Monroe County, FL

Commission Workshop: Resiliency Financing

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OVERVIEW: MONROE COUNTY

- Debt Portfolio
- Credit Profile
- Current Market Conditions
- Existing Revenue Capacity

INVESTING IN INFRASTRUCTURE

- Market Guidance
- Federal, State and Municipal Tools
- Public Private Partnerships
- Case Studies

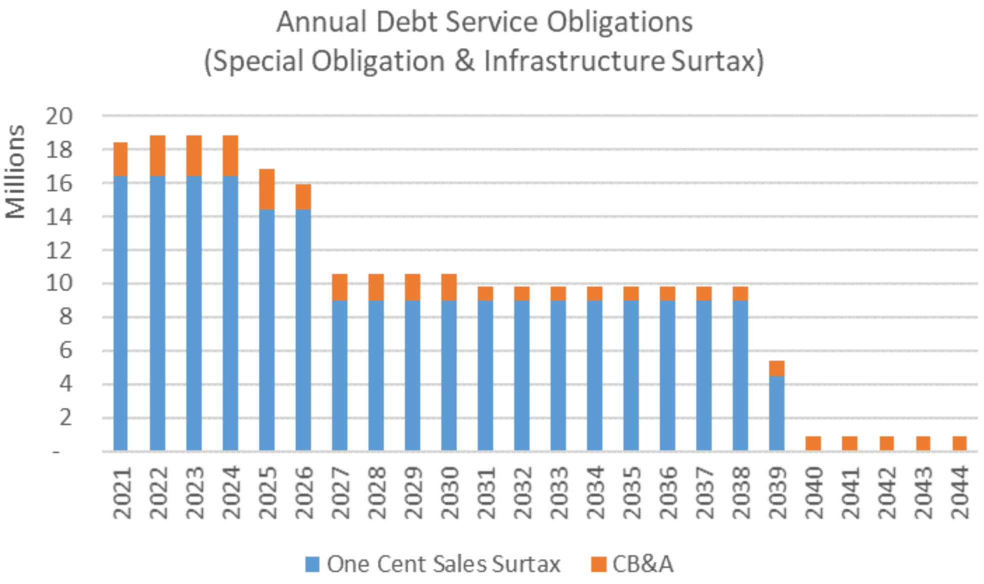
RESILIENCY CONSIDERATIONS

- Approach
- Expanding the Toolbox

I. Overview: Monroe County

Overview of Debt Portfolio

- Two primary security sources for borrowing:
  - One-cent Infrastructure Sales Surtax
    - Approximately $204.2M outstanding
    - Maximum Annual Debt Service of $16.4 (2021-2024)
    - FY 2019 Revenues equaled $24.2M
  - Covenant to Budget and Appropriate from non-Ad Valorem Revenues
    - Approximately $47.2M outstanding
    - Maximum Annual Debt Service of $2.45M (2022-2025)
    - FY 2019 Non-AV Revenues equaled approximately $70M
- While the non-AV revenues are *pledged*, they are not being utilized for payments. (Actual payments are being made from special assessments and/or fund 304)



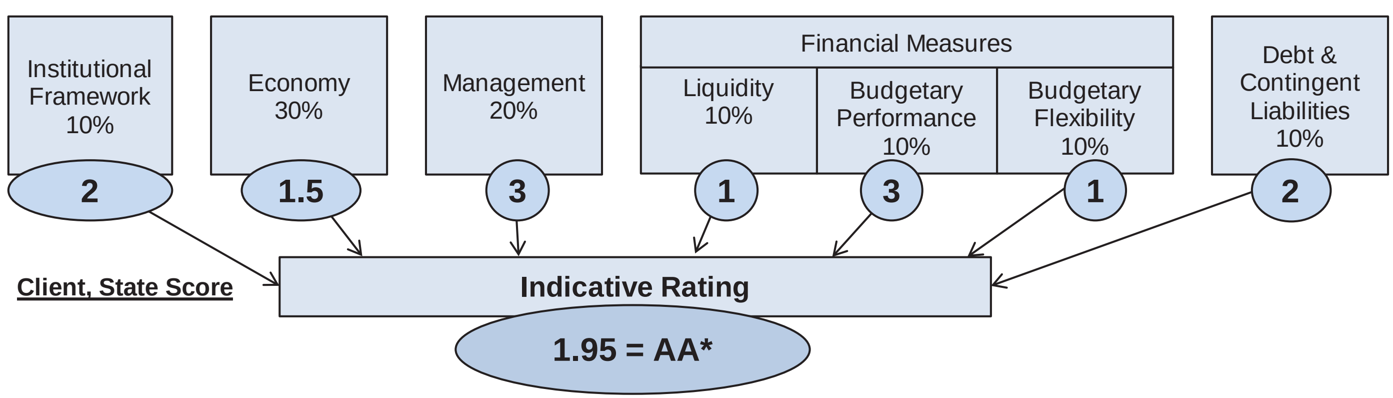
Credit Rating Overview

- Monroe County does not have any current credit ratings from the major rating agencies.
- Based on an independently calculated estimate of the various credit factors listed below, indicated ratings would be expected in the AA category.
- What matters?
  - Economic and Management profiles are most heavily weighted
    - Management specifically relates to budgetary practices
    - Economic scores are based on taxable values and median family income

Moody's Local Government Rating Calculator

Category	Weight	Indicated Rating
Economy/Tax Base	30%	0.84
Fund Balance	15%	3.14
Cash Balance	15%	2.98
Management	20%	2.25
Direct Debt	10%	1.88
Pension Liability	10%	1.25
Indicated Rating Score	100%	1.93
Indicated Rating	**-**	**Aa2**

S&P's Local Government Rating Calculator

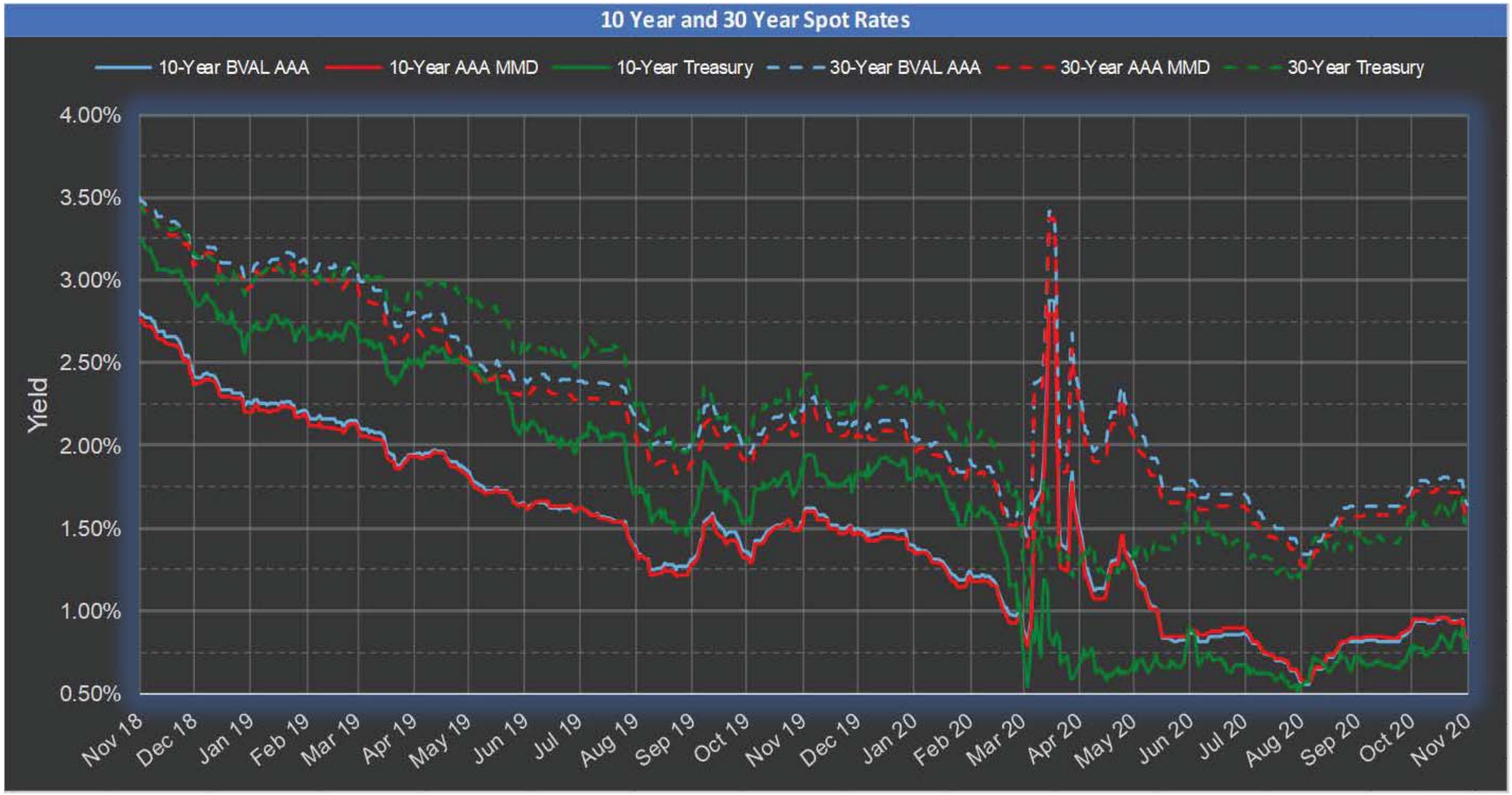


Current Market Conditions

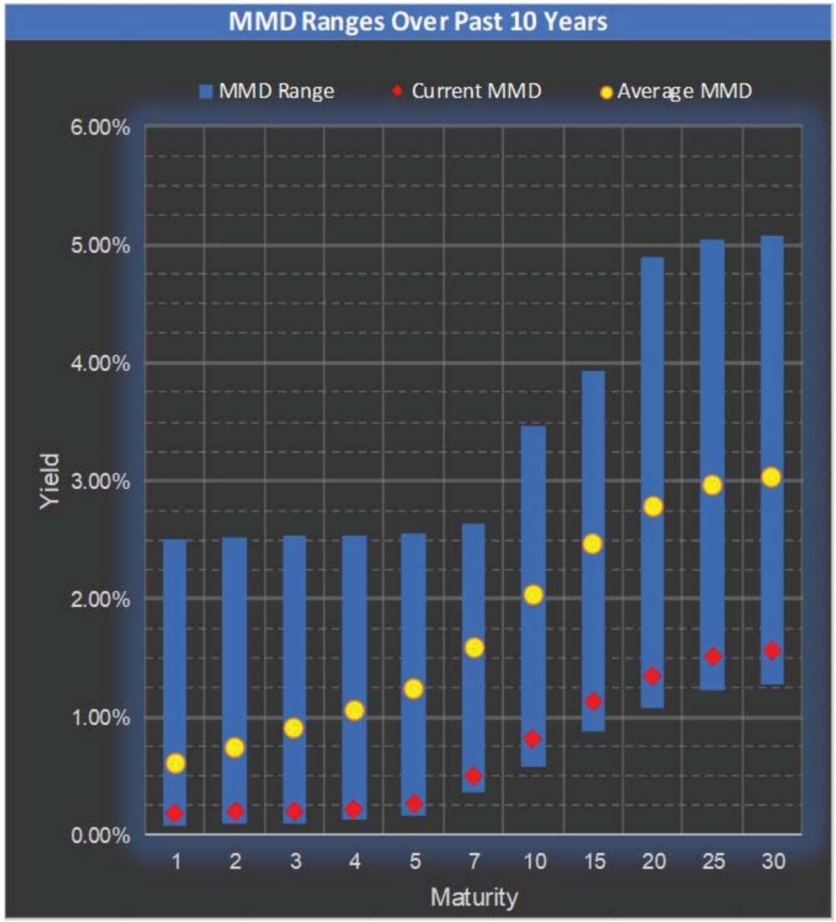
- Interest rate indexes remain at historically low levels
- The temporary dislocation between Treasuries and Municipals occurring at the outset of the pandemic has dissipated
  - Federal actions to support the market facilitated a return to normal
- Credit spreads have remained relatively stable for higher rated credits (AAA, AA, and A)
  - However there has been a significant increase to low-rated (BBB) credits as investors seek additional certainty

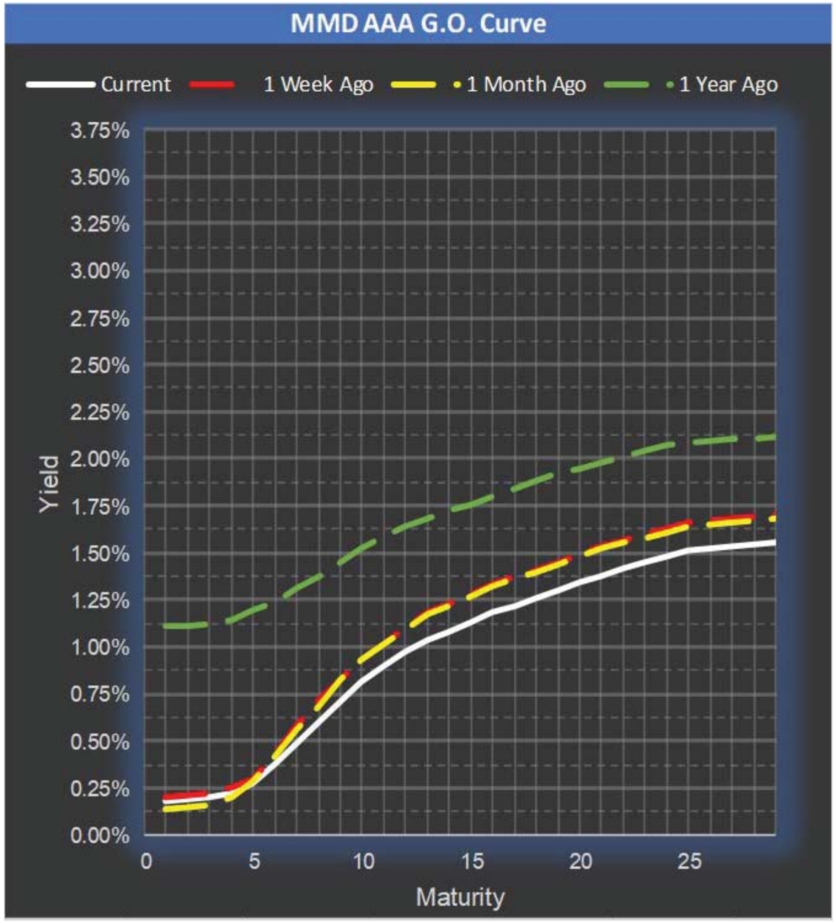
U.S. Treasury Rates History

- Rates have been trending downward since the end of 2018 and are near all-time lows
- Rates have stabilized following a municipal spike in March as COVID fears caused investors to seek safe haven assets



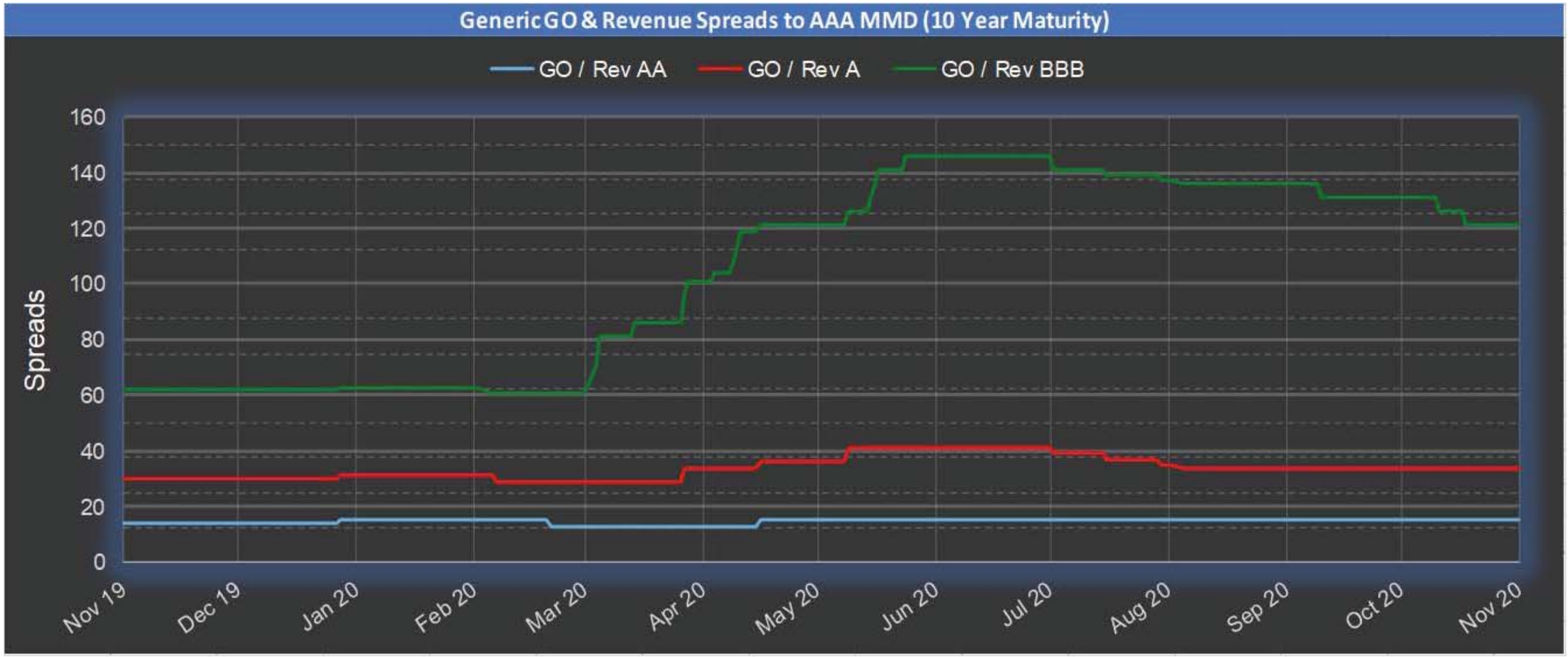
AAA Municipal Rates Near All-Time Lows





Municipal Credit Spreads

- MMD Yields are part of the story
- Credit ratings matter most when investors are determining what to purchase
- For example, the difference between a ‘AA’ and ‘A’ credit rating is approximately 20 basis points



Current Bonding Capacity

- Two primary security sources for borrowing:
  - One-cent Infrastructure Sales Surtax
    - Additional Bonds Test: 12 consecutive of the prior 24 months must be at least 130% of Maximum Annual Debt Service
    - Technical additional bonding capacity of approximately $50 million*
  - Covenant to Budget and Appropriate from non-Ad Valorem Revenues
    - Additional Bonds Test: average of prior two year’s non-Ad Valorem revenues must be at least 120% of Maximum Annual Debt Service
    - Technical additional bonding capacity of approximately $400 million**
- ***However, the true measure of debt capacity is the ability to continue providing effective County service(s) <u>and</u> make debt payments***

**Assumes 12 year financing at 6% interest rate*

***Assumes 20 year financing at 6% interest rate*

II. Investing in Infrastructure

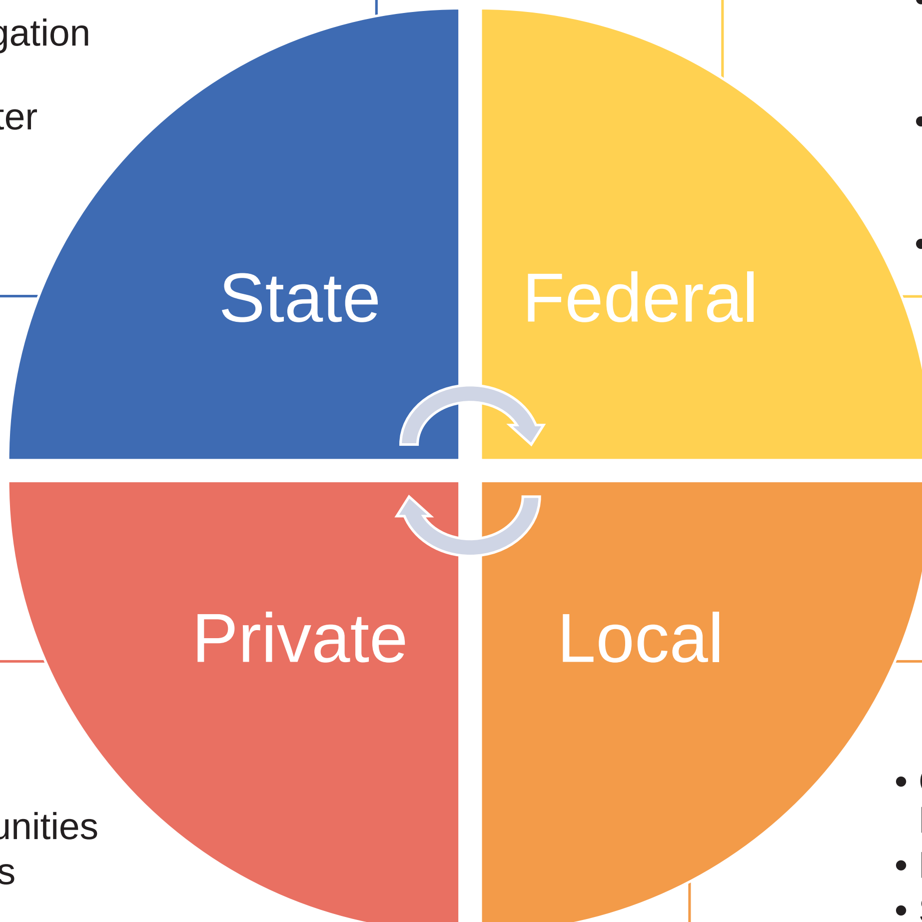
Rating Agency and Investor Focus on Sustainability/Resilience

- Rating agencies have incorporated Environmental, Social, Governance analysis in public finance credit evaluations
  - Moody’s Special Report. September 17, 2020. Sea level rise increases credit risk for coastal states and local governments
  - S&P Global. February 27, 2020. Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors
  - Fitch Special Report. May 16, 2019. Introducing ESG Relevance Scores for Public Finance/Infrastructure: Marking the Intersection of Credit and ESG Risks
  - Moody’s Cross-Sector Rating Methodology. January 9, 2019. General Principles for Assessing Environmental, Social and Governance Risks
- Investor focus
  - Growth in creation of ESG funds
  - Growth in ESG assets under management
- 2019 was a record year of green bond issuance (479 worldwide)

Investing in Infrastructure: Multiple Approaches

- SRF Loans
- Florida Inland Navigation Grants
- DEO, CDBG-Disaster Recovery

- FEMA Preparedness Grants
- FEMA Hazard Mitigation Assistance
- WIFIA Loan Program (Water/Stormwater)
- NOAA Coastal Resilience Grant Program
- USDA, Natural Resource Conservation Service Grants



- D-B-F-O-M
- Development Opportunities
- Optional Assessments
- Impact Bonds

- General Obligation Bonds
- Revenue Bonds
- Special Assessment Bonds

Case Studies: Self-Labeled Bonds

Example: City of Miami's Forever Bond

- In November 2017, the City of Miami's bond referendum will include a $400 million "Miami Forever" general obligation bond
- Majority of improvements for stormwater and flooding
- Through a series of community meetings and input from the City's staff and advisors, identified $300 million in sea-rise projects and $100 million in housing and economic development projects
    - $100 million housing projects to spread among the City's five commission districts based on the formula used to distribute federal CDBG funds
    - A portion of the funds will provide grants for homeowners to make their property more resilient

MIAMI FOREVER

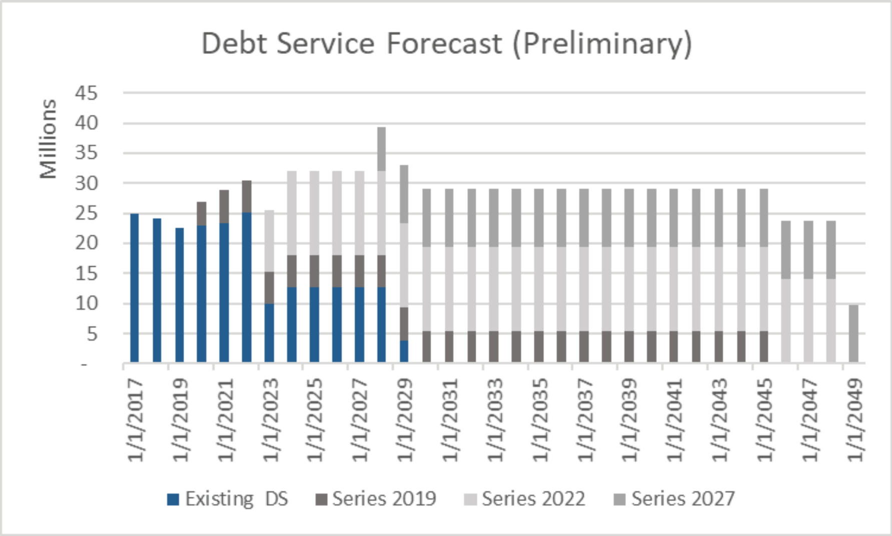
Example: MBTA's Sustainability Bond

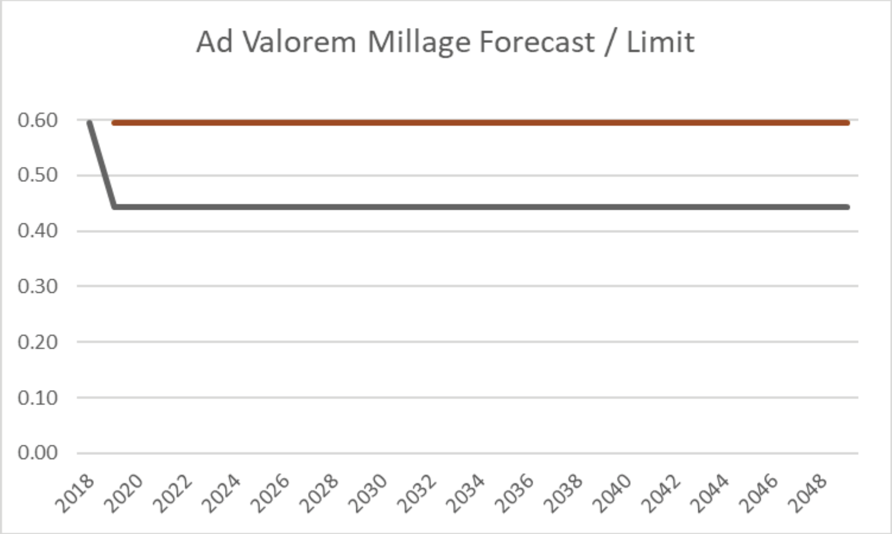
- On September 26, 2017, the Massachusetts Bay Transportation Authority ("MBTA") sold the first "Sustainability Bonds" in the U.S.
- Bond proceeds will fund projects that met MBTA's defined environmental and social benefits
    - Maximize and equitably distribute social benefits across the communities it serves
    - Maximize the environmental benefits of the transportation system
- Adopted a Sustainability Framework for determining project eligibility, tracking bond proceeds and annual reporting on project impact
- Pricing on the Sustainability Bonds was more aggressive than pricing on the non-sustainability bonds sold the same day

Massachusetts Bay Transportation Authority

City of Miami: Miami Forever Bonds Plan of Finance

- The City embarked on an ambitious resiliency plan
  - Identified needed improvements and financial capacity
- Voters supported a $400M Limited Ad Valorem Referendum
- The Ad Valorem pledge is limited to not exceed 0.5935 mills per year
  - Forecasted to be lower based on future Ad Valorem growth projections
- Bonds will be issued sequentially as projects are ready, thus a longer timeline for implementation and repayment





Case Studies: Public/Private Partnerships

City of Napa, CA

- $250 million development of new City Hall and essential services building; hotel, housing, parking, and related uses
- Public private partnership
  - Unutilized excess land to be developed for private uses to revitalize downtown
  - Public Financing Sources: tax-exempt bond financing available for public facilities project component
- Develop more efficient uses of land and address critical public facilities needs

Port of San Francisco, CA

- >$500 million development of new mixed-use neighborhood (parks/open space, residential including affordable housing, and commercial)
- Rehabilitate piers and preserve historic uses
- Hybrid P3
  - Public Financing Sources: CFD Special Tax Bonds, IFD Tax Increment, Historic Building Tax Credit, Port Revenue Bonds
  - Private Financing Source: Developer Capital
- Shared risk and upside benefit permitting monetization of land value while achieving a variety of public objectives
- Opportunity to address long-term sea level rise

III. Resiliency Financing Considerations

Resilience Financing Approach

- Identify and pursue opportunities for grants and other external sources of funds, where available and appropriate
- Analyze capacity for additional debt under existing bond structures
- Prioritize low-cost and subsidized sources of financing (e.g., Clean Water Revolving Loan Fund, WIFIA, tax credits)
- Create avenues for “new” bonding structures tied to “new” repayment sources
  - General Obligation Bonds
  - Extensions and/or increases to the Infrastructure Sales Surtax *(2033 expiration)*
  - Additional Local Option Tourist Tax
  - Special District and Special Assessment Bonds
  - Toll Revenue Bonds
- Consider innovative financing approaches (e.g., Impact Bonds, Sustainability Bonds)

Financing Toolbox

Widely-Utilized Programs

- FL State Revolving Loan Fund
- Grants & Subsidized Loans (Federal, State, Other)
- Sales Tax Revenue Bonds
- Wastewater Revenue Bonds
- General Obligation Bonds
- Toll Revenue Bonds

Newer “Innovative” Programs

- WIFIA and TIFIA
- Public Private Partnerships
- Green Bonds / ESG Bonds / Sustainability Bonds
- Revolving Loan Funds
- Assessments for Local Improvements
- Property Assessed Resilience Program

WIFIA Program

Competitive Federal loan program

- The Water Infrastructure Finance and Innovation Act (WIFIA) program is a federally subsidized loan program administered by the US Environmental Protection Agency (EPA) to provide long-term, low interest loans for water, wastewater and certain stormwater infrastructure projects
- Competitive loan program, with less than 30% of initial projects submitting a Letter of Interest invited to apply
- Can be used to finance up to 49% of eligible project costs
- Low interest rates, which are based on U.S. Treasury rates and fixed at the time of loan closing
- Flexible repayment terms, with the option to defer payment for up to five years past substantial completion and final maturity 35 years past substantial completion
- Loans are subject to many federal provisions that may increase project cost and time to completion

Impact Bonds

For capital projects whose effective outcome is uncertain, Monroe County can consider utilization of impact bonds.

- Impact Bonds (e.g., Social Impact Bonds and Environmental Impact Bonds) focus on paying for outcomes instead paying for the cost of services
- Shifts the risk of successful innovation from taxpayers to private investors
- Projects that would be strong candidates for impact bonds
  - Have a defined outcome that is independently identifiable and measurable
  - Pilot new project ideas
- Not "bonds" in its traditional context, but a contractual relationship between a government and an external organization, or intermediary
- Investors can be repaid based upon the achievement of pre-defined performance goals or based upon the effectiveness of the implemented project relative to pre-defined standards

Case Studies: Impact Bonds

Example:
DC Water Environmental Impact Bond

- In 2016, DC Water sold Environmental Impact Bonds, which was the first use of the Pay for Success model in the water space
- Investors will be repaid based upon the effectiveness of the financed infrastructure in managing the volume of stormwater runoff
- If the project exceeds expectations for managing runoff, DC Water will make an additional outcome payment to the investor
- Since DC Water was under consent decree to manage stormwater runoff, financing tool was used to hedge the effectiveness of this new engineering solution

Example:
Connecticut Family Stability Pay for Success Project

- In 2016, the State of Connecticut launched a Pay for Success project focused on family stability and substance abuse disorders
- Expands intensive, in-home treatment program to approximately 500 families involved with the Connecticut Department of Children and Families
- Goals to eliminate parental substance abuse and keep families together
- Deploys $11.2 million of funds over 4.5 years

Promoting Private Sector Investment

The County could consider several tools to allow property owners to voluntarily make resilient improvements to their property.

- Program like Property Assessed Clean Energy (PACE)
- Revolving Loan Fund
- Grant funding (example below)

Example:
New Orleans Gentilly Resilience District

- New Orleans' first Resilience District
- Awarded $141 million grant through HUD's National Disaster Resilience Competition (NDRC) and existing FEMA awards
- Projects within the Gentilly Resilience District are designed to reduce flood risk, slow land subsidence and encourage neighborhood revitalization
- Includes a Community Adaptation Program that will provide resources and funding for low and moderate-income homeowners within the district to make stormwater management improvements to their properties
  - Qualified homeowners can receive up to $5,000 to add stormwater management features to their property
  - Property retrofitting grants (e.g., elevating home) available if a program consultant determines that is the best use of funds

Green Bond Toolbox

"Repackaging" existing financing tools and / or increasing reporting on project benefits may increase support for debt from constituents and potential bond investors.

- Green Bonds are debt securities issued to raise capital to support climate-related or environmentally friendly projects
- Issuers can self-designate or secure third-party verification (no universal standard exists at this time)

Benefits

- Demonstrated commitment to sustainability and green initiatives
- Diversification and expansion of Investor Base
- Possible Pricing Benefit
- Positive headlines and public relations

Considerations

- Ongoing disclosure and reporting requirements
- Reputational risk if green objectives are not met
- Cost and Time
- Administrative / certification / new series
- Are projects green enough to attract increased interest?

Potential Mechanisms to Fund Capital Projects

- As stated earlier, existing bond capacity may be constrained
- New revenue sources could be utilized to fund priority infrastructure projects
- For example: Ad Valorem Bonds
  - Every $10 million of capital financing would require a millage of ~0.0242
  - The average homestead property of $389,000 would require ~$9.43/year

$10M Ad Valorem Bond - Incremental Impact		
Taxable Assessed Values - Monroe County		
2019 Taxable Value (July estimate)		**28,090,000,000**
Budgeted Millage Assumptions		
95% of Taxable Value	$	26,685,500,000
Value of one mill (0.001) @ 95%	**$**	**26,685,500**
Financing Assumptions		
Amount Financed	**$**	**10,000,000**
Financing Term (years)		30
Estimated True Interest Cost		5.000%
Annual Debt Service Payment	**$**	**647,068**
Estimated Required DS Millage:		**0.0242**

Millage Impact Summary	
Homeowner Taxable Value	Annual Millage Impact/per Home
$389,000	$9.43
$624,000	$15.13

Examples of Potential Mechanisms to Fund Capital Projects (cont'd)

- Example: Extension, or addition, to the Infrastructure Sales Surtax

Extension (years)	Additional Capacity*
10	$20M
20	$80M
30	$200M

  - Similar to the Miami Forever Program, capacity would be available over sequenced issuances
  - A NEW Surtax, assuming each additional 1% generates approximately $23M/yr
    - 30 year upfront capacity estimated to be ~$300M*
- Important to note that all scenarios assume a Debt Service Coverage Ratio of 120% for credit purposes
  - That results in additional annual funding of ~20% of the surtax revenues available for pay-go

**All scenarios are for discussion only and subject to market conditions at the time of sale. Assume average 5% borrowing rate.*

Questions?

Thank You!

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