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TO: Sean Sullivan, Executive Director
FROM: Donald D. Conn, General Counsel
DATE: May 31, 2018
SUBJECT: Florida Hurricane Catastrophe Fund

During the last meeting of the Tampa Bay Regional Resiliency Steering Committee, there was discussion about the Florida Hurricane Catastrophe Fund as a possible model that could be used to address and remediate catastrophic impacts of sea level rise. With your approval, I undertook some research into how the Fund was created and how it operates. I reviewed Florida Statute 215.555 which created the Fund and sets forth its powers and duties, and also the Fund's 2017 Annual Report.

In summary, I have found that:

- The Fund was originally created by the Legislature in 1993 after Hurricane Andrew and has been the subject of many legislative amendments over the years, the most recent being in 2017;
- The State Board of Administration, comprised of the Governor, Attorney General and Chief Financial Officer, provides direction to and control of the Fund;
- It is a state trust fund that provides reimbursement to residential property insurance companies for a portion of their catastrophic hurricane losses, similar to private reinsurance;
- The Fund provides coverage to insurers at a lower cost than the private market because it does not include a profit factor and it is exempt from federal taxes;
- Participation in the Fund is mandatory for residential property insurance companies, and there are currently 160 participating insurers;

- Each insurance company is required to enter into a reimbursement contract with the Fund by which the Fund promises to reimburse the insurer a percentage of the company's total residential losses for each hurricane;
- Each insurer is charged an actuarially-determined premium for coverage that is provided by the Fund;
- For 2017-18 reimbursement premiums totaled \$1.128 billion;
- The Fund can also issue tax exempt revenue bonds to supplement its cash balance to meet its obligations, and the bonds are backed by assessments on most types of property and casualty insurance premiums;
- Annually each participating insurance company must report their exposure, including their insured values by zip code, construction type and line of business;
- Due to 10 hurricane-free years from 2006 through 2015, the Fund had accumulated a cash balance of \$15 billion as of December 31, 2017, but this does not account for an actuarially projected \$2 billion loss due to Hurricane Irma;
- The Fund currently has a statutorily mandated obligation limit of \$17 billion.

While the Interlocal Governmental Cooperation Act (Florida Statute 163.01) grants local governments broad powers to enter into agreements to make the most effective and efficient use of their powers, legislative authorization would be needed to establish a trust fund for catastrophic sea level rise losses similar to the Hurricane Catastrophe Fund if that sea level rise catastrophe fund were to be supported through actuarially determined premiums paid by residential property insurers and tax-free revenue bonds.

However, if local governments are willing to provide funding for a sea level rise catastrophe fund through actuarially determined local government contributions, assessments and bonds, it might be possible to structure an interlocal agreement that would accomplish this purpose. This would have to be looked at carefully with thorough legal and financial review by each local government in order to assess its feasibility and impact on local government resources.