ISSUER COMMENT
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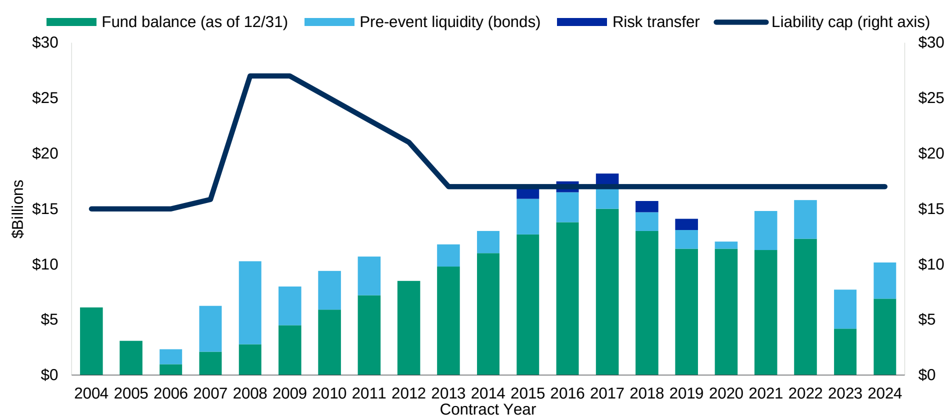
Florida (State of)

Active 2024 hurricane season may prompt more bond issuance for Florida's Cat Fund; debt less likely for Citizens

The 2024 Atlantic Hurricane Season is projected to produce an above-average number of hurricanes. As a result, Florida faces one or more major storms making landfall. Damage similar to what the state experienced with Hurricane Ian in 2022 – including an estimated $9.5 billion in losses for the Florida Hurricane Catastrophe Fund (FHCF, Aa3 RUR up) – would eclipse the fund's current $6.9 billion in projected available reserves (see Exhibit 1). The FHCF also has $3.25 billion in pre-event debt proceeds on hand to cover claims in such an event (net of $1.25 billion maturing July 2025). Further, FHCF has the ability tap its powerful assessment authority and issue additional debt to absorb claims up to its statutory capped liability of $17 billion in a single season.

Exhibit 1
FHCF claims-paying resources relative to its $17 billion annual capped liability are improving but below historical average



Pre-event liquidity for the 2024 season is shown as $3.25 billion, representing the $4.5 billion in outstanding pre-event debt less $1.25 billion that will mature in July 2025.
Source: FHCF annual PML and bonding capacity reports; FHCF Series 2024A bonds' official statement

In the aftermath of a major storm, claims are typically paid out over multiple years, as it takes time to assess damage, file claims and process them. While the total claims liability for a storm is not due immediately, the FHCF would likely set aside an estimated amount to be paid out over time while also recapitalizing for the following hurricane season. The fund would use its $6.9 billion in reserves first, then may access debt proceeds in tranches to match expected payout.

Favorably, Florida has low liabilities relative to resources and ample revenue capacity to support debt liabilities and amortize them over a period that would be affordable to residents. A greater frequency of large storms could become challenging, however, potentially adding FHCF liabilities at a pace exceeding premium revenues and reserve replenishment. This could lead to greater reliance on debt to pay claims and augment the fund for subsequent seasons.

The FHCF is critical to Florida's economy as a whole because it provides an essential service. The smoothed availability of reinsurance coverage is critical to functioning real estate and mortgage markets – highly important given that the state's strong economic growth is attributable in large part to in-migration. Florida's insurance market is the most reliant on the global reinsurance market compared with all other states in the US. Nearly 40% of premiums are ceded to reinsurers in Florida, while the ratio is 20% or less in most other states. The state's incentive to ensure that the FHCF always has ample resources to pay claims is consequently very high. FHCF's $17 billion single-season liability cap has been static since 2013, declining as a percentage of insured property at risk in the state.

On July 24 Moody's placed the ratings of the Florida Hurricane Catastrophe Fund, Citizens Property Insurance Corporation (A1 RUR up) and Florida Insurance Guaranty Association (A2 RUR up) under review for possible upgrade as part of the release of the updated States and Territories methodology to reflect the close financial and governance relationship between the State of Florida and its state-sponsored insurance entities.

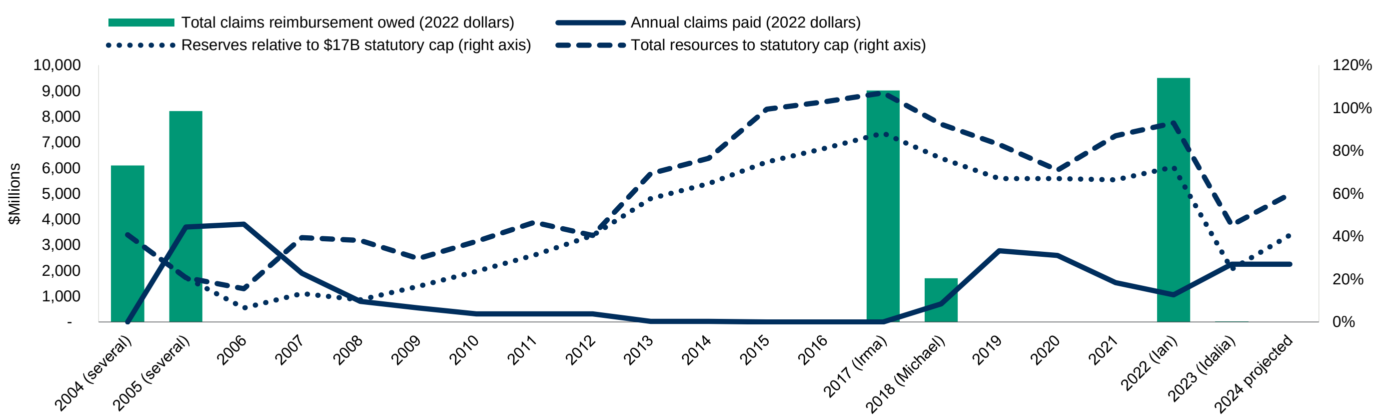
FHCF benefits from time between storms to rebuild reserves and avoid significant post-event debt

The FHCF has worked well since its creation in 1993, providing stable reinsurance coverage to the market while limiting the levy of emergency assessments, which are essentially a statewide tax, over the past several decades. The FHCF's success can be attributed in part to the long duration between highly damaging storms. At the same time, Florida's population has continued to grow, expanding the assessment revenue base of statewide insurance premiums. From 2006 through 2016, no major storms made landfall in the state, during which time the FHCF built up significant resources (see Exhibit 2).

Exhibit 2

The FHCF built up significant resources between 2006 and 2016, when no major storms made landfall in the state

History of FHCF claims payouts by storm event



Total claims and annual claims paid adjusted to 2022 dollars
Reserves are as of the end of the calendar year for the upcoming hurricane season. The reported figures include incoming premium. As a result, the reserves for the season do not match the net position reported in the annual audits.
Total resources includes reserves, risk transfer (if any) and pre-event debt proceeds.
Source: FHCF annual PML and bonding capacity reports; FHCF audited financial statements

After storms in 2017 and 2018, only three calm years passed before Hurricane Ian, much shorter than the previous calm period and not enough time to build up claims-paying resources to the previous high. If the current 2024 storm forecast comes to fruition, with only one year of calm between major events, a highly damaging hurricane would likely deplete the FHCF's current reserves.

Major storm in 2024 would likely require additional debt to recapitalize FHCF

Another major storm in 2024, with damage and FHCF reinsurance claims in the range of Hurricane Ian's estimated $9.5 billion of eventual FHCF payouts, would force difficult state decisions on how to recapitalize the fund for next season. The most straightforward solution would be additional pre-event bond issuance by FHCF, which we estimate could be in the range of $7 billion (see Exhibit 3) to get the FHCF back up to about $10 billion in claims-paying resources.

Exhibit 3
A highly damaging storm in 2024 would exhaust reserves and point to likely debt issuances

	Claims-paying resources ($Billions)		Detail on sources and uses of resources
2024 Atlantic Hurricane Season:			
Available reserves	$	6.90	Projected reserves for the season, net of estimated claims for past storms
Pre-event bond proceeds	$	3.25	Pre-event bond proceeds available, net of $1.25 billion outstanding that will mature July 2025
Major storm event	$	(9.50)	Estimated total claims associated with a hypothetical hurricane in 2024 similar in damage to Hurricane Ian
Remaining unallocated resources	$	0.65	
2025 Atlantic Hurricane Season:			
New pre-event bond issuance	$	7.50	Theoretical new pre- and/or post-event bond issuance(s) to recapitalize the FHCF
2025 premiums earned	$	1.55	
Begin 2025 season resources	$	9.70	Includes remaining unallocated resources (debt), new pre-event debt and projected premiums earned
Total pre-event debt outstanding as of July 2025	$	10.75	Includes current outstanding and available pre-event debt plus theoretical recapitalization

Assumes existing pre-event bonds are not redeemed early
Source: FHCF PML and bonding capacity reports; Moody's Ratings

Because payment of insurance claims from a major storm occurs over a multiple year period, FHCF could spread the necessary replenishment requirement across several debt issues over a period of a year or more. Other state resources, such as general fund moneys or reserves, could also be contributed to the FHCF to reduce the debt needed, though the state has not indicated it would do so. The state has stepped in over the past few years to support access to reinsurance coverage, but has not changed the structure or liability limits of the FHCF.

That said, the FHCF has ample revenue-raising capacity to support significant issuance. Potential pre-event debt issued to recapitalize the FHCF would likely be structured similarly to the outstanding $4.5 billion in pre-event debt, where proceeds are held in trust and used to repay principal unless the funds are needed for claims. If needed for claims, the FHCF could refinance the debt and repay it with emergency assessments. We estimate a 1.5% emergency assessment levied by FHCF would be sufficient to amortize upward of $10 billion in cumulative post-event debt issued in tranches over several years, with 8-10 year bond terms, depending on interest rates and structure. If the fund opted for a shorter amortization, the assessment rate could be set somewhat higher. Either way, the burden on insurance policyholders ($85 billion premium base) and the state economy ($1.6 trillion state GDP) would be quite low. Legally, the FHCF may levy emergency assessments up to a cumulative 10% of the assessment base, or roughly $8.5 billion per year to make debt payments.

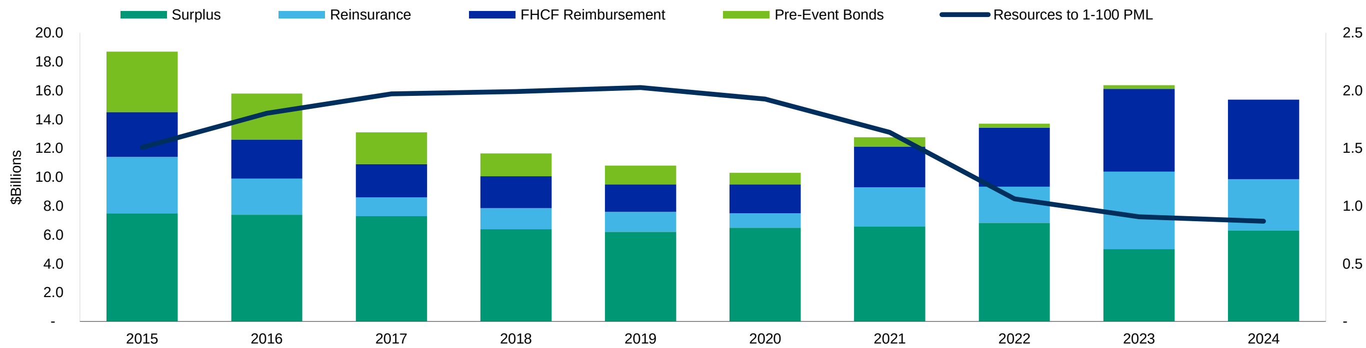
The 2024 major storm analysis also shows, however, the potential for stress on the current FHCF model if major storms were to make landfall in Florida every few years. Several rounds of replenishing the fund via long-term debt issuance would increase the size of the debt program to high levels, possibly testing market acceptance on competitive terms. The future frequency of major storms hitting the state is, of course, uncertain, including in 2024.

Citizens is better positioned, with a lower likelihood of needing debt to cover claims

Citizens Property Insurance Corporation (A1 stable) is Florida's state-sponsored insurer of last resort and receives a significant amount of its reinsurance coverage from the FHCF. Citizen's claims-paying resources remain below historic highs, relative to potential losses, but are sufficient to cover estimated claims in the event of a 1-in-80 year storm (see Exhibit 4). By comparison, a storm the size of Hurricane Ian is considered to be a 1-in-25 year storm event.

Exhibit 4

Claims-paying resources for Citizens remains close to probable maximum losses from a 1-in-100 year storm event



Source: Citizens' annual probable maximum loss reports and Citizens board meeting presentations

Citizens' financial position greatly benefits from 2022 legislation that allowed it to merge its three account lines (personal, commercial and coastal). By merging the three, resources are pooled, lessening the likelihood of any one line requiring additional debt financing. That personal line account is the largest of the three and had been in the weakest financial position before the lines were merged. For the 2024 season, Citizens' PML for a 1-in-100 year event is $17.7 billion compared with $15.4 billion in claims-paying resources. Claims-paying resources this year are made up of operating surplus, or reserves, and reinsurance coverage from the FHCF and the private reinsurance market. Citizens sought $5.5 billion of reinsurance coverage for 2024, but opted to purchase $3.5 billion based on pricing and availability.

Premiums charged by Citizens remain below the market, according to analysis recently conducted by Citizens to arrive at proposed rate increases for 2025. They are also well below actuarially sound rates to adequately cover projected long-term liabilities. Actuarially sound rates would both improve Citizens' financial position further, and would result in rates that are more in line with the private market, which would aid in efforts to move policies from Citizens to private insurers. However, Citizens is restricted by statute, and actuarially sound premiums would require an average increase of at least 25% compared with the maximum 14% allowed for 2025.

If Citizens realized insured losses above its $15.4 billion in claims-paying resources, it first must levy a policyholder surcharge, which can legally go up to 15% of direct written premium, before leveraging the statewide assessment base. This surcharge could generate up to $895 million. If additional funds were needed, Citizens could issue post-event debt backed by emergency assessments. Citizens may levy emergency assessments up to 10% of the $85 billion assessment base to cover claims.

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