

Planting Seeds:

Branford's Coastal Resiliency Fund
and the Establishment of Public
Act 19-77

James P. Finch
Finance Director
Town of Branford, CT



Outline:

- 1. Background on Branford, CT and its Coastal Challenges*
- 2. Creating a Coastal Resiliency Fund (CRF)/ Remediating Previous Legislative Limitations*
- 3. Benefits of PA 19-77*
- 4. Next Step: House Bill (HB) 6441*
- 5. The Potential of PA 19-77, HB 6441 (proposed), and Conveyance Fees to Fund Resiliency Projects*
- 6. Leveraging Coastal Resiliency Sources and Uses*
- 7. Key Take Away/ Underlying Philosophy*
- 8. Additional Resources*

Why Branford CT?

- Branford is a coastal community with approximately 20 miles of coastline.
- Branford's most recent Conservation and Development Plan presented a bleak assessment of the challenges the town would face as a result of continuing sea level rise and more frequent flooding events as a result of a changing climate.
- In June 2016, the Town of Branford developed a Coastal Resilience Plan which included a menu of town-wide and location specific options that were available to adapt to changing conditions and prepare for future events.
- The available/existing funding options at the time appeared insufficient in light of future threats.

“The scope of the issues associated with sea level rise is so extensive and expensive that it will be difficult, if not impossible, for the Town of Branford or any other governmental organization to address them all.”

-Branford Plan of Conservation and Development

Are We Depressed Yet?





*“Start where you are.
Use what you have. Do
what you can.”*

-Arthur Ashe

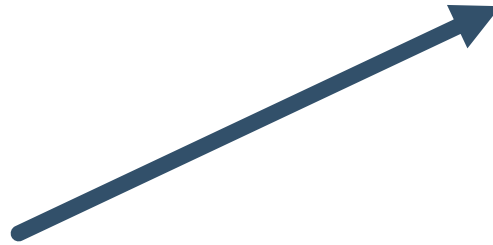
Question?

- What if towns and cities could establish a fund and invest the assets, similar to a pension plan, to provide an additional funding source to combat their future liabilities associated with climate change?



Despair Meets Hope:

Branford's History of Funding Liabilities (Pension, Other Post Employment Benefits, (OPEB), Employee Pensions, Self-Insurance)



Board of Finance and Representative Town Meeting (RTM) create a \$1 Million CRF Fund from Fund Balance.

Challenges Ahead: More to Do

- 1) State law does not allow municipalities to create funds (other than pensions and other post-employment benefit trusts) that allow the investment flexibility to adequately match the long-term liabilities associated with climate change.
- 2) Connecticut is a Dillon's Law State which essentially means that a local government may only engage in activity if it is specifically allowed by the state government.

A legislative Remedy is needed! --> Public Act No. 19-77 is proposed.

SUCCESS!

Substitute Senate Bill No. 1062

Public Act No. 19-77



AN ACT AUTHORIZING MUNICIPAL CLIMATE CHANGE AND COASTAL RESILIENCY RESERVE FUNDS.

- Approved unanimously in the Senate
- Signed by Governor Lamont on July 1, 2019

Benefits of Public Act (PA) 19-77:

- PA 19-77 reflects the belief that climate change represents a long-term liability, and the prudent approach, therefore, is to begin the process of funding and investing today to address this liability. In short, it puts Connecticut's municipalities on the right side of compound interest while providing a clear and dedicated pathway for communities contemplating climate change initiatives.
- The legislation creates a fifth option (in addition to grants, municipal bonds, pay as you go, and low return sinking funds) by granting municipalities the authority to establish a fund and invest up to 50% of the fund's assets in equities to match the growing liabilities associated with climate change. A study by the Vanguard Group analyzed returns of various asset classes from 1926-2017 revealed that a 50% stock and 50% bond allocation resulted in an 8.4% average annual return.
- Benefits municipalities when issuing bonds as the rating agencies will view the establishment of climate change and coastal resiliency funds favorably when applying their environmental, social, and governance (ESG) criteria.

related to increasing threats from wildfires and extreme weather events. On Jan. 16, 2019, S&P Global Ratings downgraded PG&E a further seven notches, to 'D'. "Pacific Gas & Electric Co. Downgraded To 'D' from 'CC' On Missed Interest Payment, Pending Chapter 11 Bankruptcy," published Jan. 16, 2019.

Although we believe the credit quality of public power utilities is better protected from wildfire-related liability exposures than investor-owned utilities, we believe the financial and credit risks highlighted by PG&E's role in the recent wildfires serve as a cautionary tale for public and private sector entities alike. (See "California Public Power Utilities Are Better Able To Temper Wildfire Related Liability Exposures Than IOU Counterparts," published Feb. 28, 2019).

Examples Of Funding Strategies In Action And Proposed

In addition to the issuances discussed above, in 2018 and through the first two-and-a-half months of 2019, we observed a few examples of municipal leaders taking the first steps toward identifying funding to support adaptive infrastructure. In March 2018, Massachusetts Governor Charlie Baker introduced legislation including \$300 million for investments in adaptive infrastructure. Governor Baker signed the bill, the title of which begins with the words "An Act Promoting Climate Change Adaptation" into law in August.

Already in 2019, Governor Baker has indicated he is seeking to add more dollars to the climate change adaptation funding efforts. He called for a 0.2% increase to the state deeds excise tax to fund projects to make Massachusetts' infrastructure more resilient in the face of climate- and weather-related events. The governor estimates this would accumulate approximately \$1 billion in dedicated funding over the first ten years. The state would likely direct the accumulated capital toward adaptive infrastructure, including new or raised sea walls and flood-control systems. The urgency is clear and growing, as state agencies expect sea levels to rise as much as 40 inches by 2070.

In Branford, Conn., municipal leaders have established a fund to support improvements to make the community more resilient to sea-level rise. Branford leaders have taken steps to transfer money from the general fund to a new coastal resiliency fund. The town has dedicated a percentage of its property tax levy to the fund, providing a clear revenue stream to augment the initial \$1 million investment. It plans to invest the monies to begin accumulating interest income and amassing more ammunition to support its fight against the rising sea levels that threaten its community.

Pennsylvania Governor Tom Wolf announced on March 7, 2019 a new, \$4.5 billion plan to prioritize and fund resilience projects in the state. Under his proposal, a new severance tax on natural gas drilling activities would fund adaptive infrastructure projects, including flood controls and land restoration. Though the proposal faces significant political hurdles before adoption, we believe it is instructive in its scale and ambition, with respect to the future of adaptation funding at the state and local level.

Funding Strategies In A Difficult Funding Environment

Although municipal leaders' recognition of the importance of investing in more resilient infrastructure appears to be growing, we believe many municipal borrowers will struggle to add debt to fund projects that some constituents will see as offering benefits that may only materialize over the long term. At present, we observe that factors such as rising labor costs, increasing pension and retirement obligations, relatively high debt burdens, and anemic federal support for infrastructure are constraining many municipal budgets. While some municipal issuers--namely those boasting especially strong balance sheets or possessing the political capital and will--may choose to establish and fund new reserves dedicated to funding adaptive infrastructure, we believe many others will need to look to new or external revenue sources to fund these types of projects.

Funding strategies are likely to include dedicated tax measures and establishment of dedicated reserves from cash already on hand. The appeal of a dedicated tax measure is that a new revenue stream can amass significant capital relatively quickly, and issuers can match revenue to (debt service) expenditures. Through the dedicated nature, the funds could accumulate over time

Standard and Poor's

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Some issuers will choose to establish new reserves dedicated to funding adaptive infrastructure, though others will seek new or external revenue sources.

PA 19-77, Real Estate Conveyance Revenue, & Leveraging Federal Resiliency Funds:

What is Bill HB 644I?

- Bill HB 644I would create a non-property tax funding stream and allow the dollars from conveyance taxes to pay debt service costs (or “borrowing costs”) required to fund and implement resiliency projects. This would provide municipalities with a source of matching funds for federal grants. Thus, reducing the overall burden on municipalities by leveraging federal grants.
- Real Estate Conveyance Tax- “Conveyance tax is a tax imposed on the transfer of real property at the state, county, or municipal level. This tax is generally calculated as a percentage of the sale price.” (Investopedia)

Key Elements of HB 644 I (Proposed):

Sources of Funds:

- Local option conveyance tax on real property. (paid by the buyer)
- The tax would be up to 0.5% on the amount above \$150,000 for property valued below \$800,000;
- Up to 1% on the value between \$800,000 and \$2.5 million;
- Up to 1.5% on the value above \$2.5 million

Uses of Funds:

- The funds would be held in a separate account and could be used for the following:
- The purchase, preservation, or stewardship of open space or other interests in land, including but not limited to, water resources, forest land, and farmland;
- Funding of Climate Change and Coastal Resiliency Reserve Fund , created by the municipality, or for other municipal climate resilience, mitigation or adaptation strategies;
- Matching of investments from state programs funded pursuant to section 4-66aa of the general statutes (community investment account)
- Funding of environmental projects; including but not limited to, urban forestry and tree planting; and
- Repayment of municipal bonds issued for any of the purposes described above.

Building a Model: Analyzing the Benefits

How much money could the conveyance fee generate in Branford?

- I performed an analysis using 12 months of qualified real estate sales and applied the “bend points” in the proposed legislation. This effort estimated that Branford would generate approximately \$500,000 in additional revenue.

How would you incorporate these fees into your model to fund a large project(s)?

- The approach I took was to assemble new and existing funding sources coupled with HB 644I conveyance fees to fund a hypothetical project(s) with the following assumptions;
- Branford identifies a series of projects (Protection, Accommodation, and Retreat) at a cost of \$17 million and disburses these funds over a nine-year period.
- Branford’s project(s) is eligible for a 75% grant or 25% local share through FEMA, however I assumed a 65% grant and 35% local share to account for ineligible costs. The FEMA grant is shown as a negative outflow.
- The local share is funded with taxable bonds since this alleviates many of the restrictions associated with issuing tax exempt debt. The rate on the bonds is 2.25%.
- Branford will continue to fund its Climate Change and Coastal Resiliency Fund at \$306,000 per year. We anticipate going into the summer of FY 2022 with \$1.9 million in the fund and the fund will earn an average return of 4.5% per year.
- The town will generate \$400,000 (a discount to the \$500,000 to reflect more traditional real estate markets) in real estate conveyance fees (increasing by 1% per year) and debt service costs will be paid out of the Climate Change and Coastal Resiliency Fund.

Leveraging Coastal Resiliency Sources & Uses:

Assumptions												
FEMA Eligible Project		17,000,000										
FEMA Funding (65%)		(11,050,000)										
Net		5,950,000										
Town Issues Bonds (Taxable) 2.25% AAA S&P												
Conveyance Revenue Increase 1%												
Investment Return 4.50%												
							65%					
Year	Beginning Balance	GF Contributions Additions	HB 6441 Additions	Bond Proceeds	Total Inflows	Project Costs	FEMA Grant Offset	Debt Payments	Total Outflows	Net	Interest	Ending Balance
2022	1,612,000	306,000	400,000	5,950,000	6,656,000	10,000,000	(6,500,000)	66,938	3,566,938	3,089,062	142,044	4,843,106
2022	4,843,106	306,000	404,000		710,000	775,000	(503,750)	430,500	701,750	8,250	218,125	5,069,481
2023	5,069,481	306,000	408,040		714,040	775,000	(503,750)	423,750	695,000	19,040	228,555	5,317,076
2024	5,317,076	306,000	412,120		718,120	850,000	(552,500)	417,000	714,500	3,620	239,350	5,560,047
2025	5,560,047	306,000	416,242		722,242	850,000	(552,500)	410,250	707,750	14,492	250,528	5,825,066
2026	5,825,066	306,000	420,404		726,404	900,000	(585,000)	403,500	718,500	7,904	262,306	6,095,276
2027	6,095,276	306,000	424,608		730,608	900,000	(585,000)	396,750	711,750	18,858	274,712	6,388,846
2028	6,388,846	306,000	428,854		734,854	950,000	(617,500)	390,000	722,500	12,354	287,776	6,688,976
2029	6,688,976	306,000	433,143		739,143	1,000,000	(650,000)	383,250	733,250	5,893	301,137	6,996,005
2030	6,996,005	306,000	437,474		743,474	-	-	376,500	376,500	366,974	323,077	7,686,057
2031	7,686,057	306,000	441,849		747,849	-	-	369,750	369,750	378,099	354,380	8,418,535
2032	8,418,535	306,000	446,267		752,267	-	-	363,000	363,000	389,267	387,593	9,195,395
2033	9,195,395	306,000	450,730		756,730	-	-	356,250	356,250	400,480	422,804	10,018,679
2034	10,018,679	306,000	455,237		761,237	-	-	349,500	349,500	411,737	460,105	10,890,521
2035	10,890,521	306,000	459,790		765,790	-	-	342,750	342,750	423,040	499,592	11,813,152
2036	11,813,152	306,000	464,388		770,388	-	-	336,000	336,000	434,388	541,366	12,788,905
2037	12,788,905	306,000	469,031		775,031	-	-	329,250	329,250	445,781	585,531	13,820,218
2038	13,820,218	306,000	473,722		779,722	-	-	322,500	322,500	457,222	632,197	14,909,637
2039	14,909,637	306,000	478,459		784,459	-	-	315,750	315,750	468,709	681,480	16,059,825
2040	16,059,825	306,000	483,244		789,244	-	-	309,000	309,000	480,244	733,498	17,273,567
2041	17,273,567	306,000	488,076		794,076	-	-	252,813	252,813	541,263	789,489	18,604,319
2042	18,604,319	306,000	492,957		798,957	-	-	-	-	798,957	855,171	20,258,446
Totals		6,732,000	9,788,634	5,950,000	22,470,634	17,000,000	(11,050,000)	7,345,001	13,295,001			



Key Take Away:

- “The model provides a hypothetical example of how the Town of Branford could attempt a large project without any additional tax levy requirements other than the \$306,000 per year the town currently funds. Additionally, by making continued contributions into the Climate Change and Coastal Resiliency Fund the town will be able to tap these earnings to meet the future liabilities associated with climate change and leverage federal funds”.



A society grows great when its older citizens plant trees under whose shade they know they will never sit in”

-Ancient Greek Proverb

“The creation of a thousand forests is in one acorn. Today's mighty oak is just yesterday's nut that held its ground. The best time to plant a tree is twenty years ago, the second-best time is now.”

-Chinese Proverb

ADDITIONAL RESOURCES:

- Branford, Connecticut, sets up fund to pay for costs of climate change – Yale Climate Connections, November 13, 2019
- <https://yaleclimateconnections.org/2019/11/branford-connecticut-sets-up-fund-to-pay-for-costs-of-climate-change/>
- “Viewing climate change as a long term liability through the Branford, CT Coastal Resiliency Fund” – The Climate Adaptation Knowledge Exchange, March 9 2020.
- <https://www.cakex.org/case-studies/viewing-climate-change-long-term-liability-through-branford-ct-coastal-resiliency-fund>
- The Connecticut Institute for Resilience and Climate Adaptation (UConn) publishes “Branford’s Coastal Resiliency Reserve Fund – Planting Seeds for the Future”
- <https://resilientconnecticut.uconn.edu/wp-content/uploads/sites/2761/2021/05/CIRCA-branford-4page-spread-FINAL.pdf>
- <https://www.zip06.com/news/20190719/born-in-branford-cts-new-state-coastal-resiliency-reserve-fund-law>