

# Bond & ESG Rating Review

General Principles, Methodology & Scoring



# Agenda

- Charlotte County Bond Rating Review
- ESG Issuer Profile Review
  - Purpose of the ESG Profiles
  - Charlotte County ESG Profile Scores
  - Affects of ESG Issuer Profile Scores on Ratings
- Impacts for Charlotte County

# Charlotte County Bond Ratings

- **Issuer Rating** (aka General Obligation rating)

- “Aa2” Moody’s
- “AA” S&P

- **Senior Tax Backed Rating** (Stadium Bonds)

- “A1” Moody’s
- No S&P rating applied to the Stadium Bonds

- Remaining **Utility Revenue Bond** maturities are privately held

- “Aa3” Moody’s / “AA-” S&P ratings withdrawn after public maturities were retired
- Unrated outstanding maturities were refinanced
  - Series 2016 bonds were privately placed with Bank of America
  - Series 2021 bonds were privately placed with Wells Fargo

S&P	Fitch	Moody's	Grade
AAA	AAA	Aaa	Investment grade: <i>Prime</i>
AA+	AA+	Aa1	<i>High Grade</i>
AA	AA	Aa2	
AA-	AA-	Aa3	
A+	A+	A1	<i>Upper Medium Grade</i>
A	A	A2	
A-	A-	A3	
BBB+	BBB+	Baa1	<i>Lower Medium Grade</i>
BBB	BBB	Baa2	
BBB- (India)*	BBB- (India)*	Baa3 (India)*	

# Charlotte County Bond Ratings

- Moody's most recent comment on County rating (Dec. 2020)
  - Very healthy financial position
  - Very healthy economy and tax base
  - Positive in-migration and record tourism levels/growth
- Moody's most recent comment on Stadium Bonds rating (Aug. 2022)
  - A1 rating reflection of legally pledged revenues (Comm. Services Tax)
- Moody's most recent comment on Utility Revenue rating (Dec. 2020)
  - Solid system profile aligned with the Aa3 rating
  - Nationwide water/wastewater system median rating is Aa3
  - Superlative financial position also in line with US medians

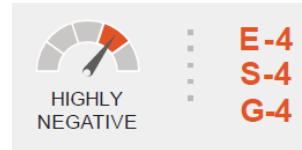
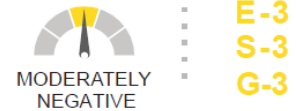
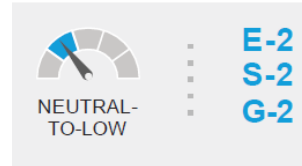
# Purpose of ESG Profiles

- Provide a perspective on non-financial material issues that may impact credit risk
- Assess risk-levels associated with material issues within a comparable framework
- Classify assigned risk levels within narrow categories and sub-categories

Environmental	Social		Governance	
	Private sector	Public sector	Private sector	Public sector
Physical climate risks	Customer relations	Access to basic services	Financial strategy & risk management	Institutional structure
Carbon transition	Demographic and societal trends	Demographics	Management credibility & track record	Policy credibility and effectiveness
Water management	Human capital	Education	Organizational structure	Budget management
Waste and pollution	Health and safety	Health and safety	Board structure, policies & procedures	Transparency and disclosure
Natural capital	Responsible production	Housing	Compliance & reporting	
		Labor and income		

# Purpose of ESG Profiles

- Resiliency is the leading question for each ESG profile score
- Sustainability of resources inform levels of risk
- Measurement of ability to mitigate risk/capitalize on opportunities
- Each category and sub-category is assessed on a five-point scale
- Score of 1 is positive; score of 5 is very negative
- Provide demand-driven transparency/data for investors
  - Many investors are increasingly “values conscious”
  - Rapidly changing world economically AND environmentally/socially
  - Credit ratings and financial trends provide underlying economics
  - ESG profiles provide insight into non-financial governance and administration of assets

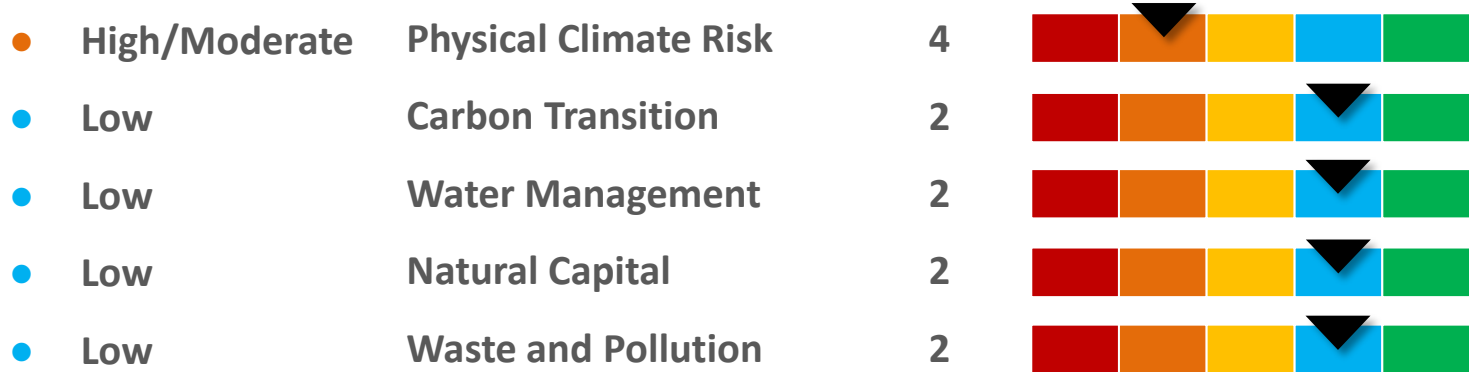


# Purpose of ESG Profiles

- Developed to inform broader municipal market pool of buyers
- ESG Profile scores are NOT the same thing as “Green Securities”
  - A Green Bond (also Climate Bond) is a fixed income financial instrument designed to support climate related or environmental initiatives.
  - Specifically structured, disclosed, marketed and labeled as having a positive impact on the climate or sustainability — targeted to meet the growing demand of investors for “impact” portfolios
- CC has been taking steps which mitigate related risks and investor concerns for years
  - Created and filled the Water Quality Manager role in 2021
  - Estuary and Charlotte Harbor water sampling initiatives dating back
  - Identified and prioritized septic to sewer conversion projects across the county
  - Barrier island and other beach renourishment/coastline preservation initiatives
  - Stormwater maintenance and flood mitigation are prioritized as part of economic development
  - Smart, common-sense governance to protect local economic resources

# Charlotte County ESG Profile Scores

## Environmental Categories — E-4

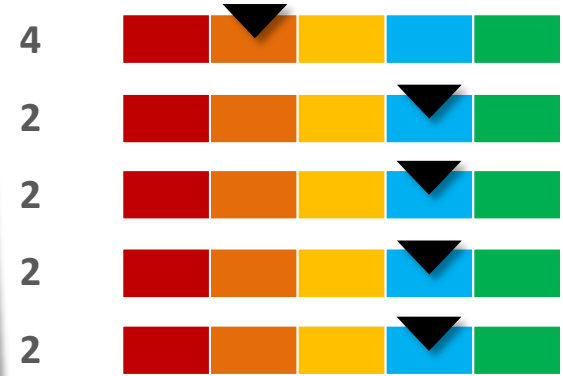




# Miami-Dade County Comparison

## CC Environmental Categories — E-4

Environmental Categories			NEGATIVE EXPOSURE	POSITIVE EXPOSURE
Moderate	Physical Climate Risks	4		
Low	Carbon Transition	2		
Low	Water Management	2		
Low	Natural Capital	2		
Low	Waste and Pollution	2		
Miami-Dade County Environmental IPS		E-4		



# Charlotte County ESG Profile Scores

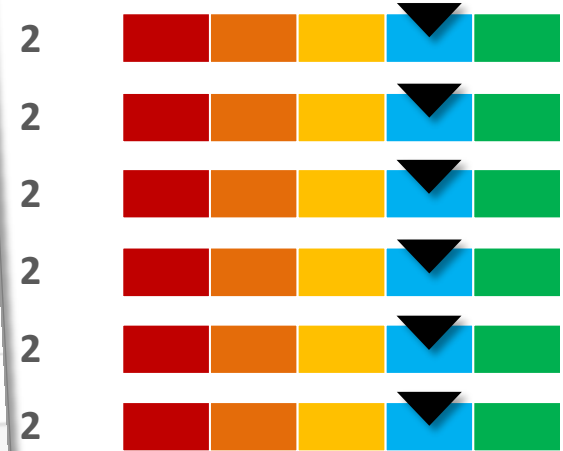
## Social Categories — S-2

● Low	Demographics	2	
● Low	Labor & Income	2	
● Low	Education	2	
● Low	Housing	2	
● Low	Health & Safety	2	
● Low	Access to Basic Services	2	

# Miami-Dade County Comparison

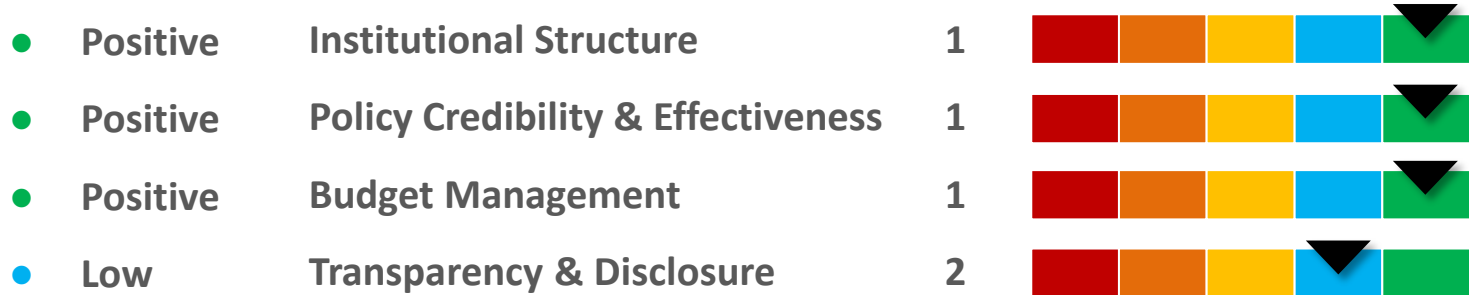
## CC Social Categories — S-2

Social Categories			NEGATIVE EXPOSURE	POSITIVE EXPOSURE
Moderate	Demographics	3		
Moderate	Labor and Income	3		
Low	Education	2		
Low	Housing	2		
Low	Health and Safety	2		
Low	Access to Basic Services	2		
Miami-Dade County Social IPS		S-2		



# Charlotte County ESG Profile Scores

## Governance Categories — G-1








# Miami-Dade County Comparison

## CC Governance Categories — G-1

Governance Categories		NEGATIVE EXPOSURE	POSITIVE EXPOSURE
Institutional Structure	1		
Policy Credibility & Effectiveness	1		
Budget Management	1		
Transparency and Disclosure	1		
<b>Miami-Dade County Governance IPS</b>	<b>G-1</b>		



# Impacts of ESG Profile Score on Ratings

	Score	Definition
 POSITIVE	CIS-1	For an issuer scored CIS-1 (Positive), its ESG attributes are overall considered as having a positive impact on the rating. The overall positive influence from its ESG attributes on the rating is material.
 NEUTRAL-TO-LOW	CIS-2	For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.
 MODERATELY NEGATIVE	CIS-3	For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.
 HIGHLY NEGATIVE	CIS-4	For an issuer scored CIS-4 (Highly Negative), its ESG attributes are overall considered as having a discernible negative impact on the current rating. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-3.
 VERY HIGHLY NEGATIVE	CIS-5	For an issuer scored CIS-5 (Very Highly Negative), its ESG attributes are overall considered as having a very high negative impact on the current rating. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-4.



# Impacts to Charlotte County

- Profile scores have no direct impact on Charlotte County bond ratings
  - Guidance provided by the State of Florida Division of Bond Finance in June 2023 states, *“Current rating agency criteria indicate ESG scores are an output of a general credit analysis and do not independently influence the credit ratings of issuers.”*
- The upcoming Series 2024 Utility Revenue Bonds will not be “labeled” bonds
  - No designation or certification as Green, Social, ESG, etc.
  - Utility revenue bonds are routinely issued for various purposes across the state
  - Under HB3, issuers may still structure bonds for infrastructure, storm hardening and resiliency, housing-related projects, or even environmental purposes such as stormwater management or water/wastewater treatment expansion
- The Division of Bond Finance has instructed that all material risk factors should continue to be disclosed to the market for underwriting purposes

# Questions

