



Federal Emergency Management Agency

Region X
130 228th Street, Southwest
Bothell, WA 98021-9796

November 1, 2002

James D. Watkins, Chairman
Admiral, U.S. Navy (Retired)
U.S. Commission on Ocean Policy
1120 20th Street NW, Suite 200 North
Washington, DC 20036

Dear Admiral Watkins:

It was an honor and a privilege to speak before the commission, and I support your important work in developing recommendations for a coordinated and comprehensive national ocean policy.

In response to the follow-up questions you submitted, the National Flood Insurance Program (NFIP) does not subsidize new construction. New construction is charged actuarial rates for flood insurance that reflect the building's risk of flooding. Most coastal communities have been in the regular program of the NFIP and have had actuarial rates charged on their new buildings since the mid-1970s. There is no "non-risk adjustment" flood insurance available for new buildings in coastal communities. I assume by "non-risk adjustment" you mean that the rate is not risk based and that, as a result, the premium is subsidized such as the chargeable rates charged to structures built prior to the publication of a Flood Insurance Rate Map (pre-FIRM). Again, the NFIP charges actuarial rates for new construction and does not subsidize that type of construction.

The study the Commission refers to is most likely the "Evaluation of Erosion Hazards" study that was conducted for FEMA by the Heinz Center. I spoke about this study in Anchorage. The Heinz Report was multifaceted and examined many issues regarding coastal erosion and the NFIP. Although the relationship between the availability of flood insurance and its effect on development in coastal zones was addressed, this was not a main focus of the study. The study did not address the specific question, how much development in coastal zones occurs because of the availability of "non-risk insurance," as I addressed above.

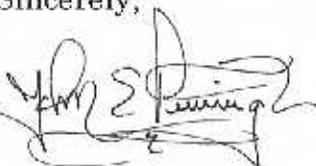
Flood insurance policies for new development, whether located inside or outside the coastal zone, are rated actuarially based on the risk of damage

due to flooding, flood-related erosion, and wave forces. This is true for any structure built or substantially improved after December 31, 1974, or started after the date of the initial publication of the Flood Insurance Rate Map for the community in which the structure is located.

One of the findings of the Heinz Center study that is relevant to this question is that over the last 20 years there was a 60 percent increase in development density in the high-risk coastal areas. According to the Heinz Center, approximately 15 percent of this increase appeared to be attributable to the availability of flood insurance through the NFIP. However, the study also notes that because of increased building standards and floodplain management requirements that are part of the program, flood and erosion damages per structure have been reduced. In addition, FEMA estimates that its promotion of sound floodplain risk management practices in communities participating in the NFIP have resulted in reduced flood damages to buildings and their contents of about \$1 billion per year.

If you have any further questions, please contact Mr. Carl Cook, Division Director of the Federal Insurance and Mitigation Division, Region 10, at 425-487-4687.

Sincerely,

A handwritten signature in black ink, appearing to read "John E. Pennington". The signature is stylized and includes a horizontal line underneath the name.

John E. Pennington
Regional Director

cc: Howard Leikin, Deputy Administrator
FIMA Directorate