

**TEXAS SUNSET ADVISORY COMMISSION**  
**Sunset Commission Meeting, December 13, 2018**

**Public Testimony**  
**Subject: Texas Windstorm Insurance Association**

by  
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**Key Points**

- The Texas coastal region is too big to fail, given its economic and strategic significance.
- The State should support post-disaster recovery, rather than letting TWIA act as a detriment after each storm.
- The current TWIA financial structure is not sustainable in the long run. The organization should function solely as an insurer of last resort.
- As part of disaster relief and recovery efforts, state funds should be deployed to rebuild residential and commercial properties devastated by major disasters.

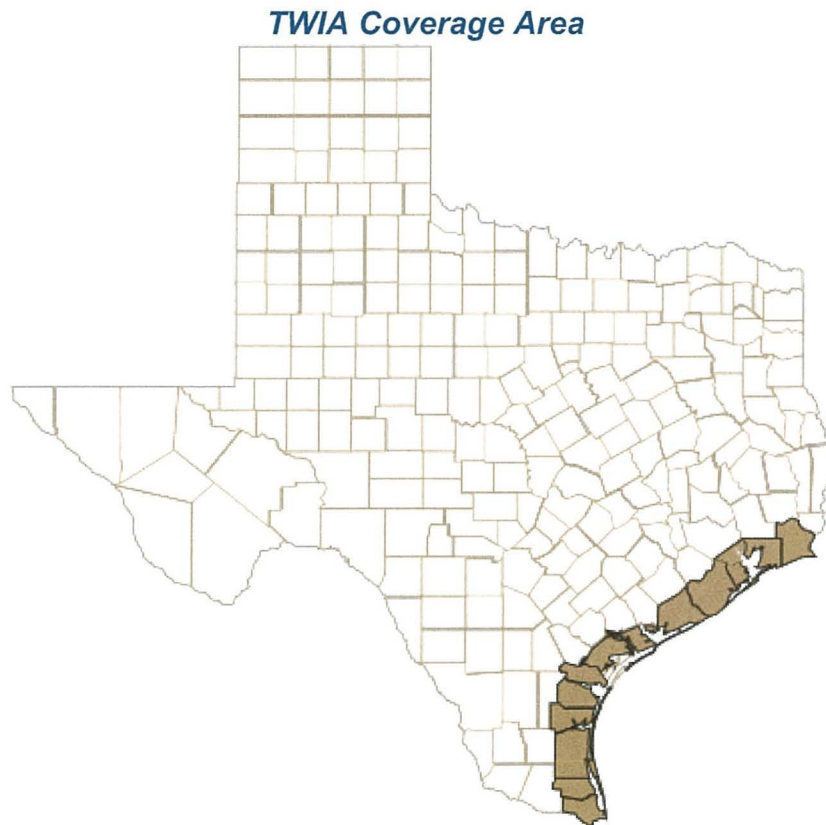
According to George P. Bush, Commissioner of the Texas General Land Office, the state is committed to “protect[ing] the people, economy and natural resources of the Texas coast [because it] is a region that is vitally important to not just this state, but the entire nation. The Texas coast is home to the Gulf Intracoastal Waterway, the nation’s third busiest inland waterway, 25 percent of the nation’s refining capacity, four of the 15 busiest ports in the country, ... numerous strategic military deployment and distribution installations, and a vital tourism industry” [1].

**Region of Economic and Strategic Significance**

The Texas Gulf Coast region as a vital economic engine is too big to fail. Damage to economic infrastructure and assets within this region particularly due to catastrophic storms will have rippling effects throughout the state and national economies.

The coverage area of the Texas Windstorm Insurance Association (TWIA) is home to 6.7 million Texans, nearly 25% of the state’s total population. This region’s economic assets are critical to the vitality of the state and national economies. The size of

economic output in this region is over \$500 billion, or approximately 30% of the state's total. Other than the sheer size of this regional economy, the Texas coast contributes to the state and national economies by supporting industries around the world notably with petroleum refining, petrochemical and plastics manufacturing, through the expansive networks of deep seaports, rail, and pipeline infrastructure.



The logistical advantages of the Texas Gulf Coast have made its communities the epicenters of refineries, together processing about one-third of U.S. oil. The workforce and businesses in this region also play a key role in helping make Texas the top exporting state in the nation in the past 16 years.

As the state's busiest port, the Port of Houston generates 1.2 million jobs and \$265 billion annually in economic impact statewide. The Port district near the Greater Houston metropolitan area has 5,000 energy related companies and 15 of the 20 largest oil pipeline companies in the United States [2].

As the nation's fourth largest port in tonnage, the Port of Corpus Christi generates an economic impact more than \$17 billion annually and 91,000 jobs across the state of Texas. In addition to refineries, oil storage facilities, industrial plants, and military installations in its Port district, businesses directly related to surface and water



transportation through the Port collectively contribute approximately \$5 billion in business revenues annually and 16,000 jobs to Texas communities *beyond* the Corpus Christi metro area [3].

### ***Port of Corpus Christi***



With the completion of the 730-mile EPIC Pipeline, the Port of Corpus Christi will become the main oil export outlet for oil and gas production in not only the Eagle Ford Shale in South Texas, but also the Permian Basin of West Texas and New Mexico. Disruption of economic infrastructure in Corpus Christi and other metro areas on the Texas coast will also devastate the entire state's energy sector.

### **Harvey's Aftermath**

Hurricane Harvey highlighted the critical role of the Texas coastal region to the U.S. economy. Gas prices jumped by more than 20 cents per gallon nationwide for weeks following the storm as refineries halted operations, leading to a drop in the nation's refining capacity by 22 percent.



The closure of the ports and ship channels in Houston, Galveston, and Corpus Christi also caused interruptions in the region's supply chains for consumer goods, as tankers and cargo ships waited offshore before these ports were re-opened.

According to the National Oceanic and Atmospheric Administration (NOAA), Harvey caused an estimated \$125 billion in economic damage to Texas. While flooding caused most of the property damage around the Greater Houston metro area in southeastern parts of Texas, the Coastal Bend area, where Harvey made initial landfall, sustained mostly wind damage. The hardest-hit communities in the Coastal Bend—Rockport, Port Aransas, Aransas Pass, and communities in Refugio County—sustained an estimated total of \$4.5 billion in property damage [4]. TWIA has paid more than \$1 billion in claims to more than 75,000 affected policyholders [5].

### *Harvey's Devastation to the Coastal Bend*



According to a survey study by the Kaiser Family Foundation, about 3 in 10 people affected by Harvey indicated their lives were not back to normal more than one year after Harvey. Nearly one quarter of them said their financial situation had worsened. According to local chamber of commerce officials in the hardest-hit communities, more than 15 percent of local businesses remain closed today due to storm damage [6].



## Rate Hike as a Double Whammy

Local home prices typically surge in the wake of a natural disaster. Harvey destroyed an equivalent of 3 percent housing stock across the Coastal Bend region, and over 25 percent in the hardest-hit communities of Rockport and Port Aransas. The resulting decline of housing stock in the region has so far led to a record year-to-year increase in home prices over 10 percent. Home affordability especially for low-income families has become a critical challenge for this region recovering from Harvey.

Insurance premium payments, even without any increase, are adding tremendous financial stress to home and business owners who are still struggling to recover from the disaster. The current TWIA premiums average at approximately \$1,500 for residential property and \$2,500 for commercial property. Another hike in the premiums would only be detrimental to these coastal communities on the road to full recovery.

## Insurer of Last Resort

TWIA's primary function is to serve an insurer of last resort by providing insurance to those who cannot purchase it elsewhere. The Legislature adopted this mandate in order to sustain the economic vibrancy of the Texas coastal communities vulnerable to tropical storms.

It is, however, now clear that the mandate to protect coastal economic assets cannot be achieved should TWIA continue to rely on premium funding. To generate sufficient revenues to cover anticipated claims and expenses, TWIA has estimated more than 30 percent rate increases for residential and commercial properties [5].

These estimates are understated because they ignore the fact that the number of policyholders will decline as a result of higher premium rates. A research study has found that the demand for catastrophic homeowners insurance coverage is price sensitive, especially in comparison with the demand for non-catastrophic coverage [7]. Drawing on home insurance data of Florida, the statistical results imply that a 10 percent increase in the premium rate, as TWIA proposed earlier this year, would result in a more than 10 percent *decrease* in policy contracts.

## Recommendations

From the above perspectives, the current state policy design is not only inequitable in treating policyholders following disaster damage, but it is also an infeasible way for TWIA to maintain its financial viability in the long run. Higher premium rates will force many residents, particularly Winter Texans, to go without insurance, while others abandon jobs or businesses on the coast. This will further result in higher and higher premiums for fewer and fewer policyholders.

TWIA's current funding structure is not sustainable in the long term. On the other hand, the state's savings account, the Rainy Day Fund, has grown to a record high of \$12.5 billion, compared to \$10.3 billion pre-Harvey. To overhaul TWIA's financial structure, the Legislature should consider tapping this state account for disaster relief efforts, which include payments for windstorm damage expenses.

## References

- [1] George P. Bush, *Coastal Resiliency Master Plan, Executive Summary*, Texas General Land Office, March 2017.
- [2] Martin Associates, *The Local and Regional Economic Impacts of the Port of Houston*, Report prepared for Port of Houston Authority, 2015.
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- [4] Murphy, John D. (2018) Service Assessment: August/September 2017 Hurricane Harvey, National Oceanic and Atmospheric Administration, U.S. Department of Commerce.
- [5] Sunset Advisory Committee, *Staff Report: Texas Windstorm Insurance Association*, Texas 2018-2019 86th Legislature.
- [6] Liz Hamel, Bryan Wu, Mollyann Brodie, Shao-Chee Sim, and Elena Marks. *One Year after the Storm: Texas Gulf Coast Residents' Views and Experiences with Hurricane Harvey Recovery*, Kaiser Family Foundation, August 2018.
- [7] Martin F. Grace, Robert W. Klein, and Paul R. Kleindorfer, "The Demand for Homeowners Insurance with Bundled Catastrophe Coverages," *Journal of Risk and Insurance*, 2004, 71(3), 351-379.