Executive Summary

Finance and Investment Committee Meeting, March 18, 2022
Board of Governors Meeting, March 23, 2022

2022 Pre-Event Financing Plan

Introduction

While interest rates are currently advantageous, interest rates are expected to increase during 2022 and 2023. Currently, Citizens has the opportunity to either lock-in relatively low interest rates with a fixed rate issuance or take advantage of the increasing interest rate environment through a variable rate issuance. A pre-event financing will increase liquidity resources and potentially earn additional investment income above the interest cost through either a taxable fixed rate or variable rate issuance with a final maturity in December 2024 for the Personal Lines Account (PLA). For purposes of this analysis, we have assumed a financing amount of $1 billion, however, the current markets are strong enough to support a larger financing, if desired.

Background

Pre-event liquidity provides a bridge to the Florida Hurricane Catastrophe Fund's (FHCF) mandatory layer, as well as to some of Citizens' other claims-paying resources that are not readily available in cash after a storm. This allows for timely payment of claims after an event while providing timing flexibility for the issuance of post-event bonds, if needed. Citizens' pre-event bonds are serviced primarily from the investment earnings on the bond proceeds and from the collection of policyholder premiums. Together with accumulated surplus, this pre-event liquidity provides a source of immediately available funds to pay claims.

Citizens currently has outstanding pre-event debt totaling $435 million. The PLA/CLA series of $160 million will mature on June 1, 2022 and the Coastal Account series of $275 million will mature on June 1, 2025 with a six-month optional redemption on December 1, 2024. While pre-event bonds are outstanding in any respective account, the three Citizens' accounts cannot be consolidated into one combined account. However, once the legislature updates Citizens' statutory account definitions to allow for the consolidation of the three accounts and Citizens defeases or calls its outstanding Coastal Account bonds prior to maturity, the accounts could be combined, and pre-event bonds could be issued for the consolidated account. Absent a defeasance prior to the call date of the final maturity, Citizens is statutorily required to issue bonds separately for the Coastal Account and PLA/CLA.

Based on the strong liquidity position of the Coastal Account, our analysis only contemplates a pre-event financing for PLA (PLA and CLA can be combined for credit purposes). For purposes of this analysis, we have assumed a final maturity of December 1, 2024 to coincide with the optional redemption date of the Coastal Account Series 2015A pre-event bonds. Based on current market conditions, a taxable financing is more advantageous to Citizens in order to take advantage of incremental yield opportunities in the diverse and large taxable fixed income marketplace for the investment of proceeds. The narrower tax-exempt fixed income marketplace

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is more restrictive and a lower yielding universe of permissible securities. A $1 billion financing with a final maturity on December 1, 2024 would have a net liquidity cost / benefit that is neutral to approximately ±0.50%, or $5 million, depending on interest rate movements at the time of the financing and in the investment portfolio over the life of the bonds.

Next Steps

Staff will continue to monitor pre-event financing opportunities through the use of fixed rate and/or variable rate issuances and will come back to the board with an update of this analysis and a recommendation at the next Board of Governors meeting.