

**FLORIDA HURRICANE CATASTROPHE FUND
ADVISORY COUNCIL**

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December 14, 2005

The Honorable Jeb Bush, Chairman
Governor
Plaza Level 05, The Capitol
Tallahassee, Florida 32399

The Honorable Charlie Crist, Secretary
Attorney General
Plaza Level 01, The Capitol
Tallahassee, Florida 32399

The Honorable Tom Gallagher, Treasurer
Chief Financial Officer
Plaza Level 27, The Capitol
Tallahassee, Florida 32399

Dear Trustees of the State Board of Administration:

The Florida Hurricane Catastrophe Fund Advisory Council met on December 7, 2005, for the purpose of discussing a legislative proposal made by Larry Johnson, the actuary expert on the Advisory Council. This proposal related to the way the Florida Hurricane Catastrophe Fund's (FHCF) capacity is adjusted from year to year.

Currently, the FHCF has a \$15 billion limit, and this limit is subject to an annual adjustment of the lesser of the growth in reported exposure or the growth in the cash balance of the FHCF. The losses during the 2004 and 2005 hurricane seasons have and are continuing to reduce the FHCF cash balance; therefore the \$15 billion limit did not increase for the 2005 contract year and apparently will not increase for the 2006 contract year. If the amount of the retention increases with exposure growth without a corresponding increase in the capacity of the FHCF, coverage for insurers will be eroded. The erosion in

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insurer coverage that occurred from 1999 until 2003 was one of the reasons for the FHCF statutory changes made in 2004 that resulted in increasing the limit from \$11 billion to \$15 billion. This was the concern that prompted Mr. Johnson's proposal. His proposal, in summary, would allow the capacity of the FHCF to adjust with reported exposure growth. At the direction of the Advisory Council, an in depth examination of the pros and cons of this proposal was drafted by FHCF staff. I commend the staff on an excellent and balanced analysis of this complex situation. A copy of the memorandum, dated November 28, 2005, is attached.

During the December 7, 2005, meeting, Mr. Johnson's proposal was discussed at length, in light of current insurance market conditions and the potential impact the change might have on policyholders and the citizens of the State.

The statutory purpose of the Advisory Council is to provide the SBA with information and advice; therefore, the Advisory Council voted to direct me, as Chair, to inform you of our position on the issue of the annual adjustment to the FHCF's capacity limit. The FHCF Advisory Council members, in a vote of 4-2, endorsed the position that the FHCF statutory capacity limit should grow each year by the lesser of the growth in reported exposure or the growth in the FHCF emergency assessment base premiums. Although we are not proposing any specific legislation, we want to make you aware of our position on this issue.

Sincerely,

Joseph Varon, P.E.
Chair, FHCF Advisory Council