Monroe County, FL

Commission Workshop: Resiliency Financing

Sergio Masvidal, Managing Director, PFM Financial Advisors LLC

November 17, 2020
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**

<table>
<thead>
<tr>
<th>Category</th>
<th>Weight</th>
<th>Indicated Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy/Tax Base</td>
<td>30%</td>
<td>0.84</td>
</tr>
<tr>
<td>Fund Balance</td>
<td>15%</td>
<td>3.14</td>
</tr>
<tr>
<td>Cash Balance</td>
<td>15%</td>
<td>2.98</td>
</tr>
<tr>
<td>Management</td>
<td>20%</td>
<td>2.25</td>
</tr>
<tr>
<td>Direct Debt</td>
<td>10%</td>
<td>1.88</td>
</tr>
<tr>
<td>Pension Liability</td>
<td>10%</td>
<td>1.25</td>
</tr>
<tr>
<td>Indicated Rating Score</td>
<td>100%</td>
<td>1.93</td>
</tr>
<tr>
<td><strong>Indicated Rating</strong></td>
<td></td>
<td><strong>Aa2</strong></td>
</tr>
</tbody>
</table>

---

**S&P’s Local Government Rating Calculator**

- Institutional Framework 10%
  - 2
- Economy 30%
  - 1.5
- Management 20%
  - 3

---

**Financial Measures**

- Liquidity 10%
  - 1
- Budgetary Performance 10%
  - 3
- Budgetary Flexibility 10%
  - 1

---

**Debt & Contingent Liabilities 10%
  - 2

**Indicative Rating**

1.95 = AA*
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) and 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

- 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

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

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

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

**Local**
- General Obligation Bonds
- Revenue Bonds
- Special Assessment Bonds
### Case Studies: Self-Labeled Bonds

<table>
<thead>
<tr>
<th>Example: City of Miami’s Forever Bond</th>
<th>Example: MBTA’s Sustainability Bond</th>
</tr>
</thead>
<tbody>
<tr>
<td>In November 2017, the City of Miami’s bond referendum will include a $400 million “Miami Forever” general obligation bond.</td>
<td>On September 26, 2017, the Massachusetts Bay Transportation Authority (“MBTA”) sold the first “Sustainability Bonds” in the U.S.</td>
</tr>
<tr>
<td>Majority of improvements for stormwater and flooding.</td>
<td>Bond proceeds will fund projects that met MBTA’s defined environmental and social benefits.</td>
</tr>
<tr>
<td>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.</td>
<td></td>
</tr>
<tr>
<td>- $100 million housing projects to spread among the City’s five commission districts based on the formula used to distribute federal CDBG funds.</td>
<td>- Maximize and equitably distribute social benefits across the communities it serves.</td>
</tr>
<tr>
<td>- A portion of the funds will provide grants for homeowners to make their property more resilient.</td>
<td>- Maximize the environmental benefits of the transportation system.</td>
</tr>
<tr>
<td></td>
<td>- Adopted a Sustainability Framework for determining project eligibility, tracking bond proceeds and annual reporting on project impact.</td>
</tr>
<tr>
<td></td>
<td>- Pricing on the Sustainability Bonds was more aggressive than pricing on the non-sustainability bonds sold the same day.</td>
</tr>
</tbody>
</table>
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
- Sales Tax Revenue Bonds
- General Obligation Bonds
- Toll Revenue Bonds
- Wastewater Revenue Bonds
- Grants & Subsidized Loans (Federal, State, Other)

**Newer “Innovative” Programs**

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

<table>
<thead>
<tr>
<th>Example: DC Water Environmental Impact Bond</th>
<th>Example: Connecticut Family Stability Pay for Success Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>In 2016, DC Water sold Environmental Impact Bonds, which was the first use of the Pay for Success model in the water space</td>
<td>In 2016, the State of Connecticut launched a Pay for Success project focused on family stability and substance abuse disorders</td>
</tr>
<tr>
<td>Investors will be repaid based upon the effectiveness of the financed infrastructure in managing the volume of stormwater runoff</td>
<td>Expands intensive, in-home treatment program to approximately 500 families involved with the Connecticut Department of Children and Families</td>
</tr>
<tr>
<td>If the project exceeds expectations for managing runoff, DC Water will make an additional outcome payment to the investor</td>
<td>Goals to eliminate parental substance abuse and keep families together</td>
</tr>
<tr>
<td>Since DC Water was under consent decree to manage stormwater runoff, financing tool was used to hedge the effectiveness of this new engineering solution</td>
<td>Deploys $11.2 million of funds over 4.5 years</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Taxable Assessed Values - Monroe County</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 Taxable Value (July estimate)</td>
</tr>
<tr>
<td>Budgeted Millage Assumptions</td>
</tr>
<tr>
<td>95% of Taxable Value</td>
</tr>
<tr>
<td>Value of one mill (0.001) @ 95%</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Financing Assumptions</td>
</tr>
<tr>
<td>Amount Financed</td>
</tr>
<tr>
<td>Financing Term (years)</td>
</tr>
<tr>
<td>Estimated True Interest Cost</td>
</tr>
<tr>
<td>Annual Debt Service Payment</td>
</tr>
<tr>
<td>Estimated Required DS Millage:</td>
</tr>
</tbody>
</table>

### Millage Impact Summary

<table>
<thead>
<tr>
<th>Homeowner Taxable Value</th>
<th>Annual Millage Impact/Per Home</th>
</tr>
</thead>
<tbody>
<tr>
<td>$389,000</td>
<td>$9.43</td>
</tr>
<tr>
<td>$624,000</td>
<td>$15.13</td>
</tr>
</tbody>
</table>
Examples of Potential Mechanisms to Fund Capital Projects (cont’d)

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

- 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.

<table>
<thead>
<tr>
<th>Extension (years)</th>
<th>Additional Capacity*</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>$20M</td>
</tr>
<tr>
<td>20</td>
<td>$80M</td>
</tr>
<tr>
<td>30</td>
<td>$200M</td>
</tr>
</tbody>
</table>
Questions?

Thank You!