

Hurricane Blinders

Florida Republicans pray the wind doesn't blow

The Atlantic hurricane season is winding down without a disaster for Florida, but evidence continues to build that the state's taxpayers will get walloped sooner or later. The state's own hurricane reinsurer now admits its 12-month funding shortfall for claims is \$3.2 billion.

That estimate is based on the taxpayer-backed Florida Hurricane Catastrophic Fund's cash on hand, its investment income and the amount banks estimate the fund could raise in municipal bond markets, if needed. Uh-oh.

The Cat Fund was supposed to be a reinsurer of last resort but was expanded far beyond a prudent size in 2007, thanks to former Governor Charlie Crist. If a big storm hits the hurricane-prone state, insurers with Cat Fund coverage have to absorb \$7 billion in losses first. If the losses are larger, the Cat Fund starts paying claims with cash on hand, which currently totals \$7.2 billion. If the damage exceeds that \$14.2 billion, then the Cat Fund must turn to the capital markets.

In headier financial times, the Cat Fund estimated it could raise as much as \$27.8 billion. Those days are over. The Cat Fund estimated in May it could raise \$12 billion and now it is \$8 billion. In any event, Florida consumers will ultimately pay the bill. If the Cat Fund must issue bonds, it levies "assessments"—a code name for a tax—on the state's property and casualty insurance holders to pay interest and repay principal. Only workers' compensation and medical malpractice insurance holders are exempt—Mr. Crist's nod to the tort bar.

Lest you think \$14 billion is enough, consider that Category 5 Hurricane Andrew caused \$26.5 billion in damage in 1992, according to the National Hurricane Center. Wilma, which hit in 2005 as a Category 3, cost \$21 billion.

If the fund couldn't pay its claims, some of the state's insurers would likely go bust. The Cat Fund's chief operating officer, Jack Nicholson, characterizes that problem as potentially "significant." He is promoting legislation to reduce the fund's size and shore up its finances. The time to do that is before the next big one hits, but Florida's ruling Republicans continue to behave as if this is someone else's problem.