

# Environmental Impact Bond Funding Approach for Storm Water Capital Needs



July 8, 2020

# Background

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- As Financial Advisor to the City of Hampton (the “City”), Davenport & Company LLC (“Davenport”) routinely assists the City each spring as it updates its Operating Budget and 5-year Capital Improvement Plan (“CIP”).
- For the upcoming FY 2021, the City is planning approximately \$50 Million of bond-funded CIP needs.
  - Approximately \$36.5 Million of these needs are General Fund and School related improvements.
  - Approximately \$12.5 Million of these needs are Storm Water related improvements.
- The \$12.5 Million of Storm Water related improvements are budgeted to be repaid from dedicated Storm Water revenues.
- Over the past 12 months, City staff has been working with the Chesapeake Bay Foundation and Quantified Ventures to be one of the first cities in the Hampton Roads area, if not Virginia, to use Environmental Impact Bonds (“EIB”) to meet fund the City’s Storm Water related improvements.

# What is an Environmental Impact Bond?



- An Environmental Impact Bond (“EIB”) is an innovative financing tool that funds Green Infrastructure that promotes sustainability and enhances accountability for the local government.
  
- Over the past 12 months, City staff has been working with the Chesapeake Bay Foundation and Quantified Ventures to develop the technical specifications, outcomes and measurement parameters for the planned Storm Water Project that is designed to enhance the City’s sustainability and livability.
  
- Goals/Benefits of using an EIB for the Storm Water Project:
  - Incorporates outcome measurements for the City’s Green Infrastructure with the goal of improving accountability;
  - Provides data collection for future decision making;
  - Enhances livability and economic development for the benefit of the City’s residents;
  - Incorporates the City’s commitment to fiscal prudence; and
  - Positions the City to access potential investor community that has dedicated funds to invest in “Green” projects.

# Planned Funding Approach for EIB

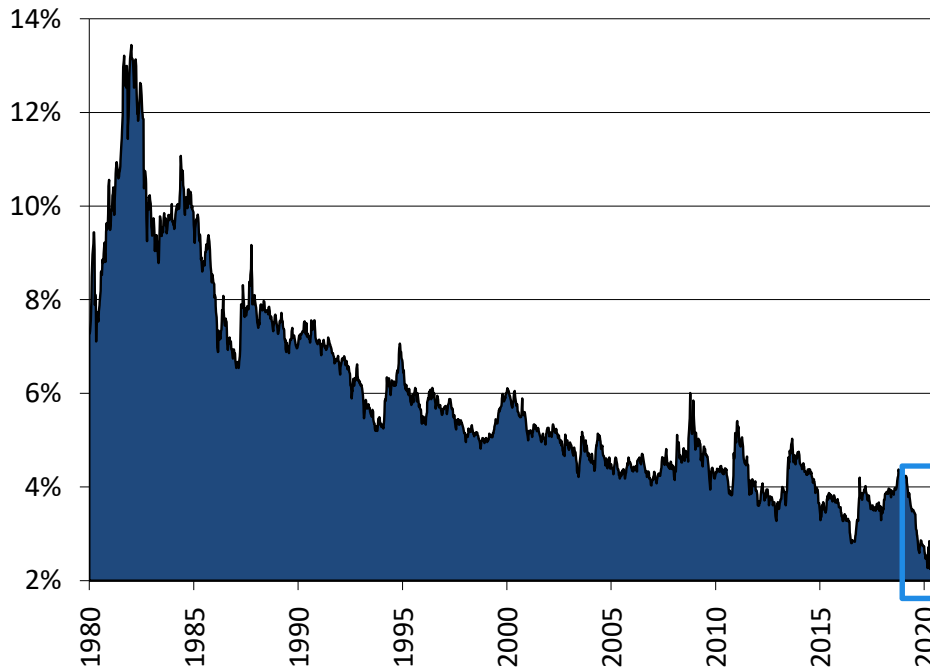


- The City's initial EIB is expected to incorporate what is known as a "Disclosure-only" approach. It is designed to attract environmentally conscientious investors through disclosure of outcome measurements, while enhancing accountability for the City.
- Due to the unique nature of the EIB, Davenport recommends that the City move forward with the EIB funding in late summer/early fall as a separate financing from the City's general G.O. Bond issue.
- The EIB is expected to be sold as a Negotiated General Obligation Bond that takes advantage of the City's very strong "Aa1/AA+/AA+" credit ratings and the current market environment.
- Interest rates are at or near 60-year historic lows.
  - In October 2019, the City issued 20-year General Obligation bonds at an approximate all-in cost of 2.38%.
  - Today, the expected cost of the EIB is in this general interest rate level.

# Interest Rate Trends

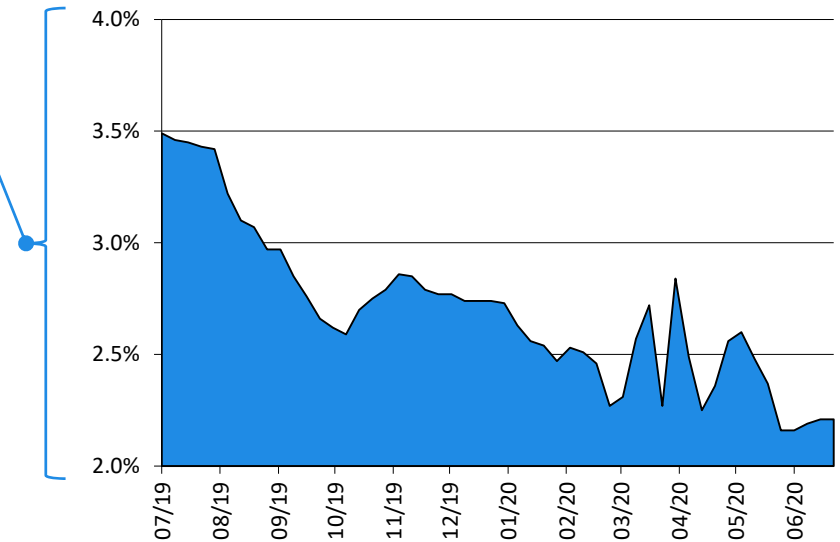


## 20-Bond GO Index (1980-Present)



- As of June 25, 2020, the 20-Bond GO Index was 2.21%.
- This level is near 60-year historic low of 2.16% on June 4, 2020.

## 20-Bond GO Index (Last 12 Months)



Source: The Bond Buyer; The 20-Bond GO Index is comprised of bonds maturing in 20yrs and rated Aa2/AA by Moody's and S&P.

# Timetable of Events



Month	Activity
June	<ul style="list-style-type: none"><li>Initial Outcome Estimates undertaken: City, Quantified Ventures (QV) and Chesapeake Bay Foundation (CBF) define expected average outcomes for the Storm Water Project.</li></ul>
July	<ul style="list-style-type: none"><li>Outcome Probability Ranges developed: City, QV and CBF define full range of expected outcomes for the Storm Water Project.</li><li>City/Davenport undertakes RFP process for Bond Underwriters for the EIB.</li></ul>
August	<ul style="list-style-type: none"><li>Final Technical Memo completed: documentation of Project design and outcomes.</li><li>Underwriter selected.</li><li>Begin work on Bond Disclosure Documents.</li></ul>
Balance of Fall (Sept – Nov)	<ul style="list-style-type: none"><li>Complete Disclosure Documents and Rating Agency Presentation for EIB issuance.</li><li>City Council adopts authorizing Bond Resolution.</li><li>Obtain Bond Ratings for EIB.</li><li>Sell EIB, close and fund.</li></ul>

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