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Bonds for Disaster Recovery and Economic Renewal

Bonds for Disaster Recovery and Economic Renewal

Katie Moriarty
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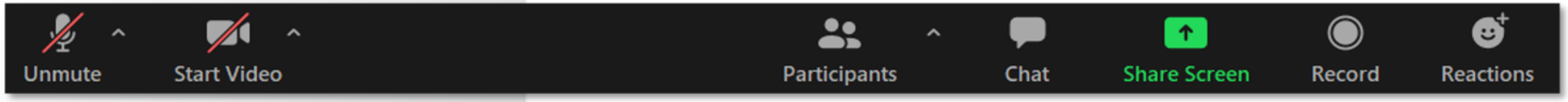

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Bonds for Disaster Recovery and Economic Renewal

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Disaster Bond Financing

February 18, 2025

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Natural Disasters and Impacts on the Financial Market

- Disasters encompass natural catastrophes, such as flooding, earthquakes, wildfires, and hurricanes.
- They may also encompass manmade or unpredictable catastrophes, such as terrorist attacks or oil spills in the Gulf
- Regardless of their origin, disasters may leave communities in disarray with negative impacts on their economy, workforce, and credit

Natural Disasters and Impacts on the Financial Market

- Examples of negative financial impacts:
  - The terrorist attacks in NYC on 9/11 are estimated to have caused over $123 billion in economic losses
  - Following Hurricane Katrina, researchers estimate there were approximately $3 billion in lost wages in the span of 10 months for New Orleans residents
  - In Fall 2024, Hurricane Helene devasted portions of Florida, Georgia, the Carolinas, and Virginia, resulting in billions of dollars in economic damages, according to preliminary estimates.
  - Just last month, wildfires burned portions of L.A. County in California; researchers estimate local wage losses of $297 million, and rebuilding estimates are as high as $275 billion

(sources: https://www.anderson.ucla.edu/about/centers/ucla-anderson-forecast/economic-impact-los-angeles-wildfires; *The Bond Buyer*, Volume 397: Issue 36246 (dated January 28, 2025).

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Disaster Recovery Bonds - Parties Involved

- FEMA Consultant
- Borrower and/or Issuer (if different)
- Borrower's/Issuer's Counsel
- Municipal Advisor
- Bond Counsel
- Purchaser/Lender (often a bank)
- Bank Counsel
- Paying Agent/Trustee

Disaster Recovery Bonds in Louisiana

- One of the biggest hurdles a community faces after a disaster is the immediate need for capital to begin repairs and recovery efforts while awaiting FEMA reimbursements, which can often take years to fully materialize.
- Over the past several years, Louisiana repeatedly faced natural disasters and associated challenges for immediate access to capital, particularly with Hurricane Ida
- Local governments and nonprofits found a creative solution to bridge this funding gap:
  - Tax-exempt bonds that are secured by the lawfully available funds or legally available revenues of a Louisiana local government entity under La. Rev. Stat. § 33:4548.6 or La. Rev. Stat. § 39:1430 respectively.
  - Bonds are not directly or indirectly guaranteed by the federal government or any agency or instrumentality of the federal government, as barred by Section 149(b) of the Internal Revenue Code. Rather, the bonds were secured by a pledge of the governmental entity's revenues and, should FEMA reimbursements never materialize, the governmental entity was obligated to make debt service payments from such revenues

Disaster Recovery Bonds in Louisiana

- Bonds were often structured so that the first debt service payment would coincide with the expected timetable for when FEMA reimbursements might begin
- Redemption provisions allowed for early redemption upon receipt of such FEMA reimbursements.
- In our experience working with FEMA cost recovery consultants, most reimbursements were expected to be received within three years and cover 90% of project costs.
- This structure allowed communities to address urgent needs without depleting their reserves and provides flexibility for managing the remaining 10% of project costs over the bond term (often around a ten-year term).
- The costs financed by such bonds were also carefully selected in consultation with the localities' FEMA cost recovery consultants with an eye toward financing projects that should fit the criteria for FEMA reimbursement

Significant Change in 2023 Re Costs of Issuance + Interest Costs

- In 2023 FEMA began allowing reimbursement for reasonable costs of issuance and interest costs associated with disaster financing.
- According to the current practices of FEMA, the FEMA Guidebook and 2 CFR 200.449, these costs are reimbursable, making these financing tools even more effective by reducing borrowing costs for communities recovering from disasters.

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Will It Work In My State?

- State laws vary and borrowers should consult with bond counsel to determine which financing vehicles could be used to accomplish this end.
- By way of example, in North Carolina, use of N.C. Gen. Stat. § 160A-20 as a similar financing vehicle would be limited to a pledge of funds appropriated for repayment and require a security interest be provided in at least a portion of property financed by the local government.
- Borrowers should consult with bond counsel to determine what costs are allowable for financing under state and federal law. Typical costs have included hurricane debris removal and repairs to public facilities, but we are also aware of scenarios where local government expenses (such as utilities and salaries) were financed when there was no means of tax collections for several months post-storm

CASE STUDY

$32,000,000 LOUISIANA LOCAL GOVERNMENT ENVIRONMENTAL FACILITIES AND COMMUNITY DEVELOPMENT AUTHORITY REVENUE BONDS (DIOCESE OF HOUMA-THIBODAUX HURRICANE IDA RECOVERY PROJECT), SERIES 2023A

Case Study

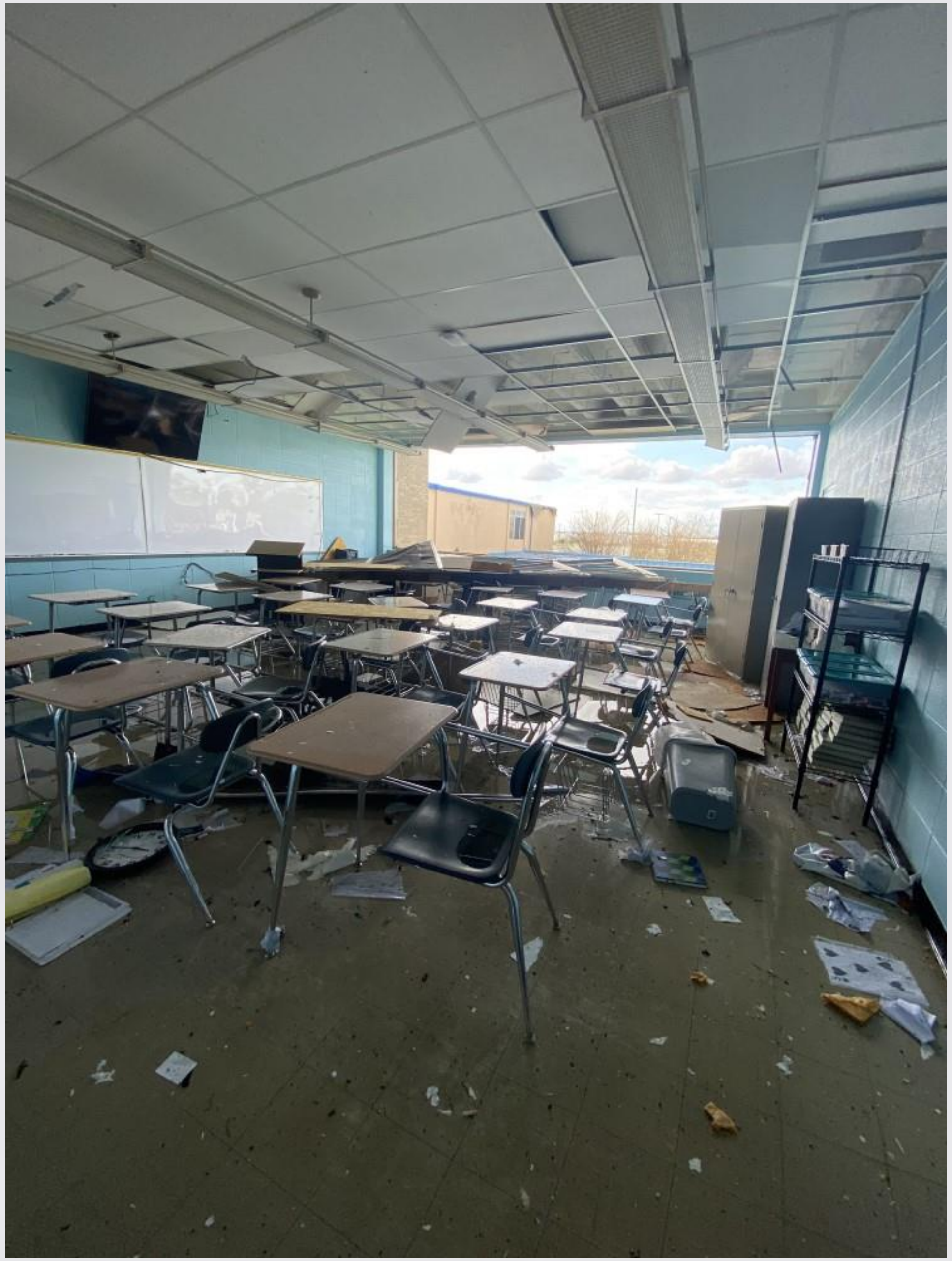
THE DIOCESE OF HOUMA-THIBODAUX

- Borrower was The Roman Catholic Church of the Diocese of Houma-Thibodaux (“Diocese”), a 501(c)(3) nonprofit corporation
- Louisiana Community Development Authority (“LCDA”), a CDFA member, was the conduit issuer of private activity bonds.
- Proceeds of the bonds were used to repair storm damage from Hurricane Ida to various facilities, including schools.
- Diocese had storm damages of approximately $112M, received their maximum of $50M in insurance proceeds.
- All remaining damages were anticipated to be eligible for 90% FEMA reimbursements, and the Diocese’s remaining share of expenses was anticipated to be approximately $6.2M.
- Diocese planned to issue bonds on an as-needed basis, prepay bonds as reimbursements are received, and amortize any non-reimbursed expense over 10-year period.

Case Study

THE DIOCESE OF HOUMA-THIBODAUX

- First series of bonds was issued in 2022 in the amount of $32,000,000.
- Part of overall approved $95,000,000 borrowing.
- Security was a general revenues of the Borrower pledge:
  - Revenues, rentals, fees, third-party payments, receipts, donations, contributions or other income of the Diocese, including the rights to receive such revenues, all as calculated in accordance with Generally Accepted Accounting Principles, Payments (whether paid to the Diocese or to the Trustee on behalf of the Diocese), proceeds derived from FEMA Reimbursements, insurance, condemnation proceeds, accounts, contract rights and other rights and assets, whether now or hereafter owned, held or possessed by the Diocese; and all gifts, grants, bequests and contributions (including income and profits therefrom) to the extent permitted by the terms thereof and by law.
- Privately-placed transaction.
- First series closed August 2023.
- Costs of Issuance and Interest Costs Reimbursable per change to FEMA policy.




VLCHS


DULAC come Back to MASS
Sunday Mass 10:30 under Life Center
Holy Family Catholic Church
JESUS AND MARY WE TRUST IN YOU

CASE STUDY

$90,000,000 LOUISIANA LOCAL GOVERNMENT ENVIRONMENTAL FACILITIES AND COMMUNITY DEVELOPMENT AUTHORITY HURRICANE RECOVERY REVENUE BONDS (LAFOURCHE PARISH SCHOOL BOARD PROJECT), SERIES 2022

Case Study

- Borrower was Lafourche Parish School Board, political subdivision of the State.
- LCDA was the conduit issuer of the bonds.
- Proceeds of the bonds were used to fund expenditures related to Hurricane Ida.
- The School Board anticipated approximately $150M in associated costs, including $75M in building rehabilitation and $45M in environmental remediation.
- The School Board anticipates all covered expenses to be eligible for 90% FEMA reimbursements. After expected reimbursements, the School Board's share of expenses would be approximately $15M.
- The School Board planned to issue bonds on an as-needed basis, prepay bonds as reimbursements are received, and amortize any non-reimbursed expense over 10-year period.

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Case Study

- First series of bonds was issued in 2022 was $90,000,000
- Part of overall anticipated $150,000,000 borrowing.
- Security was “Lawfully Available Funds” of the Borrower pledge:
  - Payable from a pledge of the funds, income, revenue, fees, receipts or charges of any nature from any source whatsoever on deposit with or accruing from time to time to the Board, provided that no such funds, income, revenue, fees, receipts or charges shall be so included in this definition which have been or are in the future legally dedicated and required for purposes inconsistent with the Project by the electorate, by the terms of specific grants, by the terms of particular obligations issued or to be issued (to the extent pledged or budgeted to pay debt service on such other obligations) or by operation of law, and provided further that the full faith and credit of the Board is not pledged and there is no obligation to levy or increase taxes or other sources of revenue above any legal limits applicable to the Board from time to time Privately-placed transaction.
- First series closed April 2022
- Costs of Issuance and Interest Costs Reimbursable per change to FEMA policy.

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CASE STUDY

$105,000,000 LOUISIANA LOCAL GOVERNMENT ENVIRONMENTAL FACILITIES AND COMMUNITY DEVELOPMENT AUTHORITY REVENUE BONDS (TERREBONNE PARISH SCHOOL RECOVERY PROJECT), SERIES 2022A

Case Study

TERREBONNE PARISH SCHOOL DISTRICT

- Borrower was Terrebonne Parish School Board, political subdivision of the State.
- LCDA was the conduit issuer of the bonds.
- Proceeds of the bonds were used to fund expenditures related to Hurricane Ida.
- The School Board anticipated approximately $210M in expenses resulting from Hurricane Ida. After expected reimbursements from FEMA and property insurance collections, the School Board’s portion would be approximately $20M. The School Board anticipates all covered expenses to be eligible for 90% FEMA reimbursements.
- The School Board planned to issue bonds on an as-needed basis, prepay bonds as reimbursements are received, and amortize any non-reimbursed expense over 10-year period.

Case Study

TERREBONNE PARISH SCHOOL DISTRICT

- First series of bonds was issued in 2022 was $90,000,000
- Part of overall anticipated $200,000,000 borrowing.
- Security was "Lawfully Available Funds" of the Borrower pledge:
  - Payable from a pledge of the funds, income, revenue, fees, receipts or charges of any nature from any source whatsoever on deposit with or accruing from time to time to the Board, provided that no such funds, income, revenue, fees, receipts or charges shall be so included in this definition which have been or are in the future legally dedicated and required for purposes inconsistent with the Project by the electorate, by the terms of specific grants, by the terms of particular obligations issued or to be issued (to the extent pledged or budgeted to pay debt service on such other obligations) or by operation of law, and provided further that the full faith and credit of the Board is not pledged and there is no obligation to levy or increase taxes or other sources of revenue above any legal limits applicable to the Board from time to time (collectively, "Lawfully Available Funds").
  - Privately-placed transaction
- First series closed January 2022
- Costs of Issuance and Interest Costs Reimbursable per change to FEMA policy.

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CASE STUDY

ALABAMA ECONOMIC SETTLEMENT AUTHORITY
$80,925,000 BP SETTLEMENT REVENUE BONDS, SERIES 2016-A AND
$547,790,000 TAXABLE BP SETTLEMENT REVENUE BONDS, SERIES 2016-B

BP Oil Spill Photos – A Manmade Disaster

- Photo Source: Britannica

- The Deepwater Horizon oil spill occurred April 20, 2010, releasing approximately 134 million gallons of oil
- BP paid a $5.5 billion Clean Water Act penalty, over $8 billion in natural resource damages, $500 million for additional research, and undisclosed amounts in various lawsuits for medical and economic damages

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BP Settlement Revenue Bonds Overview

- The State of Alabama was party to an agreement in 2015 among BP (and various of its affiliates), and the states of Florida, Louisiana, Mississippi, and Texas, pursuant to which the State of Alabama was entitled to certain annual settlement payments
- The State established a special fund into which a portion of the settlement payments were deposited and also enacted legislation establishing the "Alabama Economic Settlement Authority"

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BP Settlement Revenue Bonds Overview

- In 2016, the Alabama Economic Settlement Authority issued over $600 million of bonds in two series, secured by the settlement payments in the special fund
- These Bonds were publicly offered and looked more like a traditional bond financing
- The security was a fixed amount (annual payments into a special fund), bonds were rated, deal was underwritten
- The Bonds were issued to finance, among other things, transportation projects, fund capitalized interest, and reimburse amounts previously withdrawn from the State's General Fund and the State's Trust Fund

LEGISLATION

Past Legislation

- Some funding sources are available through the Stafford Act after a Presidential declaration of emergency (FEMA, other federal aid)
- However, Congress has historically adopted individual assistance packages:
  - *Liberty Bonds* > post-9/11
  - *GO Zone Bonds* > Post-Katrina
  - *BP Settlement Revenue Bonds* > post-BP oil spill
  - *Recovery Zone Bonds* > Post 2008 financial disaster
- These packages have been applicable post-disaster, which can sometimes result in aid coming too late
- Comprehensive disaster-recovery legislation could enable local/state governments to address problems more quickly and mitigate economic damages to the extent possible

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Examples of Prior Types of Disaster Bonds

EXEMPT FACILITY AND QUALIFIED MORTGAGE BONDS

Bonds Authorized	Liberty Bonds	Qualified Gulf Opportunity ("GO") Zone Bonds	Qualified Midwestern Disaster Area Bonds	Qualified Hurricane Ike Disaster Area Bonds
Eligible Issue Dates	3/9/02 – 1/1/14	12/21/05 – 1/1/12	10/3/08 – 1/1/13	10/3/08 – 1/1/13
Eligible Issuers	State of NY and any political subdivision	Alabama, Louisiana, Mississippi	Any state in which a Midwestern disaster area is located	Any state in which a Hurricane Ike disaster area is located (Texas, Louisiana)
Annual Issuance Limits	No	No	No	No
Maximum Aggregate Issuance Limits	$8 billion	$2,500 per state resident based on 2004 U.S. Census data: • Alabama: $2.1 billion; • Louisiana: $7.9 billion; • Mississippi: $4.9 billion	$1,000 per Midwestern state resident based on most recent U.S. Census data before *earliest* applicable disaster date for Midwestern disaster areas within the state	$2,000 per State per resident of specified counties in Texas and Louisiana based on most recent census estimate before 9/13/08
Approving Authority	$4 billion by Governor of New York; $4 billion by Mayor of City of New York	• Alabama: Governor • Louisiana: State Bond Commission; and • Mississippi: Governor.	Governor of relevant state, but on the basis of providing assistance to areas in the order in which such assistance is most needed	Governor of relevant state, but on the basis of providing assistance to areas in the order in which such assistance is most needed
Eligible Uses of Proceeds	95% or more of net proceeds used for "qualified project costs"	• 95% or more of net proceeds used for "qualified project costs", or • Meets the requirements of a qualified mortgage issue, except as otherwise provided	• 95% or more of net proceeds used for "qualified project costs", or • Meets the requirements of a qualified mortgage issue, except as otherwise provided	• 95% or more of net proceeds used for "qualified project costs", or • Meets the requirements of a qualified mortgage issue, except as otherwise provided

- Source: *Disaster Recovery Bond Financing: Considerations for Congress,* available at https://www.nabl.org/resources/disaster-recovery-bond-financing-considerations-for-congress/

- Each of these types of bonds was authorized under federal law: The *Job Creation and Work Assistance Act of 2002*, *Gulf Opportunity Zone Act of 2005*, and *Heartland Disaster Tax Relief Act of 2008*, respectively.

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Examples of Prior Types of Disaster Bonds

- Recovery Zone Economic Development Bonds (“RZEDBs”)
  - Taxable bonds issued in 2009 and 2010
  - Issuer would receive a direct federal subsidy of 45% of the interest or bondholders would receive a tax credit equal to 45% of the interest
  - RZEDBs could be issued by municipalities with a population in excess of 100,000 in designated “recovery zones”
  - eligible expenditures included new money capital expenditures for property in a recovery zone, public infrastructure that promoted economic activity in a recovery zone, and expenditures for job training and education programs
  - volume cap limitation was $10 billion

- Recovery Zone Facility Bonds
  - Tax-exempt private activity bonds issued in 2009 and 2010
  - recovery zone bonds could be issued by municipalities with a population in excess of 100,000 in designated “recovery zones”
  - Eligible expenditures included depreciable property located in a recovery zone, and property financed could be privately owned and operated
  - Volume cap was $15 billion

Ideas for Future legislation

- Allow issuers to issue long-term tax-exempt debt to finance short-term assets (such as emergency vehicles, operating expenses, and other expenditures related to a disaster) for a designated time period
- Allow tax-exempt advance refundings to free up debt limitations for new debt (abolished in the 2017 Tax Cuts and Job Creation Act) and provide flexibility
- Provide federal interest subsidies, such as those associated with Build America Bonds or Recovery Zone Economic Development Bonds
- Increase volume caps for PABs on a temporary basis following disasters
- Permit local governments to fund a “disaster recovery” working capital reserve, which could be financed or maintained without resulting in bond proceeds being deemed not to be spent
- Increase the limit on the amount of obligations that may be deemed BQ for issuers in disaster-stricken areas
- Ease P3 restrictions to enable alternative sources of private funds to be used in disaster-stricken areas

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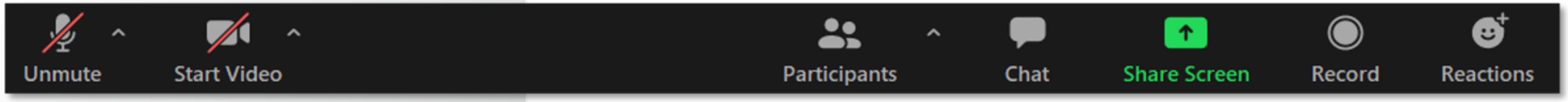
Audience Questions



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CDFA State Rundown: Ohio's First Loan Guarantee Program for Non-Profit Lenders
Feb 19 // 1:00 – 2:30 PM Eastern

Food Systems Financing Webinar
Feb 25 // 2:00 – 3:30 PM Eastern

Intro Bond Finance WebCourse
Mar 10-11 // 12:00 – 5:00 PM Eastern
Advanced Bond Finance WebCourse
Mar 12-13 // 12:00 – 5:00 PM Eastern

CDFA // BNY Mellon Development Finance Webcast Series: Political Landscape of Private Activity Bonds
Mar 18 // 2:00 – 3:00 PM Eastern

Caren S. Franzini Fellowship

The Caren S. Franzini Fellowship was created to develop engaged women leaders in the field of development finance. The Fellowship is open to women who have worked in the development finance industry for less than 10 years and must be employed by a CDFA member organization.

Application Deadline: **March 14, 2025**

Ask us for more information, or visit cdfafoundation.org

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