

# THE BOND BUYER

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## Florida's Citizens Gets OK for \$2.5B of Debt

*Needed to Cover Hurricane Damage*

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By [Shelly Sigo](#)

BRADENTON, Fla. - Florida's Citizens Property Insurance Corp. yesterday received authorization to move forward with the sale of up to \$2.5 billion of bonds.

The debt is needed to provide liquidity if necessary to pay property insurance claims in the hurricane-prone state's highest risk areas, which generally consists of the state's entire coastline.

The 2009 hurricane season begins June 1, and typically lasts six months.

Citizens, which is a state-run, nonprofit residential property insurer, as of now plans to issue tax-exempt, fixed-rate debt with maturities from one to five years, in one or more series, if market conditions cooperate.

"We feel relatively confident there's enough capacity in the market," Citizens financial adviser, John Forney with Raymond James & Associates Inc., told the agency's board of governors yesterday.

While the short maturities currently would provide Citizens with the cheapest source of liquidity, Forney said bond documents approved yesterday also would give the agency the flexibility to change the structure if market conditions improve.

In that case, Citizens could issue variable-rate or taxable debt with up to 20-year maturities if another structure makes sense, Forney said, noting: "A maturity range of 10 years is not on anybody's radar because it's so expensive."

Chairman James Malone asked during the presentation if there would be a problem marketing the bonds given that Standard & Poor's in January placed a negative outlook on Citizens' A-plus rating for its "high-risk" account bonds in light of the state's deteriorating economic conditions.

"That's not helpful," said Forney, "but I don't think it's negative either."

Citizens is a known credit and while there are questions about the stability of Florida's insurance market, Forney said that doesn't affect Citizens ability to pay back its debt. He said the new bonds will be the focus of a vigorous marketing campaign.

While the board gave unanimous approval the financing plan yesterday, the plan also was approved by the Florida Office of Insurance Regulation. There is a 30-day appeal period before the bonds can be sold.

Senior managers for the upcoming deal are Bank of America (replacing Merrill Lynch), Citi, Goldman Sachs & Co., and Morgan Stanley. Bond counsel is Squire, Sanders & Dempsey LLP. Bryant Miller Olive PA is disclosure counsel.

In related news yesterday, Gov. Charlie Crist and members of the State Board of Administration



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overseeing the Florida Hurricane Catastrophe Fund ordered a compilation of options to finance the fund's liabilities during the upcoming hurricane season given the continuing global financial crisis.

The nonprofit Cat Fund's potential obligations - estimated at up to \$29 billion if a catastrophic hurricane or series of hurricanes slams the state - far exceed its immediate resources by more than \$21 billion, according to Forney, who also is that agency's financial adviser.

Normally, in the event of a catastrophic hurricane the Cat Fund would seek to issue new tax-exempt bonds in order to pay claims. But its senior managing underwriters - Goldman Sachs, JPMorgan, and Citi - estimate that only about \$3 billion of capacity might be available in the bond market today because of ongoing credit problems.

Forney said the Cat Fund's finance team would evaluate and price a number of options, including taxable, pre-event bonding, some kind of put option, and purchasing traditional reinsurance from the private market. The agency may seek financing for as much as \$6 billion of coverage.

Last year, the Cat Fund spent \$224 million to purchase a put option from Warren Buffett's Berkshire Hathaway Inc. that would have required Buffett to buy \$4 billion of the Cat Fund's bonds. That option was not invoked and expired Dec. 31. It is believed that such a large put option may not be available today because of market conditions.

In addition to market-related efforts to bolster the Cat Fund's liquidity position, Crist will lead efforts to seek a guarantee or backstop from the federal government to help the Cat Fund sell the debt it needs to pay disaster claims.

The governor and other members of the SBA said they have had discussions with state congressional members as well as the Treasury, but there is disagreement about whether providing a guarantee or backstop would require a change in federal law first.

The Cat Fund sells low-cost reinsurance to companies, including Citizens, as a method of stabilizing Florida's residential property insurance market.

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