

Testimony of Vincent J. Matteo, DPA
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And
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Committee of the Commonwealth of Pennsylvania
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Regarding the
The Flood Insurance Reform Act of 2012 of the Congress of the United States of America

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Good Morning Senators. My Name is Vincent J. Matteo and I am the President/CEO of the Williamsport/Lycoming Chamber of Commerce and the Industrial Properties Corporation. Thank you for inviting me here today to discuss an issue that is critical to property owners, employers and employees. This issue, if not solved will, I believe force businesses to close, people to lose their jobs and entrepreneurs to see their dreams crushed. And, while it is an issue that needs to be resolved by those who created it in Washington, we all must be aware of the problem that exists and we all must pressure the President and Congress to act quickly to find a permanent solution.

As you might suspect, the Chamber is not normally in favor of government subsidies. We believe that government programs must stand on their own. However, there are times when, at least on a temporary basis, subsidies are in fact needed. The unintended consequences of the reauthorization of the national flood insurance program that are confronting both business owners and residents alike throughout the United States are premium rate increases that could force small businesses to close and individuals to lose their homes. It is an economic development nightmare for those of us charged with finding places for businesses to prosper, grow and create jobs.

This is not a case of people crying wolf. This is not a case of people looking for government handouts and assistance. Instead it is the case of people seeing their dreams destroyed by a law that was not, in my opinion, properly studied for its consequences and the impact it would have. We have met with a number of businesses throughout Lycoming County and the stories are all similar – large increases that many simply cannot afford to pay. We have received telephone calls and emails from business members and non- members alike who all tell the same story: They cannot afford the outrageous rate hikes they are being forced to endure and they could lose their properties and their businesses as a result. You will hear from one such property owner shortly.

I believe we are only now truly starting to discover the true consequences of the Biggert-Waters Flood Insurance Reform Act of 2012. FEMA claims that only about 5% of the people currently covered will receive large rate hikes. What they do not mention, or rather did not even consider, is that anyone receiving a subsidy now will basically have their property value lowered to, in essence, a zero value because, even though their property might be exempt from the increases now it will be when they try to sell it.

If you read the Frequently Asked Questions section on FEMA's web page regarding the bill, one answer they provide is revealing:

What happens if a policy with subsidized rates is allowed to lapse or the property is sold?

Answer: Starting this fall, for all currently subsidized policies, there will be an immediate increase to the full risk rates for all new and lapsed policies and upon the sale/purchase of a property. Full risk rates will be charged to the next owner of the policy.

I would like to ask each member of the United States Congress if they would buy one of these properties if offered to them at present fair market value price. I know I would not and I seriously doubt anyone else in this room would either. Thus, if there is no market for the property, then how do you set a "fair market value"? What the answer to the question really should say – is that ALL properties are impacted – especially if you want to sell it or if it is inherited and even those not in the flood plain.

Not being able to determine what the value of one of these properties will be has already had an unintended consequence on fair taxation in Lycoming County.

As I believe you heard earlier, the Lycoming County Commissioners decided to conduct a reassessment of properties in Lycoming County. Reassessments are rarely popular, but one knows they must be done. It is a matter of tax fairness and the Chamber endorsed the reassessment. Once the potential impact of Biggerts-Water started to be realized, the Commissioners began to believe a reassessment would not be fair or accurate until the issue of Biggert-Waters is resolved. We at the Chamber spoke with a number of realtors – both commercial and residential as well as some appraisers and all said it would be impossible to truly determine the value of the property under these circumstances. As a result of the answers we received we called upon the Commissioners to put a pause to the planned reassessment until such time as fair market values could be established not only for properties in the flood plain but for all properties as well. The Commissioners determined that was the correct course of action at this time.

Other consequences I have not heard answers too yet are:

1. What happens with Small Business Development loans? How will they rate a loan application for a property in a flood zone impacted by this Act? What will they do with current loans for folks who simply cannot afford flood insurance?
2. What happens to the values of properties that are not impacted in any direct way by the Act? Will their values go up artificially as a result of less marketable properties being available?

3. Will their taxes increase unfairly because properties with zero value will pay zero property taxes and will local and County governments as well as School Districts will raise their rates to make up the difference?

There are other questions I am sure but I think you understand what I am saying. This legislation has too many unanswered questions regarding its impact.

With that said, I am not here today with a solution. Even if Congress delays the rate hikes for now. I am not sure what the result of that will be but I do know a simple delay is just that: a delay –not a cure. So, what is the long term answer to this issue? I have no idea but I do believe that Biggert-Waters is bad legislation and should be repealed in its entirety and Congress must start over.

So, what can be done at the state level? First, the answer is NOT for the state to set up a program to help subsidize flood insurance as at least one member of the House of Representatives here in Harrisburg has hinted might be the thing to do. I disagree. This is a national problem that needs a national solution. What I believe Pennsylvania needs to do is for the members of the Senate and House to pass a joint resolution to be signed by the Governor and sent to the President and all members of Congress urging them to immediately repeal this mistake. We also need to enlist other states to assist in this effort and we need to make the pressure so great that Washington cannot ignore us.

You might fairly ask why, if I am not a supporter of subsidies, I support this one. This problem was caused when these subsidies were put into place by Washington over 40 years ago and you do not pull the rug out from people overnight – some who may never even realized their insurance was being subsidized. This is Washington's mess and therefore must be fixed by Washington. If not fixed it may well result in businesses being closed, jobs lost, render property values meaningless, artificially inflate the values of properties not in a flood plain and drive people from their homes and businesses not by flood waters but by premium increases. While it is easy to say they should abandon the properties, are you ready to abandon your property and, in the process, maybe even destroy your credit worthiness as well? I know I would not be ready to do that.