Florida Hurricane Catastrophe Fund

Memo

To: Interested Parties

From: Leonard Schulte, Director of Legal Analysis & Risk Evaluation, FHCF

Date: February 12, 2015

Re: Participating Insurer Selection of Coverage Levels for the 2015 FHCF Contract Year

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The FHCF has received several requests for additional information regarding insurers' ability to change their coverage selections under the 2015-2016 FHCF Reimbursement Contract in light of the defeasance of the FHCF Finance Corporation Revenue Bonds, Series 2010A.

Statutory Restriction on Changes in Coverage Levels

Under subparagraph 215.555(4)(b)2., F.S., a participating insurer

> must elect one of the percentage coverage levels specified in this paragraph [i.e., 90%, 75%, or 45%] and may, upon renewal of a reimbursement contract, elect a lower percentage coverage level if no revenue bonds issued under subsection (6) after a covered event are outstanding, or elect a higher percentage coverage level, regardless of whether or not revenue bonds are outstanding. All members of an insurer group must elect the same percentage coverage level. Any joint underwriting association, risk apportionment plan, or other entity created under s. 627.351 must elect the 90-percent coverage level.

Defeasance of Outstanding Revenue Bonds

As authorized by a resolution of the State Board of Administration Trustees, the Series 2010A revenue bonds were defeased effective July 11, 2014, through the irrevocable deposit of sufficient funds and securities to pay the principal and interest on the bonds. The original maturity dates for the affected bonds were July 1, 2015 and July 1, 2016.

The published Notice of Defeasance states that

> The Defeased 2010A Bonds are deemed to be paid within the meaning of Article VII of the Fifth Supplemental Indenture, dated as of May 1, 2010, between the Corporation and the Escrow Agent, as Master Trustee.

The statement that the bonds are "deemed to be paid" is the equivalent of a declaration that the bonds are no longer outstanding, as confirmed in consultation with the FHCF's financial advisors and outside counsel.

Conclusion

The defeasance of the Series 2010A Revenue Bonds in July 2014 paid off the bonds in full. As a result, both by terms of the defeasance notice and within the understanding of the financial community, the bonds are no longer outstanding, and a participating insurer is therefore able to select a lower coverage level for Contract Year 2015.