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Developers drained Florida cities' wetlands. It cost homeowners $1.6B, new report says

Development in Florida has stripped hundreds of square miles of wetlands, leaving urban areas especially vulnerable to flooding.

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A Massachusetts Institute of Technology study finally puts a price tag on what that loss of the state's natural flood barriers has cost residents: $1.6 billion in damages.

The paper takes a close look at Florida's wetland mitigation banking program, where developers offset their environmental harm by purchasing credits for restoration elsewhere. Wetlands are often destroyed in desirable, urban areas and replaced far away, where dirt is cheaper and connected to other natural land.

Daniel Aronoff, an economics researcher who co-authored the MIT study on Florida's mitigation market, focused on an overlooked flaw in the state's credit trading system.

"Wetlands reduce flood risk, and so when you're creating a wetland at one of these banks, you are reducing flood risk where they're being built, and you're creating flood risk in the urban area," he said.

Aronoff has proposed a tax on mitigation banks that would go directly to flood victims. It would protect the majority of industry profits while compensating homeowners who have lost their natural flood barriers, he argued.

In his paper, Aronoff combined a mountain of data, including credit transactions from a private broker, state and county purchase records and Federal Emergency Management Agency data on flood risk policies and claims.

He used it to build an economic model that answered a big what-if: What could have been different if the government had taxed the industry from the start?

It would have reduced flood damages from hurricanes and storms over the last 25 years from almost $2 billion to $282 million, he found.

The tax works by making development unprofitable in cases where destroying a wetland would cause substantial flood risk. Aronoff estimates it would have cut overall flood damage by two-thirds, while reducing the total acreage of developed wetlands by one-third.

"Is it going to stop development? No. Is it going to just be kind of a BS thing that doesn't really affect flood risk? No," he said. "It's going to dramatically reduce flood risk, and it's going to create a fund to compensate the people who are damaged by flooding."

Aronoff's findings were published while the state's wetland credit market is amid an upheaval.

A new state law expanded the scope of that system in what environmentalists called a "handout to developers." A Tampa Bay Times report found it led to a loss of more than 30 acres of wetlands in Hillsborough County over the past year. Developers made up for that damage by creating new wetlands more than 20 miles away.

The law has allowed that distance to grow. It does away with a requirement that forced developers to make up for a destroyed wetland in the same watershed.

The new rule also means regulators must pay out more than half of the project's money to mitigation banks before they deem restoration efforts successful. It helps existing banks, many of which have applied to have their permits modified, that now get their money earlier than under old rules.

Last year, the Florida Association of Mitigation Bankers paid lobbyists between $20,000 and $30,000 to represent their interests, Florida lobbying disclosures show.

And these banks trading Florida's credits have made $2.4 billion since the state mitigation program began in 1996, the study also found.

Do those immense profits worry Aronoff?

"No, it's super reassuring as an economist, because our theory would say that's what it should be," he said.

He found that profits from mitigation banking matched closely with return on real estate investments in Florida. A healthy profit margin means a flood tax like Aronoff has proposed would not make the industry completely unprofitable, he said.

Aronoff said the new state law doesn't upend his idea of a flood tax on wetland credit transactions. But he wondered how regulators would balance the loss of wetlands in one watershed with a surplus of wetlands in another.

"Much of it depends, I would think, on what ecologists think," he said.

Environmentalists argue the law, and the mitigation system underpinning it, are not scientifically sound. They cite ecological reviews of wetlands operated by mitigation banks showing that the program's goal of "zero net loss" of habitat is not always achieved.

John Hallman, a Tallahassee political consultant who runs environmental group Defending Rural Florida, said the new law proves the state's mitigation banking system is broken beyond fixing.

"People are getting rich and not protecting our wetlands," he said. "We're at a point where we can't give up any more wetlands."

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