

Testimony of

Dwayne Bourgeois

Executive Director

North Lafourche Conservation, Levee and Drainage District

Before the

Senate Committee on Small Business and Entrepreneurship

United States Senate

The National Flood Insurance Program:

May 1, 2015

I would like to thank you Mr. Chairman and members of the Committee, for this opportunity to testify today. I am the Executive Director of the North Lafourche Levee District, a political subdivision of the State of Louisiana. However, I am here today representing a broader group of agencies, citizens and businesses in the State of Louisiana who rely heavily on the National Flood Insurance Program.

As I am sure everyone here is aware, the Biggert-Waters Flood Insurance Reform Act of 2012 extended the authorization of the NFIP for a 5 year period which ends September 30th, 2017. BW12 was also supposed to be a permanent “FIX” to the solvency of the NFIP. It clearly was not. In 2014, the Homeowners Flood Insurance Affordability Act was passed to “FIX” parts of BW12. From a residential homeowner’s point of view, it repealed the most damaging parts of BW12; but, most everyone agrees, there is still much room for improvements across the board.

Now, we find ourselves with another opportunity to address the issues of this very important Federal program. BW12 has caused many organizations locally and nationally to take a close look at the NFIP and to question the approaches taken to address solvency and long term stability. The Association of Levee Boards of Louisiana, working with other state and local organizations, have compiled suggested changes to the NFIP into a few specific reforms that I would like to outline for you today.

First and foremost, **ALL** new changes to the NFIP should be made going forward. We can’t punish people who have followed FEMA’s rules for participation in the NFIP. With the exception of Severe Repetitive Loss properties, all new legislation should be structured such that all existing policyholders of any property class must be allowed to purchase Flood Insurance at

approximately the same cost as before any new legislation as long as there is no lapse in coverage or accumulative flood claims equal to the FMV of the property. These same property owners must be allowed to sell or otherwise transfer title of the property to a new owner who will then be able to continue with insurance coverage as described. Flood insurance policies are offered by FEMA as part of a quid pro quo arrangement to mitigate flood related cost to the Federal Government. They are offered by the Federal Government to the policyholders under the belief that doing so was equally beneficial to the Federal Government. All policies came with floodplain management restriction that FEMA required for a community to participate in the NFIP. The Federal Government not only implied that this affordable insurance would be available for the life of the property; it published and promoted the program accordingly. Citizens and businesses made huge financial decisions, in most cases the largest financial decision of their entire life, based on this promise of the Federal Government.

Second, the solvency of the program must be addressed in a more equitable manner. We need to address program COST, not just REVENUE. From 1978 to 2013 the program collected over \$9.67B more in premiums than it paid in claims and yet the program remains \$25B in debt. This suggests severe issues with the cost of administrating and operating the program. The WYO insurance companies make a 30% margin on policy sales without having to underwrite any of the risk. In all of the NFIP reform legislation proposed and passed to date, the only group asked to give more to correct the programmatic deficit in the NFIP was the policyholders through increased premiums. There must be alternatives.

Third, there appears to be a huge lack of mandatory participation in the program. It has been law since 1973, that any a property mapped by FEMA in a Special Flood Hazard Area must purchase flood insurance if the property is mortgaged by a lending institution regulated by the Federal Government. Nationally, a study done in 2006 showed that only 49% of those required to have flood insurance actually had it. Further, it is estimated that when "Super-storm Sandy" was heading up the US eastern seaboard, only 15-25% of the at risk population had flood insurance. BW12 increased the penalties to lending institutions for non-compliance. But, this law must be rigorously enforced in some manner. The Federal Government has performed very poorly at enforcing this cornerstone issue in the NFIP. The intent was to have all of these properties in the NFIP for two primary reasons. First, to increase the revenue base of the NFIP and second, to be able to use the insurance principle of the "Law of Large Numbers" to spread the risk to the program geographically.

Fourth, BW12 caused a big problem with the actuarial calculations used to determine the cost of insurance for the program by requiring FEMA to include Catastrophic Loss years in the actuarial calculations. This greatly changes the method FEMA uses to determine the cost of

Insurance. The American Academy of Actuaries reported to Congress that including catastrophic loss years in these actuarial calculations was not in line with Standard Actuarial Principles before BW12 was even passed into law.

Finally, we must consider how a program designed to mitigate for 100 year flood loss through a quid pro relationship with local community's floodplain management can or should be expected to absorb the cost of 400 year events.

In conclusion, I would like to point out that ours is a working delta, the fruits of which are enjoyed by and enrich our entire nation. As such, the availability of federally-backed, affordable and financially stable flood insurance is of vital importance to our region and the entire nation.

We commend the Committee for addressing long-term reauthorization and reform of the National Flood Insurance Program. We thank you for this opportunity to share both our situation and our views on this important issue. We look forward to working with all of you to make these changes to the National Flood Insurance Program.