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Fitch: US Public Finance Credits Largely Able to Withstand Hurricane Ian Effects

Fitch Ratings-New York-03 October 2022: The ratings of US public finance issuers affected by Hurricane Ian will largely remain stable, although the credit quality of some issuers with lesser resources and financial flexibility could weaken, says Fitch Ratings. While the full extent of property damage in Florida, Georgia and the Carolinas will not be known for weeks, Fitch is monitoring a range of US public finance credits in the wake of Hurricane Ian, one of the largest storms to hit the US.

Private insurance and federal and state relief funds will support rebuilding and drive post-disaster economic activity. However, we expect a slower pace of recovery compared with previous hurricanes due to the greater numbers of uninsured homeowners and businesses as a result of the higher cost of insurance coverage/policy non-renewals, tight labor market conditions, inflationary pressures and supply chain issues.

We expect local government ratings in Florida affected by Hurricane Ian to remain stable as most of Fitch's rated municipalities have a high degree of fiscal resilience and robust reserves to manage storm expenses as they await reimbursement from federal and state disaster aid programs. Certain issuers in southwest Florida will be more challenged as recovery costs could weaken reserves, and extensive property damage could lead to higher property tax delinquencies, ultimately lowering tax base values. Fitch expects rebuilding to occur due to the historical desirability of the region, but building code compliance and increased insurance costs could slow the recovery.

Homeowner insurance coverage, or lack thereof, may play a greater role in community recovery than in prior hurricanes. Blanket homeowner policies do not cover flood damage, and many homeowners do not carry flood insurance. With increasing hurricane risk, property insurers have left the Florida market, and remaining insurers have raised premiums or are not renewing policies as they expire.

Tax base growth in high-risk areas could be tempered if hurricane damage leads to permanent relocations or if homeowners and businesses decide not rebuild with exorbitant insurance costs or insurance unavailability. Homeowners and businesses may obtain insurance from Florida's state-owned Citizens Property Insurance Corporation (AA/Stable) as an insurer of last resort.

Both Citizens and the Florida Hurricane Catastrophe Fund (AA/Stable), the state-sponsored reinsurer, have ample liquidity to address initial claims or reimbursements. They can also issue debt and levy emergency assessments on nearly every property and casualty insurance policy in the state for as long as debt is outstanding to cover what is expected to be significant claims volume. However, the potential for significant leverage on the assessed base could weigh on residents and businesses.

While we are still assessing our rated not-for-profit hospital and life plan community (LPC) exposure, it appears that facilities in the hurricane zone have generally avoided significant damage.

Nevertheless, we expect some business disruption with any necessary clean up or repair efforts. Hospitals and LPCs will benefit from Federal Emergency Management Agency aid and business interruption insurance, although receipt of these funds could take time.

Hospitals and LPCs in hurricane-prone areas are generally built to withstand storms and most are located back from the shoreline to mitigate flood risk. Affected hospitals or LPCs may need to temporarily evacuate all or a subset of residents until damage from the storm can be addressed. Fitch has observed that in prior storms, independent living residents continued to pay their LPC fees and LPCs were eventually able to resume normal operations, even in communities that sustained significant flood damage.

Of the over 50 Fitch-rated water and sewer utilities in Florida, most should be able to absorb initial storm costs due to generally well-maintained systems, comprehensive emergency planning and robust liquidity. Florida credits in particular often have additional emergency reserves. However, storm surges and flooding can often overwhelm systems resulting in sewer overflows, which could result in water quality issues, and the full impact on utilities is still being assessed.

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