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Memorandum

To: City of Riviera Beach, Florida
From: Public Financial Management
Re: CRA Restructuring Discussion

It is our understanding at this time that the City of Riviera Beach (the "City") and its associated Community Redevelopment Agency ("CRA") are in discussions regarding the restructuring of an Ocean Mall loan. These discussions appear to center around a possible (second) modification of the original loan agreement, as well as an annual payment from the City of about \$500,000. The possible loan modification, as we understand, would defer principal payments an additional seven years until June 30, 2023. According to the City's auditor, this will require a reduction in fund balance on the part of the City, as a portion of the loan balance would have to be reserved to hedge against future loss that may occur. The purpose of this memorandum is to outline the potential impact on the City's credit and existing/future debt obligations.

Credit Agency Considerations

In order to plan for a long-term sustainable operating and capital plan, the City relies on occasional borrowing in the capital markets, which oftentimes requires a strong credit rating in order to achieve lower cost financing. The City currently maintains ratings from Standard & Poor's (S&P) and Fitch Ratings (Fitch) of A+/A (both with a "stable" outlook) on its non-ad valorem debt. These represent strong ratings and enable the District to receive good investor interest on its bonds. Maintaining the rating levels in the future will be a key feature of creating a long-term sustainable funding plan for the CIP. It is possible that the City's quantitative metrics will still be such that a reduction in the fund balance will not immediately result in a negative rating action. However, it is important to note that quantitative metrics cannot account for any qualitative adjustments that the credit agencies may make as a result of a marked change in the financial condition of the City. For example, a change in the management score would not be accounted for in the quantitative methodology applied by the rating agencies. However, the agencies always reserve the right to "override" the quantitative score with any qualitative factors they perceive, at their sole discretion. For example, S&P notes the following:

"Managerial decisions, policies, and practices apply directly to the government's financial position and operations, debt burden, and other key credit factors. A government's ability to implement timely and sound financial and operational decisions in response to economic and fiscal demands is a primary determinant of near-term changes in credit quality."¹

It is therefore reasonable to assume that both the City's quantitative metrics and qualitative management score may be at risk if the loan extension was considered to be an unsound financial decision by credit agencies.

1. "U.S. Local Governments General Obligation Ratings: Methodology And Assumptions." Standard and Poor's Rating Services, September 12, 2013



Current and Future Debt Considerations

Currently, the City has non-ad valorem debt outstanding, including the recently-issued Series 2015 Public Improvement Revenue Bonds that were issued to fully fund the City's pension fund. In fiscal year 2015, debt service coverage was 2.32x. If we were to assume an annual drop in revenues of \$500,000 that would go to the CRA, debt service coverage in 2015 would have dropped to approximately 2.26x. While this would not trip the anti-dilution test of 2.00x that the City has in place, leveraging closer to the legal limit is typically not viewed as a credit positive. In addition, it has an impact to the City's debt capacity to fund potential future projects.

The City is currently contemplating the issuance of a stormwater revenue bond, and the Utility Special District is also considering the issuance of a revenue bond. PFM would not consider these future issuances to be materially impacted by an agreement reached by the CRA and the City, excepting possible marketing ramifications stemming from a decline in the overall financial health of the City. Unfortunately, at this stage of the issuance process it is impossible to quantify the potential impact of marketing ramifications, as investors would need time to digest and react to such an agreement.

Please do not hesitate to contact us should you have any questions, or would like to further discuss, the information contained herein.