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REVIEW & OUTLOOK

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## Florida's Hurricane Reform Winds

*Politicians are finally making plans to protect taxpayers.*

Florida marked the end of its sixth straight season without a hurricane landfall last month, and the U.S. marked the longest stretch without a major storm since the beginning of reliable records in 1851. Even more remarkably, state politicians and Republican Governor Rick Scott are starting to reform two taxpayer-backed catastrophic insurance funds in advance of the next big wind.

Earlier this month, Boca Raton Representative Bill Hager unveiled HB 833, which would shape up the Florida Hurricane Catastrophe Fund, a state-run reinsurer. It's a courageous step given that any reform of the Cat Fund, as it's known, will mean higher premiums. And no one hates higher insurance costs than Floridians, who have the "tendency," as former representative Don Brown quips, to "build in very dangerous places and expect someone else to pay the bill." That "someone else" are other Floridians and national taxpayers.

In 2007, the Charlie Crist Administration expanded the Cat Fund from an emergency reinsurer of last resort to a major player in the market. Today, the Cat Fund has \$7.2 billion cash on hand and expects it could raise \$8 billion in bond markets in an emergency, but a Category 5 hurricane or a series of small storms could do far more damage.

In that event the Cat Fund can levy a special tax on property and casualty insurers (excluding medical malpractice and workers' compensation schemes) that will pass that cost to policy holders, assuming those insurers are still in business. If the shortfall gets too big, expect Tallahassee to go cap in hand to Washington.

Mr. Hager's plan would reduce the Cat Fund's overall size, boost its capital buffer and limit its ability to levy emergency taxes to cover unexpected fiscal shortfalls. Mr. Hager is a particularly notable sponsor, given his experience as a former Iowa insurance commissioner and assistant attorney general.

Governor Scott is also pushing to reform Florida's other taxpayer-backed fiscal basket case, Citizens Property Insurance Corp., an insurer that was also expanded beyond its means in 2007. On current projections, Citizens would have to tap policy holders for billions of dollars in the event of a big storm. Citizens also depends on—wait for it—the Cat Fund for its reinsurance. Mr. Scott asked Citizens's executives last month to figure out ways to shore up the company's finances, and they presented their ideas to the Governor last week.

Mr. Scott and his allies may get little immediate political benefit from backing such forward-thinking reforms. If anything, it's a political negative to promote higher insurance costs without the cover of a big natural disaster to justify them, which is why Representatives like New Port Richey's Mike Fasano have so vociferously blocked past reform efforts. To which the response should be: Political leaders worth the name try to prevent problems before they become crises.