

# Memorandum



**Date:** April 7, 2022

Agenda Item No. 2(B)(6)  
June 1, 2022

**To:** Honorable Chairman Jose "Pepe" Diaz  
and Members, Board of County Commissioners

**From:** Daniella Levine Cava  
Mayor

A handwritten signature in blue ink that reads "Daniella Levine Cava".

**Subject:** Report Regarding Feasibility of Miami-Dade County Providing Property Insurance  
Protection - Directive No. 220141

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This report is being presented in response to Resolution No. R-130-22 sponsored by Chairman Jose "Pepe" Diaz and adopted by the Board of County Commissioners (Board) on February 1, 2022, directing the County Mayor or County Mayor's designee to examine the feasibility of Miami-Dade County (MDC) providing property insurance protection to eligible property owners who are unable to find property insurance coverage in the private market.

I commend the Board of County Commissioners for their efforts in the development of strategies to address the challenges faced by residents of Miami-Dade County, as it relates to insurance coverage in the private marketplace.

In summary, a feasibility review was conducted and MDC providing property insurance is not recommended for the following reasons: 1) it is unlikely that a local government, including MDC, would be able to offer a competitive premium to Citizens and/or the private market; 2) establishing such a program would require hiring claims adjusters, appraisers, actuaries, etc., causing great financial impact to MDC; and 3) insurance policies confined within MDC is highly susceptible to catastrophic weather events such as hurricanes and floods, and would result in high-risk policies requiring higher premiums which would undoubtedly be uncompetitive when compared to private insurance carrier markets.

Should the Board desire to assist constituents, an alternate approach may involve the development of a grant, rebate or subsidy program that would allow for retrofitting of older homes to better withstand hurricane winds, which may most likely result in lower premiums, or through the establishment of a program that pays towards the homeowner's property insurance premium. Funding sources would need to be identified and can be further standardized.

## **Background**

Homeowners in MDC are exposed to hurricanes, floods and sinkholes and may also experience losses from lightning, hail, and fire, among other hazards. Hurricane activity and flooding risk increase are associated with sea level rise. Hurricanes with higher winds, more rain, slower moving, wide in range and more volatile are expected to occur because of climate changes. When these catastrophes occur, they have a significant financial impact on homeowners and local and federal governments. Homeowners have seen continued price increases in property insurance premiums which show no sign of ending or decreasing in the near future.

To provide homeowners with affordable, accessible property insurance, the State of Florida, offers Citizens Insurance, the State's "insurer of last resort." Citizens Property Insurance Corporation is a not-for-profit company that was created by the Florida legislature in August 2002 under Florida Statute 627.351(6) by merging insurers of last resort for the state, Florida Residential Property and Casualty Joint Underwriting Association and Florida Windstorm Underwriting Association. Citizens operates according to the statutory requirements established by Florida legislators and is governed by a Board of Governors. This Board administers a plan of operations approved by the Florida Financial Services Commission, an oversight panel made up of the Governor, Chief Financial Officer, Attorney General and Commission of Agriculture.

Citizens' role in the Florida insurance market is to provide property insurance for homeowners who are unable to find insurance or affordable premiums in the marketplace. Citizens fulfills a public purpose, aspiring to provide insurance products and services that meet the needs of Florida property owners who are, in good faith, entitled to obtain coverage through the private market but are unable to do so. Citizens typically provides coverage if the premium for coverage from an insurer in the private market is more than 15 percent greater than the premium for comparable coverage from the Citizens. They are required to clear policies back to the private market when comparable coverage falls below this threshold.

### **Feasibility**

Looking into the feasibility of MDC providing property insurance protection program to eligible property owners, who are unable to find property insurance coverage in the private market, brings up the question whether MDC, as a government entity can issue insurance policies under state law. The Internal Services Department, Risk Management Division, contacted the Florida Office of Insurance Regulation (FLOIR) and confirmed that no other municipality has formed their own local-serving property carrier to provide an alternative to the legislatively approved Citizens Property Insurance. Such action will require legislative approval.

Furthermore, an entity wishing to create an insurance company in Florida would require the following: 1) authority to transact any one kind or combination of kinds of insurance, 2) an insurer applying for its original certification of authority in Florida will possess a monetary surplus as to policyholders at least the greater of 10 percent of the insurer's total liabilities and 3) domestic insurers that transact residential property insurance coverage and are not a wholly owned subsidiary of an insurer domiciled in any other state, the minimum fund requirement is \$15 million.

Aside from the regulatory aspect, it is unlikely that a local government, including MDC, would be able to offer a competitive premium to Citizens and/or the private market. Writing insurance policies would require MDC to adhere to the same established insurance underwriting principles used to calculate premiums. Methods such as Catastrophic modeling (CAT), calculating total insured values (TIV), required reserves, loss severity and frequency are all elements that are standard in calculating premiums and would not be able to be bypassed by MDC's model.

Establishing such a program would require hiring claims adjusters, appraisers, actuaries, etc., causing great financial impact to MDC. There is also other cost such as procuring errors and omissions insurance policies and legal costs associated with establishing and overseeing such a program. There would be additional legal cost related to frivolous lawsuits and claims which is currently a major factor in high home insurance premiums. MDC does not have the necessary funding to be able to lower its operating cost and be competitive with the private market.

### **Additional Concerns**

Another concern is the restriction to writing policies only within MDC. This territory restriction would confine all the policies to a geographic area that is highly susceptible to catastrophic weather events such as hurricanes. The resulting high-risk policies would require the program to charge high premiums which would undoubtedly be uncompetitive compared to the private market or Citizens. This could be further compounded by the high loss exposure of the properties we would be insuring; homeowners who are unable to find insurance in the private marketplace and/or find the premiums offered by Citizens to be unreasonably can be the result of the condition of the property. Properties with existing damage, aging roofs, and/or in need of repairs can be dropped by insurers and subsequently unable to find insurance in the private marketplace. All the aforementioned factors could lead to finding reinsurance difficult, thereby limiting MDC's ability to hedge against a major loss.

MDC has an existing financial exposure for County-owned properties. Our self-insured retention is \$200 million under the named windstorm insurance policy for County owned properties. MDC would be over exposed if it had to cover this existing retention limit in addition to the values of the private homes it would be insuring.

### **Recommendations**

An alternative and more feasible approach would be to offset homeowners' financial impact by developing a grant, rebate or subsidy program that would allow for retrofitting of older homes to better withstand hurricane winds, which may most likely result in lower premiums. Another option might be a grant program that pays towards the homeowner's property insurance premium.

A viable option would be to supplement existing programs within MDC. Community Action and Human Services Department (CAHSD) currently has two such programs: The Housing Rehabilitation Program, which offers forgivable loans to assist low-income qualified single-family homeowners with repairs, and the Single-Family Home Rehabilitation Program, which also assists low-income homeowners with home repairs. The service includes an inspector that assist homeowners in identifying needed repairs. Such repairs include drafty windows and weathered roofs. Another CAHSD program that deals directly with hurricane resilience is the Residential Construction Mitigation Program. The program provides retrofit measures, which serves to protect homes against high wind forces. Services include re-roofing, load path reinforcement and opening protection.

It should be noted that the Community Action and Human Services administers a Weatherization Assistance Program that assists low-income homeowners with making their homes energy efficient through the installation of cost-saving measures, such as: attic insulation, low-flow showerheads, water heater jackets, energy efficient light bulbs, weather-stripping, Energy Recovery Ventilation (ERV), including bathroom and kitchen exhaust fans, repair or replacement of exterior doors, windows, refrigerators, water heaters and cooling and heating systems. \$578,000 was budgeted to assist approximately 38 homeowners, and the FY 21-22 budget included an additional \$4 million for the program. (Total funding of \$4,578,000)

Another possible option to assist the County's homeowners is through the American Rescue Plan Act. The Homeowners Assistance Fund (HAF) provides each state a minimum of \$50 million to assist homeowners with mortgage payments, utility payments, homeowner's insurance, or other specified purposes.

Additionally, the Florida legislature passed SB 76 in 2021. Among other items, the law is meant to combat insurance costs by restructuring litigation rules for disputed insurance claims. While it is too early to determine the impact this law will have on insurance premiums, legislative action such as this provides a means to addressing insurance cost. The County can further petition the state and/or the federal government to expand the Florida Catastrophe Fund or the creation of a national catastrophe fund that can help bolster Florida's home insurance market.

MDC would require legislative approval to create an insurance company similar to Citizens. Prior to considering this path, MDC would have to weigh the benefits of such a program against the associated high risk. MDC would not be able to offer a lower premium than Citizens due to the increased loss exposure of a highly localized insurance territory, in a hurricane region, insuring high risk properties. Should a major hurricane activity occur, MDC would not be able to afford the limits on all its policies. The Property Appraisers office estimated the countywide taxable value at \$336 billion as of June 2021. Even if MDC only covered one percent of this estimated value, that would mean an exposure of over \$300 million. It would be much more effective to supplement the aforementioned programs or provide subsidies directly to homeowners to cover the high cost of property insurance premiums.

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Unincorporated Miami-Dade County achieved and has maintained a Class 5 rating in the FEMA Community Rating System (CRS) Program since 2003. This is a major accomplishment, especially considering the size of our community, with 121,996 active flood insurance policies with total annual premiums paid by residents of over \$43.6 million. Our current Class 5 rating provides an average annual savings to UMSA residents and policy holders of \$115 per policy in the special flood hazard areas. Total CRS Program annual savings in flood insurance premiums to UMSA policy holders is over \$12.9 million. Our current CRS classification results in a 25% discount on flood insurance policies for properties in unincorporated Miami-Dade County.

This report will be placed on the next available Board Agenda pursuant Ordinance No. 14-65. Should you need further information, please contact Alex Muñoz, Director, Internal Services Department, at 305-375-5893.

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