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Fla. finds state allies in renewed push for federal hurricane insurance help

Officials from four states vulnerable to rising climatic trauma hope to finalize legislation this week that would vastly expand the federal government's financial responsibility during hurricanes and earthquakes.

The emerging bill seeks to make the U.S. Treasury the co-signer for up to $80 billion in loans received by ailing public insurance programs in Florida and three other susceptible states -- California, Louisiana and Texas -- as described by participants.

It's a controversial concept, but one that supporters say is needed -- and fast -- to buttress state-run catastrophe funds responsible for paying billions in insurance claims after natural calamities, like hurricanes, which scientists say are gaining power from warmer seas associated with climate change.

A ticking countdown to hurricane season will color Washington this week, when state officials overseeing these so-called "cat funds" will meet with lawmakers drafting the legislation. The timing is critical for several of these states, whose public funds are running on empty.

Florida has perhaps the most to lose if the bill fails. The state's cat fund, which reinsures Florida's massive public insurance company, Citizens Property Insurance Corp., has a shortfall of about $14 billion.

That has sparked threats by credit rating agencies about downgrading Citizens' credit score, a move that state officials say could force the public insurer to stop writing policies. Some existing contracts might have to be canceled.

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That could amount to a financial body blow for a state already in the bull's eye of the global financial collapse. Home buyers might be barred by lenders from purchasing property, and homeowners could be technically at default for failing to have property insurance.

"We're running out of time," Alex Sink, Florida's chief financial officer, warned last week. "It is a potentially serious situation for our economy."

Feds pay only if 'something goes bad'

The legislation would provide state cat funds with a muscular form of collateral: Uncle Sam's signature. The funds tend to lack adequate surplus, so they have to borrow billions by issuing bonds when a natural cataclysm strikes. But those sources of capital have been drying up, and the funds' ability to pay claims is imperiled.

The Texas Windstorm Insurance Association, for example, is bone dry. Hurricane Ike drained its reserve account last year. If a big storm hurls ashore in the looming hurricane season, debt is the primary recourse for rebuilding. And it's hard to get.

"Selling bonds, if they're 100 percent backed by the federal government, would be a hell of a lot easier," said Jim Oliver, who runs the Texas program.

A draft of the legislation would allow each of the four states to use the power of the Treasury to borrow between $5 billion and $20 billion from the capital markets, Oliver said. That money would be repaid by applying additional fees, called assessments, on private insurers and policyholders.

Other states also use assessments to guarantee bonds. Oliver said that provides "good security" to the federal government, and noted that the Treasury's co-signature would result in cheaper interest rates.

"If you turn around and it says the feds back it 100 percent in case something goes bad, and something happens that you're unable to pay it back for whatever reason, then you're going to get the best credit rating," he said. "We don't want [public] money."

Pitfall: bailout fatigue

Other participants say the credit limits that the states are seeking are still preliminary. And they don't want the bill to be seen as another federal bailout.

"We're certainly not looking for a handout," said John Wortman, CEO of Louisiana Citizens Property Insurance Corp., a state-run insurer with about 135,000 policies and a smaller exposure to loss than the other three states.

"We're like a wart on an elephant," he added.

Debate has raged for years around whether the federal government should backstop states after a natural disaster. Experts say that the number of natural catastrophes worldwide is increasing, from fewer than 400 events -- like storms, tsunamis, floods and earthquakes -- in 1980 to more than 1,000 in 2007, according to the Insurance Information Institute.

But critics of the pending legislation say there's a better answer to this dilemma than putting rising financial costs on the shoulders of national taxpayers: Make residents who live in Hurricane Alley -- or along a fault line -- pay premiums that match the risk.

"The state has a history of suppressing the price of insurance," Robert Hartwig, president of the Insurance Information Institute, said of Florida. That has resulted in low surpluses with which to pay claims, though Hartwig warns that a colossal hurricane is imminent.

"We all know it's a matter of time," he added.

Hurricane clock is ticking

Florida, Texas and other states have driven an explosion in coastal development, in part by providing cheap insurance rates even as storms grow more dangerous, critics say. Now the emerging plan in Congress is an extension of those policies, some opponents say.

"It's dressed up in different garb, but it's the same old bad idea that the federal taxpayer should subsidize insurance," John Echeverria, executive director of Georgetown University's Environmental Law and Policy Institute, said of the proposed legislation.

This is the challenge these four states face: skepticism that this bill will lead to mission creep. A simple guarantee to help states secure loans, critics contend, could unspool until the Treasury is providing reinsurance to the most vulnerable coastlines. Lawmakers more concerned about re-election than actuarial nuances could expand insurance subsidies as more damage is occurring, the argument goes.

Florida officials have used a scattershot approach in seeking federal help to buttress the state's cat fund. The Treasury recently denied Florida's request for a direct line of credit worth $17 billion. State officials are still waiting for an answer to the same request from the Federal Reserve.

The clock for responding to the issue, it seems, is on a timeline set by Mother Nature.

"We would like to see some sort of action before hurricane season," said Brian Gulley, a spokesman for Sen. Bill Nelson (D-Fla.), who is drafting the bill to give the states a federal guarantee for loans and bonds.

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