May 7, 2008

The Honorable Carl Levin  
United States Senate  
269 Russell Senate Office Building  
Washington D.C.  20510

The Honorable Debbie Stabenow  
United States Senate  
133 Hart Senate Office Building  
Washington D.C.  20510

Dear Senators Levin and Stabenow:

SUBJECT: Potential amendments to S. 2284 and HR 3121

The Michigan Stormwater-Floodplain Association (MSFA) wishes to express its concern regarding potential amendments to S. 2284, which reforms the National Flood Insurance Program (NFIP) and reauthorizes the program that expires this year. Specifically, MSFA is opposed to any amendment that would add wind coverage to an NFIP policy. The Michigan Stormwater-Floodplain Association is the leading resource for floodplain management professionals in Michigan. We are an organization dedicated to promoting sound and effective floodplain management and to providing training to floodplain managers.

The NFIP has been providing valuable flood insurance to Michigan citizens since its creation in 1968. Currently, there are over 27,000 flood insurance policies in Michigan and to date, over $42.6 million in flood claims have been paid out. Overall, the NFIP had been a self sufficient program; only occasionally borrowing funds from the U.S. Treasury, which have been paid back with interest. Hurricanes Katrina and Rita (2005), however, resulted in over $18 billion in claims. This amount will be impossible to repay through the program's revenue that is generated solely by premium income. Additionally, the NFIP mandates that communities institute local codes to ensure that construction in flood prone areas is less prone to flood damage. This quid pro quo is an important element of the NFIP, saving both policy holders and taxpayers over $1 billion in avoided damages annually. MSFA supports reforms of the NFIP to increase its financial solvency—especially in the face of potential future mega-catastrophes—and supports reauthorizing this important program.
Unfortunately, there are efforts being made to add a new hazard—wind—to flood coverage and the NFIP policy. Currently the House bill, HR 3121, includes such an addition in the form of an optional wind and flood policy to be offered at “actuarial” rates. While S. 2284 does not currently include such a provision, it is our understanding that there may be one or more proposed amendments to add wind coverage as debate begins on S. 2284. Such a significant change to the NFIP has the following potential problems:

- **Increased liability to the NFIP.** Currently the NFIP insures over $1 trillion in property that may result in claims if a flood results in damage to the property. Adding wind coverage is a significant and unknown liability to a program that is already deeply in debt as a result of Hurricanes Katrina and Rita. While the new “wind and flood” policy would be optional, claims would be paid out of the National Flood Insurance Fund, thereby threatening the viability of the underlying NFIP.

- **The private sector is already providing this coverage.** Inland states like Michigan, have a robust private insurance industry that provides coverage for wind. After Katrina, some coastal states have found it significantly harder to find private sector wind coverage; however, they have also developed mechanisms to offset this loss coverage availability, such as state wind pools. Also, we question whether there has been a total loss of private sector coverage, or are there fewer private sector companies offering wind coverage at a much higher rate? If the latter is the case, and the private sector is providing wind insurance, albeit at a much higher cost (actuarial), then is wind coverage really necessary under the NFIP at actuarial rates? Adding wind coverage to the NFIP may have a negative effect on the private insurance industry. If coastal states are having an issue with the availability of wind coverage, perhaps a regional solution such as the creation of a regional wind pool is a more appropriate solution.

- **HR 3121 doesn’t mandate wind codes.** As indicated earlier, one of the reasons the NFIP is successful is that new development and substantially rehabilitated existing development must meet locally adopted flood codes. These codes are adopted in exchange for the availability of NFIP coverage. HR 3121 provides the incentive of wind coverage but does not mandate codes to ensure new development is more wind resistant. The result is a program that does not break the damage-repair-damage cycle and ensures that the NFIP and ultimately the taxpayer will be liable for claims and disaster assistance.

- **There are very many unanswered questions.** Before the NFIP was created, Congress required a task force to thoroughly review and study the concept of such a program and identify potential issues and problems. This group of scientists, economists, policy makers, and others developed House Document 465, which eventually became the blueprint for the NFIP. Such thorough research and vetting is important to ensure good public policies and programs are developed. Adding wind to the NFIP—which would be the most significant
change to the program since 1973–should be considered only after careful
collection and study and not in response to a perceived need. Both MSFA
and the Association of State Floodplain Managers (ASFPM) support instead the
appointment of a blue ribbon panel to study the wind coverage issue and
ultimately if it makes sense to have it part of the NFIP.

The NFIP has benefited Michigan citizens for many years. Flooding is Michigan’s
costliest and most widespread natural hazard, and the purchase and availability of flood
insurance is an important protection for our citizens and an important mitigation tool for
reducing future flood losses. MSFA hopes that any reforms to the NFIP would
strengthen the program, not threaten it. Please do not hesitate to contact me at
517-676-5614 if I can be of further assistance.

Sincerely,

George Hosek, CFM, Executive Director
Michigan Stormwater-Floodplain Association