



Committee on State Affairs

**Wednesday, January 10, 2007
9:30 AM – 12:00 PM
Morris Hall**

**Marco Rubio
Speaker**

**Frank Attkisson
Chairman**

Committee Meeting Notice

HOUSE OF REPRESENTATIVES

Speaker Marco Rubio

Committee on State Affairs

Start Date and Time: Wednesday, January 10, 2007 09:30 am

End Date and Time: Wednesday, January 10, 2007 12:00 pm

Location: Morris Hall (17 HOB)

Duration: 2.50 hrs

Introduction of Committee Members and staff

Presentation by Department of Management Services on its organization and operation

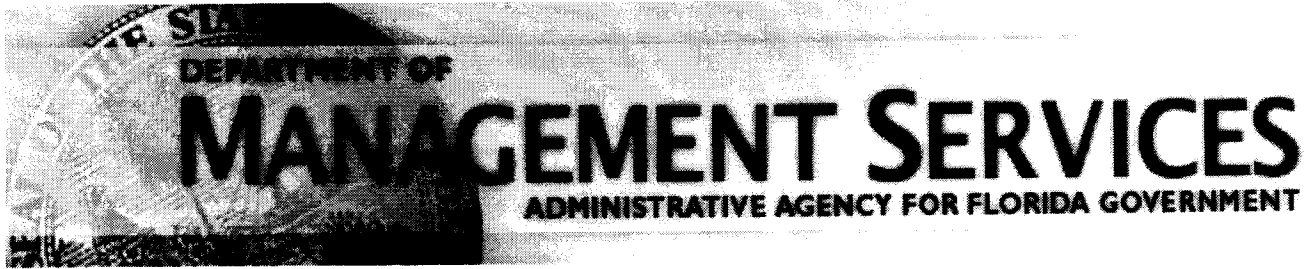
Presentation by the State Board of Administration on its organization and operation

Presentation by the office of the Auditor General on its organization and operation

Presentation by the Office of Program Policy and Government Accountability on its organization and operation

Workshop on statewide building code practices

NOTICE FINALIZED on 01/03/2007 15:50 by TUCK.SHIRLEY



Mission: Deliver quality, innovative, resource-saving solutions to continually improve customer service.

Overview: The Department of Management Services serves those who serve Florida. The Department provides administrative support for state agencies and state employees including human resource management, insurance, retirement, facility, purchasing, vehicle/aircraft, surplus property, information technology services, and private prison management.

The Department's 2006-07 operating budget is \$658 million with 90 percent funded through trust funds and the remaining 10 percent funded through general revenue. In total, the Department delivers more than \$7 billion in government programs and services each year, including but not limited to, \$4.5 billion in retiree benefits, \$1.5 billion in health insurance benefits, \$1 billion in state term contracts, and \$263 million in technology and telecommunications services.

Human Resource Management

The Division of Human Resource Management oversees the human resource infrastructure for the State Personnel System, the largest of seven personnel systems in state government, encompassing 30 agencies with more than 104,000 active employees. Human Resource Management works with agency personnel offices to develop key human resource policies, practices and strategies.

People First, the Web-based human resource tool, provides payroll, benefits, hiring and management tools for agencies, employees, retirees, and other benefits participants.

Human Resource Management also administers State Employee Adoption Benefits. In 2000, the Legislature authorized a grant program for government employees who adopt a child from the Department of Children and Families or a Florida-licensed child-placing agency. Since 2000, \$4 million in adoption grants have been awarded to government employees.

Retirement

The Division of Retirement administers the Florida Retirement System, the fourth largest public pension plan in the country with \$124 billion in assets and serving more than 947,000 participants. The Florida Retirement System Pension Plan investments are managed by the State Board of Administration. The Division of Retirement also monitors operation of 520 local public retirement systems and local police and fire pension funds.

State Group Insurance

The Division of State Group Insurance administers the State Group Insurance Program, a comprehensive package of health, life, disability and supplemental insurance benefits serving 350,000 state and university employees, retirees and dependents. The Division of State Group Insurance oversees payment of \$1.53 billion in benefits annually, as well as contract procurement, contract management and fiscal management of the program.

State Purchasing

The Division of State Purchasing uses the combined purchasing power of the State of Florida to deliver the best value in goods and services for state agencies and other eligible users, including local governments. The Division also develops procurement best practices and provides agency training.

State Purchasing solicits and awards state term contracts for a variety of goods and services used by all government agencies related to technology, office supplies and services, and transportation. The state spends \$1 billion annually through these contract agreements.

MyFloridaMarketPlace is the centralized, Web-based procurement system for use by state agencies. Since its inception, \$2.64 billion in spend has been generated through 300,000 purchase orders with 74,000 registered vendors.

Real Estate Development and Management

The Division of Real Estate Development and Management serves as the state's expert on real estate development projects. The Division manages 88 state-owned facilities (examples include: Governor's Mansion, Capitol and Florida Department of Law Enforcement in Miami), and oversees the state's private leasing program. In addition, the Division manages 14.4 million square feet of leased office space statewide (6 million square feet in state-owned buildings and 8.4 million square feet in private sector leases).

Specialized Services

The Division of Specialized Services is programmatically the most diverse of all Divisions within the Department of Management Services with oversight responsibility for the state's fleet, aircraft, federal surplus property program and private prisons.

- Bureau of Fleet Management – Develops policies, procedures and best practices for the effective and efficient acquisition, assignment, use, maintenance and disposal of state-owned mobile equipment. The Bureau also manages the state rental contract currently with Avis.
- Bureau of Aircraft Operations – Oversees, maintains and operates the state-owned executive aircraft used by the Governor, Cabinet and other state officials. The state's executive aircraft pool consists of one Cessna Citation Bravo, one King Air 300, and one King Air 350.

- Bureau of Federal Property Assistance – Coordinates the acquisition and disbursement of federal surplus property, including vehicles, radios, guns, weapons, clothing, commercial kitchen appliances to law enforcement and other authorized public/private/non-profit health and education organizations. The Bureau coordinates the distribution of \$5.5 million in donated federal property each year.
- Bureau of Private Prison Monitoring – Provides contract management oversight for the security and operation of Florida’s private prison system. The Department of Corrections maintains responsibility for the inmates housed in the facilities. There are currently five private correctional facilities with capacity to house 5,390 inmates.

Enterprise Information Technology Services Program

The Enterprise Information Technology Services Program is broken into two Divisions –

- Division of Information Services – Offers a variety of information technology solutions for state agencies and local governments, including server storage, application hosting and disaster recovery housed at the Shared Resource Center, the State of Florida’s world-class, state-of-the-art data center.
 - The Division also oversees the MyFlorida.com Web portal, the gateway to the state’s electronic resources. The site averages 3 million hits every day and has become the primary access point for visitors, businesses and citizens to information about 365 agencies, committees, commissions, cities and counties and provides access to 130 e-government services.
 - The Office of Information Security works with state agencies to identify vulnerabilities and limit threats to state government information technology systems and data, including viruses, worms and hackers.
- Division of Telecommunications and Wireless Services – Provides telecommunications, wireless and data information solutions for state agencies, local governments and non-profit organizations.
 - The Division oversees Florida’s 911 program, including the development and maintenance of the statewide 911 plan. The program is the first point of contact when a Florida citizen requires law enforcement, fire and emergency medical services response.
 - The Division oversees public safety radio communications programs including the Statewide Law Enforcement Radio System and the Florida Interoperability Network. These public safety initiatives ensure the safety and security of Florida’s citizens and visitors, especially during times of threat, crisis or disaster. Statewide Law Enforcement Radio System allows all 6,500 state law enforcement officers from 17 state agencies to remain

in continuous communication through a shared radio system. Recently, the Florida Interoperability Network was completed, allowing the 75,000 state, local, and federal first responders (examples include: police, fire, and emergency management personnel) the ability to communicate directly with each other, making Florida the first state to achieve full interoperability.

- MyFloridaSUNCOM, offers telecommunications solution for Florida's state agencies, local governments and non-profit organizations. Services provided include voice, data, network operations, security, wireless data and voice conferencing. MyFloridaNet, a service within MyFloridaSUNCOM, is a new data network services contract that replaces the state's antiquated copper-wire data network with improved technologies, such as fiber optics.

Council on Efficient Government

The Council on Efficient Government helps state agencies identify, evaluate and develop innovative business solutions that improve the efficiency, effectiveness and accountability of government services via contracting with private sector vendors, whenever vendors can more effectively and efficiently provide services and reduce the cost of government.

Contact Information:

Linda South, Secretary
Department of Management Services
850-414-7355
linda.south@dms.myflorida.com

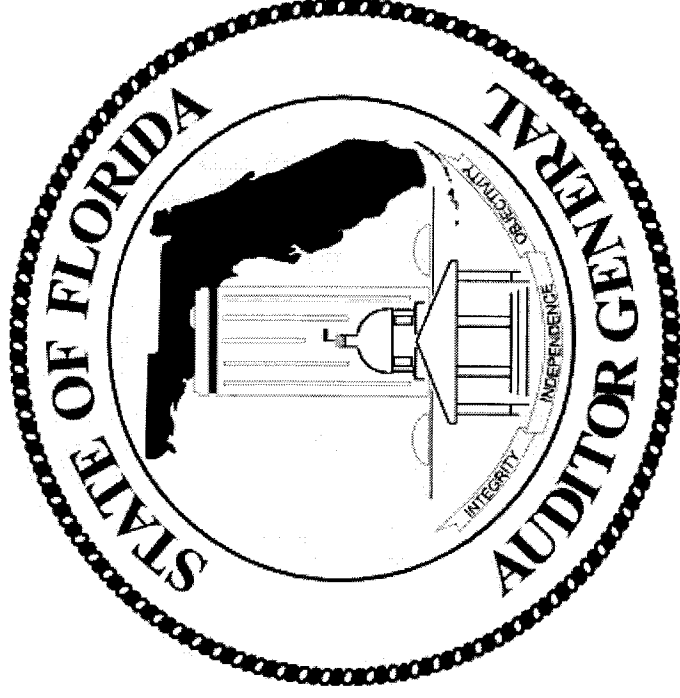
For more information please, contact our Legislative Affairs Office:

850-488-6285 office
850-922-6149 fax
<http://dms.myflorida.com/>

Rebecca McCarley, Legislative Affairs Director
rebecca.mccarley@dms.myflorida.com

Elizabeth Irvin, Deputy Legislative Affairs Director
elizabeth.irvin@dms.myflorida.com

AUDITOR GENERAL



Overview
For
Florida House of Representatives
Committee on State Affairs

January 10, 2007

Florida Auditor General

- Auditor per Article III, State Constitution
- Appointed by majority vote of Legislative Auditing Committee, subject to confirmation by House and Senate
- Performs duties independently, but under general policies of Legislative Auditing Committee
- William O. Monroe, CPA

Audit Authority

- Authority to audit any governmental entity and certain nonprofit entities
- Florida Statutes and Laws of Florida specify some audits
- Direction of the Legislative Auditing Committee
- Discretionary authority of the Auditor General

Types of Entities Audited

- District School Boards
- State Colleges and Universities
- Local Governments
- Nonprofits
- State Agencies

Florida Auditor General Organization

- **Three Divisions:**
 - **Educational Entities and Local Government Audits**
 - **Information Technology Audits**
 - **State Government Audits**

State Agency Engagements

Types of Audits

- Financial audits
- Operational audits
- Information technology audits
 - Risk-based audits
 - Audit support

State Agency Engagements

Financial Audits

- Annual audit of State's financial statements
- Annual audit of Federal awards
- Annual audit of Department of Lottery

State Agency Engagements

Operational Audits

- Biennial audits of executive branch agencies
 - Risk-based topics
 - FMRS
- Multi-agency topics
- Others

State Agency Engagements

Quality Assessment Reviews

- State Inspector Generals
 - Section 20.055, F.S.
 - Triennial reviews

State Agency Engagements

Reporting

- Discuss the findings and provide preliminary and tentative findings in writing. Entity to respond within 30 days
- Reports
- Briefings for legislative committees
- Annual report to President and Speaker
 - Summary of findings
 - Summary of recommended statutory changes

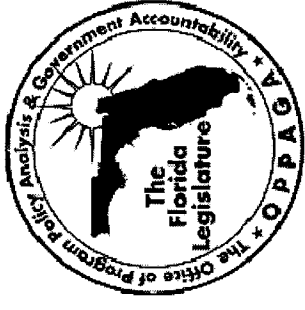
<http://www.state.fl.us/audgen/>

The screenshot shows the homepage of the Florida Auditor General's website. At the top left is the Seal of the State of Florida, featuring a palm tree and a sun, with the text "STATE OF FLORIDA" and "1845". Below the seal is a navigation menu with the following items: "What's New", "Released Reports", "Local Govt / Nonprofit", "Rules and Guidelines", "About Our Office", "Job Opportunities", "Contacts", and "Links". The main heading in the center reads "FLORIDA Auditor General". Below this heading is the name "William D. Monroe, CPA". At the bottom right, there is a counter that says "You are visitor 345408 by Web Counters".

Questions

Don Hancock, CPA
Deputy Auditor General
State Government Audits
487-9037

donhancock@aud.state.fl.us



OPPGA

Overview

**Presentation to the House State
Affairs Committee**

January 10, 2007

Gary VanLandingham, Director



OPPAGA Overview

- What is OPPAGA?
- OPPAGA products
- Upcoming reports of special interest



What Is OPPAGA?

**The Legislature's
independent, non-partisan
office that provides
unbiased, policy-based
research and
recommendations**



OPPAGA Supports Legislative Oversight

- **Constitutional Legislative duty to oversee the executive branch**
 - **OPPAGA studies help ensure that agencies implement programs as intended**
 - **AG studies help ensure that agencies spend monies as intended**
 - **We coordinate activities and frequently do joint projects**

OPPAGA Operations

- Report to both JLAC and Legislative leadership
- Flat internal organization maximizes analysis resources for Legislature
- Highly flexible and responsive

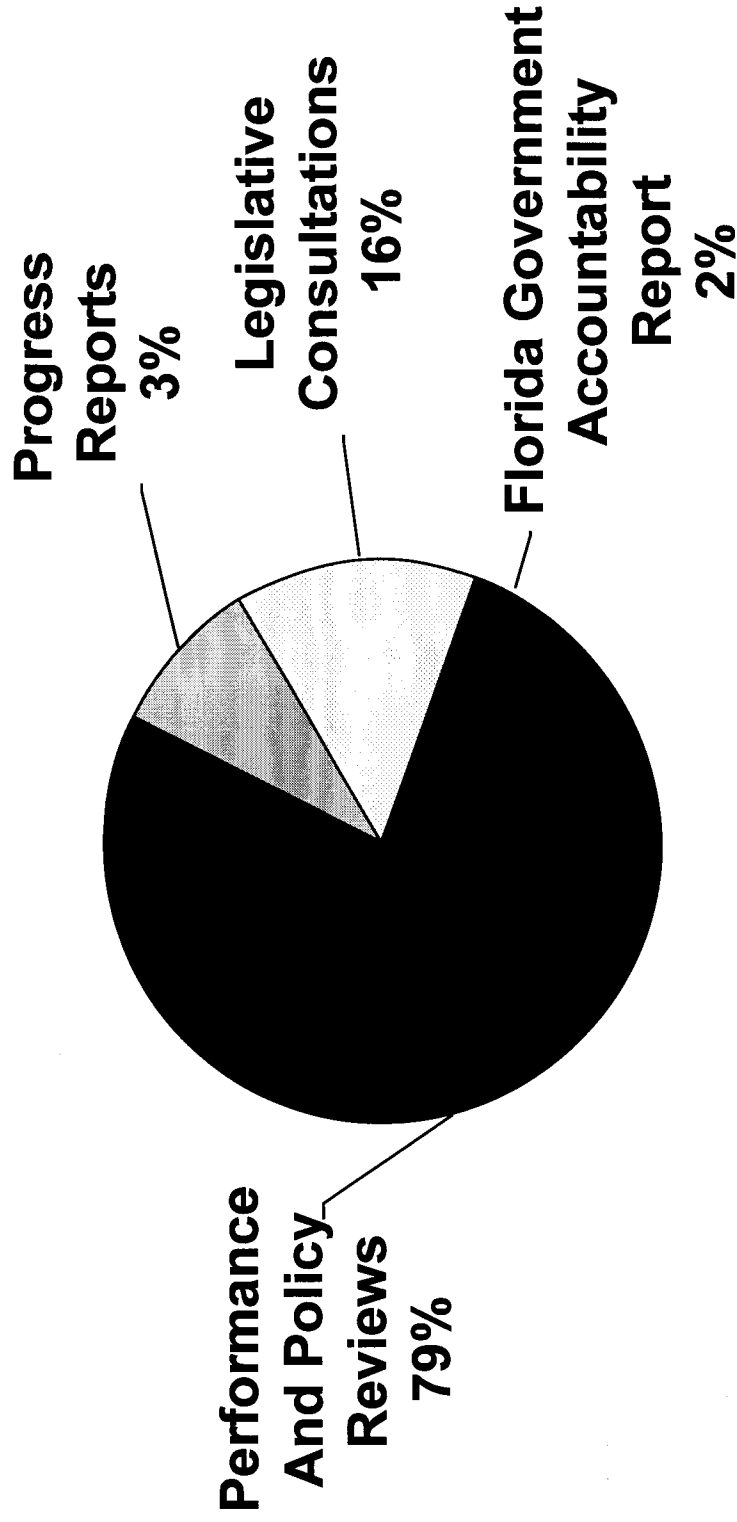


What Does OPPAGA Provide?

- **“Speaking Truth to Power” - objective, reliable policy analysis**
- **Sophisticated data analysis**
- **A wide range of policy expertise**
- **Research support for members and committees**
- **On-line research and information**



Four Major Products





Performance and Policy

Reviews

- **Directed by law, JLAC or House or Senate Leadership**
- **High impact reports to make government better, faster, cheaper**
- **Will issue 80 reports this year**
- **Give 50 committee presentations**



Performance and Policy Reviews

- **The Sunset Review Process begins this year – 10 agencies**
- **OPPAGA will conduct justification reviews on these agencies**
- **Will assist Legislative Sunset Advisory Committee(s)**



Progress Reports

- Describe previous conditions and recommendations
- Analyze actions taken and whether they resolve concerns
- Address any remaining or additional actions needed



**Progress reports
show 73% of
OPPAGA
recommendations
implemented**

Legislative Consultations

- Provide information as requested by members and committees, generally in the form of memoranda or briefings
- Expect to provide around 120 consultations this year

FGAR

- **Unique encyclopedia of major state programs (247)**
- **Describes programs, issues, and agency contacts**
- **On-line version provides drill down detail**
- **Hard copies to district and Capitol offices**



OPPAGA communicates in several ways

- **Reports – brief, to the point**
- **Briefings**
- **“E-alerts”**
- ***The Florida Monitor Weekly***
- **Monthly “In progress” emails**
- **The Florida Monitor (website)**
- **Annual Business Plan**

“E-alerts”

- **Email sent to key staff and members a day or two before report release**
- **Summarizes key findings and recommendations**
- **Helps members avoid surprises, prepare you for any media questions you may get**



Florida Monitor Weekly

- **Electronic newsletter summarizing recent policy research relevant to Legislators and staff**
- **Typically includes 15-20 reports, with summaries and links to full documents**

Monthly Project Summary

- Summarizes all ongoing projects
- Identifies those that will be published in coming month
- Sent to all legislators and staff

Florida Monitor Website



OPPAGA Seal



A free weekly electronic newsletter highlighting OPPAGA publications and other policy resources

Email address

Subscribe

Florida Monitor

A Service of the Florida Legislature's Office of Program Policy Analysis and Government Accountability

[Search](#)

[Contact Us](#)

[About OPPAGA](#)

[Site Index](#)

[Reports](#)

[Florida Government Accountability Report \(FGAR\)](#)

[Performance-Based Program Budgeting](#)

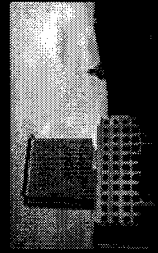
[School District Reviews](#)

[Employment Opportunities](#)

[Presentations](#)

[Privacy Policy](#)

[Other Sites](#)



CapitolCam

Featured Reports

[OPPAGA Business Plan for 2005-2006](#) (Links directly to an Acrobat PDF file.)

[2005 Annotated List of Legislative Recommendations](#) - Included in an appendix are those recommendations for legislative consideration that would produce savings or other positive fiscal impacts.

What's New

[OPPAGA Report: Several Deficiencies Hinder the Supervision of Offenders in the Community Corrections Program, Report No. 06-37](#)

[OPPAGA Report: Users Satisfied with FIRN2; Options Exist for Future Services to Educational Entities, Report No. 06-36](#)

[OPPAGA Report: Steps Have Been Taken to Enhance State Acquisition Management, But Further Improvement Is Needed, Report No. 06-35](#)

[OPPAGA Report: Redirection as Effective as Residential Delinquency Programs, Achieved Substantial Cost Avoidance, Report No. 06-34](#)

[OPPAGA Report: Division of Risk Management Performs Well, But Additional Steps Could Be Taken to Reduce Losses and Contain Costs, Report No. 06-32](#)



Recently Released Reports of Interest



Blind Services Business Enterprise Program

Several challenges limit the program's ability to provide viable business opportunities for the blind. Although many enterprises provide relatively high incomes for clients, others consistently provide low incomes and many clients leave the program within a few years. To address these concerns, the program should

- close or modify business enterprises that cannot provide sufficient income levels;*
- explore new business models; and*
- improve its training, support, and monitoring of program vendors.*

State Board of Administration

The SBA has generally performed well in achieving its investment objective for FRS pension plan assets. However, because the system has matured, it would be beneficial for the SBA to provide the Legislature with more information to assist in budget planning. We recommend that the

- state’s long-range financial outlook include projections of contributions to the pension plan;*
- SBA better document its approach to control short-term volatility of investment returns; and*
- SBA report the results of 2006 statutory changes increasing its flexibility in making alternative investments.*

People First

Some planned elements of the system have not been fully implemented and several proposed benefits have not been realized. As a result, the state has been unable to retire its legacy COPES system, and workload for agency human resource staff has been higher than anticipated. DMS has taken steps to address these problems. Remaining challenges include

- establishing a valid cost-savings methodology;**
- restoring electronic records management capability;**
- improving data warehouse usability;**
- conducting a staffing assessment; and**
- providing the Legislature continuing quarterly reports.**



Upcoming Reports of Interest



Black Business Investment Board

With AG, we are reviewing the use of state funds by the Board and regional black business investment corporations and identifying options for their roles and responsibilities



Florida Retirement System Actuarial Valuation

***We review the actuarial
valuation of the Florida
Retirement System pension
plan to determine its funding
status and whether the
valuation complies with the
requirements set forth in law***

State Agency Dissemination and Retention of E-Information

We are examining state agencies' electronic information policies and will address three questions

- What is the current statutory framework for managing the state's electronic records?***
- Do state agencies have policies and procedures in place to manage electronic records within this framework?***
- What options should the Legislature and state agencies consider to improve agency electronic records management?***

Questions?



Office of Program Policy Analysis & Government Accountability

OPPAGA supports the Florida Legislature by providing evaluative research and objective analyses to promote government accountability and the efficient and effective use of public resources.

COMMITTEE ON STATE AFFAIRS
WORKSHOP ON STATEWIDE BUILDING CODE PRACTICES

- I. Presentation by Jim Richmond, Deputy General Counsel and Attorney for the Florida Building Commission and the Department of Community Affairs
 - a. Handouts relating to windborne debris protection in the panhandle and actions taken by the Florida Building Commission

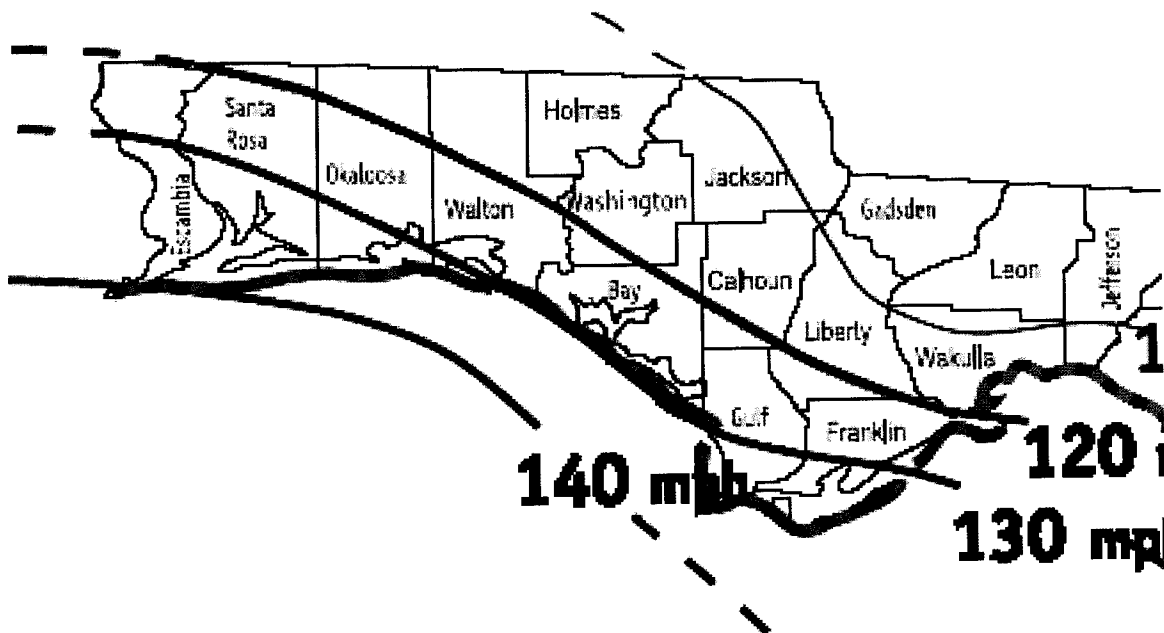
- II. Presentation by Leslie Chapman-Henderson, Member of the Property and Casualty Insurance Reform Committee and President of the Federal Alliance for Safe Homes (FLASH)
 - a. Video presentation entitled "A Tale of Two Houses"
The video represents the ongoing story of two homes hit by Hurricane Charley -- one built with "code-plus" building standards, the other without. The video can be found at <http://www.flash.org/programsCenter.cfm>.

 - b. 2006 Property and Casualty Insurance Reform Committee Final Report
Portions of the Final Report addressing mitigation and the panhandle exemption are provided. The full report can be found at <http://www.myfloridainsurancereform.com>.

Florida Building Commission
Windborne Debris Protection in the Panhandle
Past, Present and Future

1. Legislative Origin of the Panhandle Exemption, Section 109, Chapter 2000-141, Laws of Florida:

(3) For areas of the state not within the high velocity hurricane zone, the commission shall adopt, pursuant to s. 553.73, Florida Statutes, the wind protection requirements of the American Society of Civil Engineers, Standard 7, 1998 edition as implemented by the International Building Code, 2000 edition, and as modified by the commission in its February 15, 2000, adoption of the Florida Building Code for rule adoption by reference in Rule 9B-3.047, Florida Administrative Code. **However, from the eastern border of Franklin County to the Florida-Alabama line, only land within 1 mile of the coast shall be subject to the windborne-debris requirements adopted by the commission.**



2. 2004 hurricane season results in Section 39, Chapter 2005-147, Laws of Florida:

The Florida Building Commission, in conjunction with local building officials, shall conduct a review of damage resulting from Hurricane Ivan and any other data to evaluate, and to make recommendations to the Legislature for any changes to, Florida's Building Code, specifically as it applies to the region from the eastern border of Franklin County to the Florida-Alabama line. The commission shall issue a report summarizing its findings and recommendations prior to the 2006 Regular Session.

3. Outcomes, pre-2006 Session

(a). Excerpts from the Commission's Report to the 2006 Legislature, detailing the workshop held in the Panhandle:

It should be noted that although the building officials from the Florida Panhandle expressed support for the study, all but one agreed that changes were not warranted at this time to the definition of the windborne debris region of the Florida Panhandle region. The local building officials' comments ranged from most damage was related to surge and not windborne debris, to the Panhandle is a unique environment that ASCE 7 does not adequately reflect, to extra windborne debris protection should be voluntary and not mandatory, to mandatory protection will increase the cost of already unaffordable housing in the region.

(b). Excerpt from the Facilitator's Report on the March 21, 2006, meeting of the Commission's Hurricane Research Advisory Group when preliminary results of the study were released [full text of the report available at:

http://consensus.fsu.edu/FBC/HRAC/HRAC_Report_Mar06b.pdf]:

The results of the tests and resulting analysis can be summarized as:

1. Trees significantly reduce wind speeds on houses.
2. While the pressure coefficients are higher, due to increased turbulence intensity, the

pressure loads are about 30-50% less than on houses located in suburban locations without tall trees.

3. The reductions in loads are not as great on two story houses as for one story houses.

4. Section 1, 2006-65, Laws of Florida:

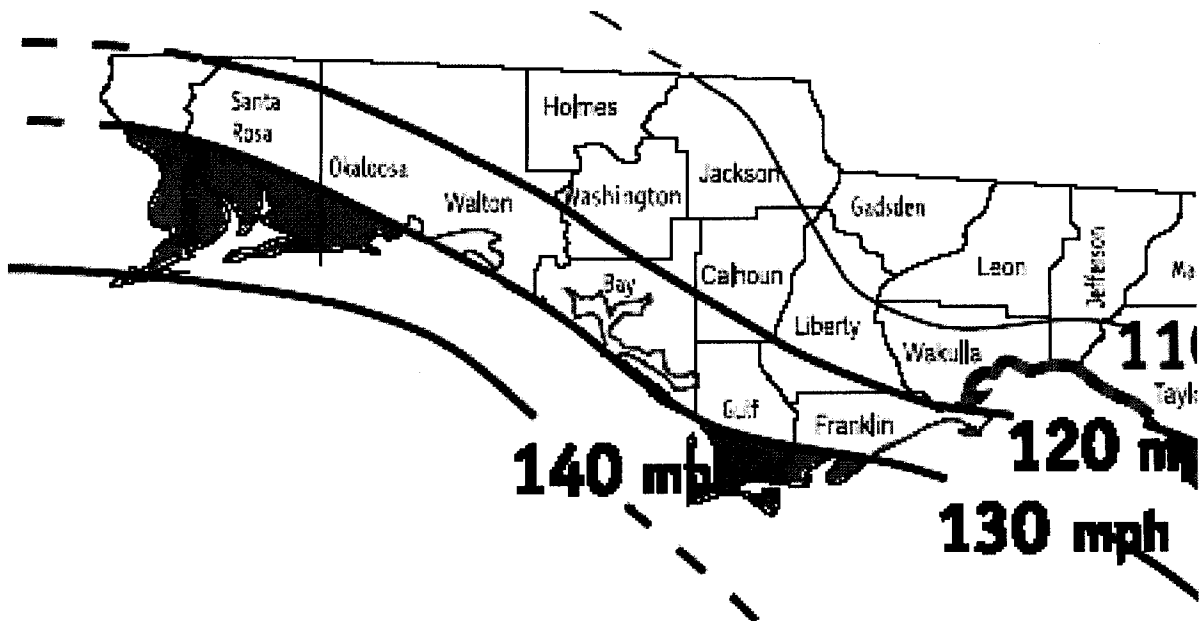
The Florida Building Commission is specifically authorized to identify within the Florida Building Code those areas of the state from the eastern border of Franklin County west to the Florida-Alabama line which are subject to the windborne-debris requirements of the code. **The Florida Building Commission's initial designation of wind lines for this region shall address the results of the study required by section 39 of chapter 2005-147, Laws of Florida.**

5. Summary of Wind Load Study:

- Wind Borne Debris (WBD) is a dominant risk to buildings in **open** and **suburban** terrains.
- Trees dramatically reduce the loads on buildings and wind speeds, thereby significantly reducing the WBD risk.
- Within the wind speed contours (110 to 130 mph) investigated, **terrain is more important than wind speed** in determining the need for WBD protection.
- In medium treed terrain, the Benefit Cost ratios for WBD protection are generally much less than 1 (*not cost effective*).
- In light treed terrain, the results were mixed and dependent on the range of benefit and cost parameters.
- In open-suburban terrain the lowest winds investigated (110 mph) produced average (of the six houses modeled) benefit/cost ratios greater than 1 (*cost effective*).
- The best solution is to implement criteria that consider both wind speed and terrain, much as the pressure load coefficients are terrain dependent.
- In light and medium tree terrains, tree fall risk on house seems to be higher than WBD risk. Cost-beneficial strengthening solutions should be investigated for tree fall protection.

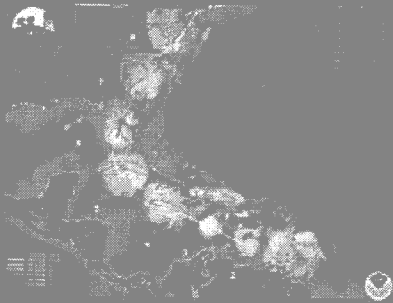
6. The Florida Building Commission's Implementation:

In response to the testimony identifying the majority of the Panhandle as medium treed terrain outside of the immediate coastal areas, the Commission adopted code provisions requiring windborne debris protection in the shaded areas below and unshaded areas within 1500 feet of open water. Information provided by municipal and county building officials to Commission staff indicates that 85– 90% of new construction occurs in this area. This code change is to take effect on March 8, 2007.



Property and Casualty Insurance Reform Committee

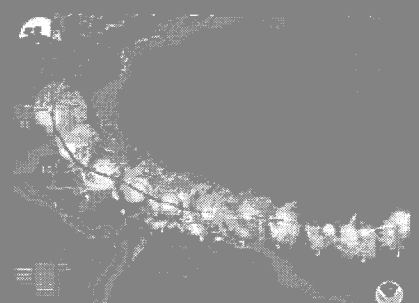
Final Report



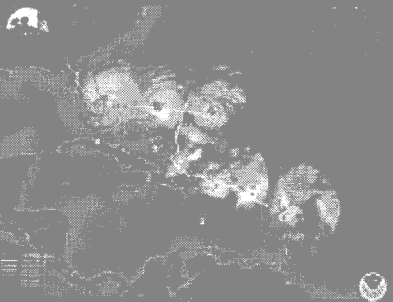
Charley
August 13, 2004



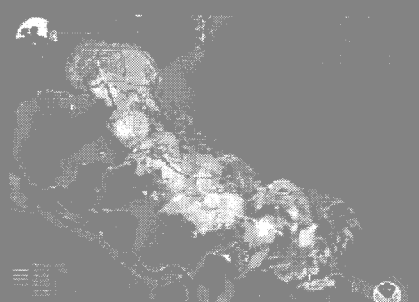
Frances
September 5, 2004



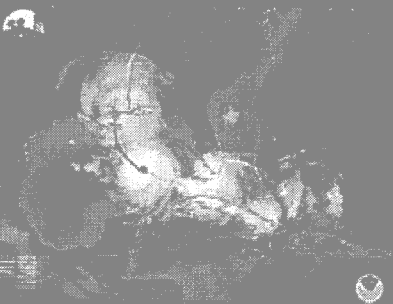
Ivan
September 16, 2004



Jeanne
September 25, 2004



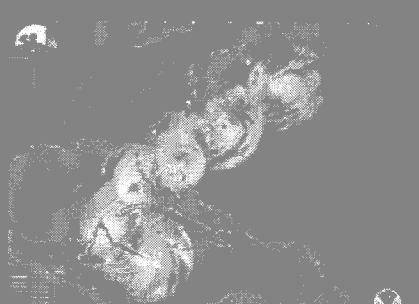
Dennis
July 10, 2005



Katrina
August 25, 2005



Rita
September 20, 2005



Wilma
October 24, 2005



STATE OF FLORIDA

Office of the Lieutenant Governor

THE CAPITOL
TALLAHASSEE, FLORIDA 32399-0001

TONI JENNINGS
LT. GOVERNOR

www.flgov.com
850-4884711
850-921-6114 fax

November, 2006

The Honorable John Ellis Bush
Governor of Florida
PL-05
Tallahassee, FL 32399

The Honorable Ken Pruitt
President of the Senate
Suite 409, The Capitol
Tallahassee, FL 32399

The Honorable Marco Rubio
Speaker of the House
Suite 420, The Capitol
Tallahassee, FL 32399

Dear Governor Bush, President Pruitt and Speaker Rubio:

It is my pleasure to submit to you the Final Report and Recommendations of the Governor's Property Casualty Insurance Reform Committee, created by Executive Order 06-150.

Since its inception in August 2006, the Committee examined in depth the issues facing Florida's homeowners and businesses regarding insurance affordability and availability. The Committee sought to find solutions to the current insurance market conditions that are affecting all Floridians.

The Committee heard from Floridians and believes that further insurance reforms are necessary to create a robust and vibrant market. There are six major reform features:

- Creating an optional lower and upper layer of coverage in the Florida Hurricane Catastrophe Fund.
- Providing consumers insurance policy transparency and new policy options.
- Eliminating the Panhandle exemption to the Florida Building Code.
- Maintaining and expanding the "MySafeFloridaHome" Mitigation Program.
- Streamlining Citizens Property Insurance Corporation's rate process and eliminating Florida's antiquated windstorm boundaries.
- Providing market incentives to bring new capital to Florida and maximize Florida's current insurance market opportunities.

The Committee looks forward to working with you as the Legislature considers these recommendations.

Very truly yours,

Toni Jennings



SUMMARY OF FINDINGS

Florida is a growing state with a robust economy and an increasing population. Property insurance for homeowners and commercial interests must be available to keep Florida's economic engine running. The eight 2004-2005 hurricanes caused nearly \$36 billion in estimated total Florida specific losses across 2.8 million claims. The result is cost and availability challenges for the residential and commercial property insurance market. The increased frequency of hurricanes, coupled with losses in the billions, led to higher property losses, as well as, increased demand and costs for repairing and rebuilding. Hurricane models, which insurers and reinsurers use to make business decisions, predict more frequent and expensive events.

As a result of the multiple hurricanes impacting Florida and the Gulf region of the United States, the cost of reinsurance is increasing dramatically while the availability of coverage to insurers is declining. The reinsurance industry indicated that the demand for reinsurance increased by 120 percent over last year, while the availability is only 80 percent of last year.

Recent events have caused the private industry to reach its threshold for risk in Florida's residential property markets and, in recent years, fewer insurance companies want to conduct business in the state. Many of the large nationally known insurers are capping or reducing exposure. In response to the challenges in the market, The Florida Legislature passed and Governor Jeb Bush signed Senate Bill 1980 which provides incentives to insurers to participate in the Florida property insurance market.

Hurricanes are a way of life for Florida's approximately 17 million residents. Residential and commercial insurance costs and availability are now the biggest issues facing the Florida Legislature and Florida's state and local leaders. In June 2006, Governor Bush issued Executive Order 06-150 creating the Property and Casualty Insurance Reform Committee (Committee) to examine the Florida insurance market and make recommendations to reduce the cost of premiums, increase the availability of insurance, and reduce the risk to homeowners and

businesses. Under Governor Bush's leadership, the Committee worked diligently over the past 90 days to craft substantial insurance reforms that could have a lasting impact for Florida's residents and insurance consumers. The recommendations address every aspect of the insurance market from insurance policy contractual reforms to providing methods to bring new capital to Florida's insurance market. Floridians must be educated to the fact that building safer structures and retrofitting existing ones will lower their insurance premiums. According to national modeling companies, Florida is the highest risk state in the country for potential catastrophic losses.

The Committee met for three months beginning in early August. Members developed recommendations in ten topic areas – Residential Insurance Market and Consumer Issues, Commercial Insurance Market and Property and Casualty Joint Underwriting Association, Florida Building Code, Mitigation, Florida Hurricane Catastrophe Fund, Reinsurance Market, Windstorm Boundaries, Citizens Property Insurance Corporation, Market Incentives and Barriers, and Federal issues. These recommendations address every issue the Governor's Executive Order asked the Committee to review.

The major components of the recommendations to the Legislature are as follows:

Maximize and leverage the use of the Florida Hurricane Catastrophe Fund (CAT Fund), the state's reinsurance entity, during this current cycle of astronomically high private market reinsurance rates. Recent reinsurance market rates caused significant negative premium impact to consumers via the cost of reinsurance on direct writers. The Committee recommends authorization of a lower level of CAT Fund coverage below the \$5.3 billion attachment point for a limited duration of perhaps two storm seasons on a voluntary participation basis. The Legislature should consider a similar short-term market enhancement on the top end of the CAT Fund above the \$15 billion cap and investigate allowing commercial non-residential property insurers to access some level of CAT Fund coverage. The Committee recommends charging a "near market rate" premium for this coverage.

Create enhanced insurance policy transparency to inform consumers of residential and commercial policies of the details of their premium charges. The premium notice and policy should include the specific dollar amount of potential premium mitigation discounts available and itemized by mitigation measure; assessments from authorized entities such as Citizens Property Insurance Corporation (Citizens), the CAT Fund, and the Florida Insurance Guaranty Association (FIGA); rate increase premium impacts and agent's commissions; and, specific premium tax amounts. This transparency must be in plain language and easy for consumers to understand. In addition, require insurers to offer policy options such as ex-wind (covering all perils other than property losses caused by wind), wind only (excluding personal contents coverage), lower dwelling limits options, and unlimited deductible options. Finally, move the Office of Insurance Consumer Advocate to report directly to the Governor and Cabinet (Financial Services Commission) and its independence strengthened.

Elimination of the Panhandle exemption prohibits any change in future statewide building codes unless the change enhances the structural integrity of the code as it relates to wind protection. Require a uniform statewide building code that requires American Society of Civil Engineering (ASCE) wind lines. The Committee also encourages local governments to consider providing incentives for building to a code plus standard for new construction.

Consider maintaining and expanding the Mitigation Program created during the 2006 Session. Full implementation of residential mitigation measures have the potential to reduce Florida's loss exposure by more than 60 percent. The Committee learned that every dollar spent on mitigation translates to an average of four dollars in savings. Earmark a portion of mitigation funding for Citizens policyholders to reduce the risk of greater exposure to back-end assessments on all Floridians. Require modeling firms, used by insurers in their rate filings to recalibrate their models to take into account the results of mitigation. Finally, standardize insurance mitigation premium discounts.

Eliminate the lengthy and costly process of Citizens seeking rate increases with the Office of Insurance Regulation (OIR). Require OIR to set Citizens' rates regularly, based on the highest

approved rates in the voluntary market. The Legislature also should eliminate the state's antiquated windstorm boundaries to allow Citizens to write a complete policy throughout the state. Encourage Citizens policyholders to upgrade and retrofit their structures through mitigation techniques. Finally, enact insurer incentives to encourage Citizens take-out plans.

Evaluate numerous market incentives to bring additional capital formation and insurer opportunities in Florida. Extend and modify the Insurance Capital Build-up Incentive Program to allow more flexibility for insurance companies to access the capital. Encourage new capital market risk transfer vehicles and promote the State Board of Administration's use of financing techniques such as catastrophe bonds, sidecars, and other capital market alternatives. Continue and promote Florida's review of state participation in an insurance exchange for its catastrophe risk transfer products; and, evaluate changes to Florida's captive insurer law. Seek viable methods to create tax-free catastrophe reserve accounts. Finally, merge the Property Casualty Joint Underwriting Association's commercial policy underwriting process with Citizens' commercial policy issuance to streamline the two entities duplicative state action.

**GOVERNOR'S EXECUTIVE ORDER/INSURANCE REFORM COMMITTEE/
TECHNICAL ADVISORY COMMITTEE**

On June 27, 2006, Governor Jeb Bush issued Executive Order 06-150 creating the Property and Casualty Insurance Reform Committee (Committee) to study Florida's insurance issues and make recommendations to the Governor, the President of the Senate, and the Speaker of the House of Representatives. (Exhibit 1)

On July 26, 2006, the Governor appointed a 15 member Committee and named Lt. Governor Toni Jennings its chairperson. (Exhibit 2) The Committee is a diverse group of public and private representatives from around the state. To ensure that the Committee was fair and objective, no insurance industry representatives were appointed. A twelve member Technical Advisory Committee (non-voting) with expertise in insurance issues was appointed. (Exhibit 3) Along with the Technical Advisory Committee, the Insurance Commissioner, Senior Florida Hurricane Catastrophe Fund (CAT Fund) Officer, Director of the Florida Comprehensive Hurricane Damage Mitigation Program, and the Executive Director of Citizens Property Insurance Corporation (Citizens) were asked to assist the Committee.

The Executive Order specifically requested the Committee make recommendations to improve competition and create incentives for private insurance and reinsurance in the areas of residential, commercial, manufactured homes, condominiums/apartments, and government entities; encourage commercial and residential mitigation; improve insurance agent underwriting practices; depopulate Citizens; reduce the exposure of the CAT Fund by substituting private alternatives; evaluate the preliminary results of SB 1980 including the Capital Build-up Incentive Program, mitigation program, private insurance competition and capacity measures, and Citizens rate changes; and influence national catastrophe risk management planning.

The Committee was charged with presenting its Interim Report no later than November 15, 2006, a Mid-Term Report no later than December 15, 2006, and its Final Report no later than February 1, 2007, to the Governor, the President of the Senate, and the Speaker of the House of

Representatives. The Committee's website is:

<http://www.myfloridainsurancereform.com/wycd.htm>.

The Committee held the following meetings:

- August 8, 2006, Tallahassee – members received historic overview of Florida's insurance market and present programs;
- August 24, 2006, Orlando – discussion items included the CAT Fund, reinsurance, capital markets and mitigation;
- September 7, 2006, Tallahassee – Committee began formulating recommendations in the areas of the CAT Fund, private reinsurance market alternatives, and mitigation;
- September 21, 2006, Miami – discussion centered around the size, scope and operations of Citizens and recommendations for additional reforms effecting Citizens; heard from a panel of modeling companies regarding their activities and the market's use of insurance modeling companies;
- October 4, 2006, Tallahassee – deliberations on commercial insurance and condominium/community housing insurance issues; the state's public school facility property insurance crisis was discussed, along with a proposal that could help public hospitals in Florida pool their risks for property insurance;
- October 12, 2006, Tampa Bay area – reviewed proposals of the Consumer Advocate Office, consumer issues, sinkholes and six significant reform proposals;
- October 26, 2006, Tallahassee – federal taxation and catastrophe reserve issues, captive insurance alternatives, the State Board of Administration recommendations, the Florida Market Assistance Program's functions, Florida building code issues and manufactured housing alternatives were discussed; final comprehensive recommendations were reviewed; and
- November 15, 2006, Tallahassee – last meeting to discuss Interim Report and Recommendations and Final Report.

The agendas and minutes are Exhibit 4.

BACKGROUND/HISTORY

Florida's property insurance cost and availability have become issues of utmost importance to its citizens and its government. Governor Jeb Bush recognizes the ongoing significance a robust insurance market has on Florida's economy.

Floridians faced unusual and extraordinary hurricane seasons during 2004 and 2005. The state was battered by numerous tropical storms and hurricanes in an 18-month period. No part of the state was spared from the effects of the storms. Governor Bush issued a series of Executive Orders to address the devastation in the affected areas. These include:

- Executive Order 04-182, August 10, 2004 - declared a state of emergency because of Tropical Storm Bonnie and Hurricane Charley which devastated communities in the southwestern and central portions of the state.
- Executive Order 04-192, September 1, 2004 - declared a state of emergency due to Hurricane Frances which devastated communities in the central, eastern, and northeastern portions of the state.
- Executive Order 04-206, September 10, 2004 - declared a state of emergency for Hurricane Ivan which devastated communities in the Florida Panhandle.
- Executive Order 04-217, September 24, 2004 - declared a state of emergency for Hurricane Jeanne which devastated communities in the central, eastern, and northeastern portions of the state.
- Executive Order 05-139, July 7, 2005 - declared a state of emergency for Hurricane Dennis which devastated communities in the Keys, the Big Bend, and the Panhandle.

- Executive Order 05-176, August 24, 2005 – declared a state of emergency for Hurricane Katrina which effected communities in Broward, Miami-Dade, and Monroe counties.
- Executive Order 05-183, September 18, 2005 - declared a state of emergency due to Hurricane Rita which effected Monroe County.
- Executive Order 05-219, October 19, 2005 - declared a state of emergency for Hurricane Wilma which devastated communities in southern portions of the state.

The damage caused by the 2004 season storms was of sufficient severity and magnitude that the President of the United States authorized federal funds for public assistance on October 7, 2004. The Federal Emergency Management Agency and the Small Business Administration provided aid to Florida residents and businesses affected by the storms.

Many parts of the state are still recovering from the cumulative impacts of Tropical Storm Bonnie and Hurricanes Charley, Frances, Ivan, Jeanne, Dennis, Katrina, Rita, and Wilma. Storm impacts include the loss of homes, destruction and damage to public facilities, loss of power and communication lines, and damage to public roads and highways, which demanded a massive infusion of state, local, and federal resources to the communities stricken by these disasters. The total insured impact was estimated to be \$35.9 billion (This excludes National Flood Insurance Plan losses). See Exhibit 5.

In 1996, the Florida Legislature authorized insurers to apply deductibles based on a percentage of the amount insured (2 percent, 3 percent, or 5 percent), rather than a flat dollar amount for damage to residential property caused by named storms (tropical storms and hurricanes). While the intent was to encourage the use of higher hurricane deductibles as a means of increasing the effective capacity of the hurricane insurance market and limiting the impact of rapidly rising hurricane insurance premiums, no one foresaw the possibility of homeowners being hit multiple times by hurricanes within a single hurricane season. During the 2004 storm season, many

Floridians faced the possibility of paying more than one deductible due to damage caused by multiple storms.

During the 2004 Special Session, Governor Bush worked with the Legislature to provide financial relief for homeowners by reimbursing them for deductibles paid after the initial deductible was charged. The legislation also allowed insurance companies to charge only one deductible for a single hurricane season to prevent a recurrence of the multiple deduction sticker shock that devastated homeowners in Florida after the 2004 storm season. The Legislature appropriated \$150 million for the reimbursement of individuals affected by the double deductible.

Governor Bush signed legislation into law in December 2005 to provide more than 19,000 Floridians hurricane relief payments totaling \$9.5 million. Property tax refund checks were mailed to homeowners, who were forced out of their homes for 60 days or more, as a result of a named storm in 2004. The average refund for a qualified homeowner was \$500.

A sales tax holiday for selected hurricane preparedness supplies was proclaimed for May 2005 and again in May 2006 coinciding with Hurricane Awareness Week.

2006 LEGISLATIVE ACTION

During the 2006 Legislative Session, Governor Bush and the Florida Legislature worked to address the strained property insurance marketplace. The Legislature enacted Senate Bill 1980 which provided a myriad of reforms. They included a \$715 million appropriation to Citizens Property Insurance Corporation (Citizens) to offset its 2005 deficit. This funding reduced the anticipated 11 percent premium regular assessment to about 2.5 percent. In addition, the emergency assessment was amortized over a 10-year period. Both actions saved thousands of dollars for Florida's homeowners.

The legislation amended the Florida Hurricane Catastrophe Fund (CAT Fund) to require a 25 percent rapid cash build-up factor in the premiums paid by insurers for coverage from the CAT Fund. It allowed Citizens and the State Board of Administration (SBA) to determine the method of providing CAT Fund coverage for policies of insolvent insurers assumed by Citizens (for one year only). It also modified the assessment base to not extend the exemption of medical malpractice premiums from assessments.

The legislation created an Insurance Capital Build-Up Incentive Program. The purpose was to provide funding in the form of "surplus notes" to new or existing authorized residential property insurers, under specified conditions. The amount of the surplus note could not exceed \$25 million or 20 percent of total funds available for the program. The insurer had to contribute new capital to its surplus at least equal to the surplus note and had to apply to the SBA by July 1, 2006. The combination of surplus, new capital, and surplus note was required to be at least \$50 million. An insurer had to meet a minimum writing ratio of net written premium to surplus of at least 2:1 for the term of the surplus note. The writings had to be for residential property insurance in Florida covering the peril of wind. The sum of \$250 million was appropriated for the program.

The legislation established the Florida Comprehensive Hurricane Damage Mitigation Program (My Safe Florida Home) within the Department of Financial Services. The program provides for

free inspections of site-built, residential property to determine what mitigation measures are needed to reduce vulnerability to hurricane damage. It provides for 50 percent matching grants to encourage single-family, site-built homes to retrofit. Homes are required to have an insured value of \$500,000 or less. Grants are limited to \$5,000 (for a \$10,000 project) with up to 100 percent grants (\$5,000) for low-income homeowners. The sum of \$250 million was appropriated for the program.

The bill provided some changes to the rating law. It required the Office of Insurance Regulation (OIR) to approve a rating factor that provides an insurer a reasonable rate of return commensurate with the risk of covering hurricane losses, for that portion of the rate for which the insurer has exposed its capital and surplus and has not purchased reinsurance. It placed the burden on the OIR to establish that a rate is excessive for personal lines residential coverage with insured value at \$1 million or more. Insurers must provide the OIR with loss and expense information upon request. It required OIR to reevaluate the discounts offered for homes built to meet the Florida Building Code and to determine the full actuarial value of such discounts. Effective July 1, 2007, for residential property insurance in any areas for which the OIR determines that a reasonable degree of competition exists, an insurer may increase or decrease rates by up to 5 percent statewide average or 10 percent for any territory without being subject to a determination by the OIR that the rate is excessive or unfairly discriminatory (except for unfairly discriminatory rating factors prohibited by law). This may be used once in a 12-month period.

The bill addressed many significant issues related to Citizens. It created what has become known as a glide path regarding Citizens' rates. The glide path sets rates of the high-risk account of Citizens at the 70-year Probable Maximum Loss (PML) for policies issued after March 1, 2007, 85-year PML for 2008, and 100-year PML for 2009. The bill required sufficient Citizens' rates in the Personal Lines Account and the Commercial Lines Account to provide for the procurement of reinsurance, including the CAT Fund, to pay all claims resulting from a 100-year Probable Maximum Loss (PML). This change applies to policies issued or renewed after March 1, 2007. It required use of the public hurricane model as the minimum benchmark for

determining windstorm rates for Citizens. It mandated that if any account incurred a deficit, non-homestead property policyholders will be immediately assessed up to 10 percent of premium. If this assessment is not sufficient to offset the deficit, all Citizens policyholders will be assessed up to 10 percent of premium at the time of issuance or renewal. Any remaining deficit is funded by regular and emergency assessments from non-Citizens' insurance policyholders.

The bill substantially revised the oversight, internal controls, and standards of conduct which apply to Citizens employees and board members. It required the Financial Services Commission (Governor and Cabinet), rather than the Office of Insurance Regulation (OIR), to approve Citizens' plan of operation. It required the Executive Director of Citizens to be confirmed by the Senate. It required Citizens to have an internal audit. It required the OIR to do a market conduct examination of Citizens every two years and the Auditor General to conduct an operational audit of Citizens every three years. It mandated competitive solicitation for certain contracts and board approval of contracts of \$100,000 or more. It required the OIR to conduct background checks on applicants for senior management positions. Board members and senior managers are subject to the code of ethics and financial disclosure requirements applicable to public officials. It prohibited board members and employees from accepting any gift from any person or entity under contract with Citizens or under consideration for a contract. It prohibited Citizens from retaining lobbyists, but allows employees to register as lobbyists.

The legislation required a 10-day waiting period for new applications. If an authorized insurer offers coverage during this period, the applicant is not eligible for coverage in Citizens regardless of whether the insurer appoints the agent who submitted the application. It allowed Citizens to adopt policy forms that contain more restrictive coverage than provided in the voluntary market. It required insurers writing the non-wind coverage to contract with Citizens to provide claims adjusting services for the wind coverage provided by Citizens in the high risk account. It required Citizens to offer quarterly and semiannual premium payment plans.

Effective July 1, 2011, the legislation makes homes with a combined dwelling and content value of \$1 million or more ineligible for Citizens coverage. It defined "homestead property" to include properties granted a homestead exemption, property with a current written renter lease of at least 7 months, owner-occupied mobile or manufactured homes permanently affixed to real property, tenants coverage, commercial lines residential property (condominiums), or any non-profit hospital or continuing care retirement community. All other property is considered "non-homestead property." Effective March 1, 2007, non-homestead property is not eligible for Citizens' coverage. The bill provides provisions for a reinstatement approval process if coverage cannot be found in admitted or surplus lines market. An applicant must get four declination letters, three from surplus lines carriers and one from an admitted carrier.

The legislation also addressed sinkhole claim coverage issues which have been significant market drivers in Pasco County and the surrounding Tampa Bay area. It required the Department of Financial Services to certify engineers and geologists to serve as "neutral evaluators" of sinkhole claims disputes. This process would be mandatory, but non-binding, and the costs would be paid by the insurer. If the insurer complies in a timely manner with the recommendation of the neutral evaluator, but the policyholder declines to resolve the matter in accordance with the evaluator's recommendation, the insurer is not liable for extra-contractual (bad faith) damages related to issues determined at the neutral evaluation. The insurer is not liable for attorney's fees, unless the policyholder obtains a more favorable judgment at trial. It allowed residential policies to provide a deductible for sinkhole losses equal to 1 percent, 2 percent, 5 percent, or 10 percent of the dwelling limits.

FLORIDA BUILDING CODE

Florida's population growth and numerous hurricanes in the 1940's and 1950's led to a statewide effort to develop a state specific building code. In 1974, the State Minimum Building Code law was instituted requiring all local governments to adopt and enforce a building code. The system provided four separate model codes which local governments could adopt that established minimum standards of health and life safety for the public. In that system, the state's role was limited to adopting all or relevant parts of new editions to the four model codes. Local governments could amend and enforce their local codes as they saw fit.

In 1992, Hurricane Andrew demonstrated this system of local codes did not provide the level of public protection necessary. The Miami-Dade County Code that was universally acknowledged to set the strongest standard for hurricane protection essentially failed. The resulting problems had impacts well beyond southern Miami-Dade County. The state filled the property insurer void left by failed and fleeing private insurance companies and the federal government poured billions of dollars of aid into the disaster area.

After Hurricane Andrew, Miami-Dade County conducted an exhaustive review of its building code and made significant changes to both the code and support systems for code enforcement. In other areas of the state the Board of Building Codes and Standards (predecessor to the Florida Building Commission) adopted significant upgrades to wind resistance standards of the model state minimum code that was used by the majority of other local governments. The state instituted licensing of local governments' building code enforcement personnel. These steps proved critical to the contributions of building codes to improved building performance in the 2004 hurricane season. The state, like Miami-Dade County, went beyond just modernizing the state minimum building codes. In 1996, a study commission was appointed to review the system of local codes created by the 1974 law and made recommendations for modernizing the entire system. The 1998 Legislature adopted the study commission's recommendations for a single state building code and an enhanced oversight role for the state in local code enforcement.

The 2000 Legislature authorized implementation of the Florida Building Code. The first edition replaced all local codes on March 1, 2002. Florida enacted a statewide building code marking the first such “unified” building code in the nation. The Florida Building Code is a consensus-based, unified source of construction regulation for the state. It establishes minimum safety standards for the design and construction of buildings to protect lives and property, promotes innovation and new technology, and ensures economic viability through the availability of safe and affordable buildings and structures.

The first major tests of the building code enhancements, implemented since Hurricane Andrew, came with 2004’s Hurricanes Charley, Frances, Ivan, and Jeanne. Hurricanes Frances and Jeanne produced winds below the design speeds required by the code, but they were long in duration and produced significant rainfall. Hurricane Charley moved quickly across the state and produced less rainfall.

Hurricane Ivan, like Hurricane Opal in 1995, was a category 4-5 storm when it approached the Panhandle. Its winds diminished dramatically as it approached land, but the accompanying storm surge wreaked havoc along barrier islands and mainland waterways. Each storm provided different kinds of tests and exposed different types of building failures. Generally, older buildings had major property damage and were unsafe shelters; where as, buildings built to the current code had minor property damage and provided safe shelter.

Assessments conducted in the wake of the devastating 2004 hurricane season further validated that Florida’s Building Code increased the soundness of structures in Florida, thereby providing for the safety of our citizens. It is essential that Florida maintain pace with the evolving standards because its coastal exposure and rapidly expanding population create a major risk and limit options for ensuring the safety of its citizens. The Florida Building Commission keeps pace by amending the code annually to adopt updated reference standards and by major updates every three years to incorporate new editions of the national model codes. A major focus of efforts in

2004 was developing the first update to the code. Currently, the Florida Building Code has increased standards for hurricane protection and differs from the requirements of the national model by including:

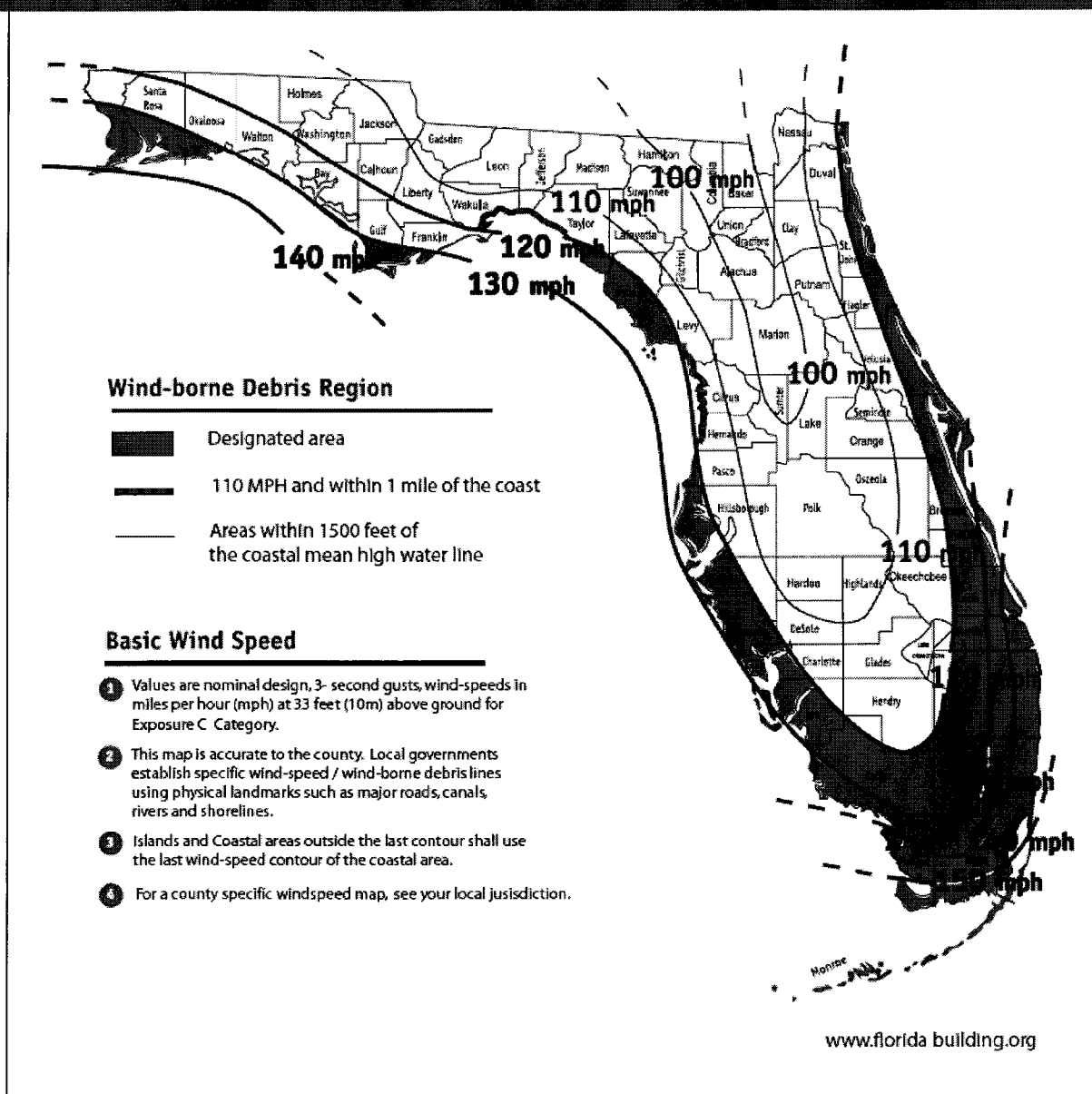
- increased design practices for homes from 100 mph to 110 mph;
- higher standards to limit water intrusion through walls;
- requirements for identifying pressure ratings for windows on building plans and on window labels;
- requirements for pressure ratings for garage and entry doors; and
- higher standards for roof covering wind ratings and testing.

To further ensure that new homes are built to withstand hurricane damage in the future, legislation enacted in 2006 (CS/CS/SB 1774) removed a legislatively established exemption for the Northwest Florida Region to allow the Florida Building Commission to designate appropriate wind lines for the area based on science-based research. The Florida Building Commission has proposed a revised Wind Borne Debris map which continued a different standard for the Panhandle.

Proposed
Effective Date March 1, 2007

State of Florida

Wind-Borne Debris Region



Another core component regarding Florida's Building Code is local government enforcement of an existing building code. After Hurricane Andrew roared through Miami-Dade County in 1992, it became clear that enforcement issues existed with the building code. At the September 21, 2006 Committee meeting, a representative of the Insurance Services Office (ISO) educated the Committee on ISO's Building Code Effectiveness Grading Schedule (BCEGS). BCEGS is a process of rating a local building department on a scale from 1 (high) to 10 (low) on its effectiveness. ISO reviews local building departments, building codes and plan reviews on new buildings. They also conduct field review and training. BCEGS ratings create incentives for building department operations, promote code compliance, and ultimately reduce property losses. Rated building departments generally fall in three ranges of ratings: 1-3, 4-6 and 7-9. Coral Gables (Miami-Dade County) is the only number 1 rated building department in Florida. There are currently no number 9 or 10 rated local governments in the state. The City of Waldo (Alachua County) and Santa Rosa County are the only number 8 rated local governments in Florida. Not every Florida city has a BCEGS rating, but all 67 counties are rated. The nine local governments currently not rated are:

- Boca Raton (Palm Beach County);
- Briny Breezes and Golfview (Palm Beach County);
- Dundee (Polk County);
- Hialeah Gardens and Virginia Gardens (Miami-Dade County);
- Ocean Breeze Park (Martin County); and
- Sea Ranch Lakes and Seminole Tribe (Broward County).

The range of insurance credits varies from 15 percent in a number 1 rated community to a surcharge in the worst rated communities. The Committee learned that movement into a lower range could result in significant insurance discounts.

The Committee heard testimony regarding the need for a uniform state building code that did not contain lower levels of wind resistance. The Panhandle's lack of uniformity with the rest of Florida has been a factor in the modeling companies' rate level projections. The Panhandle

standard has also been an issue for reinsurers evaluating Florida's loss projections. The Committee believes the statewide building code should contain no exceptions or lower protection standards.

Finally, the Committee recognized the need for local governments to evaluate incentives for new structures to be built to a code plus standard. This code plus standard should produce lower insurance rates since the structures would be able to withstand higher wind speeds and resulting risk levels.

Florida Building Code Recommendations

Put a uniform statewide building code in place that requires American Society of Civil Engineers (ASCE) wind lines to be adopted and prohibit any changes in future statewide building codes unless such a change enhances the structural integrity of the code as it relates to wind protection. (12)

Develop a code plus standard that the insurance industry would recognize for maximizing premium discounts. (13)

Encourage local governments to promote and advocate for code plus structures by providing incentives to builders like density bonuses, lower impact fees, and concurrency credits when new construction is built at *higher levels* than the current approved building code. (14)

* Note – Numbers after each recommendation refer to Section 15 - Final Recommendations

MITIGATION

Any long-term solution to the Florida hurricane insurance market must recognize the critical link between a structure's wind-resistance and survivability. Initially at the time of construction, or subsequently through retrofitting, increasing the wind-resistance of buildings will deliver a return on investment by reducing damage and therefore insurance losses. Fundamental approaches to increasing structures' survivability include adoption and enforcement of strong model building codes, increased public awareness of hurricane mitigation, and implementation of mitigation consumer assistance programs.

Mitigation is the ongoing effort to lessen the impact disasters have on people's lives and property through damage prevention. Within this context, hurricane mitigation can be defined as "a construction activity that fortifies or hardens the envelope of residential structures by using a variety of techniques." Techniques may include reinforcing roof-to-wall connections, reinforcing roof systems, use of superior roof material attachment methods, placement of a secondary water barrier on roof decking, and protection of all openings (window, doors, garage doors and gable vents, etc.) by either installing shutter systems or using wind and impact-resistant window and/or door systems.

Evidence demonstrates that safe homes can be built without prohibitive cost increases, especially when cost is calculated in the context of loss of quality of life post-hurricane, the payment of insurance deductibles, and general societal costs. Because of the age of Florida's housing stock, particular emphasis on meaningful mitigation retrofits to existing homes is critical in order to make people safer in their homes, to allow them to shelter in place, and to reduce their risk of loss. By reducing their risk of loss, policyholders make it less likely that they will need to incur the additional cost of their deductible or suffer the inconvenience and cost associated with temporary housing.

Programs to educate consumers and contractors regarding true cost benefits of mitigation and availability of insurance incentive programs provide important and useful information for home

buyers regarding the value of wind-resistant attributes. These programs are driving a growing market for hurricane mitigation as evidenced by demand for shutters and opening protection technologies. Effective means of spreading this information could be the use of real estate sellers' disclosure forms.

According to the report issued in 2005 by the Multi-Hazard Mitigation Council of the National Institute of Building Sciences, "*Natural Hazard Mitigation Saves: An Independent Study to Assess the Future Savings from Mitigation Activities*", each dollar spent on mitigation saves society an average of four (4) dollars. The study found that the "natural hazard mitigation activities funded by the three FEMA grant programs between 1993 and 2003 were cost-effective and reduced future losses from earthquake, wind, and flood events; resulted in significant net benefits to society as a whole (individuals, states, and communities) in terms of future reduced losses; and represented significant potential savings to the federal treasury in terms of future increased tax revenues and reduced hazard-related expenditures."

Following the 2005 storm season, Governor Bush's Fiscal Year 2006-2007 Budget Recommendations included hurricane related programs and mitigation. The Legislature approved \$658 million in funding. Two significant mitigation initiatives were the Florida Comprehensive Hurricane Damage Mitigation Program housed in the Department of Financial Services (DFS) and the Florida Home Rating System located at the University of Florida. Key Mitigation components of the Fiscal Year 2006-2007 General Appropriations Act included:

- **General Population Shelters:** \$25.6 million was provided to create safe public shelters to protect Floridians during a hurricane, including a regional sheltering pilot project. This significant investment will expedite the elimination of Florida's shelter deficit.
- **Emergency Operations Centers:** \$45 million was provided to build or mitigate county Emergency Operations Centers to ensure they can survive a major hurricane.
- **Affordable Housing:** In addition to \$243 million for traditional housing programs and \$80 million for extremely low income housing production and innovative approaches to

workforce housing, \$190.9 million was provided for affordable housing in communities impacted by the hurricane season of 2005, including:

- \$92.9 million for the Rental Recovery Loan Program to leverage federal funds and private capital to build, rebuild, and repair rental housing.
- \$82.9 million to meet the needs of communities impacted Hurricanes Katrina and Wilma with a prioritization for affordable housing in the most impacted areas of the state.
- \$15 million for farmworker housing and housing for frail elders, people with disabilities, and homeless families.
- \$100,000 for training and technical assistance to local governments and non-profit organizations to utilize housing funds quickly and effectively.

During the 2006 General Session, the Legislature enacted SB 1980 which created the Florida Comprehensive Hurricane Damage Mitigation Program (My Safe Florida Home) and appropriated \$250 million to provide financial incentives to encourage residential property owners of this state to retrofit their properties, making them less vulnerable to hurricane damage and helping decrease the cost of residential property and casualty insurance. The program provides grants for hurricane shutters, roofing, and other improvements to better protect up to 45,000 homes against hurricane damage and reduce the state's insurance potential maximum loss. The program provides for free home inspections which must include a rating scale specifying the current and projected wind resistance rating and insurer-specific information on insurance credits and discounts. It provides for 50 percent matching grants to encourage single-family, site-built homes to retrofit. A home must have an insured value of \$500,000 or less. Grants are limited to \$5,000 (for \$10,000 project) with up to 100 percent grants (\$5,000) for low-income homeowners.

The Department of Financial Services (DFS) has seen an overwhelming response. As of mid-October 2006, there have been over 13,000 requests for inspection applications by phone, over 91,000 inspection applications have been submitted online, and nearly 60,000 inspection

applications have been received by the Department by mail. Approximately 12,000 inspections are expected to be completed by November 2006. The program has been operating since August 15, 2006. For more information: <http://www.mysafefloridahome.com/>

The Executive Office of the Governor, DFS, and the Office of Insurance Regulation (OIR) have partnered to bring a series of free homeowner expos to Florida with local and statewide businesses and not-for-profit agencies providing information and mitigation methods to help Floridians learn ways to make their homes more hurricane-resistant.

The "Fortify Florida" fairs or expos feature insurance company representatives on hand to help homeowners understand which hurricane-resistance measures will protect their homes and how they can apply for discounts on their insurance premiums. By law, insurance companies are required to offer policyholders discounts on the wind-coverage portion of their homeowner policy premiums for specific measures that reduce their homes' exposure to windstorm damage. The Financial Services Commission recently amended and strengthened OIR's administrative rule (Rule 69O-170.0155, Notice of Premium Discounts for Hurricane Mitigation) related to mitigation premium discounts.

The OIR, in an effort to assist policyholders in better understanding the premium discount credits available, has developed a new consumer friendly form that provides information on how credits are calculated, how policyholders can take advantage of the discount credits available, and additional information regarding the Florida Comprehensive Hurricane Damage Mitigation Program. The form requires companies to provide policyholders specific mitigation discount credits to illustrate to policyholders the discounts they received on the hurricane portion of their premium, as well as the discounts amount they may be able to receive should they further mitigate their homes. This new form becomes effective March 1, 2007. Thus, companies are required to file their new windstorm mitigation credits with OIR by January 1, 2007.

The "Fortify Florida" expos were held in conjunction with the Florida Comprehensive Hurricane Damage Mitigation Program, to provide information for Floridians and assist them in making

their homes safer against hurricanes. DFS staff has been available to assist expo participants who want to apply for Florida Comprehensive Hurricane Damage Mitigation Program free inspections. In addition to learning how they can apply for the Florida Comprehensive Hurricane Damage Mitigation Program, residents attending the expos can participate in home improvement how-to clinics, learn about building products designed to strengthen homes, and talk to insurance company representatives about how they can take advantage of premium discounts for hurricane hardening their homes. Workshops were held throughout the day and all exhibits and workshops were free. Three workshops have been conducted to date:

- St. Petersburg – August 26; 600 participants; 56 vendors/exhibitors; 4 workshops;
- Pensacola – September 30; 3,000 participants; 46 vendors/exhibitors; 7 workshops;
- Palm Beach – October 14; 200 participants; 55 vendors/exhibitors; 11 workshops.

Senate Bill 1980 also created the Manufactured Housing and Mobile Home Mitigation and Enhancement Program and appropriated \$7.5 million for the program. It provides grants for manufactured home communities and mobile home parks, and is administered by Tallahassee Community College.

Finally, SB 1980 authorized a study for a Florida Home Rating System to provide an objective rating system that will allow homeowners to evaluate the relative ability of Florida properties to withstand the wind load from a sustained severe tropical storm or hurricane. The system must be easy for the property owner to understand, based on proven readily verifiable mitigation techniques and devices, and must be implemented based on a visual inspection program. The DFS must implement a pilot program to be used in conjunction with the Florida Comprehensive Hurricane Damage Mitigation Program.

For more information: <http://www.floir.com/HomeStructureRatingSystem.htm>

Although the state's mitigation program is less than a year old, the Committee believes its value is limitless. Fortifying and hardening homes saves lives and insurance losses for all Floridians

who make the decision to invest in and strengthen their homes before the next hurricane comes to Florida. The Committee believes that free inspections and resulting insurance savings for mitigating homes can help homeowners make the decision to retrofit their home. In addition, tax incentives, like a state sales tax rebate program, could help encourage homeowners to invest in their homes' strength and perform necessary mitigation retrofits. Consumers need additional information and education from their insurance agents and state and local governments on why mitigating their homes is prudent. Specific insurance policy information regarding insurance mitigation discounts should be provided to all policyholders.

Mitigation Recommendations

Maintain and expand the commitment to the Mitigation Program being administered by the Department of Financial Services. Earmark a portion of future mitigation funding to be used for Citizens policyholders. (15)

Require the modeling firms (RMS, AIR, ARA, EQE and FIU) to recalibrate their models to take into account the results of mitigation in Florida. (16)

Require uniform mitigation verification inspection forms to be developed for all insurers. Specify the length of time an executed form is valid (spoilage). (17)

Ensure that insurance companies appropriately adjust premiums for homeowners when meaningful and verifiable mitigation measures are undertaken. (Premium discounts) Credits with smaller ranges should be developed while allowing market competition in the credit process. (18)

Authorize the creation of a not-for-profit corporation to raise funds from the private sector for additional mitigation grants. (19)

Recommend an appropriation from the Legislature SOLELY for free inspections to encourage more homeowners to mitigate regardless of whether matching grants are available. (20)

* Note – Numbers after each recommendation refer to Section 15 - Final Recommendations

Mitigation Recommendations (Continued)

Create a Sales Tax Rebate Program where consumers can apply to the Florida Department of Revenue for sales tax credits/rebates for approved mitigation materials and supplies. Require the filing of a mitigation verification inspection form as proof of purchase with the Department of Revenue. (21)

Ensure insurance companies and agents are providing specific information to homeowners who want to know the premium discounts available for various mitigation options and the means for obtaining the discounts (e.g., continuing education requirements for agents). (22)

Develop public/private partnerships to educate homeowners regarding the advantages of fortifying their homes. (23)

Require wind mitigation inspectors to be licensed or certified by the state with exceptions for licensed contractors. Licensed contractors shall be exempt, if a continuing education course in mitigation is completed. (25)

Encourage local governments to participate in the state mitigation program. (26)

* Note – Numbers after each recommendation refer to Section 15 - Final Recommendations

FLORIDA WINDSTORM BOUNDARIES

The windstorm boundaries that currently exist have evolved over three decades, but originated with the creation of the Florida Windstorm Underwriting Association (FWUA) in 1970. The boundaries are important because they trigger when and where Citizens Property Insurance Corporation (Citizens) can sell a wind only residential insurance policy and when an insurer can market an ex-wind residential policy (other perils such as fire, theft and liability). The wind boundaries also trigger when and where a commercial-nonresidential (business) risk can be sold by Citizens and where the Property Casualty Joint Underwriting Association (PCJUA) can offer businesses coverage. Windstorm coverage protects policyholders against direct physical loss caused by hurricanes, tornadoes, windstorms and hail.

The FWUA was created to cover residential and commercial policyholders unable to secure windstorm coverage in the voluntary market. This coverage was limited to defined geographical areas in the state determined by the then Department of Insurance. Eligibility was limited to structures in areas found by the department, after public hearing, to meet three criteria: the lack of windstorm coverage in the area was deterring development, causing mortgages to be in default, and causing financial institutions to deny loans; the area was subject to the requirements of the Southern Standard Building Code or its equivalent; and that extending windstorm coverage to the area was consistent with the policies and objectives of environmental and growth management.

Florida has 35 coastal counties. The windstorm area now applies to 29 of the 35 counties. At its inception, only Monroe County was in the windstorm area. In 1992, when Hurricane Andrew hit south Florida, the wind area did not include Miami-Dade, Broward, or Palm Beach counties. The Department and the Legislature, subsequent to Hurricane Andrew, expanded the boundaries of the windstorm area.

Currently, the distance from the coast ranges from 1,000 feet to many miles in Miami-Dade, Broward, and Palm Beach counties where the boundary is I-95. Monroe County remains 100

percent within the windstorm boundary. As previously stated, the boundaries of the windstorm area directly affect the obligation of private market insurers to provide windstorm coverage. Outside the boundaries, insurers must include windstorm coverage in every residential property insurance policy they write. (Exhibit 11)

In July 2002, Citizens was created by merging the Florida Residential Property and Casualty Joint Underwriting Association (FRPCJUA) and the FWUA. The wind boundaries are key components for Citizens and Florida policyholders because they trigger when a wind-only policy can be written. The wind-only policies (residential, commercial-residential and commercial-nonresidential) make up the High Risk Account (HRA) in Citizens.

In recent years, two scientific studies have been undertaken that could be used in future efforts to refine and define logical wind boundaries. SLOSH (Sea, Lake and Overland Surges from Hurricanes) is a computerized model run by the National Hurricane Center to estimate storm surge heights resulting from historical, hypothetical, or predicted hurricanes by taking into account: pressure, size, forward speed, track, and winds. The calculations are applied to a specific locale's shoreline, incorporating the unique bay and river configurations, water depths, bridges, roads, and other physical features. The SLOSH model is generally accurate within plus or minus 20 percent. The SLOSH model is best used for defining the potential maximum surge for a location.

LIDAR (Light Detection and Ranging) is a remote sensing system used to collect topographic data used by the National Oceanic and Atmospheric Administration and NASA to document topographic changes along shorelines. LIDAR can measure distance, speed, rotation, and chemical composition and concentration of a remote target where the target can be a clearly defined object or a diffuse object. LIDAR has been tested to assess post-storm damage to beaches.

In addition to these new scientific methods, the Committee received testimony at its September 21, 2006, meeting that modeling companies could use modeling data to help refine and define

the boundaries. If the Legislature decides to refine the boundaries, it is possible that the Office of Insurance Regulation (OIR), in conjunction with Florida International University's Public Loss Projection Model, could be used to perform the analysis.

Florida's windstorm boundaries have been created and amended over many years of legislative and regulatory cycles. While certainly intended to create valid pockets of wind risk areas in the state, the 2004-2005 hurricane losses illustrate the boundaries are arbitrary and antiquated. The Committee found that to depopulate Citizens over time it seems prudent to allow Citizens to write a wind and an ex-wind policy to its policyholders in the current windstorm boundary, thus, eliminating the windstorm boundary's use. This will allow for additional premium buildup in Citizens while creating competition in the market.

Florida Windstorm Boundaries Recommendations

Allow Citizens to write the full policy. Do away with the wind boundaries and the distinction of wind and ex-wind policies in the wind boundaries. (34)

* Note – Numbers after each recommendation refer to Section 15 - Final Recommendations

Options:

14. Amend the State Constitution to limit the use of the assets of the CAT Fund (i.e., restrict legislative appropriations) to the purposes currently required by statute (as summarized in first paragraph under Current Law). Also, require that any appropriation from the CAT Fund in excess of \$10 million be in a separate bill for that purpose only and be approved by a super-majority (e.g., three-fourths) of the membership of each house of the Legislature.

15. Mandate that the \$10 million set aside be appropriated entirely on the Florida Comprehensive Hurricane Damage Mitigation Program.

II. Mitigation/Premium Discounts

Issue #1: Funding Mitigation Measures

Current Law:

For Fiscal Year 2006-2007, \$250 million of non-recurring funds was appropriated from General Revenue for the Florida Comprehensive Hurricane Damage Mitigation Program within the Department of Financial Services (DFS). The unexpended balance reverts after three years (June 30, 2009). The program provides for free inspections of site-built, residential property to determine what mitigation measures are needed to reduce vulnerability to hurricane damage and provides for 50 percent matching grants (up to \$5,000) to encourage retrofitting of homes. Up to 100 percent grants (up to \$5,000) are available to low-income homeowners.

DFS must adopt rules establishing priorities for grants based on objective criteria that gives priority to reducing the states' probable maximum loss for hurricanes and may further establish priorities based on the insured value, whether the dwelling is insured by Citizens, and whether the area has sufficient resources to perform the retrofitting.

Options:

16. Maintain and expand the state's financial commitment to fund the program.

17. Require uniform home inspection forms to be developed for all insurers. Specify the length of time an executed form is valid (spoilage).

18. Provide for state funded research concerning mitigation of commercial structures and whether strengthening the state's building code for commercial structures should be considered.

19. Review DFS allocation of mitigation funds and priorities for grants and recommend any changes determined appropriate. Earmark a portion of future mitigation funding to be used for Citizens policyholders.
20. Expand the funding for free inspections to encourage more homeowners to mitigate regardless of whether matching grants are available.
21. For future appropriations for mitigation grants, lower the percent match (e.g., from 50 percent to 20 percent or 30 percent) to fund additional homes.
22. Create a Sales Tax Rebate Program where consumers can apply to the Florida Department of Revenue for sales tax credits/rebates for approved mitigation materials and supplies.

Issue #2: Savings for Homeowners through Mitigation

Current Law:

Insurers are required by law to provide premium credits or discounts for homeowner's insurance for properties on which construction techniques have been installed which reduce the amount of loss in a windstorm. These construction techniques include roof strength, roof covering performance, roof-to-wall strength, wall-to-floor-to-foundation strength, opening protection, and window, door, and skylight strength, etc. Individual discounts or credits generally range from 3 percent to 25 percent and a fully mitigated property can qualify for total credits ranging from 20 percent to 42 percent off its wind insurance premium.

SB 1980 required OIR to reevaluate the insurance discounts and credits for homes built to meet the Florida Building Code and to determine the full actuarial value of such discounts, by July 1, 2007, for use by insurers in rate filings.

Insurers must notify policyholders upon application and renewal of the availability and range of premium discounts for mitigation techniques and describe generally what actions the policyholders must take to obtain the discounts. The prescribed form and a list of the range of premium discounts for each insurer must be available on the Internet website of DFS or OIR.

Options:

23. Ensure that insurance companies appropriately adjust premiums for homeowners when meaningful and verifiable mitigation measures are undertaken (premium discounts).
24. Require mid-term refunds or rate adjustments if mitigation measures are performed/completed during the policy year.

25. Ensure that insurance companies and agents are providing specific information to homeowners who want to know the premiums discounts available for various mitigation options and the means for obtaining the discounts (e.g., continuing education requirements for agents).

26. Further develop public/private partnerships to educate homeowners regarding the advantages of fortifying their homes.

Issue #3: Standard Grading System for a Home's Hurricane Strength

Current Law:

SB 1980 required OIR to conduct a study and develop a program to provide an objective rating system that will allow homeowners to evaluate their home's ability to withstand the wind load from a hurricane. OIR is expected to enter into a contract with the University of Florida to develop a home rating/grading system for this purpose.

Options:

27. Require the state to adopt and fund a uniform grading system for evaluating the hurricane strength of homes.

28. Require home inspectors to be licensed or certified by the state (with exceptions for licensed contractors).

29. Require home sellers to inform buyers of the home's hurricane rating, based on an inspection by a qualified inspector and statewide rating system.

Issue #4: Building Code

Current Law:

Legislation in 2006 authorized the Florida Building Commission to amend the Florida Building Code and to identify those areas of the state from the eastern border of Franklin County to the Florida-Alabama line (the Panhandle region) that are subject to the windborne debris requirements of the code. The commission's initial designation of the windlines for this region must address the results of the Florida Panhandle Windborne Debris Region study.

This 2006 legislation allows the commission to eliminate or revise the statutory "Panhandle exception" limiting wind-borne debris requirements to within 1 mile of the coast and amend the wind design standards to incorporate the current edition of the national model building code engineering standard (American Society of Civil Engineers Standards 7, 2002 Edition). This would subject new construction in the Panhandle region

to the same windborne debris requirements (enhanced door and window protection) applicable to other areas of the state.

Options:

30. Put a statewide building code in place that requires American Society of Civil Engineers (ASCE) wind lines to be adopted and prohibit any changes in future statewide building codes unless it is to strengthen the code.

31. Limit the authority of the Florida Building Commission to modify the wind-design standard applicable to construction in the state, as adopted within the Florida Building Code, to modifications that strengthen, but do not weaken or otherwise diminish the standards within the code (this would effectively repeal the Panhandle exemption).

32. Provide incentives to builders like density bonuses, lower impact fees, and concurrency credits when new construction is built at *higher levels* than the current approved building code (except for the Panhandle).

III. Citizens Property Insurance Corporation (Citizens)

Issue #1: Eligible Property for Coverage in Citizens

Current Law:

Citizens offers three types of property and casualty insurance in three separate accounts: 1) Personal Lines Account (PLA) which covers homeowners, mobile homeowners, dwelling fire, tenants, condominium unit owners, and similar policies; 2) Commercial Lines Account (CLA) covering condominium associations, apartment buildings, and homeowners associations; and 3) High-Risk Account (HRA) which covers personal lines windstorm-only policies, commercial residential wind-only policies, and commercial non-residential wind-only policies.

In the HRA, Citizens provides coverage in specially designated areas which have been determined to be particularly vulnerable to severe hurricane damage. In these “wind-only” zones, private insurers may offer other peril coverage, but are not required to provide windstorm coverage. The windpool designated areas were created as part of the process for determining eligibility for the Florida Windstorm Underwriting Association. Eligibility was limited to structures in eligible areas found by the then Department of Insurance, after public hearings, to meet three criteria: the lack of windstorm coverage in the area was deterring development, causing mortgages to be in default, and causing financial institutions to deny loans; the area was subject to the requirements of the Southern Standard Building Code or its equivalent; and that extending windstorm

PROPERTY & CASUALTY INSURANCE REFORM COMMITTEE
FINAL RECOMMENDATIONS
(11/15/06)

Residential Insurance Market/Consumer Issues

1. Transparency for consumers (residential and commercial). Require the *premium notice and policy* to
 - specify premium mitigation discounts available (by dollar amount) for each policyholder on each mitigation measure and for a combination of various mitigation measures, in a format specified by OIR.
 - identify amounts recouped for assessments by Citizens Property Insurance Corporation (Citizens), the Florida Hurricane Catastrophe Fund (CAT Fund), or the Florida Insurance Guaranty Association (FIGA), respectively. Prohibit abbreviations.
 - identify the amount of any premium increase that is due to a rate increase and the amounts that are due to coverage changes.
 - identify the amount (by dollar) of the agent's commission.
 - identify the amount of insurance premium tax by dollar amount.
 - require plain language in insurance policies
2. Move the Office of the Consumer Advocate under the Financial Services Commission (Cabinet) rather than the Chief Financial Officer for oversight. Request the Legislature review the authority currently vested in the Consumer Advocate regarding independence and effectiveness for Florida consumers.
3. Require insurers to offer a policy that excludes windstorm coverage from a residential property insurance policy if the policyholder signs a written rejection of such coverage on a form approved by OIR with appropriate disclosures. Insurers would still be required to offer a policy that includes windstorm coverage. (In windstorm and non-windstorm areas of the state)
4. Require insurers to offer dwelling limits for windstorm coverage that only covers the outstanding balance of the mortgage.
5. Require insurers to offer policies that provide no personal contents coverage.

6. Eliminate maximum allowable deductibles. That is, allow insurers to offer deductibles of any amount in addition to the 2 percent, 5 percent, and 10 percent deductibles that must be offered.
7. Revise the Florida Market Assistance Plan (FMAP) to provide for more efficiency. Refine the FMAP guidelines to allow that during the 10 day waiting period applicable to Citizens policies, that an exclusion is in place for any potential insured who has a real estate closing during the 10 day waiting period.

Florida's Commercial Insurance Market/Property Casualty Joint Underwriting Association (PCJUA)

8. Develop a plan to depopulate Citizens commercial risks to either the PCJUA or create a new statewide entity for all commercial risks. Prohibit Citizens from writing builders risk or commercial-commercial policies. Revise and update the PCJUA statute or new entity by expanding and updating the assessment base for the PCJUA. Seek to achieve IRS tax-exempt status for the PCJUA (Similar to Citizens).
9. Begin state funded research concerning mitigation of commercial structures. Evaluate whether strengthening the state's building code for commercial structures should be considered and the grading of commercial structures.
10. Adopt statutory language to allow risk pooling for windstorm property coverage all "like" entities such as public hospitals, public educational facilities, and community colleges.
11. The Legislature shall review the market needs for adding commercial carriers to the CAT Fund and consider optional CAT Fund coverage to commercial insurers, for a limited time period.

Florida Building Code

12. Put a uniform statewide building code in place that requires American Society of Civil Engineers (ASCE) wind lines to be adopted and prohibit any changes in future statewide building codes unless such a change enhances the structural integrity of the code as it relates to wind protection.
13. Develop a code plus standard that the insurance industry would recognize for maximizing premium discounts.
14. Encourage local governments to promote and advocate for code plus structures by providing incentives to builders like density bonuses, lower impact fees, and concurrency credits when new construction is built at *higher levels* than the current approved building code.

Mitigation

15. Maintain and expand the commitment to the Mitigation Program being administered by the Department of Financial Services. Earmark a portion of future mitigation funding to be used for Citizens policyholders.
16. Require the modeling firms (RMS, AIR, ARA, EQE and FIU) to recalibrate their models to take into account the results of mitigation in Florida.
17. Require uniform mitigation verification inspection forms to be developed for all insurers. Specify the length of time an executed form is valid (spoilage).
18. Ensure that insurance companies appropriately adjust premiums for homeowners when meaningful and verifiable mitigation measures are undertaken. (Premium discounts) Credits with smaller ranges should be developed while allowing market competition in the credit process.
19. Authorize the creation of a not-for-profit corporation to raise funds from the private sector for additional mitigation grants.
20. Recommend an appropriation from the Legislature solely for free inspections to encourage more homeowners to mitigate regardless of whether matching grants are available.
21. Create a Sales Tax Rebate Program where consumers can apply to the Florida Department of Revenue for sales tax credits/rebates for approved mitigation materials and supplies. Require the filing of a mitigation verification inspection form as proof of purchase with the Department of Revenue.
22. Ensure insurance companies and agents are providing specific information to homeowners who want to know the premium discounts available for various mitigation options and the means for obtaining the discounts (e.g., continuing education requirements for agents).
23. Develop public/private partnerships to educate homeowners regarding the advantages of fortifying their homes.
24. Adopt and fund a uniform grading system for evaluating the hurricane strength of homes and commercial buildings.
25. Require wind mitigation inspectors to be licensed or certified by the state with exceptions for licensed contractors. Licensed contractors shall be exempt, if a continuing education course in mitigation is completed.
26. Encourage local governments to participate in the state mitigation program.

PROPERTY & CASUALTY INSURANCE REFORM COMMITTEE MEETING
SEPTEMBER 7, 2006
ROOM 212 KNOTT BUILDING
TALLAHASSEE, FL

Call to Order - The meeting of the Property & Casualty Insurance Reform Committee was called to order by its Chairman at 9:05 a.m. on September 7, 2006 in Room 212, Knott Building, Tallahassee, Florida. The following committee members were in attendance: Lt Governor Toni Jennings (Chairman), Senator J.D. Alexander, Lee Arnold, Representative Donald Brown (non-voting), Leslie Chapman-Henderson, J.D. Collins, Manuel de Zarraga, Robert Helms, Frank Kowalski, Bill Montford, Representative Dennis Ross (non-voting), Linda Shelley, Larry Schultz and Barbara Weese. Members absent include – Sandy McKinnon. In addition, the Property Insurance Technical Advisory Committee members were present. The Chairman declared a quorum.

Opening Remarks – The Chairman welcomed the members back to Tallahassee for a full day of deliberations.

MITIGATION/ PREMIUM DISCOUNTS

Various company representatives of the Technical Advisory Committee gave reports on how their companies were applying current insurance premium discounts. One company reported that 36% of its policyholders received some credit for retrofitting their homes. Discounts ranged from 5 to 42%. The average was 15 – 25%. Another company representative stated that discounts are not reflective of an adequate base rate and for standard discounts to work the base rate needs to be actuarially adequate. A third company representative stated that their discounts ranged from 5 to 45% with the average being 15 – 20%. The primary consideration appeared to be type of construction and age of the dwelling. There was much discussion about the need for mitigation results to be factored into the Hurricane Modeling Commission's requirements for models.

The Committee discussed the need for standardization in forms, time certainty on the recognition of an inspection report by carriers (spoilage date), insurance agent education and the need for more acceptance of credits for high impact glass, then numerous policy alternatives were discussed by the Committee. Additionally, the Committee talked about mitigation for commercial structures and what the Committee could do to educate the business sector of the need for research on specific business structure losses due to hurricanes and the effectiveness of varied building types. A current University of Florida data collection /research effort for commercial buildings was briefly discussed.

The Committee and Department of Community Affairs Secretary Thaddeus Cohen discussed many issues related to Florida's building code. The panhandle exemption, local building code enforcement effectiveness and Florida's continued growth and building expansion were discussed. A grading system for a home's ability to withstand a hurricane was also discussed.

The following recommendations were adopted:

1. Maintain and expand the commitment to the Mitigation Program being administered by the Department of Financial Services. Also, state funds need to be leveraged to their maximum amount.
2. A measurement methodology should be developed to judge the program's effectiveness and its effect on the market. Example: will additional mitigation of homes increase capacity in the market, what is the performance of homes after a hurricane for retrofitted homes?
3. The modeling firms (RMS, AIR, ARA, EQE and FIU) need to recalibrate their models to take into account the results of mitigation in Florida.
4. The mindset of mitigation needs to have a "human cost savings component and physical home cost savings". Also, the effect of the avoidance of deductible losses on insureds should be considered for those who performed mitigation on their residence.
5. There needs to be "actuarial soundness" in base rates and premium discounts granted for insureds that complete mitigation techniques.
6. Uniform inspection forms need to be developed for all insurance companies.
7. Where feasible, standardized or uniform credits with smaller ranges should be developed while allowing market competition in the credit process.
8. There is a need for more consumer information as to types of specific mitigation and the resulting potential credits on policy issuance and renewals.
9. Whether or not additional state funding for new mitigation grants occurs, the creation of a not-for-profit corporation should be considered to raise funds from the private sector for additional mitigation grants.
10. A statewide building code should be in place that requires American Society of Civil Engineers wind lines to be adopted and then any future changes to the statewide code could only be to strengthen the code.
11. There needs to be state funded research concerning mitigation of commercial structures and whether strengthening the state's building code for commercial structures should be considered.

FLORIDA HURRICANE CATASTROPHE FUND (FHCF)

The Committee had substantial discussion regarding the numerous policy alternatives available regarding the FHCF and related issues. The key items were the bottom attachment point, rate on line, trigger date, top level expansion, and assessment mechanism. There was considerable discussion of the tightening of the private reinsurance market due to the rating agency actions and the effect of modeling company decisions. However, new capital seems to be available in the marketplace though private reinsurance costs have risen significantly in 2006. Mr. Jack Nicholson, Senior FHCF Officer, gave the Committee his insight on the numerous policy alternatives. He said the current rate on line for FHCF coverage is 6.7%. He said the private reinsurance rate is approximately 50-70% at the level below the CAT Fund bottom retention level, 30% along side of the CAT Fund and 20% above the CAT Fund top level. Mr. Nicholson suggested five core principles should be considered when evaluating changes to the CAT Fund. They were 1) expand the CAT Fund where the private market alternative is not available; 2) create equity to all companies; 3) increase the CAT Fund rate to "near market" pricing (last year's rate in the private market); 4) provide options for insurers (allow insurers to have

choices); and 5) make changes on a short-term basis, not long-term. Insurance Commissioner Kevin McCarty discussed two additional concepts with the Committee— creating Special Purpose Vehicles to bring capital into the Florida market and rewriting Florida's reinsurance/collateralization law. He also said he will be proposing changes in Florida's captive insurer law.

The Committee discussed the state's challenge to address a \$5 to \$25 billion event in Florida and the layer above being a Federal issue. Along with Florida's CAT Fund, the Committee believes that the Federal Government needs to create some type of Federal CAT Fund for Catastrophic losses. It was discussed by the Committee how lowering the cost of reinsurance would expand a company's surplus and should result in lower costs to insureds. The Committee agreed that the primary goal should be to bring the private sector back to Florida. Additionally, the Committee discussed concerns of expanding the CAT Fund and then possibly facing greater potential assessments to policyholders if a catastrophic event occurred. The Committee agreed that any changes should be short-term.

The following recommendations were adopted:

1. The Committee should keep the current retention level but consider offering coverage below the retention level/attachment point (first layer of coverage) on a voluntary basis to all admitted companies participating in the CAT Fund.
2. Any change should only be temporary/short-term.
3. The rate for CAT Fund coverage should be increased to a "near market rate".
4. Encourage the Federal government to create a CAT Fund to deal with high level catastrophic events.

The committee discussed but made no recommendations on the following issues – whether the upper level of the CAT Fund (above 15 billion) should be raised, whether the CAT Fund assessment method should be expanded, whether additional avenues of revenue should be created to build up CAT Fund reserves, whether the 25% rapid cash build up provision is adequate, whether the CAT Fund should be expanded to commercial policies, and whether the annual June 30th trigger date needs to be altered. Also, the committee discussed the need for policymakers to be informed of all potential total assessments (CAT Fund, Citizens Property Insurance Corporation, Florida Insurance Guaranty Association (FIGA) and the Property and Casualty Joint Underwriting Association (PCJUA)) which could be applicable to insurance policyholders when legislative changes are considered.

Other matters – During the meeting, the Committee had a lengthy discussion of the tightening of the commercial market. Once again, the issue of data collection on commercial structures (loss exposure data) needs to be developed. Availability appears to be the number one problem. Staff was asked to research how many insurers were writing in the commercial market and how much capital was in that market. The Office of Insurance Regulation reported on the status of the newly triggered Property Casualty Joint Underwriting Association. The sale of something less than a HO3 insurance policy (Standard Homeowners Insurance policy) and Citizens Property Insurance Corporation growth issues and depopulation strategies were also discussed.

Closing Remarks - The Chairman announced the next meeting is scheduled for September 21, 2006 in Miami, Florida from 9:00 a.m. - 4:00 p.m. and the meeting was adjourned at 3:55 p.m.



Lt Governor Toni Jennings
Committee Chairman