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Little Hoover Commission Testimony
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Good morning. My name is Harvey Ryland. I am president and chief executive officer of the Institute for Business & Home Safety. We are a national nonprofit initiative of the insurance industry. Our mission is to reduce the social and economic effects of natural disasters and other property losses by conducting research and advocating improved construction, maintenance and preparation practices.

Earthquakes and other natural disasters are terrible events. They injure and kill people, destroy homes and businesses and steal jobs. But these consequences are not inevitable. We know how to protect people and property from natural disaster. We know how to reduce the damage to homes and to increase protection for occupants. We know how to increase the protection for business properties and help preserve jobs. Unfortunately, we are not fully using this knowledge.

Most public and private segments of our society can contribute to improving this situation, including the state of California. Therefore, my testimony this morning will present opportunities for the state to significantly increase the protection for its residents with actions that are readily achieved and require reasonable levels of resources.

To illustrate this point, I will show a two-minute video of a simulated moderate earthquake. In it, you'll see a living room occupied by a family of crash test dummies. The simulation is run twice; once without non-structural protection in place and again with non-structural protection in place. When there was no protection, I'm sorry to tell you that we had a fatality. As you will see, the father was probably killed. When non-structural protection is in place, you will see very minimal damage. What was the difference? The non-structural earthquake protection took less than one-hour of time and less than \$10.00 worth of materials. I think you will agree that this is a reasonable effort and yet it has the potential to not only save lives and reduce injuries, but also to reduce internal damage.

For the balance of my testimony I will concentrate on two areas where the State of California can have a significant impact on protecting homes and businesses. The first area is consumer awareness and education. By "consumer" I mean homeowners, tenants and business owners and managers. The second area deals with incentives for people to incorporate disaster-resistant features in new residential and commercial construction as well as to retro-fit existing buildings.

Consumer Awareness and Education:

Disaster education and awareness means understanding this key concept-- where you live determines how you build. It is first critical for residents of the state to be aware of the disaster risk where they live and where they work because without awareness, there will be no action. Once people are aware, we must educate them as to the steps that they can take to reduce their risks from such events. There are many organizations and government agencies that provide this information, which is a good thing. But it's important that these messages be coordinated and that consistent terminology and recommendations be used, otherwise the consumer will become confused and lose interest.

Recommendation #1: The State of California should take a leadership role in coordinating disaster protection messages within the state.

For example, research conducted for the Institute for Business & Home Safety shows that consumers believe the word "mitigation" sounds too much like "litigation" and so has a negative connotation. This suggests we should not use it in our messages, but instead use terms like "property protection," "damage prevention" and so forth.

Recommendation #2: The State of California should establish a strong working relationship with the news media to promote awareness and education.

Research indicates that one effective way to reach consumers is through the news media. That is, people are more likely to trust the information and take action when an anchor person or reporter tells them they should do it or they see a recommendation in a newspaper. After we have their attention, then we can provide written materials to assist them in taking action.

Incentives For Disaster Protection For Homes And Businesses:

Research conducted for IBHS indicates that people are more likely to take protective actions when economic incentives are available. That is, they are more likely to incorporate strong disaster-resistant features in new construction, as well as to retro-fit existing homes and buildings when such incentives are provided. There are many types of incentives that could be offered by government, utilities, financial institutions and businesses.

All levels of government have the opportunity to provide economic incentives for disaster prevention. Recently, researchers responding to a request from the U.S. House of Representatives Appropriations Committee determined that for each dollar spent by the Federal Emergency Management Agency for mitigating natural hazards, approximately \$4 was saved from what would have eventually been spent on correcting damages. This adds up to billions of dollars saved over

time. In the same manner, financial incentives for homeowner and business owner preparedness can save money in the long run.

Recommendation #3: The State of California should identify and provide all reasonable economic incentives for disaster protection for homes and businesses in California. One such incentive might be to exclude related improvements from the calculation of real estate taxes. Another is to exclude sales taxes from the cost of materials needed for structural and non-structural protection. And at the local level, remodeling permit fees should be eliminated or reduced when a disaster-resistant structure is being built and the applicant for the permit should receive the highest priority and be moved to the “head of the line.”

For example, the State of Florida established a “tax holiday” during the period June 1 – 12, 2005 for certain hurricane preparedness items. During this period, sales tax was not charged on such items as inexpensive as flashlights and batteries and as expensive as generators, which were in great demand during the “holiday.”

And California’s Proposition 127 barred increases in property tax on structures that were retro-fitted to withstand earthquake damage between January 1, 1991 and July 1, 2000 unless the property changed ownership.

Some government officials might say they can’t afford to give up the property tax or sales tax revenue associated with these actions. However, it is my belief that without these incentives fewer actions will be taken and there will be no additional revenue anyway but, instead, when an event occurs the state and local governments will be saddled with the responsibility to provide a greater level of services to these homes and businesses that were not protected.

Recommendation #4: The State of California should work through its congressional representatives to encourage the federal government to provide all reasonable incentives for protecting homes and businesses. There is already precedent for federal government incentives that encourage disaster mitigation. The National Flood Insurance Program discounts insurance premiums in cities and villages in the Community Rating System, a voluntary incentive program that recognizes and encourages community floodplain management activities that exceed the minimum NFIP requirements. The size of the discount depends on the amount of flood risk reduction and related efforts, such as dissemination of flood information to the public. Discounts up to 45 percent are possible.

And the federal Energy Policy Act of 2005 includes tax incentives for consumers in 2006 and 2007 for the purchase of energy efficient homes and appliances such as air conditioners, water heaters, boilers, and furnaces. Similar incentives could be granted for construction that provides a high degree of disaster resistance.

In exchange for such incentives, the local, state and federal governments would be gaining the economic sustainability of communities. They would also be reducing the costs of responding to disasters, as fewer people would need to be protected, sheltered and housed at government expense.

In my opinion, every business that sells a product or service to a homeowner, occupant or to another business should also provide an incentive for increased disaster protection. For example, mortgage companies should give preferential interest rates and/or closing cost discounts for construction loans, home improvement loans, as well as mortgages.

Lenders are by no means the only businesses that could offer incentives. Utility companies, such as energy, telephone and cable, could offer discounts to owners of disaster-resistant homes. They might, for example, offer a 5% discount on monthly service fees. So could appliance stores, moving companies, lawn maintenance firms and other businesses that sell products or services to homeowners.

It is in their interest to do so. Our research shows that 25 percent of businesses go out of business after closing because of a natural disaster. Many times they close not because of direct damage but because of the loss of customers who were affected by the disaster. Hundreds of thousands of residents of New Orleans and nearby areas still have not returned to their homes. Customers are gone. Many of the closed businesses will never reopen because they do not have the resources to last until their customers return.

Recommendation #5: The State of California should promote and encourage businesses to provide economic incentives for disaster protection for homes and businesses.

In summary, we do know how to better protect people and property from earthquakes and other types of natural disasters. We also know ways to educate the state's citizens on these actions and that one way to motivate them to take action is through financial incentives. I encourage the State of California to immediately step up its efforts in these areas.

If we do not increase protection of homes and businesses now, when will we do so? If both the private and public sectors are not going to do this, then who is?

Thank you for the opportunity to address the commission.