

SUSTAINABLE INVESTING | FEBRUARY 19, 2026

CALIFORNIA'S FAIR PLAN & IMPLICATIONS FOR STATE & LOCAL MUNICIPAL BONDS THERE



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Key Takeaways

- With the backdrop of rising physical climate risks, investors are following developments of Fair Access to Insurance Requirements Plans (FAIR Plans) and the voluntary insurance market.
- The FAIR Plan of California is intended to ensure that all Californians, including those who live in areas at risk of wildfire, have access to fire coverage.
- With climate change and increasing wildfire risk, the number of homeowners insured by California's FAIR Plan is expected to grow, which could financially pressure the plan.
- While a further constrained housing insurance market is a credit negative, we have a favorable view of the rated California municipal bond market.



It is reasonable for investors to be following developments of Fair Access to Insurance Requirements Plans (FAIR Plans) and the voluntary insurance market, with the backdrop of rising physical climate risks. FAIR Plans and plans like them¹ are state-mandated property insurance plans—typically plans of last resort—to provide coverage to individuals and businesses unable to obtain insurance in the private market. This issue fits into a broader discussion of potential implications for state and local municipal bonds, as governments and the property and casualty insurance industry² manage changes stemming from climate stress.

We turn our attention to the state of CA; The FAIR Plan of California is backed financially by all private insurers licensed to write insurance in the state. The Plan was established by statute (CA Insurance Code sections 10091 et seq.) in 1968 to ensure that all Californians, including those who live in areas at risk of wildfire, have access to fire coverage. The companies share profits, losses, and expenses at an amount proportional to their state market share of coverage.

The FAIR Plan covers about four percent of California homeowners compared to over 10 percent covered by Florida's Citizen's Insurance.³ With climate change and increasing wildfire risk, the number of homeowners insured by California's FAIR Plan is expected to grow, which could financially pressure the plan.

When evaluating municipal bond investment risks, we review the potential impact on municipalities if residents are no longer able to access needed property insurance to protect against financial losses due to weather-driven catastrophes, including wildfires caused by droughts and spread by high winds. In our view, a serious credit event is unlikely among California's municipal bond issuers that are rated investment grade (IG), including our California state and local government IG bonds, largely given the size and diversity of the tax base within our investable universe.

In our view, should insurers continue to leave the state and the costs associated with the FAIR Plan grow, there will be more pressure for the state to produce a more significant plan to address wildfire risk, perhaps modeled after Citizens Insurance or the Florida Hurricane Catastrophe Fund (FHCF or CAT Fund). Following the Los Angeles wildfires in January 2025, we are likely to see increases in FAIR Plan rates. In October 2025, the FAIR Plan filed a request with the California Department of Insurance to increase insurance rates by an average of 35.8 percent, effective April 2026, which is currently under review by regulatory authorities. While the ultimate rate hike will likely be less than this initial proposal, costs will continue to rise.

While we recognize that a further constrained housing insurance market is a credit negative, the reasons for our favorable view of the rated California municipal market include:

- Enhanced State and Federal Support is likely. Within the last two years, there have been several efforts in this direction. The Governor asked the Commissioner of Insurance to take swift regulatory action to strengthen and stabilize the market to expand choices and stabilize the market, improve the rate approval process, and maintain FAIR Plan solvency. The Commissioner of Insurance updated a catastrophe modeling regulation that would define catastrophe to include wildfire, terrorism, and flood lines for homeowners and commercial insurance lines, which is intended to allow for greater pricing flexibility for the insurers. In addition, the Governor signed several bills in October 2025 aimed at reforming the FAIR Plan including securing additional capacity through bonds or a line of credit (Assembly Bill 226), changes to the FAIR Plan's governing committee (Assembly Bill 234) and the establishment of an automatic payment system for premiums and a grace period for such payments (Assembly Bill 290). Further, Assembly Bill 1 focuses on building-hardening mitigation measures, and the State also now mandates the full-replacement coverage of manufactured and mobile homes.⁴

1. For example, in 2002, the Florida legislature created the Citizens Property Insurance Corporation (Citizens Insurance), a not-for-profit insurer of last resort to provide FAIR Plan windstorm and general property insurance coverages for homeowners unable to obtain insurance in the voluntary market. More than 10 percent of Florida homeowners have insurance through Citizen's Insurance as of March 2022. The number is expected to rise. The state also created and manages the Florida Hurricane Catastrophe Fund (FHCF or CAT Fund) as a resource for Florida consumers and insurers funded by assessments to every property insurance policy in the state.

2. "Seven of California's largest property insurers, State Farm, Allstate, Farmers, USAA, Travelers, Nationwide and Chubb recently decided to limit new homeowner's policies in the state, raising questions about the stability of the California home insurance market." "[Limited home insurance options in California as major carriers pull back](#)," *Bankrate*, April 15, 2024. With coverage availability shrinking, many homeowners across California have no option but to resort to a FAIR Plan policy.

3. <https://www.sfgate.com/california/article/calif-use-last-resort-insurer-nearly-doubles-20819295.php>

4. <https://www.insurancebusinessmag.com/us/news/regulatory/california-enacts-fair-plan-reforms-amid-wildfire-insurance-crisis-552651.aspx>

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- Proposition 13 created a baseline assessment on properties and restricts assessed value growth to no more than 2 percent of the value of the property per year. The Proposition encourages residents not to move, avoiding higher property tax bills, but if properties in wildfire areas change hands, given the assessed value cushion inherent in most valuations, the municipality will actually gain from the revaluation, even if property values in the area fall. In addition, Proposition 13 and the size of the tax base buffer against property values falling dramatically.
- Despite reports of outmigration in California, the state gained population—albeit slightly—last year and an extreme housing shortage persists. At the right price, people will move into wildfire prone areas, even as others move out
- Even in a worst-case scenario, bond repayment is expected to continue uninterrupted among rated issuers in the state. Moody Ratings noted it has not seen a rated default due to a natural disaster.⁵ The likelihood of a bond default is still remote, although any increase warrants close monitoring.
- Breckinridge tracks all issuers in California (and the nation) for wildfire risk through a third-party data provider. We seek to identify outliers among issuers with particularly heightened wildfire risk. For those issuers, we may assign a lower internal credit rating= in an effort to ensure that we are compensated for additional risk. We also seek to purchase issuers with a large and diversified tax base and avoid smaller issuers, as measured by square milage and a balance sheet size.

As the voluntary insurance market and state and local governments seek to adapt and increase resiliency in the face of a changing climate, investors likely will encounter additional efforts to maintain insurance coverages through a range of public and private mechanisms. Gaining insight and understanding about the potential implications of these insurance plans and the broader effects of climate risk will be essential for a comprehensive assessment of municipal bond credit risks.

5. The "U.S. Municipal Bond Defaults and Recoveries, 1970-2022" report from Moody's Ratings stated, "The California Statewide Communities Development Authority (CSCDA) pension obligation bond pool financing Series 2007 A-2 (Baa3) had heightened exposure to potential default when its largest participant (current share approximately 39 percent), the small town of Paradise, suffered near complete destruction with substantial loss of life in the late 2018 wildfires. Still, Paradise has consistently made its scheduled bond payments through insurance settlements and state backfill of lost property tax revenue. In contrast, the unrated debt issued by the Successor Agency to the Paradise Redevelopment Agency and backed by a tax increment pledge defaulted on June 1, 2023. The project area's property values declined significantly following the fires in 2018. While the agency similarly received state backfill funding, those funds were exhausted as of December 2022. The outcome for the obligation owed to the CSCDA compared to the Successor Agency highlights how the breadth of the pledge can drive a meaningfully different outcome." Of note, the redevelopment agency covered a small square millage of an already small town, and Breckinridge seeks to avoid this type of exposure.



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#BCAI-02112026-bcfxneks (2/19/2026)

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