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S&P U.S. Brief: Hurricane Milton And Extraordinary Optional Municipal Bond Redemptions

Florida municipal bonds face risks from recent hurricanes. Municipal bonds backed by Florida-based obligors are facing optional redemption risk following two recent Category 3 and above hurricanes in the state.

What's Happening

Within the span of two weeks, two hurricanes, Helene and Milton, struck Florida's coast as Category 4 and Category 3 storms, respectively. S&P Global Ratings currently rates 90 variable-rate municipal bonds that are supported by Florida-based obligors (see chart). Although the damages are still being assessed, some issuers have early redemption options for projects that were severely affected by the hurricanes.

Why It Matters

Severe damages could lead to early redemptions

- Municipal bond issuers have the option to redeem bonds if the projects that support them have been severely damaged or destroyed, according to extraordinary optional redemption.
- Bonds are subject to extraordinary optional redemption in whole at a redemption price of 100% of the outstanding principal plus accrued interest to the redemption date.
- The variable-rate bonds are supported by credit facilities provided by rated financial institutions. On the redemption dates, the bond trustees will draw on these facilities for the amounts due.
- Our ratings on the bonds reflect the likelihood that the credit facility will honor a draw upon an extraordinary optional redemption.

What Comes Next

Downgrades may affect jointly applied ratings. We currently rate nine Florida-based variable-rate municipal bonds that benefit from joint support between the bond obligor and the credit facility. We will continue to monitor the credit impact the hurricanes have had on these obligors, including the jointly applied ratings on the variable-rate municipal bonds, and take rating actions as we deem necessary, which may include downgrades.

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