

The Florida Senate
BILL ANALYSIS AND FISCAL IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: The Professional Staff of the Committee on Military and Veterans Affairs, Space, and Domestic Security

BILL: CS/SM 1298

INTRODUCER: Military and Veterans Affairs, Space, and Domestic Security and Senator Brandes

SUBJECT: Disaster Savings Account Act

DATE: March 21, 2014

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Ryon/Spaulding</u>	<u>Ryon</u>	<u>MS</u>	<u>Fav/CS</u>
2.	_____	_____	<u>BI</u>	_____

Please see Section IX. for Additional Information:

COMMITTEE SUBSTITUTE - Substantial Changes

I. Summary:

CS/SM 1298 is a memorial to the Congress of the United States urging it to pass the Disaster Savings Account Act of 2014. This congressional proposal would allow homeowners to establish a tax-free savings account to be used for expenses to retrofit homes to make them more disaster-resistant.

II. Present Situation:

The Impact of Natural Disasters in the United States

Since 1980, the United States has been affected by 151 weather/climate disasters that resulted in over \$1 billion in damages for each event, costing U.S. taxpayers in excess of \$1 trillion in total damages.¹ Seventeen of those billion dollar disasters were hurricanes or severe flooding events that impacted Florida, causing \$321.5 billion in damages in affected states and resulted in 2,740 deaths.²

Florida's vulnerable geography and environment combined with the subtropical climate create continuous threats from these severe weather events.³ The state's susceptibility to these severe

¹ National Oceanic and Atmospheric Administration, *Billion-Dollar U.S. Weather/Climate Disasters 1980-2013*. Available at: <http://www.ncdc.noaa.gov/billions/events.pdf>.

² Id.

³ Florida Division of Emergency Management. *The State of Florida Tropical and Non-Tropical Severe Weather Annex to the 2012 Florida Comprehensive Emergency Management Plan*. Available at:

weather events is evidenced by its rank as the state with the fifth highest number of Federal Disaster Declarations⁴ over the past 60 years with 66 declarations.⁵

From an insurance perspective, Florida is significantly exposed to potential loss due to a storm or flood. The following bullets are characteristic of Florida's risk to natural disasters:

- Over 2 million National Flood Insurance Program (NFIP)⁶ policies are written on Florida properties, accounting for approximately 37 percent of the total policies written by the NFIP nationwide.⁷
- Florida was ranked as the most expensive state for homeowners insurance in 2011, with an average expenditure of \$1,933.⁸
- Florida has the highest number of properties at potential risk for hurricane-driven storm surge,⁹ with more than 1.4 million properties valued at more than \$386 billion.¹⁰
- The value of coastal exposure in Florida was nearly \$2.9 trillion in 2012, far exceeding the other gulf region states,¹¹ who have a combined coastal exposure of 1.6 trillion.¹²
- Six of the twelve most costly hurricanes in insurance history impacted Florida,¹³ with the following insured losses for each event:
 - Hurricane Andrew (1992): \$25.6 billion.
 - Hurricane Jeanne (2004): \$5.6 billion.
 - Hurricane Francis (2004): \$5.6 billion.
 - Hurricane Charley (2004): \$9.2 billion.
 - Hurricane Wilma (2005): \$11.1 billion.
 - Hurricane Katrina (2005): \$48.7 billion.¹⁴

<http://www.floridadisaster.org/documents/CEMP/2012/Tropical%20and%20Non-Tropical%20Severe%20Weather%20Annex%20-%202012.20.11.pdf>

⁴ At the request of a disaster impacted state's Governor, the President may declare that a major disaster or emergency exists, thus activating an array of Federal programs to assist in the response and recovery effort. Not all programs, however, are activated for every disaster.

⁵ Federal Emergency Management Agency. *Disaster Declarations by State/Tribal Government*. Available at: <http://www.fema.gov/disasters/grid/state-tribal-government>.

⁶ The NFIP is administered by the Federal Emergency Management Agency and provides property owners located in flood-prone areas the ability to purchase flood insurance protection from the federal government.

⁷ Federal Emergency Management Agency, NFIP Fiscal Year-End Statistics by State - Total Number of Policies in Force: As of September 30, 2013, http://www.fema.gov/media-library-data/1393877626658-20650668ddf12d6bf6da138a0136b385/Total_PIF_fy2013.pdf

⁸ Presentation to the Florida House of Representatives Insurance & Banking Subcommittee, by Lynne McChristian, Insurance Information Institute: "State of the Florida Property Insurance Market: Past, Present and Future," Feb. 19, 2014. p. 21. (Citing 2013 National Association of Insurance Commissioners). Available at <http://www.iii.org/assets/docs/pdf/Florida-021914.pdf>.

⁹ Storm surge is a complex phenomenon that occurs when water is pushed toward the shore through force of powerful winds associated with cyclonic storms. Storm surge has the potential to cause tremendous property loss, resulting in billions of dollars in property damage. *See infra* note 10, at 5 and 10.

¹⁰ Core Logic. *2013 Storm Surge Report*. p. 13. Available at: <http://www.corelogic.com/about-us/researchtrends/storm-surge-report.aspx>.

¹¹ Gulf region states, sometime referred to as "hurricane alley," include: Florida, Alabama, Mississippi, Louisiana, and Texas.

¹² *See supra* note 8, at 45.

¹³ *See supra* note 8, at 44.

¹⁴ *Id.*

Disaster Mitigation

Mitigation is the effort to reduce the loss of life and property by lessening the impact of disasters.¹⁵ Mitigation creates safer communities by reducing loss of life and property, enables individuals to recover more rapidly from floods and other disasters, and lessens the financial impact to the local, state, and federal government.¹⁶ Mainly funded by grants from state and federal resources, mitigation has also been successful in avoiding flood losses, reducing the need for public sheltering, and reducing the cost of disaster response and recovery.¹⁷ Examples of mitigation efforts include the elevation or relocation of chronically flood-damaged homes away from flood hazard areas, retrofitting buildings to make them resistant to earthquakes or strong winds, and adoption and enforcement of adequate building codes and standards set by local, state and federal governments.¹⁸

The Federal Emergency Management Agency (FEMA) manages various grant programs to encourage individuals and communities to take proactive steps to prepare for storms and flooding to mitigate losses and damages. FEMA's Hazard Mitigation Grant Program provides grants to states and local governments to implement long-term hazard mitigation measures after a major disaster declaration.¹⁹ Additionally, FEMA's Flood Mitigation Assistance Program provides funding to states and communities to implement measures that reduce or eliminate the long-term risk of flood damage to buildings, manufactured homes, and other structures.²⁰ A 2005 study found that on average, a dollar spent by FEMA on hazard mitigation provides the nation \$4 in future benefits.²¹

The Florida Division of Emergency Management supports hazard mitigation in the state by providing assistance to communities through the Residential Construction Mitigation Program. This program promotes wind mitigation and funds hazard mitigation upgrades for residents.

The Disaster Savings Account Act of 2014

The Disaster Savings Accounts Act of 2014 is a pending congressional proposal to amend the Internal Revenue Code to allow homeowners to establish a tax-exempt savings account exclusively for the purpose of paying qualified disaster mitigation and disaster recovery expenses.²² H.R. 3989 (U.S. Representative Dennis Ross) and S. 1991 (U.S. Senator Jim Inhofe) provide a deduction from gross income up to \$5,000 in a taxable year for cash contributions to

¹⁵ Federal Emergency Management Agency. *Mitigation's Value to Society Fact Sheet*. Available at: http://www.fema.gov/media-library-data/20130726-1621-20490-9581/mitigationvaluetosociety_2012.pdf.

¹⁶ *Id.*

¹⁷ Florida Division of Emergency Management. *State of Florida Hazard Mitigation Plan*. 2013. Available at: [http://www.floridadisaster.org/Mitigation/State/documents/2013stateplan/Executive%20Summary%20\(final%20draft\).pdf](http://www.floridadisaster.org/Mitigation/State/documents/2013stateplan/Executive%20Summary%20(final%20draft).pdf)

¹⁸ Federal Emergency Management Agency. *The Disaster Process & Disaster Aid Programs*. Available at: <http://www.fema.gov/disaster-process-disaster-aid-programs>

¹⁹ 42 U.S.C. s. 5131

²⁰ 42 U.S.C. s. 4101

²¹ Multihazard Mitigation Council. *Natural Hazard Mitigation Saves: An Independent Study to Assess the Future Savings from Mitigation Activities*. 2005. Available at: http://c.ymcdn.com/sites/www.nibs.org/resource/resmgr/MMC/hms_vol1.pdf.

²² H.R. 3989, 113th Cong. (February 4, 2014); S. 1991, 113th Cong. (February 4, 2014)

such account.²³ Homeowners may expend funds from their disaster savings account for the following mitigation expenses:

- Safe rooms;²⁴
- Opening protection (i.e., impact and wind resistant windows, exterior doors, garage doors);
- Reinforcement of roof-to-wall and floor-to-wall connections for wind or seismic activity;
- Roof covering for impact, fire, or high wind resistance;
- Cripple and shear walls to resist seismic activity;²⁵
- Flood resistant building materials;
- Elevating structures and utilities above base flood elevation;
- Lightning protection systems;
- Whole home standby generators; and
- Any activity specified by the Secretary of the Treasury as appropriate to mitigate the risks of future hazards.

Additionally, under the proposal, homeowners may expend funds from their disaster savings account to replace or repair disaster-related uninsured personal casualty personal losses totaling \$3,000 or greater.

III. Effect of Proposed Changes:

The memorial urges the Congress of the United States to pass the Disaster Savings Account Act of 2014 creating disaster savings accounts to pay expenses for mitigating the effects of a disaster.

If passed, copies of CS/SM 1298 are to be dispatched to the President of the United States, to the President of the United States Senate, to the Speaker of the United States House of Representatives, and to each member of the Florida delegation to the United States Congress.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

²³ Other congressionally approved tax-advantaged savings account include Individual Retirement Accounts (IRAs) and Health Savings Accounts (HSAs).

²⁴ A safe room is a hardened structure specifically designed to provide "near-absolute protection" in extreme weather events, including tornadoes and hurricanes.

²⁵ Cripple walls are short exterior walls built on top of foundation walls to create a crawlspace. These walls are built to carry the entire weight of the house. During an earthquake, cripple walls must sustain lateral (horizontal) movement and are at risk of failure. This can cause the house to collapse or shift significantly, often off its foundation. Cripple walls were a common construction practice in west coast homes until 1950.

V. Fiscal Impact Statement:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

None.

C. Government Sector Impact:

None.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Statutes Affected:

None.

IX. Additional Information:A. Committee Substitute – Statement of Substantial Changes:
(Summarizing differences between the Committee Substitute and the prior version of the bill.)**CS by Military and Veterans Affairs, Space, and Domestic Security on March 19, 2014:**

The committee substitute elaborates on the unique risk of hurricanes and floods to Florida and the benefits of hazard mitigation to society.

B. Amendments:

None.