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Statement of Christian R. Cámara
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"Legislative Hearing on H.R. 187, H.R. 277, H.R. 1810, H.R. 1811, H.R. 2057, H.R. 3226, H.R. 3227, H.R. 3572, and H.R. 4222"

House Natural Resources Committee
Subcommittee on Fisheries, Wildlife, Oceans and Insular Affairs

April 8, 2014

Chairman Fleming, Ranking Member Sablan, and distinguished subcommittee members,

My name is Christian Cámara and I am the Florida director and a co-founder of the R Street Institute. We are a pragmatic, free-market public policy research organization—or "think tank"—that can best be characterized as center-right in orientation. We are based in Washington, D.C. with offices in multiple states.

Our mission is to engage in policy research and outreach to promote free markets and limited, effective government. In Florida, our focus largely has been in the area of property insurance reform. As you can imagine, a flat, tropical peninsula jutting out 500 miles into the world's warmest, most hurricane-active waters cares quite a bit about how it manages its enormous hurricane risk.

In fact, Florida has more hurricane risk than every other "hurricane alley" state combined, due not only to its geographic location, but also the amount of wealth and expensive development concentrated along the coast.

Years ago, Florida established a state-run property insurance company called Citizens Property Insurance Corp. Its mission was to provide coverage only to those legitimately unable to obtain it

from the private, primary insurance markets. Its rates were legally required to be actuarially sound and above the rates charged by the top 20 private insurers in a given region. This pricing structure was to encourage consumers—and their hurricane risk—to remain in the private market, as well as to preserve a competitive market among carriers.

Nevertheless, this guaranteed availability of primary insurance through state-run Citizens, in our opinion, has encouraged development in high-risk areas. Changes pushed through by former Gov. Charlie Crist in 2007 further exacerbated this problem. Having campaigned on a platform to lower insurance rates following the unprecedented back-to-back hurricanes in 2004 and 2005, the then-popular, newly elected governor persuaded the Legislature to send a bill to his desk that arbitrarily lowered Citizens' rates, froze them and allowed the state-run company to provide coverage to anyone who received even one quote from a private carrier that was more than 15 percent higher than those artificially suppressed rates.

This de facto price control drove many private insurers out of the state, eventually leading to the concentration of roughly $515 billion of risk (at the peak) on the backs of taxpayers. In short, Citizens went from a residual insurer of last resort to a primary insurer of first resort.

Citizens is able to underprice the coverage it issues because Florida law authorizes it to unilaterally impose a form of taxation on essentially every insurance policy in the state to cover any shortfall in its surplus should, say, a major hurricane cause hundreds of thousands of claims that consume all of the company's cash reserves. Depending on the severity of the shortfall, these assessments can increase Floridians' overall cost of each insurance product they purchase by up to 45 percent for multiple years.

Thankfully, a hurricane has not struck the state in eight years—the longest such "drought" in recorded history. But had Florida's luck been different, taxpayers would have had to bail out Citizens through enormous assessments on their insurance policies.

The Legislature eventually saw how such a scenario could have a cataclysmic effect on Florida's economy and quite literally bankrupt the state, so it has since taken steps to reverse Citizens' growth, by:

- Unfreezing its artificially-suppressed rates through a "glidepath;"
- Closing eligibility to million-dollar homes;
- Encouraging private company "take-outs;" and
- Setting up a "clearinghouse" to enforce eligibility rules.

Another important Citizens reform enacted last year was a product of a policy recommendation in a report that I authored titled "Coastal Preservation Through Citizens Reform," a copy of which has been submitted to the subcommittee.

This reform prohibits Citizens from covering certain new beachfront construction and new development inside a CBRS unit. It does, however, grandfather those structures built before enactment of the reform. This concept was supported by free-market groups, consumer advocates and environmentalists, who don't regularly work together on such issues, much less see eye-to-eye on most others.

Our reasoning was simple: If people want to build in these, the riskiest of places, they can and should be allowed to—on their own dime. In other words, taxpayers should not subsidize people's risky behavior. If they still want to build there, they have several options:

1. They can build resiliently enough to reduce the risks;
2. They can self-insure; or
3. They can find private coverage whose cost will reflect the actual risk, which would organically encourage proper building and location standards.

As such, removing units from the CBRS will not only force your taxpaying constituents in faraway states to repeatedly cover multi-million dollar beach renourishment projects, subsidize flood insurance and build infrastructure to these high-risk, flood-prone, environmentally sensitive areas; it also would undermine Florida's own public policy goal of slowing the growth of Citizens by reopening some of the state's riskiest areas to the state-run insurer.

Some of the Florida units proposed for withdrawal or "correction" are in particularly high-risk areas. According to a 2012 Florida Department of Environmental Protection (DEP) report on critically eroded beaches in Florida, the Indian Peninsula shoreline within Unit FL-92, whose boundaries H.R. 4222 seeks to change, is eroded. In the case of this unit, the report finds there is no development or any "interests" currently threatened by such erosion. However, that likely would change if it were opened up to subsidies, such as beach renourishment projects, cheap flood insurance and eligibility for Florida's Citizens Insurance.

Even more erosive than the Indian Peninsula is nearby Unit P-30, which H.R. 4222 also seeks to change. According to the DEP report, the St. Joseph Peninsula shoreline within this unit is designated as an area of "critical" beach erosion. In fact, the report singles out Cape San Blas, which also lies within Unit P-30, as having **the highest beach erosion rate in the entire state of Florida**.

Despite this vulnerability, Cape San Blas is one of the two CBRS units in the entire nation that have experienced the most growth and development since being added to the system. According to a 2007 GAO report, Cape San Blas "has continued to experience increased development with

at least 900 new structures—primarily single family vacation homes—being built since the unit's inclusion in the CBRS."

Despite its extreme erosion rate, the GAO report also found that residents could still obtain coverage in the private insurance market, albeit at significantly higher rates than the subsidized National Flood Insurance Program. Given its high-risk location, extreme erosion rate and the fact that residents could still obtain private flood insurance coverage at proper, risk-based rates, my opinion is that Unit P-30 epitomizes the justification behind the CBRS, and should remain in the system.

H.R. 2057 proposes the removal of the entire Unit P-31P, which largely is made up of St. Andrews State Park and Shell Island to the east. Roughly half of the beachfront in this unit is classified as "noncritically eroded," but only because it has no threatened development or interests; otherwise, it would have been classified as "critically eroded." Because Unit P-31P is an "otherwise protected area" of the CBRS due to it largely covering the state park, the only prohibition on federal expenditures under CBRA is flood insurance.

There appears to be a neighborhood in the northwest, non-beachfront portion of the unit called Finisterre that may have been incorrectly included in the system. This may warrant a "comprehensive review" by the U.S. Fish & Wildlife Service to amend the boundaries of the unit to exclude this particular area, but a wholesale removal of the unit from the system is unjustified, in my view.

In conclusion, the Coastal Barrier Resources Act, enacted by President Reagan and a Democratic Congress, does more than protect environmentally sensitive coastal areas and wildlife habitats: It also protects consumers and taxpayers from subsidizing the risky behavior of a few and having to cover their repeat losses. It organically encourages proper building standards, protects inland communities by preserving natural barriers to wind and surge and sends the right price signals to those who would otherwise place life and property in harm's way.

The CBRS has worked. It is a market-based environmental protection program that does not infringe on property rights, impose onerous regulations or cost taxpayer money. In fact, it has saved taxpayers billions of dollars while simultaneously helping preserve low-lying areas that serve as wildlife habitats and vital natural barriers to wind and storm surge.

Thank you and I'd be happy to answer any of your questions.

Attachments:

- "Coastal Preservation through Citizens Reform," by Christian R. Cámara, January 2013. http://www.rstreet.org/wp-content/uploads/2013/01/RSTREET81.pdf

- "Critically Eroded Beachess in Florida," [Florida] Department of Environmental Protection, June 2012. http://www.dep.state.fl.us/beaches/publications/pdf/critical-erosion-report-2012.pdf

- "COASTAL BARRIER RESOURCES SYSTEM: Status of Development That Has Occurred and Financial Assistance Provided by Federal Agencies," Government Accountability Office, March 2007 (GAO-07-356). http://www.fws.gov/CBRA/Docs/GAOCBRAReport2007.pdf