

# Hernando County, Florida

## Overview of Potential Financing Options & Funding Sources

April 25, 2023



Capital  
Markets

## Potential Financing Options

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- The County has several different options that it can choose from as it looks to possibly finance future capital projects
- Common financing options used by local governments for general governmental and transportation related projects include:
  - Privately placed bank loans
  - Publicly offered municipal bonds
  - Lines of credit (and other short-term products)
- The right financing source to use depends on several factors:
  - Size of project being financed
  - Average life of project being financed (and corresponding length to maturity of financing option)
  - How quick is the financing needed (is an interim financing needed or should a reimbursement resolution be passed in the interim)
  - How quickly can the County spend-down financing proceeds once they are obtained (should one financing be broken up into multiple financings to meet spend-down requirements)
  - Prevailing market conditions and forecast of future market conditions

## Potential Funding Source: General Obligation (Ad Valorem Tax Revenues)

- In Florida, a voter referendum is required prior to the issuance of G.O. Bonds
- Backed by the full faith and credit of the County
- Repaid through the imposition of a dedicated debt service millage levy (ad valorem tax)
  - **Unlimited Tax G.O. (“UTGO”)**: millage rate can fluctuate up and down – if property tax values go down, millage rate goes up in order to produce enough revenues to pay debt service
  - **Limited Tax G.O. (“LTGO”)**: maximum millage rate is set at time of voter referendum – millage rates can go down if property taxes increase but they cannot go above the voted rate
  - Note that debt service millage for G.O. Bonds is **not** included in the County’s statutory millage cap
- Projects financed with G.O. Bonds typically have broad community benefits, such as public safety, parks/recreation, libraries, the purchase of environmentally sensitive lands, etc.
- Historically one of the most credit-worthy funding sources available
  - County has current G.O. credit ratings of Aa2 (Moody’s) and AA- (S&P)

General Obligation Bonding Analysis			
Transaction Size*	Average Annual Debt Service	Millage Requirement**	Annual Cost per \$250,000 TAV
\$100,000,000	\$6,360,210	0.52	\$129.62
\$200,000,000	\$12,719,957	1.04	\$259.22
\$300,000,000	\$19,080,095	1.56	\$388.83

\* Assumes 30-year level debt; "Aa2" Moody's and "AA-" S&P credit ratings.

\*\* Assumes TAV as provided in County's FY 2023 Budget with no growth projected.

## Potential Funding Source: Gas Tax Revenues

- The County receives revenues from five different types of gas taxes, all of which can be used as a source of security to finance future transportation related capital funding
  - **Constitutional Fuel Tax:** State tax of 2 cents per gallon on motor fuel (must be levied)
  - **County Fuel Tax:** State tax of 1 cent per gallon on motor fuel (must be levied)
  - **Ninth Cent Fuel Tax:** Local option fuel tax of 1 cent per gallon on motor and diesel fuel
  - **First Local Option Fuel Taxes (1-6 cents):** Local option fuel tax of anywhere from 1 to 6 cents per gallon on motor and diesel fuel
  - **Second Local Option Fuel Taxes (1-5 cents):** Local option fuel tax of anywhere from 1 to 5 cents per gallon on motor fuel
- Revenues collected from these taxes must be used for transportation related projects or to pay transportation related debt service
- Traditionally not as strong of a security pledge as some other taxes/revenues given that gas tax revenues have been stagnant (or even decreasing) in recent years

Hernando County Gas Tax Revenues & Bonding Capacity					
Tax	Cents	FY 2019 Collections*	FY 2023 Collections*	CAGR	Bonding Capacity**
Constitutional Fuel Tax	0.02	\$1,863,482	\$1,943,212	1.05%	\$21,315,000
County Fuel Tax	0.01	\$822,983	\$856,428	1.00%	\$9,365,000
Ninth Cent Fuel Tax	0.01	\$908,617	\$916,535	0.22%	\$10,030,000
First Local Option Fuel Tax	0.06	\$4,873,689	\$4,880,481	0.03%	\$53,595,000
Second Local Option Fuel Tax	0.05	\$3,356,060	\$3,305,316	-0.38%	\$36,295,000
<b>Total</b>	<b>0.15</b>	<b>\$11,824,831</b>	<b>\$11,901,972</b>	<b>0.16%</b>	<b>\$130,765,000</b>

\* Estimated collections as provided annually in the Florida Legislature's Office of Economic and Demographic Research Local Government Financial Information Handbooks.

\*\* Assumes 30-year level debt; "A+" S&P credit rating; 1.50x coverage requirement; FY 2023 Collections with no growth.

## Potential Funding Source: Covenant to Budget and Appropriate Non-Ad Valorem Revenues

- Most commonly used General Fund security pledge in Florida as it does not require voter approval
- CB&A pledge consists of legally available non-ad valorem revenues budgeted and appropriated on an annual basis after these revenues fund public safety and essential government expenditures that are not already being paid by ad valorem revenues
- Can be used as both a primary security pledge or a secondary (back-up) security pledge for weaker or more volatile revenue pledges
- Traditionally, available non-ad valorem revenues do not include restricted revenues such as gas tax revenues, but if the projects are transportation related and the debt service is being paid from gas tax revenues, they can be included
- Provides most local governments with ample borrowing capacity
- Credit ratings for CB&A backed debt are often on par with an issuer's G.O. debt
  - County's CB&A backed bonds are rated "AA-" by S&P

Hernando County CB&A Anti-Dilution Test & Bonding Capacity			
	FY 2021	FY 2022	Average
Non-Ad Valorem Revenues*	\$52,468,238	\$43,284,613	\$47,876,426
Excess Essential Govt Services Expenditures	(\$8,882,090)	(\$10,434,305)	(\$9,658,198)
Non-Ad Valorem Revenues Available for DS	\$43,586,148	\$32,850,308	\$38,218,228
MADS on Outstanding Non-Ad Valorem Debt	\$7,940,048	\$7,940,048	\$7,940,048
MADS Coverage			4.81
Additional DS Available for 1.50x Coverage			\$17,538,771
Bonding Capacity**			\$288,490,000

\* Does not include Gas Tax Revenues.

\*\* Assumes 30-year level debt; "AA-" S&P credit rating; 1.50x anti-dilution test.

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