# Florida Hurricane Catastrophe Fund

Annual Report of Aggregate Net Probable Maximum Losses,
Financing Options, and Potential Assessments

February 2025

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*The data contained in this report has not been audited. This report was prepared by Raymond James & Associates as financial advisor to the Florida Hurricane Catastrophe Fund.*

# Annual Report of Aggregate Net Probable Maximum Losses, Financing Options, and Potential Assessments

## Purpose and Scope

Section 627.35191, Florida Statutes, enacted in 2013, requires the Florida Hurricane Catastrophe Fund (FHCF) to provide a report for the upcoming contract year to the Legislature and the Financial Services Commission regarding the aggregate net probable maximum losses, financing options, and potential assessments of the FHCF. More specifically:

> **627.35191 Required Reports.—**
> (1) By February 1 of each year, the Florida Hurricane Catastrophe Fund and Citizens Property Insurance Corporation shall each submit a report to the Legislature and the Financial Services Commission identifying their respective aggregate net probable maximum losses, financing options, and potential assessments. The report issued by the fund and the corporation must include their respective 50-year, 100-year, and 250-year probable maximum losses; analysis of all reasonable financing strategies for each such probable maximum loss, including the amount and term of debt instruments; specification of the percentage assessments that would be needed to support each of the financing strategies; and calculations of the aggregate assessment burden on Florida property and casualty policyholders for each of the probable maximum losses.

## Introduction

The FHCF plays a significant role in the provision of property insurance coverage for Florida residents. Eleven years of minimal storm activity from 2006 to 2016 resulted in the FHCF accumulating sufficient reserves to prepare for future storms. However, losses from hurricanes occurring since 2017 have significantly reduced the FHCF's available cash resources. As of December 31, 2024, the FHCF had an estimated fund balance of approximately $4.13 billion after reserving for losses of $10 million for Hurricane Helene and $3.5 billion for Hurricane Milton. The FHCF projects to collect $1.64 billion in reimbursement premiums for the 2025-2026 contract year, resulting in a projected fund balance at December 31, 2025 of $5.78 billion. In addition, the FHCF has $2.25 billion of Series 2020A pre-event bond proceeds and $1.0 billion of Series 2024A pre-event bond proceeds available to provide additional liquidity for the upcoming 2025-2026 contract year. Total available liquid resources are approximately $9.0 billion. Therefore, the FHCF would need to rely on post-event bonding and emergency assessments to pay claims if a storm or storms of moderate to significant magnitude impacted Florida in the 2025-2026 contract year. The analyses presented in this report summarize those resources and how the FHCF would apply them after an event.

## Aggregate Net Probable Maximum Loss

The basic claims payment structure of the FHCF follows:

- Except for certain de minimis exemptions, all admitted insurers writing residential property insurance in Florida, including Citizens Property Insurance Corporation, are required by Section 215.555, Florida Statutes, to obtain FHCF reimbursement coverage.

- The FHCF reimburses each participating insurer for a portion of its hurricane losses under residential policies. All participating insurers, excluding Citizens Property Insurance Corporation ("Citizens") have the option of selecting a coverage percentage of 45%, 75%, or 90%. Citizens is statutorily required to select the 90% coverage percentage.

- An insurer's FHCF reimbursement coverage is triggered after it meets its retention (the functional equivalent of a deductible). As of December 31, 2024, the aggregate retention for all participating insurers for contract year June 1, 2024 through May 31, 2025, is approximately $9.9 billion and for contract year June 1, 2025 through May 31, 2026, is projected to be approximately $11.3 billion. Once an insurer's covered losses exceed its share of the aggregate industry retention, it triggers coverage. It is not a requirement that aggregate insurer losses exceed the aggregate industry retention prior to that insurer being eligible for FHCF reimbursement as each insurer has its own retention based on its exposure.

- The maximum potential obligation of $17 billion for a given contract year is specified by statute. However, the FHCF's obligation is limited to its actual claims-paying capacity, which is the amount of cash on hand, risk transfer recoveries, if any, and the amount raised through revenue bonds. Each participating insurer's reimbursement coverage is limited to its share of the $17 billion maximum obligation.

- A participating insurer's reimbursement premium, retention, and coverage limit are based on its total insured values by ZIP code as of June 30, which must be reported by each insurer annually by September 1 of each year.

- The claims-paying resources of the FHCF include:

    - Reimbursement premiums: cash available from current and past accumulation of available reimbursement premiums and investment income. The fund balance is used before any of the other claims-paying resources are used. The FHCF collected approximately $1.55 billion in reimbursement premiums and interest earnings, net of expenses and debt service, for the 2024-2025 contract year. The FHCF is projected to collect approximately $1.64 billion in reimbursement premium and interest earnings, net of expenses and debt service, for the 2025-2026 contract year. At December 31, 2025, the total projected fund balance is $5.78 billion which is available to reimburse insurers for losses in the 2025-2026 contract year.

- Proceeds from pre-event financings: revenue bonds issued prior to a hurricane to enhance liquid resources. The FHCF has $2.25 billion in Series 2020A pre-event bond proceeds available with maturities in 2027 and 2030. The FHCF also has $1.00 billion in Series 2024A pre-event bond proceeds available with a single maturity in 2034. This results in a total of $3.25 billion in pre-event bond proceeds available to reimburse insurers for losses in the 2025-2026 contract year. If any pre-event bond proceeds are used to reimburse insurers for losses, post-event bonds could be used to refinance that portion of the debt.

- Proceeds from any post-event debt: revenue bonds issued after a hurricane when cash resources are expected to be exhausted. Post-event revenue bonds are repaid from emergency assessments on most Florida property and casualty premiums of both admitted and non-admitted lines of business (except workers' compensation, medical malpractice, accident and health, and federal flood insurance). The maximum annual assessment percentage used to repay the bonds is 6% with respect to any one contract year's losses and 10% with respect to all contract years' losses combined. No such post-event debt is outstanding and therefore there are currently no assessments.

- Risk transfer: recoverables from reinsurance and other risk transfer products, if any. The FHCF has purchased reinsurance in the past, but no such risk transfer products are in place as of the date of this report for the 2025-2026 contract year.

Table 1 on the following page shows the net probable maximum loss to the FHCF from hurricanes of the return time specified. The loss calculations were derived from Exhibit VIII of the FHCF 2024 Ratemaking Formula Report prepared by Paragon Strategic Solutions Inc., consulting actuary to the FHCF. The complete 2024 Ratemaking Formula Report can be found at https://fhcf.paragon.aon.com/rates-and-premium/2024/. The projected retention for the 2025-2026 contract year is $11.3 billion, but the ultimate retention may differ based on the results of the ratemaking formula report and/or any legislative changes.

**Table 1**
**($ in billions)**

| Return Time (Years) | Gross Probable Maximum Loss[1] | Maximum Net Losses to FHCF[2] | Adjusted Net Losses to FHCF[3] | Projected Year-End Fund Balance[4] | Potential Post-Event Bonding[5] |
|---|---|---|---|---|---|
| 250 | $101.82 | $17.00 | $16.99 | $5.78 | $11.22 |
| 100 | 67.94 | 17.00 | 16.86 | 5.78 | 11.09 |
| 50 | 44.87 | 17.00 | 16.19 | 5.78 | 10.41 |

| Coverages | Amount |
|---|---|
| 2025 Retention (Projected) | $11.30 |
| FHCF Coverage | $17.00 |

[1] *Represents gross loss to all Florida residential policyholders from a storm of the indicated return time and excludes loss adjustment expenses.*

[2] *Based on the maximum statutory limit and the assumption that the FHCF operates as a single industry entity with a single industry retention and industry limit that apply to industry gross losses from total industry exposure and includes 10% loss adjustment expenses.*

[3] *Based on the assumption that the total FHCF net losses for a single hurricane is the sum of losses from approximately 140 individual companies, each with its own retention, limit and exposure distribution and includes 10% loss adjustment expenses. Under this assumption it is unlikely for all insurers to trigger or exhaust the total of all FHCF coverage. Adjusted loss information for 2025 is not available, and may be different from the data shown above as it is derived from the 2024 Ratemaking Formula Report.*

[4] *FHCF projected fund balance is projected as of 12/31/25.*

[5] *Adjusted Net Losses to FHCF less Projected Year-End Fund Balance. Assumes the use of post-event financing, which is repaid with emergency assessments but assumes no risk transfer for 2025-2026 contract year.*

*Numbers may not add due to rounding.*

## Financing Options

The FHCF undertakes two basic types of financing: (1) pre-event financing to provide liquid funds to reimburse participating insurers in a timely manner; and (2) post-event financing designed to provide the ultimate source of payment of covered claims in excess of cash on hand and risk transfer, if any.

The FHCF has $3.25 billion of pre-event debt available for the 2025-2026 contract year from its $2.25 billion outstanding Series 2020A pre-event financing and $1.00 billion outstanding Series 2024A pre-event financing. The proceeds of pre-event financings are available to pay future claims. Pre-event interest expenses are designed to be paid primarily from the interest earnings on the invested proceeds of the pre-event bonds (which are retained pending their use to pay future claims) and any remaining interest expenses are paid from reimbursement premiums. Currently, there are no assessments associated with pre-event bonds of the FHCF. However, if the proceeds of pre-event bonds are ever used to pay claims, the FHCF can refinance such pre-event bonds using post-event bond proceeds secured by emergency assessments.

The FHCF has no post-event bonds outstanding and therefore there are no assessments.

The FHCF has the statutory authority to amortize its debt over a term of up to 30 years. Given the magnitude of the losses summarized in Table 1 on the prior page, the FHCF could use this full term (or any shorter term) for any post-event bonds associated with the financing of these losses. As summarized in Table 1, bonding needs of the amounts required for all three scenarios are large by municipal bond standards. Subject to market conditions, access to the market at times can be uncertain and therefore it is critical to understand the potential challenges the FHCF may face after a large event. For this reason, pursuant to Section 215.555(4)(c)(2), Florida Statutes, in May and October of each contract year, the FHCF is required to publish its estimated borrowing capacity, estimated claims-paying capacity and projected balance of the fund at December 31 of each year. The FHCF's most recent estimates were published in October 2024, which are available on the FHCF's website at https://fhcf.sbafla.com/reports/.

Per the FHCF's financial advisor, Raymond James & Associates, conditions in the municipal and corporate markets are relatively stable as the Federal Reserve began its rate cut cycle with 1.00% of cuts in 2024 to the current rate of 4.25%-4.50%. Corporate and municipal issuance rebounded in 2024 with approximately $2.0 trillion and $508 billion of issuance, respectively, which represents a 30% and 32% increase, respectively, as compared to 2023. In addition, the FHCF has some additional factors working in its favor independent of fixed income market trends: the FHCF has no post-event bonds outstanding, had a successful Series 2024A issuance, and the FHCF is a well-regarded, highly-rated credit (long-term ratings of AA/AA/Aa2/AA from Standard & Poor's, Fitch, Moody's, and Kroll, respectively).

Although financial market conditions are currently moderately conducive to favorable debt issuance, it is not possible to guarantee future financial market conditions. If long-term bonding in sufficient amounts is not immediately available, the FHCF may need to explore alternatives, including issuing bonds in multiple tranches over time and/or interim financing alternatives. The FHCF statute provides that the FHCF's liability is limited to the amount it can actually raise from bonding and other available claims payment sources. The timing of FHCF reimbursements to insurers depends on the magnitude of insurers' losses and how soon the insurers' payments exceed their FHCF retentions.

The FHCF's role in the property and casualty insurance marketplace in the State of Florida is to act as a stabilizing factor, especially after a large event, as all participating insurers in the state could rely on reimbursement from the FHCF in order to pay claims for covered hurricane losses. The FHCF's liquidity position is therefore of great importance for the insurance market stability and the State's economic conditions.

## Assessment Impact

The FHCF can issue post-event revenue bonds to finance the projected or actual dollar losses generated by one or more hurricanes in a single season up to its statutory obligation, as shown in Table 1. These post-event bonds would be repaid using emergency assessments.

Table 2 shows the estimated annual assessment impact from the varying hurricane loss scenarios.

**Table 2**
**($ in millions)**

| Return Time (Years) | Potential Post-Event Bonding | Required Annual Assessment Financed Over 10 Years[1] | Required Annual Assessment Financed Over 10 Years (%)[2] | Required Annual Assessment Financed Over 30 Years[3] | Required Annual Assessment Financed Over 30 Years (%)[2] |
|---|---|---|---|---|---|
| 250 | $11,217 | $1,453 | 1.70% | $815 | 0.96% |
| 100 | 11,087 | 1,436 | 1.69% | 805 | 0.95% |
| 50 | 10,412 | 1,348 | 1.58% | 756 | 0.89% |

[1] *Assumes annual assessment for 10 years using an interest rate of 5%. There is no certainty that FHCF covered loss reimbursements can be financed at assumed interest rates. The amount which can be financed after an event could be financed over a shorter period of time or could be smaller and is subject to financial market conditions following the event.*

[2] *Assumes annual assessment base of $85.2 billion, which was the base for calendar year 2023. If this base is smaller or larger, required assessment percentages would be marginally higher or lower than shown above.*

[3] *Assumes annual assessment for 30 years using an interest rate of 6%. There is no certainty that FHCF covered loss reimbursements can be financed at assumed interest rates. The amount which can be financed after an event could be financed over a shorter period of time or could be smaller and is subject to financial market conditions following the event.*

## Conclusion

The FHCF's projected fund balance as of December 31, 2025, after setting loss reserves for Hurricanes Helene and Milton is approximately $5.8 billion. The FHCF has $3.25 billion of additional liquidity from its Series 2020A and Series 2024A pre-event bonds, for total liquid resources of approximately $9.0 billion, which results in a shortfall of liquid resources of approximately $8.0 billion based on its maximum statutory limit of $17 billion.

For catastrophic events requiring funds beyond the available fund balance of approximately $5.8 billion, the FHCF will rely on post-event bonding and other revenue sources for claims-paying capacity. The currently available Series 2020A pre-event bond proceeds of $2.25 billion and $1.0 billion of Series 2024A pre-event bond proceeds serve as an additional source of liquidity that can be used until post-event bonds can be issued. The maximum potential financing amount is approximately $11.2 billion for the 2025-2026 contract year (a 1-250-year event), which would require a 0.96% emergency assessment if financed over 30 years or a 1.70% emergency assessment if financed over 10 years. If post-event bonding is required, conditions in the financial markets are relatively stable despite uncertainties regarding the timing and quantity of Federal Reserve cuts in 2025, among other macroeconomic conditions that are affecting the fixed income markets. However, the FHCF is a strongly rated credit with a large and growing assessment base and can and may execute one or more post-event financings over a 12-month period in order to accommodate participating insurers that experience rapid loss development and exhaust their FHCF payout limits.

The ability of the FHCF to pay claims in a sufficient and timely manner is critical to the health of the Florida insurance market, property owners, residents, and the Florida economy in general. The FHCF is in a moderately weaker financial position for the 2025-2026 contract year than in prior years, but it has the ability to access the markets over a 12-24 month period in order to meet its maximum statutory liability. While there is always some market risk, additional funding for the FHCF from pre-event bonds mitigates the potential market risk.