HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 7027 PCB IBFA 10-05 Prohibited Activities of Citizens Property Insurance Corporation
SPONSOR(S): Insurance, Business & Financial Affairs Policy Committee, Patterson
TIED BILLS: **IDEN./SIM. BILLS:**

	REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
Orig. Comm.:	Insurance, Business & Financial Affairs Policy Committee	14 Y, 0 N	Callaway	Cooper
1)	General Government Policy Council		Callaway	Hamby
2)				
3)				
4)				
5)				

SUMMARY ANALYSIS

In 2006, the Legislature created the Insurance Capital Build-Up Incentive Program (Capital Build Up Program or program) within the State Board of Administration (SBA) to provide insurance companies a low-cost source of capital to write additional residential property insurance. The program's goal was to increase the availability of residential property insurance covering the risk of hurricanes and to ease residential property insurance premium increases. To accomplish its goal, the program loaned state funds in the form of surplus notes to new or existing authorized residential property insurers under specified conditions. The insurers, in turn, agreed to write additional residential property insurance in Florida and to contribute new capital to their company.

The Legislature appropriated $250 million non-recurring funds from the General Revenue Fund to fund the program at its inception in 2006. Any unexpended balance reverted back to the General Revenue Fund on June 30, 2007.

As of June 28, 2007, the program issued $247,500,000 in funds to thirteen qualifying insurers. Administrative expenses for the program totaled $2,500,000. Thus, the entire 2006 legislative appropriation for the program was utilized ($247.5 million in loans and $2.5 million in administrative costs).

CS/CS/SB 2860, enacted in 2008, required the Citizens Property Insurance Corporation (Citizens) to transfer $250 million to the General Revenue Fund for transfer to the SBA for additional funding for the Capital Build-Up Program. This funding was in addition to the $250 million appropriated to the program from the General Revenue Fund at the program's inception in 2006. However, the $250 million transfer from Citizens for use in the Capital Build Up Program was vetoed by the Governor.

Another provision in CS/CS/SB 2860 enacted in 2008 (s. 215.55951, F.S.) precluded Citizens from increasing rates or assessments due to the $250 million transfer from Citizens to the Capital Build Up Program. This provision was not vetoed by the Governor.

The bill repeals s. 215.55951, F.S., which precludes Citizens from increasing rates or assessments due to the $250 million transfer of funds to the Capital Build Up Program. The transfer of funds from Citizens to the SBA for use in the Program never happened due to the Governor's veto of the transfer language in CS/CS/SB 2860 and in CS/HB 5057. Thus, the bill repeals obsolete language from the statute.

The bill has no fiscal impact on state or local government.

The bill takes effect July 1, 2010.

HOUSE PRINCIPLES

Members are encouraged to evaluate proposed legislation in light of the following guiding principles of the House of Representatives

- Balance the state budget.
- Create a legal and regulatory environment that fosters economic growth and job creation.
- Lower the tax burden on families and businesses.
- Reverse or restrain the growth of government.
- Promote public safety.
- Promote educational accountability, excellence, and choice.
- Foster respect for the family and for innocent human life.
- Protect Florida's natural beauty.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Insurance Capital Build-Up Incentive Program

In 2006, the Legislature created the Insurance Capital Build-Up Incentive Program (Capital Build Up Program or program) within the State Board of Administration (SBA) to provide insurance companies a low-cost source of capital to write additional residential property insurance. The program's goal was to increase the availability of residential property insurance covering the risk of hurricanes and to ease residential property insurance premium increases.

To accomplish its goal, the program loaned state funds in the form of surplus notes to new or existing authorized residential property insurers under specified conditions. The insurers, in turn, agreed to write additional residential property insurance in Florida and to contribute new capital to their company. The maximum dollar amount of a surplus note was $25 million. The surplus note was repayable to the state, with a 20 year term, at the 10-year Treasury Bond interest rate (with interest only payments the first three years). The Legislature appropriated $250 million non-recurring funds from the General Revenue Fund to fund the program at its inception in 2006. Any unexpended balance reverted back to the General Revenue Fund on June 30, 2007.

As of June 28, 2007, the program issued $247,500,000 in funds to thirteen qualifying insurers. Administrative expenses for the program totaled $2,500,000. Thus, the entire 2006 legislative appropriation for the program was utilized ($247.5 million in loans, and $2.5 million in administrative costs).[1]

2008 Appropriation from Citizens Property Insurance Corporation for Capital Build-Up Program

CS/CS/SB 2860, enacted in 2008, required the Citizens Property Insurance Corporation (Citizens) to transfer $250 million to the General Revenue Fund for transfer to the State Board of Administration (SBA) for additional funding for the Capital Build-Up Program. This funding was in addition to the $250 million appropriated to the program from the General Revenue Fund at the program's inception in 2006. The Citizens' funds were to be transferred from the personal lines account and the commercial lines account of Citizens on December 15, 2008, unless one or more hurricanes resulted in total losses in those accounts in excess of $750 million. CS/CS/SB 2860 limited the costs of administration by the SBA to 1 percent of the amounts appropriated ($2.5 million). The unexpended balance in the program

[1] Information obtained from the Final Report of the Insurance Capital Build-Up Incentive Program available at http://www.sbafla.com/fsb/LinkClick.aspx?fileticket=4pFJtyJjK2U%3d&tabid=413&mid=1236 (last viewed October 30, 2009).

reverted to the General Revenue Fund on June 30, 2009. The bill also required the SBA to refund to Citizens uncommitted funds, interest and principal payments for surplus notes that were funded by appropriations from Citizens.

The $250 million transfer from Citizens for use in the Capital Build Up Program was vetoed by the Governor.[2] In his veto message Governor Crist stated: "[w]hile I believe the program is well intended and has had the net effect of removing nearly 200,000 policies from the Citizens Property Insurance Corporation and has kept an additional estimated 480,000 policies out of Citizens, the funding source is inappropriate. The original funding for the program came from the General Revenue Fund during the 05/06 fiscal year; however, the additional funding for the program provided in this legislation comes from policyholders' premiums paid to Citizens, which is used to pay claims in the event of a catastrophic hurricane. …Taking $250 million away from Citizens' ability to pay claims will substantially increase the likelihood of assessments for Floridians across the state."[3]

Another provision in CS/CS/SB 2860 enacted in 2008 (s. 215.55951, F.S.) precluded Citizens from increasing rates or assessments due to the $250 million transfer from Citizens to the Capital Build Up Program. This provision was not vetoed by the Governor.

Effect of Bill

The bill repeals s. 215.55951, F.S., which precludes Citizens from increasing rates or assessments due to the $250 million transfer of funds to the Capital Build Up Program. The transfer of funds from Citizens to the SBA for use in the Program never happened due to the Governor's veto of the transfer language in CS/CS/SB 2860 and in CS/HB 5057. Thus, the bill repeals obsolete language from the statute.

B. SECTION DIRECTORY:

Section 1: Repeals s. 215.55951, F.S., relating to the ability of Citizens to increase rates or assessments due to a transfer of funds from Citizens to the Capital Build Up Program.

Section 2: Provides an effective date of July 1, 2010.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

   None.

2. Expenditures:

   None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

   None.

2. Expenditures:

   None.

[2] Section 16 of CS/CS/SB 2860 which required the $250 million transfer from Citizens to the General Revenue Fund for use in the Capital Build Up Program was vetoed on May 28, 2008. CS/HB 5057 also required the $250 million transfer and this bill was vetoed on June 10, 2008. (http://www.flgov.com/2008_legislative_actions)

[3] http://www.flgov.com/leg_actions/2008/2008_sb2860.pdf

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

Not applicable. This bill does not appear to: require counties or municipalities to spend funds or take an action requiring the expenditure of funds; reduce the authority that counties or municipalities have to raise revenues in the aggregate; or reduce the percentage of a state tax shared with counties or municipalities.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None provided in the bill.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/COUNCIL OR COMMITTEE SUBSTITUTE CHANGES

None.