
PUBLIC RESOURCES ADVISORY GROUP

MEMORANDUM TO: Marshall Labadie, Town Manager, Town of Highland Beach, FL
FROM: Public Resources Advisory Group (“PRAG”)
SUBJECT: Impact of Proposed Debt Issuance
DATE: January 22, 2019

The Town of Highland Beach (the “Town”) administration has asked PRAG to explore the impact that the Town’s prospective \$45 million general obligation debt issuance will have on the City’s financial position and possible credit rating implications. The Town’s existing long-term debt obligations include a promissory note with Bank of America and three State Revolving Fund Loans that financed improvements to the Town’s water treatment facility. Like the proposed \$45 million in debt issuance, the existing obligations are payable and secured by ad valorem taxes. As of September 30, 2017, the Town’s outstanding notes and loans payable totaled \$13.38 million. The existing debt is not rated by a credit agency.

In order to analyze the Town’s credit, we utilized the rating methodology for U.S. Local Government General Obligation debt published by Moody’s Investors Service (“Moody’s”) on December 16, 2016. The Moody’s methodology includes a “scorecard” which identifies a series of weighted sub-factors that result in a composite score that reflects the municipality’s credit profile. **The Moody’s scorecard is not a final rating calculator;** however, it is a tool that acts as a starting point before the rating is notched up or down depending on other individualistic characteristics of the local government’s credit.

Our initial analysis, which utilizes the framework and methodology provided by Moody’s and the Town’s FY2017 audited financials, shows that prior to any future debt issuance the Town has an indicative general obligation rating in the high double A range (likely Aa1 or possibly Aaa). Moody’s scorecard utilizes four categories with weighting as shown: Economy/Tax Base (30%); Finances (30%); Management (20%); and Debt/Pensions (20%). Of these categories, only the Debt/Pensions area will be impacted by the issuance of additional debt.

The Town maintains a strong economy/tax base, finances, and operating history. The Town’s existing debt and pension liabilities are modest. Adding \$45 million in debt to the Town’s balance sheet will impact the Debt/Pension category as the Debt to Full Value ratio and the Debt to Revenue ratio will each increase. These are based on the FY 2017 audit and may vary depending on a number of factors, including future financial performance (FY2018 audited financials were not available as of this date).

Financial Analysis

The table on the following page illustrates the Moody’s scorecard criteria and the weighting Moody’s assigns for each category and sub-factor. Based on information available, we have populated the scorecard with the appropriate data ranges and estimated “sub-rating” for each of the metrics shown. The table provides these data points both before and after the proposed \$45 million debt issuance.

As noted above, the proposed \$45 million issuance affects two sub-factors: Debt to Full Value and Debt to Revenue factors which are each worth 5% on the Moody’s scorecard, for a total of 10% weighting. While these sub-factors will shift downward due to the increased debt load, we estimate 90% of the weighted factors will remain unchanged.



n=value	Sub-factor Weight	Prior to \$45MM	After \$45MM	Change
1. Economy / Tax Base - 30%				
a) Tax Base Size (Full Value)	10.0%	\$12B ≥ n > \$1.4B "Aa3"	\$12B ≥ n > \$1.4B "Aa3"	No Change
b) Full Value per Capita	10.0%	> \$150,000 "Aaa"	> \$150,000 "Aaa"	No Change
c) Wealth (Median Family Income)	10.0%	> 150% of US median "Aaa"	> 150% of US median "Aaa"	No Change
2. Finances - 30%				
a) Fund Balance (% of Revenues)	10.0%	> 30% "Aaa"	> 30% "Aaa"	No Change
b) Fund Balance Trend (5-year change)	5.0%	25% ≥ n > 10% "Aa1"	25% ≥ n > 10% "Aa1"	No Change
c) Cash Balance (% of Revenues)	10.0%	>25% "Aaa"	>25% "Aaa"	No Change
d) Cash Balance Trend (5-year Change)	5.0%	0% ≥ n > -10% "Baa1"	0% ≥ n > -10% "Baa1"	No Change
3. Management - 20%				
a) Institutional Framework	10.0%	Moderate legal ability to match resources with spending "A1"		No Change
b) Operating History	10.0%	> 1.05x "Aaa"	> 1.05x "Aaa"	No Change
4. Debt / Pensions - 20%				
a) Debt to Full Value	5.0%	< 0.75% "Aaa"	1.75% ≤ n < 4% "A1"	Aaa to A1
b) Debt to Revenue	5.0%	< 0.33x "Aaa"	3x ≤ n < 5x "Baa2"	Aaa to Baa2
c) Moody's-adjusted Net Pension Liability (3-year average) to Full Value	5.0%	< 0.9% "Aaa"	< 0.9% "Aaa"	No Change
d) Moody's-adjusted Net Pension Liability (3-year average) to Revenue	5.0%	< 0.4% "Aaa"	< 0.4% "Aaa"	No Change

The Town's **Economy/Tax base (30%** of the Moody's weighting) are very strong. The Town maintains a just value above \$2.7 billion per the FY2017 audit. The Town also maintains exceptional wealth levels with a Full Value per Capita well above \$150,000 and Median Family Income 150%+ of the U.S. Median - each Aaa-rated sub-factors.

The Town's **Finances (30%)** are strong, with cash and fund balance levels well above 30% of operating revenues for estimated sub-factor ratings of Aaa. The five-year trend of fund balance as a percentage of revenue is estimated at Aa1, while the same metric for cash balance shows a declining trend for an estimated sub-factor rating of Baa1.

The Town's **Management (20%)** sub-factors include Institutional Framework and Operating History. Moody's assigns the Institutional Framework for all Florida cities at an A level. The strength of the Town's Operating History is evident, as the Town has maintained a five-year average ratio between Operating Revenues to Operating Expenditures above 1.05, which is Aaa-rated for this sub-factor.

The Town's **Debt/Pensions (20%)** are currently at modest levels, with the Town's ratios falling within the Aaa range for each of the related sub-factors listed. The Town's pension liabilities will not be affected by the proposed \$45 million in debt issuance. As mentioned above, the Town's Debt to Full Value (5% weight) and Debt to Revenue (5% weight) sub-factors will shift downward should \$45 million be added to the Town's balance sheet. These downward shifts on a sub-factor level are significant as highlighted in the table above; however, since these two categories combine to total only 10% of the overall scoring, we expect the Town's credit to remain at very strong investment-grade Aa levels should the Town go forward with a \$45 million general obligation debt issuance.



Appendix A

Moody's Ratings Criteria

Moody's General Obligation Scorecard Factors and Weights – Local Governments

<u>Category</u>	<u>Sub-factor Weighting</u>
Economy/Tax Base – 30%	
Tax Base Size	10%
Full Value per Capita	10%
Wealth (Median Family Income)	10%
Finances – 30%	
Fund Balance (% of Revenues)	10%
Fund Balance Trend (5-year change)	5%
Cash Balance (% of Revenues)	10%
Cash Balance Trend (5-year change)	5%
Management – 20%	
Institutional Framework	10%
Operating History	10%
Debt/Pensions – 20%	
Debt to Full Value	5%
Debt to Revenue	5%
Net Pension Liability to Full Value (3-yr. avg.)	5%
Net Pension Liability to Revenue (3-yr avg.)	5%
Total	100%

General Information Regarding Moody's Ratings

From strongest to weakest, Moody's ratings are Aaa (highest quality), Aa1, Aa2, Aa3, A1, A2, A3, Baa1, Baa2, Baa3, and Non-Investment Grade Ba1 to C. The table above indicates the weight given to each of the sub-factors as provided in the Moody's methodology for evaluating local government General Obligation debt.



Appendix B

Estimated Project Costs

The Town is calling for a bond referendum election to be held on March 12, 2019 for the issuance of General Obligation Bonds to finance all or a portion of the acquisition, design, construction, and equipping of stormwater improvements, the Ocean Walk multiuse corridor, and the undergrounding of utilities. The bonds will be payable from the full faith, credit, and taxing power of the Town, together with any other legally available funds. According to CAPTEC Engineering, Inc. (“CAPTEC”), the total improvement costs are estimated as follows:

<u>Project Component</u>	<u>CAPTEC Cost Estimate</u>
Stormwater Improvements	\$16,550,000
Ocean Walk/Crosswalks/Entry Monument	\$11,250,000
Utility Undergrounding	\$17,200,000
Total	\$45,000,000