**Eli Lehrer: Florida Legislature must act swiftly to fix Citizens insurance, Catastrophe Fund**

**Florida budget deficit drop in the bucket ... ... compared with what all of us will owe if a major hurricane strikes**

By Eli Lehrer

Sunday, February 27, 2011

Sometime soon — maybe even this year — the run of good luck that has brought Florida five consecutive hurricane-free years will end. When it does, the state could face a fiscal crisis that would make this year's $3.6 billion budget gap appear trivial.

If legislators do not quickly enact reforms that cut the size of the Florida Citizens Property Insurance Corp., reform the state's Hurricane Catastrophe Fund and improve the safety of the state's built environment, quite simply, they will not have done their jobs.

A look at the facts about Citizens and the Cat Fund shows just how serious the situation has become. Consider:

Citizens, a state government agency that sells property insurance to about a quarter of all Floridians, could force taxpayers to shell out billions for damage to homes all across the state.

The state-run Hurricane Catastrophe Fund, which sells discount-rate reinsurance (insurance for insurance companies) to Citizens and all of the states' private insurers has about $4 billion in hard assets to pay for claims that theoretically could top $24 billion.

To pay off these bills, the Cat Fund would have collect about $6,000 from each family of four to pay them off. There's no practical way for the state to collect this much revenue under current laws so Florida might have to seek some sort of bankruptcy-like protection to stay afloat.

As bad as all this sounds, change is possible. In fact, a few reasonably simple actions could fix the system without causing major disruptions for Florida residents.

Proposals that shrink Citizens should come first. Rather than abolishing Citizens immediately, as desired by some in the insurance industry, the Legislature should take a middle course and work to shrink Citizens 60 percent over four years. A gradual reduction in Citizens' size and scope would significantly cut the liability imposed on taxpayers while still providing "last resort" coverage for those who need it.

Changes to the Cat Fund, likewise, would make the state more secure against hurricanes while simultaneously removing liabilities from taxpayers. Instead of using the Cat Fund to displace private reinsurance, the Legislature should shrink the Cat Fund's overall size and ensure it has a mix of cash and private market risk-transfer instruments (bonds and reinsurance) to pay any potential claims.

Finally, the Legislature should work to make Florida's homeowners safer. While significant new spending isn't practical, creative use of existing federal grant dollars, a revival of the hurricane mitigation sales tax holiday (last observed in 2007), and a prohibition of state subsidies for building in environmentally-sensitive areas would all help reduce insurance rates while making residents safer.

In the end, Florida must realize that poorly conceived regulations and market interventions sit at the root of its problems with property insurance. The state cannot avoid storms and one way or another, its residents will pay the costs implicit in living on a low-lying peninsula in the middle of a hurricane-zone.

Citizens, competing directly with private insurers, and the Cat Fund, making promises that it cannot keep, have made it almost impossible for nationally known private insurers to write new policies in Florida. This has left taxpayers with a huge tab.

If state leaders reform Citizens, shrink the Cat Fund and make its residents safer, Florida can and should expect private firms to return and relieve taxpayers of the enormous risks implicit in retaining the current, broken property insurance system.

Eli Lehrer is an adjunct scholar of the James Madison Institute, a free-market think tank in Tallahassee, and vice president of the Heartland Institute.