



Understanding the FHCF Credit Ratings, Investors, and Market Access

FHCF 26th Annual Participating Insurers Workshop

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Overview of the FHCF

- The Florida Hurricane Catastrophe Fund (“FHCF”) is a tax-exempt state trust fund established after Hurricane Andrew that provides reimbursement to residential property insurers for a portion of their Florida catastrophic hurricane losses
- The FHCF plays an essential role in the State’s property insurance market by providing a stable, ongoing source of loss reimbursement for residential property insurers
- The Internal Revenue Service has issued a private letter ruling concluding that the FHCF is an integral part of the State and is therefore not subject to federal income taxation. The Fund’s tax-exempt status and operational efficiencies have generally allowed it to provide reimbursement coverage typically for significantly less than the cost of comparable private reinsurance, providing stable risk transfer capacity, and also reducing the cost of property insurance for Florida homeowners
- The FHCF relies on its accumulated cash resources, risk transfer (if any) and pre-event bonds (if any) to pay claims immediately following a storm, before post-event bonds, if any, are needed to reimburse insurers for any remaining claims
- FHCF’s total paid loss reimbursements for Covered Events have historically represented approximately 35% of total industry paid losses since the 1995 hurricane season, but the percentage varies per storm and per season
- The State Board of Administration Finance Corporation (the “Corporation”) can issue Pre-Event Bonds for the Fund on a taxable basis to provide a stable source of capital and liquidity for future storms and Post-Event Bonds on a tax-exempt basis to pay losses or refinance Pre-Event Bonds if Pre-Event Bond proceeds are used to pay losses
- FHCF can use its accumulated fund balance or bond proceeds to pay loss reimbursements, but uses its accumulated fund balance first prior to using Pre-Event Bond proceeds

2004/2005 Events

- In the years 2004 and 2005, eight named storms made landfall in Florida causing over \$33 billion of insured losses¹. The unparalleled 2004 and 2005 hurricane seasons had a tremendous economic impact on the Florida insurance market
 - The four significant hurricanes during the 2004 season – Charley, Frances, Ivan, and Jeanne – created insured losses of \$23.5 billion and residential losses reimbursed by the FHCF of \$3.9 billion
 - The four significant hurricanes during the 2005 season – Dennis, Katrina, Rita, and Wilma – created insured losses of \$9.9 billion and residential losses reimbursed by the FHCF of \$5.5 billion
- The FHCF issued \$1.4 billion of post-event bonds in 2006 then two additional subsequent post-event bonds in 2008 and 2010 in the amounts of \$625 million and \$676 million, respectively, for a total of three post-event bond issues in the amount of \$2.65 billion to pay claims from the 2004/2005 hurricane seasons. The post-event bonds were secured only by Assessments levied by the FHCF
- The FHCF levied Assessments from FY 2007 until the bonds were defeased in FY 2015 (over an eight-year period) in a total amount that ranged from 1.00% to 1.30%

¹ Source: Florida Office of Insurance Regulation

The FHCF's Use of Bonds

Pre-Event Bonds

- Pre-Event Bonds provide liquidity for paying claims and help manage market access risk by providing additional flexibility with respect to any future post-event financing(s)
- Pre-Event Bonds allow additional time for the issuance of post-event debt when needed and can provide additional time for structuring and executing a deal that is most advantageous for the FHCF and its participants and more time to work with investors
- Pre-event bonding also provides flexibility to the FHCF to be used as a liquidity tool either for initial season and/or for subsequent season(s) loss financing purposes and to make FHCF consistent and sustainable in the long run
- Absent an event, a permanent Pre-Event financing program provides the FHCF with a capital structure with enhanced liquidity that benefits its participating insurers for current and future years since its liquidity also improves annually through the collection of annual reimbursement premiums
- Pre-Event Bonds provide added confidence to insurers and reinsurers that the FHCF will be able to pay claims. All of these efforts will provide stability to the insurance and reinsurance markets before, during, and after an event
- Pre-Event Bonds can be issued up to 30 years by statute, but actual FHCF Pre-Event debt has utilized a maximum maturity of up to ten years
- Since 2006, the FHCF has completed six pre-event issues totaling \$14 billion, of which \$3.25 billion is currently outstanding

Post-Event Bonds

- Post-Event Bonds are used to pay Covered Losses for events or to refinance Pre-Event bonds, if used
- Post-Event Bonds can be issued up to 30 years by statute, but actual FHCF post-event debt has utilized a maximum maturity of up to seven years
- Since 2006, the FHCF has issued three Post-Event tax-exempt issues totaling \$2.65 billion, which are no longer outstanding

The FHCF's Credit Structure and Bonding

- The FHCF has very strong debt repayment capabilities. From a credit standpoint, the FHCF has three primary revenue sources: annual reimbursement premiums of over \$1 billion, investment earnings on pre-event bonds, and the ability to levy emergency assessments on all property and casualty insurance lines except workers' compensation, medical malpractice, federal flood, and accident and health lines is similar to a statewide sales tax on an essential product with an underlying premium base of \$92.12 billion
- Due to the private letter ruling from the IRS, the FHCF can issue post-event bonds on a tax-exempt basis but pre-event bonds must be issued on a taxable basis and invested in taxable investments
- Since 2006, the FHCF has completed nine bond issues totaling \$16.6 billion (three post-event tax-exempt issues totaling \$2.65 billion and six taxable pre-event issues totaling \$14 billion), of which \$3.25 billion of pre-event bonds are currently outstanding
- The FHCF has strong statutory and indenture provisions for bondholders, which are also credit positives with the rating agencies that cover the FHCF's credit
 - Non-impairment provisions and no bankruptcy risk
 - Limited liability
 - Strong additional bonds test of 1.25x maximum annual debt service and rate covenant of 1.25x annual debt service
- The diversity and strength of the FHCF's pledged revenue and the credit structure are the primary reasons the four major rating agencies – Moody's, Standard & Poor's, Fitch, and Kroll – rate the FHCF's current debt as Aa2, AA, AA, and AA respectively
 - To put these ratings in perspective, less than 1% of U.S. corporations have ratings in the "AA" category by any three of the four rating agencies
- The FHCF's credit rating is the primary driver of its credit spreads, or cost to issue bonds above the risk-free rate, or U.S. Treasury or "AAA" MMD rate. Credit spreads are also impacted by forces in the marketplace – i.e., when financial conditions are tight, credit spreads widen out and the reverse occurs in times of strong financial markets

Credit Strength of Pre-Event Bonds

- The primary revenue source of the FHCF to pay for Pre-Event bonds is Reimbursement Premiums and investment earnings thereon (after provision for Current Expenses of the FHCF and the Corporation). Assessment collections, if any, are used to pay debt service on Post-Event Bonds, but are available, if needed, for Pre-Event Bonds
- Mandatory residential property insurer participation creates substantial and stable annual Reimbursement Premiums of over \$1 billion annually
- Reimbursement Premiums are calculated using an actuarially-indicated formula based on loss exposure and expenses and collected annually in three installments (August 1, October 1, and December 1)
- Annual Reimbursement Premium change is a function of a number of factors including insurers' coverage selection changes, growth in insured values, legislative changes, if any, and rate changes
- Reimbursement Premiums are expected to be used to pay debt service on Pre-Event Bonds, but are also available, if needed, for any Post-Event Bonds
- Pre-event bond proceeds are invested in a separate account according to investment policy guidelines. These investments are in taxable high quality, liquid fixed income assets and prohibit asset-backed securities, mortgage-backed securities, and derivatives

Credit Strength of Post-Event Bonds

- Post-Event Bonds are paid by Assessments levied statewide on over 90% of property and casualty insurance policies, including essential policies like home, auto, and commercial (excludes workers' comp, medical malpractice, accident and health, and Federal flood and crop lines)
- Assessments must be paid by the policyholder to have policy deemed paid – these are highly enforceable, akin to an insurance premium tax
- The Assessment base is very large and has grown from \$41.5 billion in 2015 to \$92.1 billion in 2025 or a compound annual growth rate of 8.3%
- The Assessment is charged directly to policyholders, not to insurance companies, and has been tested and proven highly effective as shown by Assessment collections from FY 2007 through FY 2015 to fund the losses from the 2004/2005 storms
- Legislative approval is not required to levy Assessments. The SBA Governing Board authorizes any Assessment needed and OIR imposes any authorized Assessment pursuant to an order
- The FHCF can levy Assessments up to 6% of premiums annually for losses attributable to one year; subject to 10% cap for aggregate Assessments from storm losses in different years
 - Assessments are levied over multiple years, corresponding to the term of any debt secured by Assessments
 - Based on the 2025 Assessment Base of \$92.1 billion, 6% Assessment on direct written premium would generate \$5.5 billion annually and 10% would generate \$9.2 billion annually

The Cost of Pre-Event Bonding

- The FHCF invests the proceeds from its pre-event bonds and the resulting annual carry cost, or difference between investment earnings and interest expenses on the bonds
- In times of an inverted yield curve, where short-term rates are higher than long-term rates, the FHCF has the opportunity to minimize the net carry cost of a pre-event bond issuance
- As shown in the table below, the hypothetical net carry cost in times of normal sloping yield curves has been relatively equal to the FHCF's credit spreads. In times of inverted yield curves as when the FHCF issued its 2020A bonds, it has a positive carry on its pre-event bonds

	Series 2013A				Series 2016A				Series 2020A				Series 2024A			
Par (\$MM)	\$2,000				\$1,200				\$3,500				\$1,000			
Sale Date	4/10/2013				2/22/2016				9/2/2020				4/17/2024			
Maturity (Year)	Par (\$MM)	Yield	TSY	Spread	Par (\$MM)	Yield	TSY	Spread	Par (\$MM)	Yield	TSY	Spread	Par (\$MM)	Yield	TSY	Spread
3	\$500	1.30%	0.35%	0.95%	\$550	2.16%	0.91%	1.25%								
5	\$500	2.11%	0.73%	1.38%	\$650	2.64%	1.24%	1.40%	\$1,250	1.26%	0.26%	1.00%				
7	\$1,000	3.00%	1.20%	1.80%					\$1,000	1.71%	0.46%	1.25%				
10									\$1,250	2.15%	0.65%	1.50%	\$1,000	5.53%	4.60%	0.93%
Total/Avg	\$2,000	2.35%	0.87%	1.48%	\$1,200	2.42%	1.09%	1.33%	\$3,500	1.71%	0.46%	1.25%	\$1,000	5.53%	4.60%	0.93%
Avg. 6-M TSY from Issuance to Maturity		0.88%				1.14%				3.21%				4.29%		
Hypothetical Net Carry Cost		1.47%				1.28%				-1.50%				1.24%		

The Cost of Post-Event Bonding

- The FHCF's Post-Event Bonds are structured with at least 1.25x coverage of debt service secured primarily by Assessments
- For the FHCF's 2006A Post-Event Bonds, the Assessment levied was determined to be 1.00% and would be outstanding for seven years
- For the FHCF's 2008A Post-Event Bonds, the Assessment levied remained at 1.00% as the Assessment base had grown from 2006 to 2008 and the debt service coverage exceeded the 1.25x coverage requirement. The 2008A maturities wrapped around the existing 2006A Bonds and extend the final maturity by one year
- For the FHCF's 2010A Post-Event Bonds, the Assessment levied increased to 1.30% and the maturity was extended to 2016. Due to the continued growth of the Assessment base and therefore the Assessments collected, the FHCF was able to defease the outstanding 2010A bonds and terminate the Assessment two years early in July 2014

FHCF Post-Event Issuances (\$MM)							
Series	Principal	Interest	Total Debt Service	Total Cumulative Assessments Levied at Time of Issuance	Issue Date	First Maturity Date	Note
2006A	1,350.0	276.7	1,626.8	1.00%	June-06	July-08	
2008A	625.0	162.4	787.4	1.00%	Aug-08	July-13	
2010A	675.9	166.2	842.1	1.30%	May-10	July-15	Defeased two years early in July 2014
Total	2,650.9	605.3	3,256.3				

The FHCF's Investors

- The FHCF has “AA” ratings from all four rating agencies, which help generate strong investor demand and reduce credit spreads
- The FHCF’s last two issuances have been significantly oversubscribed due to the strength of its credit
 - The FHCF’s Series 2020A Bonds received orders for \$6.4 billion, which was 1.8x the \$3.5 billion in par for the transaction
 - The FHCF’s Series 2024A bonds received orders for \$1.6 billion, which was 1.7x the \$1.0 billion in par for the transaction
- The factors that affect the investor base for a transaction include credit ratings, tax status, maturity structure, par size of maturities, pledged revenue, and credit structure
- The FHCF currently has \$3.25 billion in bonds outstanding
- The FHCF’s investor base is large and diversified as shown by the top 25 investors of its outstanding bonds. The top 25 bondholders hold approximately \$1.3 billion of the FHCF’s outstanding bonds, or approximately 40%

Top 25 Bondholders of the FHCF's Outstanding Bonds	
Investor	Amount Held (\$MM)
Vanguard Group	356
Capital Group Co	135
State Of Colorado	108
Blackrock	69
Wellington Management Group	67
TIAA-CREF	65
Allianz Se	46
Northern Trust Corporation	40
American Family Insurance	39
Waterfall Asset Management	38
New Ventures	38
Boston Partners Glob Investor	38
Massachusetts Financial Services	34
Victory Capital Management	30
Franklin Resources	25
AllianceBernstein Holding	24
Nuveen Alternatives Advisors	23
Churchill Asset Management	19
Metlife	16
Goldman Sachs Group	15
Conning Inc	14
Charles Schwab Corporation	13
Sixth Street Advisers	13
Blackstone	13
Sun Life Financial	10
Total	1,287

The FHCF Model

The FHCF anchors the Florida property insurance market and therefore its economy by providing stable and ongoing reimbursement of covered claims for residential property insurers

The structure of the FHCF allows it to offer coverage at rates below the private market and provides stable capacity even when the private reinsurance market has limited capacity



While Florida has the largest concentration of risk in the United States due to being a peninsula in a hurricane-prone zone, there is a rise of catastrophe risk in many areas of the country that had previously not been considered as traditionally “risky to insure” causing an affordability and availability crisis in numerous states throughout the country



Many states have the desire to replicate the FHCF model for their catastrophe risk but no one has yet to do so. The primary roadblock being the ability to pass legislation and have buy-in from the primary stakeholders



There are significant upfront investment costs to create a statewide catastrophe fund, which can be politically unpopular or budgetarily impossible for some states



Instead, states rely heavily on federal programs and temporary or supplemental appropriations, rather than a permanent solution. The reliance on federal funding is unpredictable and subject to a number of exogenous factors as seen by what is happening with FEMA



The downside risk to relying on federal aid is that it can be slow, limited, or unavailable, which can cause significant setbacks to a State’s rebuilding process after a large event

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