

BRIEF ANALYSIS

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Subsidizing Disaster

by Christy G. Black

Hurricane Katrina has focused attention on the increasing cost of natural disasters. Some federal programs unintentionally contribute to those losses. Federal flood insurance and U.S. Army Corps of Engineers' flood control and beach replenishment projects subsidize construction in flood-prone areas, encourage high-risk development and harm environmentally sensitive areas. These programs should be reconsidered.

Misguided Federal Flood Insurance. The National Flood Insurance Program (NFIP), administered by the Federal Emergency Management Agency (FEMA), provides insurance for private property at risk of flooding. The 37 year-old program has arguably outgrown its original purpose, which was to provide temporary flood insurance to property owners who were unaware they were in flood-prone areas.

Federally subsidized flood insurance encourages people to build homes where they otherwise would not. It also encourages lenders to finance mortgages they otherwise would not. Today, NFIP covers more than 4.5 million homes in more than 20,000 communities. But because of full-disclosure mortgage and insurance requirements, most of those currently insured were aware of their area's flood problems when they purchased or developed their properties.

Yet, when NFIP pays claims for homes damaged or destroyed by floods, mudslides and other natural disasters, it does not require homeowners to relocate. They can use the money to rebuild in the same location, and their new home can also be covered by NFIP. According to FEMA, repetitive claims are the most significant factor in increasing flood insurance costs.

- NFIP pays claims averaging \$200 million per year for about 40,000 repetitively flooded properties.
- Since 1984, NFIP has paid out nearly \$1 billion for at least 10,000 properties that have experienced two or more losses, with cumulative claims often exceeding the value of the property.

Misguided Flood Control. The U.S. Army Corps of Engineers approves and regulates the construction of levees and other flood control structures. From 1928 through 2001, the Corps spent \$123 billion (adjusted for inflation) on flood control projects nationwide. By pick-

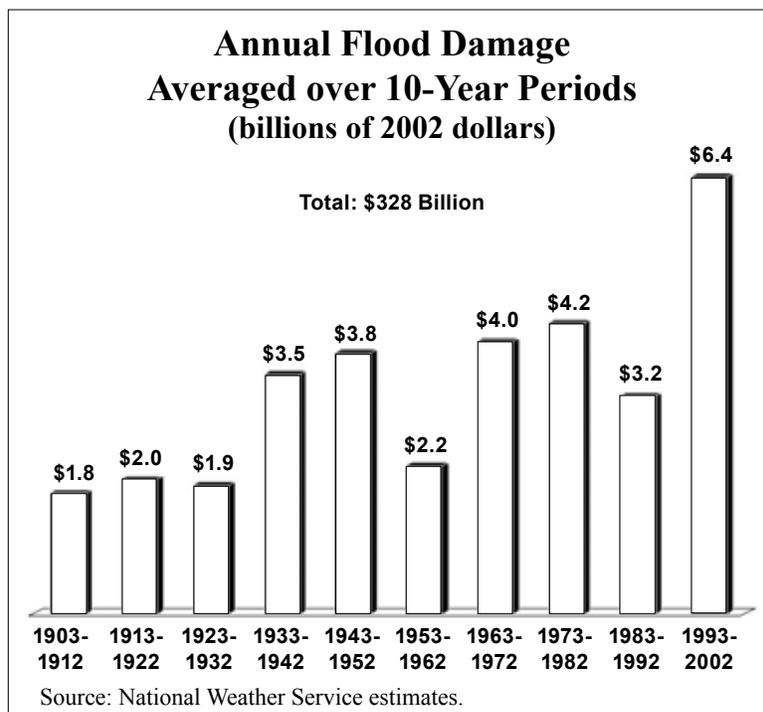
ing up 65 percent of the costs of these projects, the Corps encourages continued development in flood-prone areas. Additionally, Corps flood control projects often undermine the incentive to purchase flood insurance, since the presence of levees and other flood control devices often eliminates the requirement that property owners purchase flood insurance.

Flood control structures do not guarantee protection. For example, the 1993 Great Midwest Flood caused \$20 billion in damages when more than 1,000 levees failed and 100,000 homes were

damaged. But instead of responding with better policies and nonstructural solutions, the Corps continues to subsidize 100 percent of repair costs for all damaged levees it constructs and 80 percent of repair costs for nonfederal projects.

Encouraging Development in At-Risk Areas. The Government Accountability Office reports that 90 percent of all natural disasters involve flooding. Although they are called "natural," many would not be nearly as destructive had people and property not been placed in harm's way.

- Flood damage costs increased from an average of \$2.6 billion per year (in 2002 dollars) during the first half of the 20th century to more than \$6 billion per year over the past 10 years. [See figure]



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- In 2004 alone, FEMA received 1.3 million applications for federal disaster assistance due to hurricanes and tropical storms — far exceeding the number for any comparable period.

The National Climatic Data Center says that increased population and development of coastal areas is responsible for the higher losses from hurricanes. According to the 2000 U.S. Census, more than half of Americans live within 50 miles of a coast and by 2025, 75 percent will. Indeed, the Heinz Center, an environmental research institute, determined that, absent insurance and flood control programs, there would be about 25 percent less development density in high-risk flood areas than in low-risk areas.

Subsidizing the Rich. More than 70 percent of the coastline in the lower 48 states is privately owned, while state and local governments own most of the rest. Homes with beach access or an ocean view are highly valued. Thus flood insurance, beach-erosion control and disaster loans often subsidize higher income homeowners. According to the Heinz Center:

- The risk of erosion to property is comparable to the risk from flooding, especially along the shoreline.
- Nationwide, erosion causes property losses of approximately \$500 million per year.
- Over the next 60 years, coastal erosion may claim 25 percent of buildings within 500 feet of the U.S. shoreline, including 87,000 homes.

Corps projects that attempt to reduce damage to coastal properties by shore erosion, hurricanes and floods, make them arguably the largest contributor to coastal development. For instance, beach rebuilding has become the fastest growing area of the Corps' work, with federal taxpayers subsidizing 65 percent of the cost.

Replenishing beaches is an expensive, temporary solution to natural erosion. Each mile of beach must be replenished every four years at a cost of more than \$1 million per mile. As of 2001, the Corps had spent more than \$1.2 billion on 71 large shoreline protection projects, affecting 284 miles of the nation's 2,700 miles of "critical-erosion" coastline.

Private property owners and state governments benefit from Corps-funded beach replenishment. For example:

- The Corps has begun a \$10 million project to replenish two miles of beach on Captiva Island, Florida, although public access is essentially blocked by the South Seas Plantation, a privately-guarded, gated community.

- On North Carolina's scenic Outer Banks, the Corps is committing to spend \$1.8 billion to replenish and maintain 14.2 miles of beach for the next 50 years.

- In New Jersey, the Corps spent more than \$16 million for beach projects in 2003, and the state is currently seeking to widen all 127 miles of coastline, which could cost \$9 billion over the next 40 years.

Arguably, projects to reduce coastal erosion should be funded by the states, communities and businesses that directly benefit, not federal taxpayers.

Harming the Environment. Floodplain and coastal development harm the environment by displacing environmentally important wetland areas. According to the U.S. Fish and Wildlife Service, up to 43 percent of threatened and endangered species rely on wetlands for survival. Wetlands also improve water quality through filtration and often provide the same level of flood control as expensive dredge operations and levees. For instance:

- The Congaree Bottomland Hardwood Swamp in South Carolina eliminates the need for a \$5 million waste water treatment plant.
- In Georgia, researchers found a 2,500 acre wetland saves \$1 million in water pollution abatement costs annually.
- Replacing the natural flood control function of 5,000 acres of wetlands in Minnesota would cost \$1.5 million annually.
- The Corps found protecting wetlands along the Charles River in Boston, Mass., reduced potential flood damage by \$17 million.

Today, with less than half of the original 220 million acres of wetlands in the United States remaining, many object to the subsidized destruction of these valuable natural areas.

Conclusion. Government programs should neither subsidize those who choose to live in harm's way, nor encourage environmental destruction — but those are the results of NFIP, FEMA rebuilding loans and Corps beach restoration projects. Any development in high-risk areas should reflect its actual cost to the public and the environment and should be borne solely by the states, localities and individuals benefiting from them. Ending the subsidies would reduce the economic, human and environmental toll of natural disasters.

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