

Local Government Insurance Trust

RISK MANAGEMENT BULLETIN

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Securing Financial Aid for Declared Emergencies

No FEMA Public Assistance (PA) for deductibles, self-insurance programs, inadequate insurance limits, uninsured perils even for catastrophic perils such as flood, wind and earthquake in a declared emergency? Yes, it's possible, unfortunately. The purpose of this bulletin is to help our members avoid the pitfalls of maximizing their FEMA PA requests.

Since flood insurance is typically an optional coverage and due to availability and affordability problems, this bulletin will focus on the flood peril only. Note, however, the principles herein apply to damages by all perils to obtain federal assistance.

FEMA states that flood insurance is required for **ALL** flood zones, even non-Special Flood Hazard Areas (SFHA). Inadequate or no flood coverage could mean the FEMA PA could be reduced by \$500,000 per building and \$500,000 for contents (\$1,000,000 total loss of FEMA PA) which are the maximum limits offered by the National Flood Insurance Program (NFIP).

While we can assist in securing NFIP coverage that offers deductibles of \$250 or higher, we recommend purchasing LGIT flood insurance to prevent any reduction in FEMA PA. Note, that no FEMA PA may be obtainable for any amount above these NFIP limits where the property's values are higher (i.e., an underinsured building). The FEMA PA requires property to be insured to its proper value versus to only maximum NFIP limits. The FEMA PA requirement makes it even more important that PA applicants make sure their properties are insured to value meaning, in most cases if not all, Replacement Cost, or risk losing FEMA PA. Furthermore, it must be noted that NFIP provides only Actual Cash Value (ACV) coverage which may be inadequate to secure FEMA PA. Remember, property must be insured to value which most of the time means at Replacement Cost Value versus the limited ACV coverage (Typically, ACV = RCV – actual depreciation). This problem arises from discrepancies between NFIP and FEMA PA rules.

While LGIT flood coverage provides a \$5,000,000 limit, it is NOT an automatic or standard coverage. Flood coverage is **OPTIONAL** for an additional fee that must be requested (SPECIAL NOTE: LGIT includes optional Earthquake coverage for FREE when the optional flood coverage is chosen). LGIT provides a \$5,000,000 limit per occurrence and annual aggregate for all flood zones including the SFHA (i.e., Flood zones A & V).

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The LGIT Flood deductible is a Member's chosen Property Deductible for all Non-SFHA (flood zones other than A and V). The SFHA 100 year zones A and V flood deductible is \$25,000 per structure in the LGIT program and LGIT provides Replacement Cost Value (RCV) for all flood zones except for A & V zones. FEMA will also consider the availability and affordability of insurance in determining federal assistance.

IMPORTANT: Another major reason to purchase the optional flood coverage (earthquake too) is that insurance policies exclude damages by other perils if concurrent with an uninsured flood (earthquake too) peril. This was a major problem with the property claims in Louisiana's Hurricane Katrina. Many insured wind and rain claims were denied or payments severely reduced because the uninsured flood peril was involved in causing the loss.

Therefore, we recommend identifying and scheduling all buildings and other structures and purchasing the optional Flood coverage for the reasons stated above (i.e. loss of FEMA money for flood damage without flood coverage) at your earliest convenience to prevent losing considerable FEMA PA.

We will be happy to assist you in identifying whether your buildings are in the SFHA or not if you are unable to do so. However, this will delay coverage as it will take time for us to make this determination.

Again, buildings and contents must be identified as a SFHA or not and scheduled to secure the LGIT Flood coverage. In other words, if a SFHA location is not listed on your Flood Schedule, it is NOT covered for the peril of flood.

Please note that the new federal regulations released by FEMA may be challenged by some members of Congress and by groups like the National League of Cities so there's a chance that some of them may be modified.

Should you desire LGIT Flood coverage, please contact:

1. Hank Schomburg, Director of Loss Control and Underwriting
2. Scott Soderstrom, Managing Underwriter
3. Ellen Nudd, Underwriter

Please do not hesitate to contact us with any questions.

This bulletin is intended to be merely informational and is not intended to be used as the basis for any compliance with Federal, State or local laws, regulations or rules, nor is it intended to substitute for the advice of legal counsel.