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SECTOR COMMENT
26 October 2018

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State and local government - Florida

Florida will weather Hurricane Michael costs with minimal financial effect, a credit positive

On 25 October, the State of Florida (Aaa stable) released an updated estimate of costs related to Hurricane Michael: $702 million, most of which will be reimbursed by the federal government, a credit positive.

The final effect on the state's finances will be greater, however, because the bulk of the hurricane costs are still being tabulated, including local government aid and temporary housing assistance. Midyear supplemental appropriations will likely be necessary, which could reduce year-end operating surplus projections.

The state's initial $702 million of expenditures is primarily for pre-storm emergency preparation and removal of debris from roadways and bridges immediately after Michael made landfall (see Exhibit 1). The $702 million is equal to about 2.1% of Florida's fiscal 2019 (ending 30 June 2019) general revenue budget, in line with the initial state agency projections from Hurricane Irma.

Exhibit 1
Florida estimates that two-thirds of initial Hurricane Michael costs are for emergency preparation and debris removal from roads and bridges

State Agency		Reported Cost	% of Total
Transportation	$	270,136,902	38.5%
Emergency Management	$	256,363,506	36.5%
Environmental Protection	$	37,069,419	5.3%
Financial Services and Firefigher Mutual Aid	$	34,623,527	4.9%
Corrections	$	33,583,480	4.8%
Military Affairs/National Guard	$	23,611,350	3.4%
Fish and Wildlife Conservation Commission	$	15,016,250	2.1%
Other	$	31,612,036	4.5%
Total	**$**	**702,016,470**	

Data does not include individual aid, county aid and transitional support assistance.
Source: State of Florida preliminary state agency damage estimates, 25 October 2018

Separately, initial insurance claims data shows limited exposure for the state property insurance entities, Citizens Property Insurance Corporation (A1 stable) and reinsurer Florida Hurricane Catatrophe Fund (State Board of Administrative Finance Corporation, Aa3 stable), although claims will increase in coming months.

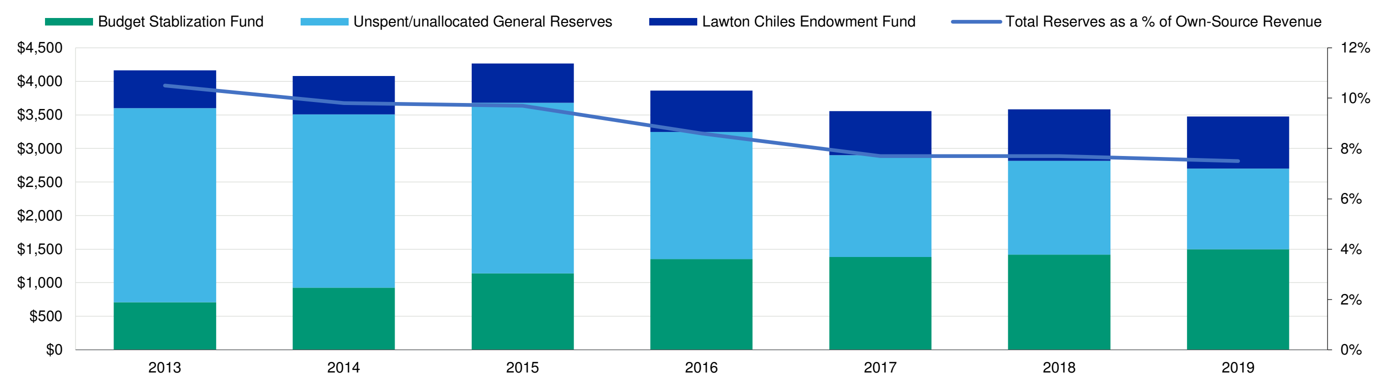
Local government damage is still being assessed, but these entities benefit from both state and federal government support. Overall, local governments in Florida are in a healthy financial position, despite two hurricanes in the past two years, partly because of federal financial assistance and strong local reserves.

The Federal Emergency Management Agency (FEMA) will likely reimburse at least 75% of the state's Michael-related expenditures. By comparison, for Hurricane Irma in 2017, initial state agency estimates a month after landfall were $636 million. The state is expecting FEMA to reimburse it for 94% of similar expenditures.

The initial state estimates for Michael do not include individual assistance and transitional support assistance for affected residents, or aid to local governments and counties to help rebuild. These expenditures usually comprise the bulk of state storm-related appropriations and will drive up final Hurricane Michael expenditures, likely necessitating mid-year supplemental appropriations. For Hurricane Irma, the state has estimated $460 million for county reimbursements, which may change, and will be paid out over five fiscal years. The state projects an additional $104 million in spending for individual aid and transitional assistance.

The state maintains ample reserves to manage unanticipated budget needs, including storm-related expenditures. The state estimates these reserves will fall slightly to $3.5 billion in fiscal 2019, a still healthy 7.5% of fiscal 2017 own-source revenue (see Exhibit 2). Including $231 million of anticipated FEMA reimbursements, reserves are projected to grow to $3.7 billion.

Exhibit 2
Florida's healthy reserves are a key mitigant of storm risk



Reserves reflect available Lawton Chiles Endowment Trust Fund balance only. Additional trust fund balances are estimated to be approximately $1.0 billion. Percentage calculations for fiscal 2018 and fiscal 2019 based on fiscal 2017 revenues. Fiscal 2019 reserves are budgeted estimates and have not been adjusted to reflect costs for Hurricane Michael or unanticipated, unspent general revenue.
Source: State of Florida fiscal 2013-17 CAFRs and State of Florida fiscal 2019 budget

For the state insurance entities, Citizens' initial claim exposure from Hurricane Michael is limited to 2,000 of the estimated 38,000 total claims filed as of the week of 15 October. Although very preliminary, initial losses are $96 million-$145 million, although the figures will increase in coming months as additional claims are filed and processed. The state reinsurance Catastrophe Fund has not released loss estimates. Citizens does not expect to hit its threshold for triggering Catastrophe Fund reimbursements.

Both Citizens and the Catastrophe Fund maintain significant claim-paying resources, even after payouts for Hurricane Irma. As of August 2018, Citizens reported a balance of $11.7 billion to pay claimants for both the coastal and personal property/commercial lines accounts. The balance includes total available resources plus reinsurance coverage. As of October 2018, the Catastrophe Fund projected claim-paying resources of $16.2 billion, nearly reaching its statutory liability cap of $17.0 billion.

Florida local governments have a record of maintaining credit quality in the wake of hurricane damage. Similar to the state, local governments face immediate storm preparation and then debris removal costs. All Florida counties have local hazard mitigation strategies that outline a coordinated approach with state and local entities for pre-disaster planning and cleanup and rebuilding efforts, the costs of which are largely reimbursed by FEMA. They are also eligible for state aid, which will include beach nourishment and dune restoration to protect against possible future storm surge.

Florida counties and school districts benefit from large tax bases and strong cash reserves. School districts are coterminous with counties, which allows management to move students to other schools within the district if schools are damaged and cannot reopen, as is the case in Bay County School District, Florida (Aa2). The median operating cash position for Florida counties was 43.2% of revenue, or $121 million at the end of fiscal 2017, a significant amount of liquidity compared with immediate clean up costs. The median operating cash position for Florida school districts is a lower, but adequate, 17.5% of operating fund revenue or $73.9 million.

Cities, towns and villages with smaller operations and significant damage, such as Mexico Beach, could face pressure from reduced tax collection. Municipalities are legally required to budget 96% of estimated revenue. Revenue streams are diverse and include property, sales and utility taxes as well as various fees. Especially hard-hit areas typically waive some fees or extend deadlines for taxes after storms; Mexico Beach has waived fees for inspections required before electricity is restored. Generally, these revenue gaps and/or delays are temporary and at least partially offset with funds from the state and federal governments. For assets that require significant repair, such as water and sewer lines, municipalities can borrow. Long-term credit quality hinges on rebuilding efforts whether by current property and business owners or by attracting new investment, which typically occurs after storms, including the hardest hit areas.

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REPORT NUMBER 1147020