe repetitive loss properties are in Appendix H.

FEMA developed a number of alternatives in 2000 to reduce subsidized insurance rates. A FEMA official told us these proposals were discussed with congressional staff and other stakeholders and some were included in the President's budget but not acted on by Congress, while some of the proposals have resurfaced as a result of Hurricane Katrina. FEMA estimates that implementing a combination of these strategies would reduce the subsidy rates by roughly two-thirds over 7 years.[9] A summary of FEMA's subsidy reduction plan is in Appendix I.

Conclusion

FEMA and other stakeholders encourage flood mitigation in a number of ways, but it is difficult to compel property owners in high-hazard areas to mitigate. FEMA employs a desktop computer application called the National Flood Mitigation Data Collection Tool that could be a useful tool in managing the severe repetitive flood loss grant program, if used fully. The National Flood Insurance Program differs from commercial insurance in operation and purpose. FEMA has developed alternatives to reduce subsidized insurance rates, but congressional action is needed to implement them.

[9] *NFIP Subsidy Reduction Report*, May 10, 2000

Recommendations

We recommend that the Assistant Administrator, Mitigation Directorate:

<u>Recommendation #5</u>: Expand the use and utility of the National Flood Mitigation Data Collection Tool to all stakeholders involved in mitigating severe repetitive loss properties.

Management Comments and OIG Analysis

The Office of Policy and Program Analysis did not concur with our recommendation, but it did acknowledge that the National Flood Mitigation Data Collection Tool can be used to develop effective mitigation grant applications. It also noted that a soon to be released version of the National Flood Mitigation Data Collection Tool contains over 50 enhancements.

We agree that the enhanced National Flood Mitigation Data Collection Tool can be used to develop effective mitigation grant applications and provide a common operating picture for mitigation activities and outcomes, particularly by mitigation professionals addressing severe repetitive loss properties. We consider this recommendation unresolved and open but will close this recommendation when FEMA provides evidence that the enhanced National Flood Mitigation Data Collection Tool has been released and is being used by all stakeholders involved with mitigating severe repetitive loss properties.

The primary objective of our audit was to determine whether FEMA complied with the major provisions of the *Flood Insurance Reform Act of 2004* and whether the strategies used by FEMA to reduce the number of repetitive and severe repetitive loss properties were effective. We conducted our audit from August 2007 to April 2008 and reviewed agency documents, analyzed pertinent policies procedures, and interviewed FEMA officials and industry representatives.

Our fieldwork extended to various federal, state, and local agencies, and nongovernmental organizations including the National Wildlife Federation, the Association of State Floodplain Managers, the Coastal States Organization, and the National Institute of Building Sciences. We conducted over 40 interviews with FEMA officials in the Mitigation Directorate, FEMA regional officials, state hazard mitigation officers, state National Flood Insurance Program coordinators, community mitigation officials, mitigation consultants, academic researchers, professional and industry representatives, attorneys, and other experts in the field.

We also examined documentation relating to the issues addressed in this audit including authorizing legislation, implementing rules, and program guidance, and public comments and documents submitted during the public comment period following enactment of the *National Flood Insurance Reform Act of 2004*. We reviewed internal FEMA documents including strategic and operational plans, correspondence, analyses, and reports. We analyzed data and case studies for mitigation actions funded through the repetitive flood claims grant program. We also reviewed reports on various aspects of repetitive flood loss mitigation prepared by the Government Accountability Office, the former FEMA Office of Inspector General, and various public policy organizations.

We acknowledge the cooperation and courtesies extended to our audit team during the course of this audit. We conducted this audit under the authority of the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

U.S. Department of Homeland Security
Washington, DC 20472

FEMA

FEB 17 2009

MEMORANDUM FOR: Richard L. Skinner
Inspector General

FROM: Patricia Stahlschmidt
Acting Director
Office of Policy & Program Analysis

SUBJECT: Comments on OIG Draft Report, *FEMA's Implementation of the Flood Insurance Reform Act of 2004*

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG's) subject draft audit report. As FEMA works toward refining its programs, the OIG's independent analysis of program performance greatly benefits our ability to continuously improve our activities. With respect to this report dealing with the agency's implementation of the Flood Insurance Reform Act of 2004 (FIRA), we have identified numerous points in the report that require clarification and corrections to accurately portray the status of FIRA implementation.

FEMA concurs with three of the draft report's five recommendations. With respect to the two recommendations with which FEMA does not concur as currently written, we offer the following:

Recommendation #1 – Implement a process to ensure pre-award consultation affirms the total amount owed by the owner for loans secured by a recorded interest on the property is less than or equivalent to the current fair market value of the property.

Response: The Flood Insurance Reform Act of 2004 requires FEMA, when mitigating a Severe Repetitive Loss (SRL) property through acquisition, to offer the property owner the highest of four separate property valuations. One of the property valuation options considers the total amount owed by the owner. This valuation option could provide the property owner more compensation than the fair market value of the property. For example, a property owner with a substantial mortgage could take out an additional home equity loan prior to signing a pre-award consultation agreement with FEMA. The owner could potentially owe more than the property is worth at current fair market value, especially in light of recent declines in the housing market. Thus, according to the SRL program authorizing legislation and implementing regulations (44 CFR Part 79 and Part 80), FEMA is required to offer the property owner an amount equal to the balance of all loans secured by the property, even if the acquisition payment would exceed the fair market value of the property.

www.fema.gov

Also, an interested property owner signs a consultation agreement with and in discussion with a subapplicant (community), not FEMA. The submittal of a completed consultation agreement is a programmatic eligibility requirement.

Further, per the SRL Program Guidance for property acquisition projects, "any second mortgages or home equity loans taken out following the initial consultation meeting will not be included in the purchase offer." The initial consultation meeting is the first contact of any kind between the subapplicant (community) and the property owner. We acknowledge the concern regarding potential discrepancies between fair market value and the outstanding balance of any/all loans, and crafted the SRL program guidance with the requirement outlined above to address this concern.

Recommendation #5 – Expand the use and utility of the National Flood Mitigation Data Collection Tool to all stakeholders involved in mitigating severe repetitive loss properties.

Response: The purpose of the National Flood Mitigation Data Collection Tool (NFMDCT) is to serve as a data collection tool that could be populated with base National Flood Insurance Program (NFIP) insurance/claims data and then used in the field to capture additional site specific property/risk information in a standardized manner. The intent is that the data collected could then be used to develop effective mitigation grant applications based on an analysis of potential mitigation approaches and the selection of the most appropriate, cost effective approach. A secondary use is the ability of the NFMDCT to capture and report NFIP data inconsistencies or errors that could then be updated in the BSA system of record.

The NFMDCT has proved to be a valuable tool in both the pre- and post-disaster environment for cataloging flood-prone properties and for submitting requests for NFIP data updates. The soon to be released version 3.0 of the NFMDCT contains over 50 enhancements developed in response to user feedback and designed to facilitate the use of the NFMDCT in both a pre- and post-disaster environment.

The following comments/clarifications relate to pages in the initial draft report and are offered for your consideration in preparing the final report:

- Page 2 - the Repetitive Loss (RL) definition requires the two claims paid to be greater than $1,000.00 in aggregate between building and contents (i.e. $1,000.01), the two claims must be within a "rolling" ten year period, for SRL the four claims must each individually exceed $5,000.00 in aggregate between building and contents. The second definition of SRL requires that the two or more claims have "building payments" that cumulatively exceed the value of the "structure."
- Page 3 – we suggest editing the paragraph about the Risk Reduction Division as follows: "The Risk Reduction Division works to reduce risk to life and property through implementing grant programs, ensuring compliance with the NFIP, identifying safe building practices, and other tools and technical assistance. These activities address risk in both the existing and built

environment and in future development, and they occur in both pre- and post-disaster environments."

- Page 4 – we suggest revising the last sentence in the last paragraph to provide more clarity; e.g. "FEMA estimates that around 90% of all repetitive loss properties are insured as Pre-FIRM structures. To qualify for Pre-FIRM rates the structures are required to have been permitted either prior to December 31, 1974 or prior to the participating community officially adopting their initial Flood Insurance Rate Map (FIRM) and the minimum regulations required for the community to participate in the NFIP."
- Page 6 – clarity is needed regarding the order for assistance to properties as required by the FIRA; "The Director shall provide assistance for properties in the order that will result in the greatest amount of savings to the National Flood Insurance Fund in the shortest period of time…"
- Page 7 – we suggest revising the second paragraph to read "States, Commonwealths and Territories must have a FEMA-approved Hazard Mitigation Plan compliant with 44 CFR Part 201 to be an eligible Applicant to the program. Grants under the SRL program have a required non-Federal cost share of at least 25% of eligible project costs, which may be reduced to 10% if a State, Commonwealth or Territory has amended its Mitigation Plan to include a repetitive loss strategy. Communities must have a FEMA-approved local mitigation plan compliant with 44 CFR Part 201 that, at a minimum, addresses flood hazards in the community."
- Page 7 – under the heading Repetitive Flood Claims Grant Program, we suggest revising the first sentence to read "In contrast to the Severe Repetitive Loss grant program and FEMA's other hazard mitigation assistance grant programs, the repetitive flood claims grant program may provide up to 100% federal funding for eligible project costs."
- Page 8 – the sentence regarding State and local building codes and land use ordinances, and the regulation of properties insured by the NFIP should be revisited. Properties on Federally leased land are, in some areas, governed by a flood damage prevention ordinance or floodplain management law at the local level. Currently some properties on Federally leased land are being reviewed by local and State officials to assess whether they were substantially damaged in recent flood events.
- Page 11 - for clarity, we suggest editing as follows: "FEMA mitigation grant programs generally require a non-Federal cost share of at least 25% of eligible project costs. While each mitigation grant program has an option or requirement for non-Federal cost share, FEMA does not specify the source or sources of this cost share. It may be provided through any combination of resources provided by the applicant, sub-applicant, or property owner."
- Page 12 – with respect to the discussion on valuation, please refer to our comments concerning Recommendation 1
- Page 13 – in the second paragraph, it should be clarified that all RL properties were insured at one time and that the numbers depicted here represent "currently" insured properties. The reasons for uninsured RL properties are multiple and include several possibilities such as unreported mitigation, FIRM and SFHA revisions, paid off mortgages, and mismatches between the active policy address and the addresses used at the time of the claims that created the repetitive loss listing. FEMA tracks all historic RL properties, including those that are currently reported as uninsured, for the purposes of ensuring that any insured status changes are reflected

in the data base, previously unknown mitigation efforts can be reported and accounted for and so that the current local community officials may be made aware of all past and current flooding issues in their community. These reasons are in addition to the ability the historic records provide related to tracking the impact of RL properties on the solvency of the National Flood Insurance Fund.

- Page 15 – for clarity, we suggest using/incorporating the definitions of occupancy type as they related to SRL properties as follows:

For the purposes of the SRL Program a residential property is an NFIP insured structure that meets one of the following categories:

Single-Family Residence. A residential single-family dwelling. Incidental office, professional, private school, or studio occupancies, including a small service operation, are permitted if such incidental occupancies are limited to less than 50 percent of the building's total floor area.

2- to 4-Family Residence. A residential building (excluding hotels and motels with normal room rentals for less than 6 months' duration) containing no more than four dwelling units. Incidental occupancies such as office, professional, private school, or studio space are permitted if the total area of such occupancies is limited to less than 25 percent of the total floor area within the building.
OR
Multifamily (also Known As Other Residential). Hotels or motels where the normal occupancy of a guest is 6 months or more; a tourist home or rooming house which has more than four roomers. A residential building (excluding hotels and motels with normal room rentals for less than 6 months' duration) containing more than four dwelling units. Incidental occupancies such as office, professional private school, or studio occupancy, are permitted if the total area of such incidental occupancies is limited to less than 25 percent of the total floor area within the building.

44 CFR Part 79 further defined the Multifamily property as:
Multifamily Property - *Multifamily Property* means a property consisting of 5 or more residences

For SRL identification purposes, the occupancy type on the current NFIP policy is used to validate SRL status of a property.

- Page 23 – clarification is required regarding the training needs assessment. The results of the training needs assessment conducted in 2007 have been addressed by FEMA. The assessment was conducted as part of a training materials development process. The assessment guided the development of the materials that were released in September 2008. The materials, collectively known as *NFIP Data Resource Workshop,* were piloted at the 2008 ASFPM Conference and presented four times during the recently completed 2008 HMA Summit attended by FEMA

Regional and State staff from throughout the country. These efforts have served to substantially increase the stakeholder's knowledge and understanding of tools such as the NFMDCT and FEMA-551 as well as the newly created Simple and Quick Access (SQANet) information portal. Feedback from these sessions has been used to improve the intuitiveness of the SQANet portal and the training materials deployed in the workshops. The anticipated distribution of these training aids next fiscal year should serve to narrow the knowledge gap detected by the training needs assessment conducted in December 2007.

- Page 32 – Appendix D. Please add the following entries to the Chronology of Events:
  2006 April – Meeting between USACE and FEMA to discuss FIRA 2004 requirements and identify how to develop a list of "cabin-leased"Army Corps properties.
  2008 April – Meeting between USACE and FEMA. USACE agreed to provide a listing of USACE Lease Properties for Iowa, Illinois/Missouri and Minnesota/Wisconsin.
  2008 August – FEMA received 504 property addresses from the State of Illinois that are riverward of the levee. Of the 504 properties, FEMA identified 95 properties with active NFIP policies. The NFIP has developed a database to store these addresses to make sure that when Section 106 is implemented in October 2009, these property owners are notified of the premium increase. FEMA continues to work with USACE to obtain a listing of USACE Lease Properties for Iowa, Minnesota and Wisconsin.

Thank you again for the opportunity to comment on this draft report and we look forward to working with you on other issues as we both strive to make FEMA the nation's Preeminent Emergency Management and Preparedness Agency.

	Number of Validated Severe Repetitive Loss Properties	Combined Fiscal Years 2006, 2007, 2008
Program Funds		$160,000,000
Administrative Expenses		$6,400,000
Program and Technical Support		$8,814,628
10% Competitive Grant Set-Aside		$16,000,000
Total		$128,785,372
Connecticut	79	$1,526,717
Maine	4	$0
Massachusetts	106	$2,048,507
New Hampshire	8	$0
Rhode Island	3	$0
Vermont	0	$0
FEMA Region I Total	200	$3,575,224
New Jersey	590	$11,402,066
New York	206	$3,981,060
Puerto Rico	11	$0
Virgin Islands	3	$0
FEMA Region II Total	810	$15,383,126
Delaware	11	$0
District of Columbia	0	$0
Maryland	4	$0
Pennsylvania	243	$4,696,105
Virginia	83	$1,604,019
West Virginia	40	$0
FEMA Region III Total	381	$6,300,124
Alabama	223	$4,309,595
Florida	479	$9,256,932
Georgia	37	$0
Kentucky	69	$1,333,462
Mississippi	146	$2,821,528
North Carolina	210	$4,058,363
South Carolina	26	$0
Tennessee	17	$0
FEMA Region IV Total	1,207	$21,779,880

Illinois	57	$1,101,556
Indiana	37	$0
Michigan	4	$0
Minnesota	1	$0
Ohio	44	$0
Wisconsin	2	$0
FEMA Region V Total	145	$1,101,556
Arkansas	4	$0
Louisiana	2,578	$49,821,232
New Mexico	0	$0
Oklahoma	58	$1,120,881
Texas	1,270	$24,543,431
FEMA Region VI Total	3,910	$75,485,544
Iowa	3	$0
Kansas	5	$0
Missouri	107	$2,067,832
Nebraska	2	$0
FEMA Region VII Total	117	$2,067,832
Colorado	0	$0
Montana	0	$0
North Dakota	1	$0
South Dakota	0	$0
Utah	0	$0
Wyoming	0	$0
FEMA Region VIII Total	1	$0
American Samoa	0	$0
Arizona	0	$0
California	160	$3,092,086
Guam	0	$0
Hawaii	8	$0
Mariana Islands	0	$0
Nevada	1	$0
FEMA Region IX Total	169	$3,092,086
Alaska	0	$0
Idaho	0	$0
Oregon	7	$0
Washington	39	$0
FEMA Region X Total	46	$0

1944 – First leases of cottages on USACE property.

1960s – The permanent placement of floating cabins, cottages, and nontransient mobile homes and trailers for private exclusive use at USACE project areas is discouraged.

1970s – USACE begins to phase out existing leases to private parties due to floodplain management issues and safety risks.

1981 – Congress passes Public Law 97-140, Section 6, which imposed a moratorium through December 31, 1989, on enforced removal of certain private use facilities from any USACE reservoir or lake project.

1986 – Congress passes the *Water Resources Development Act (WRDA) of 1986* Public Law 99-662, of which Section 1134 extended the moratorium indefinitely to cottage site leases or permitted structures that existed on November 17, 1986 (date of enactment). This Act includes a statutory provision that holders of USACE cabin leases must agree to hold harmless the United States from any claim, including federal flood insurance, for damages or injury in persons or property arising from the leaseholder's occupancy.

1993 – Most cabins on USACE-leased properties are damaged during Midwest flooding.

1993 – FEMA issues a legal opinion that the hold harmless provision does not prohibit FEMA from offering flood insurance to the holders of these leases.

1993 – USACE approves various lease modifications:

1. USACE will not make filing a claim for federal flood insurance grounds for lease termination.
2. USACE will formally notify FEMA and the Small Business Administration that USACE will not consider full-time occupancy of the Upper Mississippi Valley cottage sites a substantial violation of the lease.
3. USACE will inform FEMA and the Small Business Administration that vacated tracts will be leased if needed for "immediate use for public park purposes or other higher public use," and they will not be leased for cottage sites or other residential purposes.

1994 –USACE memo (June 17) allows leaseholders to file flood insurance claims.

2000 – FEMA Region 5 and USACE Mississippi Valley Division develop a joint issue paper identifying six issues related to the cottage lease sites:

1. A large number of repetitive loss structures exist on USACE property.
2. Structures on sites leased from USACE account for the largest source of repetitive loss structures in the State of Illinois.
3. USACE has a legal responsibility to continue leasing the cabin sites so long as they comply with Section 1134 of WRDA 1986.
4. Despite state, local, and federal regulations, violations of floodplain regulations continue to exist on property leased by USACE.

5. FEMA cannot deny flood insurance coverage on structures located within a community participating in the National Flood Insurance Program.
6. Since 1993, the State of Illinois has attempted to reduce losses on USACE properties through mitigation programs.

2004 – *Flood Insurance Reform Act of 2004* (PL 108-264) requires FEMA to apply actuarial flood insurance premiums to all federal lease properties located riverside of a flood damage reduction structure.

2007 April – At a USACE/FEMA flood risk management regional workshop, the State of Illinois brings up the six aforementioned cottage lease issues to HQUSACE senior leaders.

2007 August – Jersey County, Illinois, sends letter to Commander of Mississippi Valley Division, seeking better coordination and cooperation from USACE on termination of cabin leases.

2007 August – Meeting conducted in St. Louis with St. Louis District, FEMA Region 5, State of Illinois, and Jersey County representatives. Summary of meeting –

- USACE should be able to terminate leases for noncompliance with local floodplain ordinances. Need a strong stance. States will be supportive.
- Dealing with these sites is very labor intensive.
- Transfer of leases can happen without USACE involvement.
- Need support from HQUSACE and consistent process among districts.
- Need Memorandum of Agreement between FEMA/USACE on deed restriction language.
- Would like more proactive communication/notification between USACE/FEMA/counties with leaseholders on risk.

2007 September – The Intergovernmental Flood Risk Management Committee discusses cabin lease site issues. Participants agree to support efforts to resolve issues and will begin to track progress on a quarterly basis.

2007 October – Meeting conducted at HQUSACE with real estate and Mississippi Valley Division Representatives. Participants agree that HQUSACE counsel will contact FEMA counsel once a point of contact was provided to discuss deed restriction conflict and provide list of cabin leases.

Appendix E
Annual Increase in Repetitive Loss Properties and Claims

Year	Total	Insured	Uninsured	Claims	Payments
1999[10]	88,813	41,443	47,370	245,018	$3.5 billion
2000	97,870	47,513	50,357	270,857	$4.0 billion
2001	102,585	49,150	53,435	284,575	$4.4 billion
2002	106,555	50,871	55,684	296,369	$4.7 billion
2003	110,441	51,200	59,241	307,852	$5.0 billion
2004	117,484	55,589	61,895	327,681	$5.5 billion
2005	130,416	65,649	64,767	366,523	$7.5 billion
2006	137,779	69,323	68,456	391,648	$8.7 billion
2007	141,525	70,226	71,299	405,049	$9.1 billion

[10] 1999 data represents cumulative year-end totals from 1978 to 1999.

State	City	County/Parish	Property Type
Pennsylvania	New Hope	Bucks County	Condominium
	Date of Claim	Claim Amount	Current Annual Insurance Premium $37,788
	6/28/2006	$550,448	Photo Not Available
	4/3/2005	$347,950	
	9/18/2004	$561,767	
	10/25/1996	$10,988	
	Total	$1,471,153	
Total in Today's Dollars:		$1,649,788	
Net Mitigation Benefit:		$1,324,800	

State	City	County/Parish	Property Type
Florida	Destin	Okaloosa County	High-Rise Condominium
	Date of Claim	Claim Amount	Current Annual Insurance Premium $2,082
	8/25/2005	$16,974	Photo Not Available
	7/10/2005	$27,058	
	9/16/2004	$782,511	
	10/4/1995	$652,566	
	Total	$1,479,109	
Total in Today's Dollars:		$2,036,406	
Net Mitigation Benefit:		$1,223,100	

State	City	County/Parish	Property Type
Florida	Destin	Okaloosa County	High-Rise Condominium
	Date of Claim	Claim Amount	Current Annual Insurance Premium $1,580
	8/25/2005	$16,974	Photo Not Available
	7/10/2005	$27,059	
	9/16/2004	$781,285	
	10/4/1995	$578,522	
	Total	$1,403,840	
Total in Today's Dollars:		$1,913,173	
Net Mitigation Benefit:		$1,149,900	

Appendix F
Properties Offering Greatest Net Mitigation Benefit

State	City	County/Parish	Property Type
Alabama	Orange Beach	Baldwin County	High-Rise Condominium
	Date of Claim	Claim Amount	Current Annual Insurance Premium $3,951
	8/29/2005	$11,211	
	9/16/2004	$1,515,840	
	9/26/2002	$2,117	
	9/28/1998	$954,467	
	10/4/1995	$394,708	
	Total	$2,878,343	
Total in Today's Dollars:		$3,903,982	
Net Mitigation Benefit:		$3,098,700	

State	City	County/Parish	Property Type
Alabama	Gulf Shores	Baldwin County	High-Rise Condominium
	Date of Claim	Claim Amount	Current Annual Insurance Premium $68,099
	8/29/2005	$66,180	
	9/16/2004	$431,644	
	9/27/1998	$514,360	
	Total	$1,012,184	
Total in Today's Dollars:		$1,431,407	
Net Mitigation Benefit:		$1,157,100	

State	City	County/Parish	Property Type
Florida	Pensacola	Escambia County	High-Rise Condominium
	Date of Claim	Claim Amount	Current Annual Insurance Premium $15,866
	8/28/2005	$710,229	Photo Not Available
	7/10/2005	$1,658,834	
	9/16/2004	$7,229,922	
	4/10/1995	$1,299,472	
	Total	$10,898,457	
Total in Today's Dollars:		$13,237,943	
Net Mitigation Benefit:		$10,470,400	

Appendix G
Repetitive Loss Properties Mitigated 1978 to 2007

	Total Properties Mitigated	Hazard Mitigation Grant Program	Flood Mitigation Assistance Grant Program	Pre-Disaster Mitigation Grant Program	Repetitive Flood Claims Grant Program	Severe Repetitive Loss Grant Program	Other Funding Sources
Flood Protection Provided							
Elevated to or above Base Flood Elevation	1,464	528	137	0	0	0	799
Elevated not to Base Flood Elevation	12	0	0	0	0	0	12
Floodproofed to Base Flood Elevation	46	29	0	0	0	0	17
Partially Floodproofed	57	4	0	0	0	0	53
Flood Control Project	1,868	12	9	0	0	0	1,847
New Building on Site	725	9	39	1	0	0	676
Flood protection provided	71	0	0	0	0	0	71
Totals for Flood Protection Provided	4,243	582	185	1	0	0	3,475
No Building on Property							
Demolished/Not Acquired	3,184	12	2	0	0	0	3,170
Demolished/Acquired	4,706	2,567	233	25	66	0	1,815
Relocated	152	61	5	0	0	0	86
No building on property	69	0	0	0	0	0	69
Totals for No Building on Property	8,111	2,640	240	25	66	0	5,140
Other Mitigation Types							
Greater Than 100 Years	64	0	0	0	0	0	64
Unable to Determine	32	0	0	0	0	0	32
Address Not Specific	2,350	0	0	0	0	0	2,350
Historic Building	170	0	0	0	0	0	170
Other Mitigation Type Totals	2,616	0	0	0	0	0	2,616
Total Properties Mitigated	14,970	3,222	425	26	66	0	11,231

State	City	County/Parish	Property Type
Louisiana	St. Francisville	West Fecliciana Parish	Single-Family
	Date of Claim	Claim Amount	Current Annual Insurance Premium: $450
	2/5/2005	$4,479	
	7/5/2002	$10,518	
	3/25/1997	$20,301	
	6/11/1995	$10,521	
	5/1/1994	$8,447	
	5/2/1994	$8,716	
	5/3/1994	$3,303	
	Total	$66,285	

State	City	County/Parish	Property Type
Louisiana	Kinder	Allen Parish	Single-Family
	Date of Claim	Claim Amount	Current Annual Insurance Premium: $362
	5/16/2004	$5,664	
	11/5/2002	$8,897	
	11/30/2001	$16,288	
	10/15/2001	$2,555	
	1/15/1998	$3,331	
	4/13/1995	$2,295	
	3/17/1995	$2,343	
	2/2/1994	$2,123	
	12/16/1991	$5,029	
	Total	$48,525	

State	City	County/Parish	Property Type
Illinois	Fieldon	Jersey County	Single-Family
	Date of Claim	Claim Amount	Current Annual Insurance Premium: $1,277
	5/10/1996	$1,326	
	5/19/1995	$24,851	
	7/2/1993	$22,618	
	4/11/1993	$14,433	
	Total	$63,228	

State	City	County/Parish	Property Type
Texas	Beaumont	Jefferson County	Single-Family
	Date of Claim	Claim Amount	Current Annual Insurance Premium: $415
	10/15/2006	$20,164	
	5/30/2006	$3,883	
	9/24/2005	$26,248	
	11/22/2004	$6,621	
	5/1/2004	$7,252	
	10/9/2003	$16,123	
	9/27/1996	$1,256	
	10/17/1994	$6,615	
	4/7/1993	$7,563	
	Total	$95,725	

State	City	County/Parish	Property Type
Illinois	Fieldon	Jersey County	Single-Family
	Date of Claim	Claim Amount	Current Annual Insurance Premium: $511
	5/10/2002	$19,542	 
	5/30/1996	$1,951	
	5/17/1995	$7,014	
	8/2/1993	$13,000	
	5/3/1993	$6,381	
	5/1/1983	$4,470	
	8/5/1982	$1,968	
	8/15/1981	$1,619	
	4/15/1979	$8,939	
	Total	$64,884	

Below are various subsidy reduction alternatives analyzed and discussed by FEMA in May 2000. FEMA concluded adopting a combination of the following actions over 7 years could reduce the subsidy by roughly two-thirds, if there is full funding of FEMA's enhanced mitigation strategy.

- ◊ **Adopt actuarial rating for all Pre-Flood Insurance Rate Map nonprincipal residences and all nonresidential properties.** Increase rates on these buildings to full actuarial rates over 7 years. Introduce Pre-Flood Insurance Rate Map elevated rate tables with the next rate change. To implement this, elevation certificates will be required of all affected buildings. Phase-in the elevation certificate requirement over a yet-to-be-determined multi-year period.
- ◊ **For the remaining Pre-Flood Insurance Rate Map subsidized policies (primarily principal residences), adopt annual rate changes over the next 7 years that, on average, will exceed the annual inflation rate and further reduce, but not eliminate, the percentage of subsidy provided.** Balance the exact amount of the changes against the National Flood Insurance Program's goals of continued market penetration and high retention rates for the current book of insureds.
- ◊ **For all Pre-Flood Insurance Rate Map subsidized nonprincipal residences and nonresidential properties, introduce a deductible of 3% of the amount of insurance purchased, subject to a minimum $1,000 deductible for each claim.**
- ◊ **Structure rates to encourage individuals to insure their structures to full replacement cost value, subject to maximum program limits.** FEMA will design the rate tables (mentioned in the first action item above) to resemble the current Post-Flood Insurance Rate Map V-Zone rate tables. These tables incorporate increasingly higher rates the more the structure is underinsured.
- ◊ **Support increased mitigation activities in coordination with the above four National Flood Insurance Program actions.** This includes –
    - Full funding of the FEMA Repetitive Loss Strategy,
    - Continuing the increased funding for mitigation beyond the 4 years provided for in the FEMA Repetitive Loss Strategy, and
    - Increasing the amount of Hazard Mitigation Grants Program (HMGP) funds available and targeted for retrofitting or buyouts in a post-disaster event.

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