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How a Minor Storm Could Bankrupt Florida

By Eli Lehrer

Here's one scary Halloween scenario that could easily come true: By trick-or-treat time, just past the hurricane season's peak, Florida's state government easily could be bankrupt -- and its taxpayers reeling from enormous new costs -- unless the Legislature abruptly changes course.

This particular risk of a fiscal meltdown doesn't arise from the housing crisis or the slumping national economy, although those factors are causing the state's revenue projections to be dire enough.

No, this particular danger arises from the state's enormously misguided stance on property insurance. If a storm -- even a relatively minor one -- were to hit the wrong area of Florida, the Citizens Property Insurance Corporation and Florida Hurricane Catastrophe Fund could quickly run up bills topping \$30 billion.

How does the state plan to pay those bills? By selling bonds -- *lots* of bonds. Yet no state has ever sold more than \$11 billion in bonds at one time, so it's highly unlikely that today's skittish bond markets would buy that much debt from a storm-battered state with sluggish economy and a shrunken tax base.

As a result, Florida would be faced with some unenviable choices: massive tax increases, deep service cuts, or, most

likely, some sort of federally supervised bankruptcy. If Floridians think a botched election soiled their reputation, just wait until the state goes broke.

The situation won't get any better until Florida's private insurance market is restored so property owners can be compensated using private capital gleaned from a broad base around the nation rather than from public funds collected in Florida.

In the past year, however, nearly all of the insurance industry's major companies -- State Farm, USAA, Nationwide, Allstate, Travelers, and the Hartford -- have reduced their exposure in Florida.

Meanwhile, Citizens' artificially low rates, coupled with the Cat Fund's massive potential liabilities, virtually guarantee that there won't be enough money on hand to cover losses if even a minor storm hits a densely populated areas.

So covering this shortage will require massive new taxes (called special assessments on insurance premiums) that could easily double the premiums that Floridians pay to insure their property *and* their vehicles.

No plan that would solve these problems has even made it out of a legislative committee to date, and nobody

I talked to during a recent visit to the Legislature believed that such a plan would emerge before the House and Senate go home on May 2.

Instead, the Legislature has concerned itself with a variety of measures that would tweak things around the edges, and some of these modest steps could pull the state back from the brink. For instance, Chief Financial Officer Alex Sink's proposal to reduce the size of the Cat Fund should top the legislative priority list. Although that wouldn't solve all the state's insurance problems tomorrow—something the CFO herself readily concedes--it still reduces the chances of a state bankruptcy.

Likewise, proposed legislation requiring that the state's insurance regulators reveal the methods they use to evaluate insurance companies' rate filings might give some private companies enough regulatory certainty to resume writing policies in the state.

But several bills advancing in the Legislature simply don't make sense. For example, proposals to remove insurers' anti-trust exemptions would destroy smaller Florida-based insurance companies and, in any case, almost certainly violate longstanding federal law.

New penalties for "unfair competition" would create a bonanza for lawyers -- both those working for plaintiffs and those working for insurance companies. However, the costs of

litigation would probably be enough to drive up rates for everyone.

Finally, a plan to raid Citizens' already near-empty coffers to subsidize "private" startup insurers would allow private investors to reap significant profits so long as Florida remains storm free, but would likely leave taxpayers footing the bill if a storm came. At the same time, it could destabilize already shaky Citizens and send it tumbling towards bankruptcy.

Even if lawmakers defeated every bad proposal Florida still could face bankruptcy if the wrong storm hit because a real fix evidently will have to wait until 2009, which is not an election year.

Even so, if common-sense legislation were to pass this year, it could at least reduce the risks to Florida's taxpayers. Conversely, the wrong proposals, coupled with the wrong storm, could make bankruptcy almost inevitable.

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