Florida’s hurricane ‘Cat Fund’ not on as solid ground as some say

By TOM FEENEY
Special to The Tampa Tribune

The rosy picture laid out recently about the Florida Hurricane Catastrophe Fund’s status isn’t quite so rosy once you look at the facts and consider the financial damage a storm would do to our state given our reliance on government mechanisms and public debt rather than private capital.

The managers of the Cat Fund have done an able job in the context of a challenging statutory mandatory mandate. And the fund’s own managers have warned us that the Cat Fund is not as “flush with cash” as some might think, leaving all Floridians, including business owners and homeowners, financially vulnerable this hurricane season.

Thanks to a dollop of good luck, the fund has indeed built up more cash assets than it has had in past years, but the balance of mammoth obligations would be met by issuing new bonds — debt that all Floridians will wind up paying through “hurricane taxes” levied as assessments on policies statewide.

For the businesses and working families that will pay these assessments, the ability to borrow more to fund the obligations of homeowners clustered in high-risk locations is a glass half full. Moreover, the Cat Fund’s managers report that it wouldn’t take more than one major storm or a series of smaller storms over one or two years to deplete the funds and borrowing capacity estimated to be available to the Cat Fund.

Floridians have gotten used to hurricane-free storm seasons. In fact, Wilma in 2005 was the last to directly hit the state. That storm caused roughly $20 billion damage, which would be more than enough to deplete the cash and bonding capacity of the current fund.

It is unwise to assume that this run of luck will continue and inaccurate to conclude that the Cat Fund’s problems have been solved.

Many Florida businesses, homeowners and families who rent, including those who do not receive any benefit from the Cat Fund, are still paying “hurricane tax” on their insurance premiums from a storm that hit the state almost a decade ago. Under the current structure of the Cat Fund, assuming no worse than Florida’s historical experiences with hurricanes, this will continue in perpetuity.

What Florida needs is protection from the global private markets. By spreading the risk to other parts of the country and world, Floridians will be better protected, rather than relying on a state-run fund whose balance will run dry and whose parachute is significantly funded by bonding capacity.

The private market has better rates and more capacity than have been seen in years past. State-sponsored entities the world over, from Florida’s Citizens Insurance, to the newly formed specialist hybrid mutual Africa

Risk Capacity Insurance Co. Ltd., have taken advantage of this historic abundance of risk capital. The professional managers of the Cat Fund wisely recommended that it do the same.

The time to act is now, and the State Board of Administration — the governor, chief financial officer and attorney general — has a unique ability to protect Floridians financially. Florida's economy is strong, but without proper planning, the work in recent years to increase jobs and stabilize the state financially could be lost. Both businesses and consumers will be left holding the bag if this is the year Florida gets hit.

Though no one can stop a hurricane, Florida's government must take the necessary steps it can to prevent a hurricane's wrath from crippling the state financially. Investing in sensible risk-transfer protection will put Florida in a better place. Until then, we'll see whether the picture looks as rosy in November as some make it out to be today.

Tom Feeney is the president and CEO of Associated Industries of Florida.