



TOWN COUNCIL WORKSHOP

2025-2026 BEACH RENOURISHMENT PROJECT UPDATE

February 25, 2025



PRESENTATION OUTLINE

- 01 | Project Update
- 02 | Funding Options





PROJECT UPDATE





2025-2026 BEACH RENOURISHMENT – PROJECT UPDATE

Project Overview

- The proposed project will include:
 - Placement of approximately 2.2 million cubic yards of sand, and
 - Installation of six rip-rap breakwaters on the Port Royal Sound shoreline at Pine Island
- The sand will be sourced from up to four nearby borrow areas located roughly 3 to 8 miles offshore
- The project is being implemented per the Town's Beach Management Plan with scheduled renourishment every 8 to 10 years
- Disruptions at individual properties generally last one week or less as the moving operation progresses
- Once the operation is up and running, the project will advance along the beach at a rate of 200 to 300 feet/day
- The project schedule was developed to avoid significant impacts to nesting turtles and migratory shorebirds, including piping plovers and red knots
- Construction windows are set by US Fish and Wildlife Service



2025-2026 BEACH RENOURISHMENT – PROJECT UPDATE

Project Scope

Permit 1 (Pending Approval)

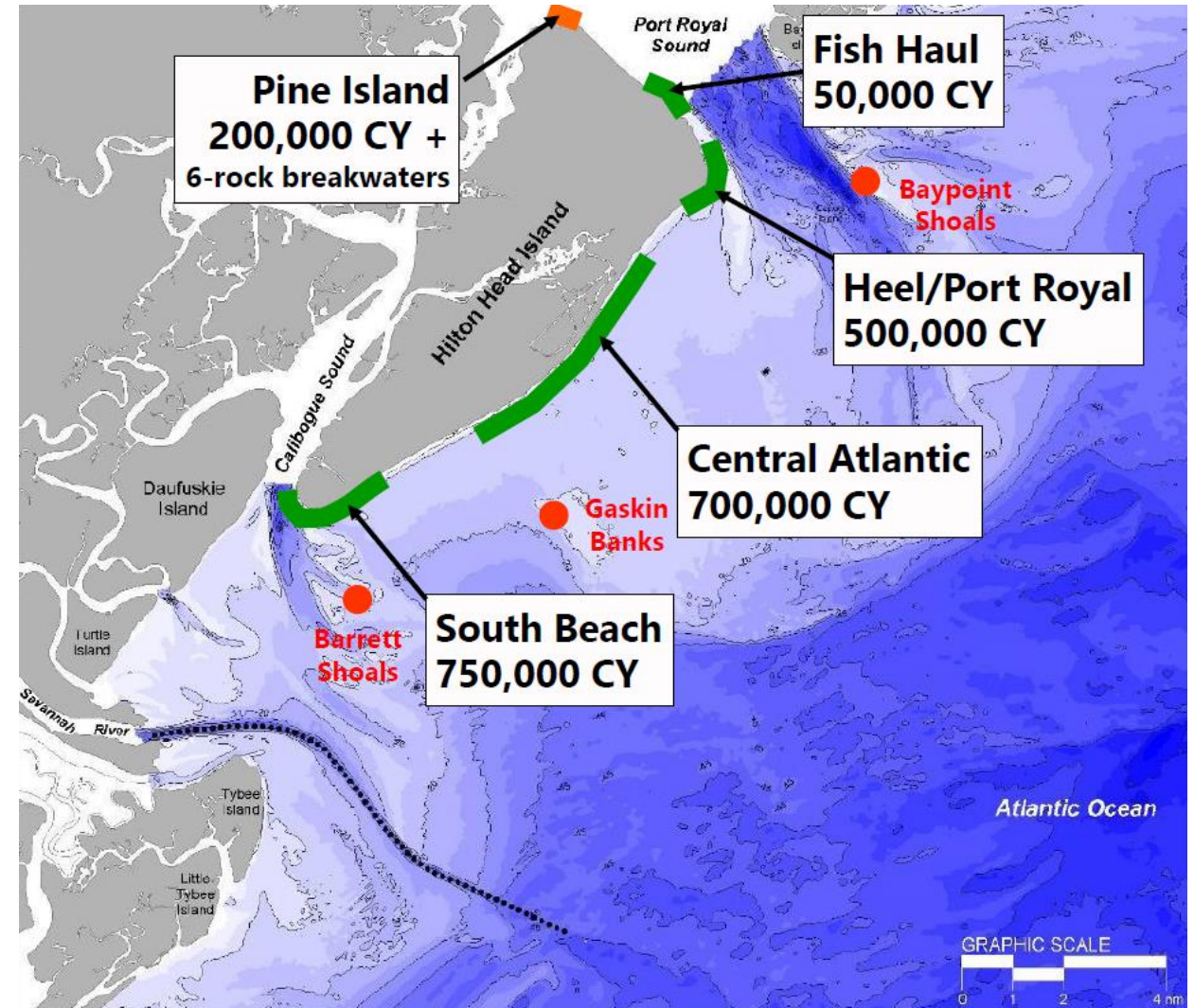
- South Beach: place 750,000 cubic yards of sand
- Central Atlantic: place 700,000 cubic yards of sand
- The Heel/Port Royal: place 500,000 cubic yards of sand
- Fish Haul: place 50,000 cubic yards of sand

Permit 2 (Pending Approval)

- Pine Island: place 200,000 cubic yards of sand

Permit 3 (TBD Post Pine Haul Renourishment)

- Pine Island: install 6 breakwater structures to mitigate sand erosion



2025 Project Scope



2025-2026 BEACH RENOURISHMENT – PROJECT UPDATE

Project Status & Schedule

- US Fish & Wildlife Service (USFWS) Biological Opinion (BO)
 - Issued on August 8, 2024
 - Included in State Permit Terms and Conditions
- Permit is currently being reviewed by the State and USACE
- Project Schedule
 - Preconstruction
 - Anticipated permit issue date: February 28, 2025
 - Bid Phase: March – April 2025
 - Contract Awards: May 1, 2025
 - Construction (3 Phases)
 - Phase 1 (Renourishment): Summer 2025 to Oct 2025
 - Sand placement on the Island's north end
 - Phase 2 (Renourishment): Sept/Oct 2025 to May 2026
 - Sand placement on south beach and central island
 - Phase 3 (Breakwater Structures): To Be Determined
 - Rock breakwater structures at Pine Island



2025-2026 BEACH RENOURISHMENT – PROJECT UPDATE

Permit Requirement:

Dog Restricted Area

- Per a requirement of permit from U.S. Army Corps of Engineers and U.S. Fish and Wildlife Service (USFWS), the Town must amend its municipal code to restrict dog activity adjacent to Fish Haul Creek
- No other beach areas will be affected
- Seeks to protect endangered shorebird species who migrate and nest in an area about the size of three football fields
- Dogs can be disruptive to this habitat
- Restriction will go into effect upon adoption of the amended municipal code.
- The area will be marked with signage





2025-2026 BEACH RENOURISHMENT – PROJECT UPDATE

Communications Plan

- **Plan Goals**
 - Create widespread awareness and engagement related to the project
 - Share timely information about the projects prior to and throughout each phase
- Target audiences include
 - Island residents and visitors
 - The Chamber of Commerce and business owners
 - HOAs and property management firms
 - Partner groups (Shore Beach Services, Island Rec, and others)
 - School Groups
 - Environmental Groups
 - Media
- Outreach will be managed by the Communications Team
 - Social Media, Website Updates, News Releases
 - Interactive, real-time mapping during implementation





2025-2026 BEACH RENOURISHMENT – PROJECT UPDATE

Communications Plan - Implementation

- **Completed Actions**

- Developed a dedicated project page on the Town's website, offering a comprehensive resource with up-to-date information.
- Distributed a letter about the upcoming project to a targeted list of more than 9,300 businesses.
- Announced the project through the Town e-newsletter.
- Hosted a media briefing to share key details and address questions.
- Participated in multiple media interviews to amplify awareness.
- Updated the beach renourishment video for distribution to residents, visitors, and businesses.

- **Next Steps**

- Finalize and distribute updated project rack card to resorts, property management groups, local organizations and other groups.
- Maintain consistent communication via Town e-newsletter, news releases, website, social media, speaking engagements and additional media outreach.
- Encourage public engagement via e-subscriptions, social media and Interactive, real-time mapping tools throughout project's implementation.
- Establish partnerships with local organizations, such as turtle trackers and the Breeze trolley service, to enhance awareness and educational efforts among residents, visitors and businesses.



FUNDING OPTIONS



2025-2026 BEACH RENOURISHMENT – FUNDING OPTIONS

Major Topics

- Measures of the Town of Hilton Head Island's Financial Strength
 - Fund Balances Available to Fund Beach Renourishment Project
 - Interest Income by Year
 - Annual Debt Service by Source of Payment (graphic / table representation)
 - Town of Hilton Head Island's High Current Bond Ratings Reflect Our Financial Strength
- Beach Preservation Fee Revenue as a Source of Funding
 - Town of Hilton Head Island Debt Options: General Obligation Vs. Special Obligation Bonds
 - Beach Preservation (Special Obligation) Fee-Backed Debt Service Payments; \$10,975,000 in Principal Remaining
 - Annual Beach Preservation Fee Collections Far Exceed Annual Debt Payments
 - Beach Preservation Fund Cash Balances Have Grown Steadily Since FY2017
- FY2026 Beach Renourishment Project Funding Options
 - Items to Consider Since the October 30th Town Council Workshop
 - Potential Beach Preservations Fee-Backed Debt Issuance Options to Fund FY2026 Project
 - Key Outcomes for Each Option
- Questions
- Appendix A – Glossary
- Appendix B – Moody's October 11, 2024 Rating Action – Key Pages

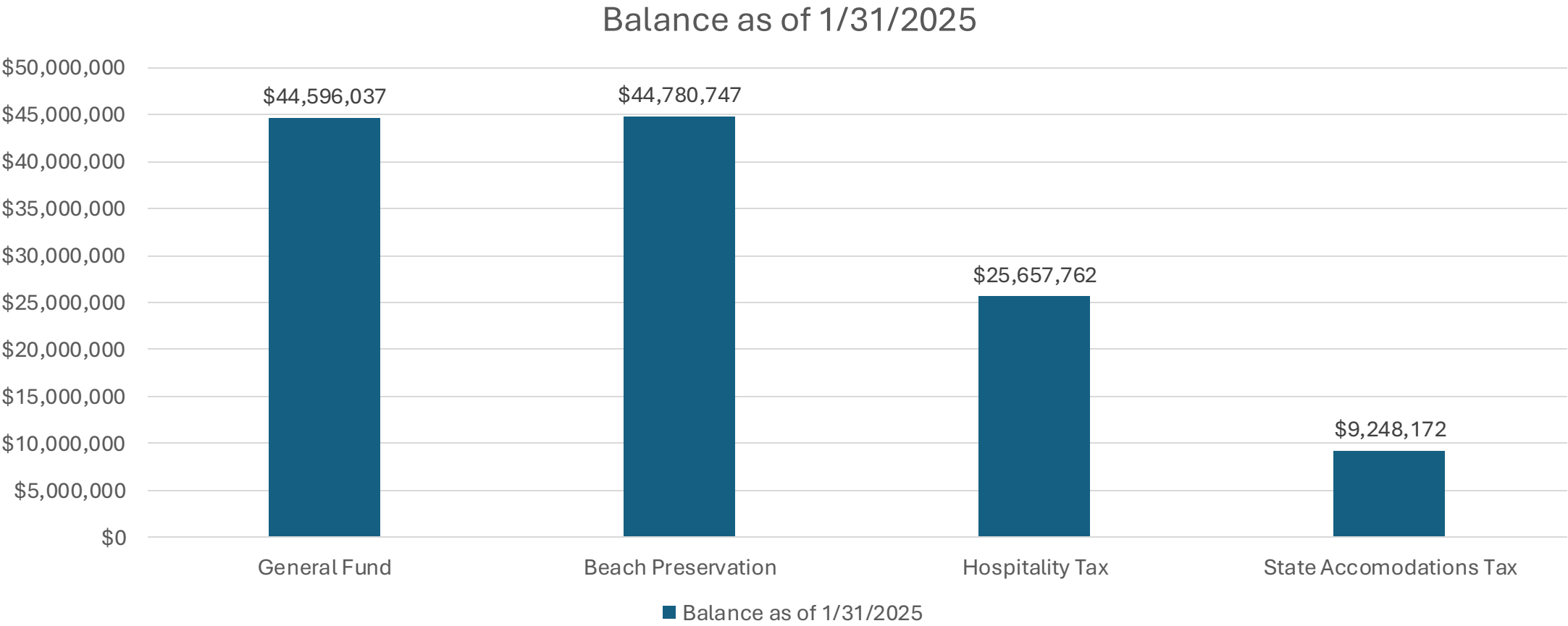


MEASURES OF THE TOWN OF HILTON HEAD ISLAND'S FINANCIAL STRENGTH



2025-2026 BEACH RENOURISHMENT – FUNDING OPTIONS

Fund Balances as of 1/31/2025 Available to Fund Beach Renourishment Project





2025-2026 BEACH RENOURISHMENT – FUNDING OPTIONS

Interest Income by Year

- Fiscal Year 2024 Total of \$10,699,424
- Calendar Year 2024 Total Return of 5.1%

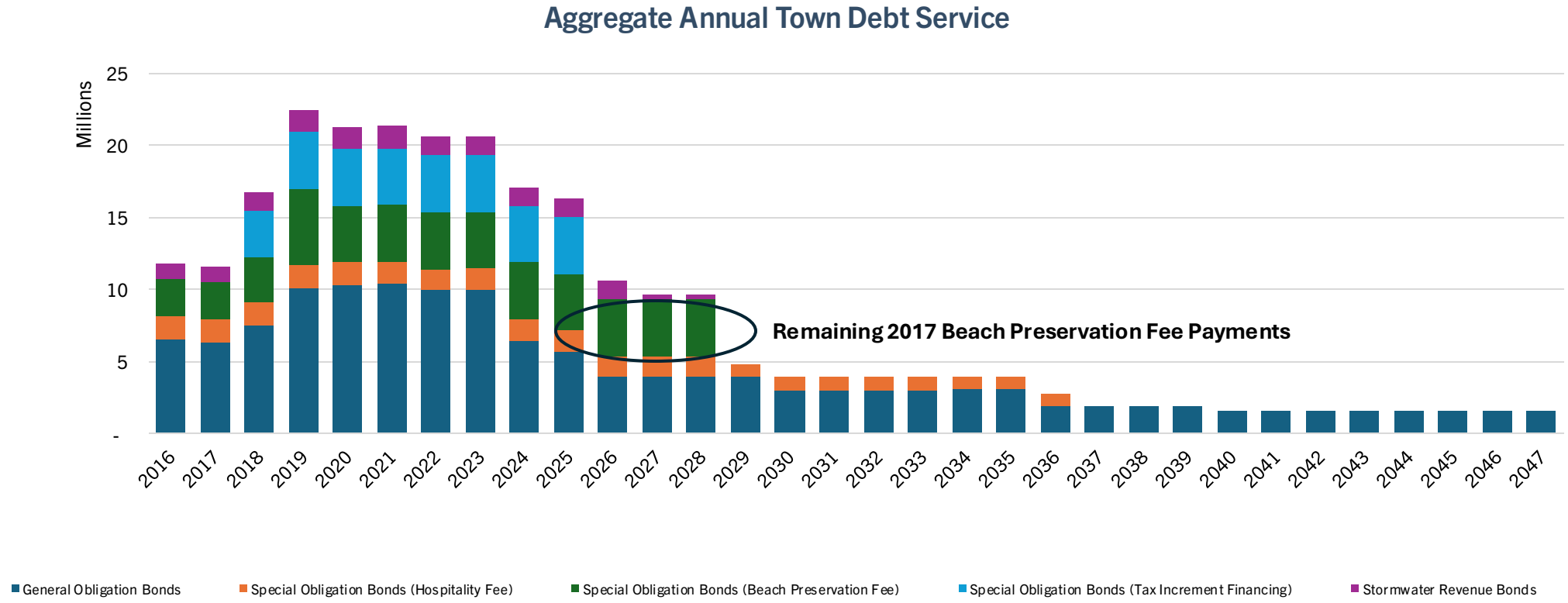
Total Annual Investment Income





2025-2026 BEACH RENOURISHMENT – FUNDING OPTIONS

Annual Debt Service by Source of Payment – Graphic Representation





2025-2026 BEACH RENOURISHMENT – FUNDING OPTIONS

Annual Debt Service by Source of Payment – Table Representation

Historical and Future Debt Service					
Fiscal Year	General Obligation	Hospitality Fee	Beach Preservation Fee	Tax Increment Financing	Stormwater Revenue
2016	6,541,374	1,628,113	2,528,938	-	1,149,128
2017	6,308,720	1,627,113	2,536,913	-	1,150,498
2018	7,533,078	1,634,350	3,037,325	3,318,838	1,210,867
2019	10,072,010	1,635,200	5,305,444	3,926,392	1,511,654
2020	10,359,151	1,508,637	3,973,850	3,929,626	1,513,488
2021	10,449,308	1,441,776	3,975,850	3,926,703	1,567,534
2022	9,981,323	1,446,406	3,959,125	3,927,712	1,305,458
2023	10,019,451	1,444,691	3,952,375	3,927,564	1,309,817
2024	6,487,965	1,437,134	3,948,375	3,931,259	1,308,822
2025	5,710,476	1,443,158	3,946,625	3,928,708	1,312,513
2026	3,943,114	1,441,368	3,941,750	-	1,310,851
2027	3,923,204	1,442,825	3,938,375	-	363,970
2028	3,920,719	1,442,353	3,936,000	-	364,621
2029	3,931,839	885,503	-	-	-
2030	3,039,833	886,603	-	-	-
2031	3,042,483	886,443	-	-	-
2032	3,047,968	884,983	-	-	-
2033	3,040,768	887,183	-	-	-
2034	3,051,030	883,633	-	-	-
2035	3,053,938	889,080	-	-	-
2036	1,918,163	882,360	-	-	-
2037	1,921,463	-	-	-	-
2038	1,918,413	-	-	-	-
2039	1,914,163	-	-	-	-
2040	1,567,244	-	-	-	-
2041	1,564,275	-	-	-	-
2042	1,568,650	-	-	-	-
2043	1,566,563	-	-	-	-
2044	1,568,175	-	-	-	-
2045	1,568,325	-	-	-	-
2046	1,567,013	-	-	-	-
2047	1,564,238	-	-	-	-



2025-2026 BEACH RENOURISHMENT – FUNDING OPTIONS

Town of Hilton Head Island’s High Current Bond Ratings Reflect Our Financial Strength

Rating Agency	General Obligation	Beach Preservation	Hospitality Fees
Moody’s	Aaa	Aa2 (upgraded 10/24*)	Aaa (upgraded 10/24*)
S&P	AA+	AA	AA
Fitch	AAA (upgraded 8/24)	AA+	AA+

*See Appendix B for Moody’s October 11, 2024 Ratings Action Report



BEACH PRESERVATION FEE REVENUE AS A SOURCE OF FUNDING



2025-2026 BEACH RENOURISHMENT – FUNDING OPTIONS

Town of Hilton Head Island Debt Options: General Obligation vs. Special Obligation Bonds

	<u>General Obligations</u>	<u>Special Obligation (Beach Preservation, Hospitality Tax, etc.)</u>
Payment Source	Direct Obligations of the Town via Property Tax Pledge	Fees collected from a specific revenue stream
Moody's Credit Rating	Aaa	Beach Preservation: Aa2; Hospitality: Aaa
10-year Growth in Payment Source	Assessed Value of all Property: +35% since 2016	Beach Preservation: +126%; Hospitality: +71%; Stormwater: +48%
Effect on Homeowners' Property Tax Payments	May Increase, unless it replaces retiring debt	No effect
Tax-Exempt Borrowing?	Yes, in most cases	Yes, in most cases
Cost of Issuance	Lowest Costs	Low costs relative to lower rated or unrated bonds
Sold Competitively?	Yes, as is required by South Carolina Law	Yes, for highly-rated bonds like HHI's Beach Preservation-backed bonds



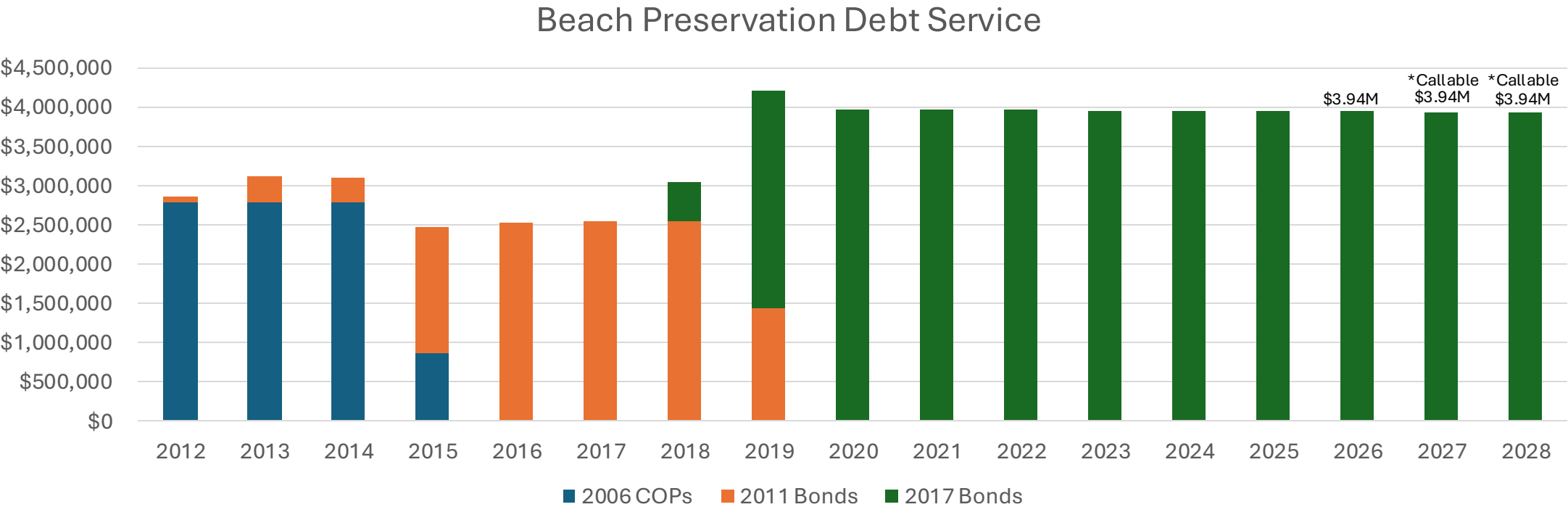
TOWN OF HILTON HEAD ISLAND

2025-2026 BEACH RENOURISHMENT – FUNDING OPTIONS

Beach Preservation (Special Obligation) Fee-Backed Debt Service Payments: \$10,975,000 in Principal Remaining

Post 2006 Beach Renourishment Projects & Associated Debt Issuance

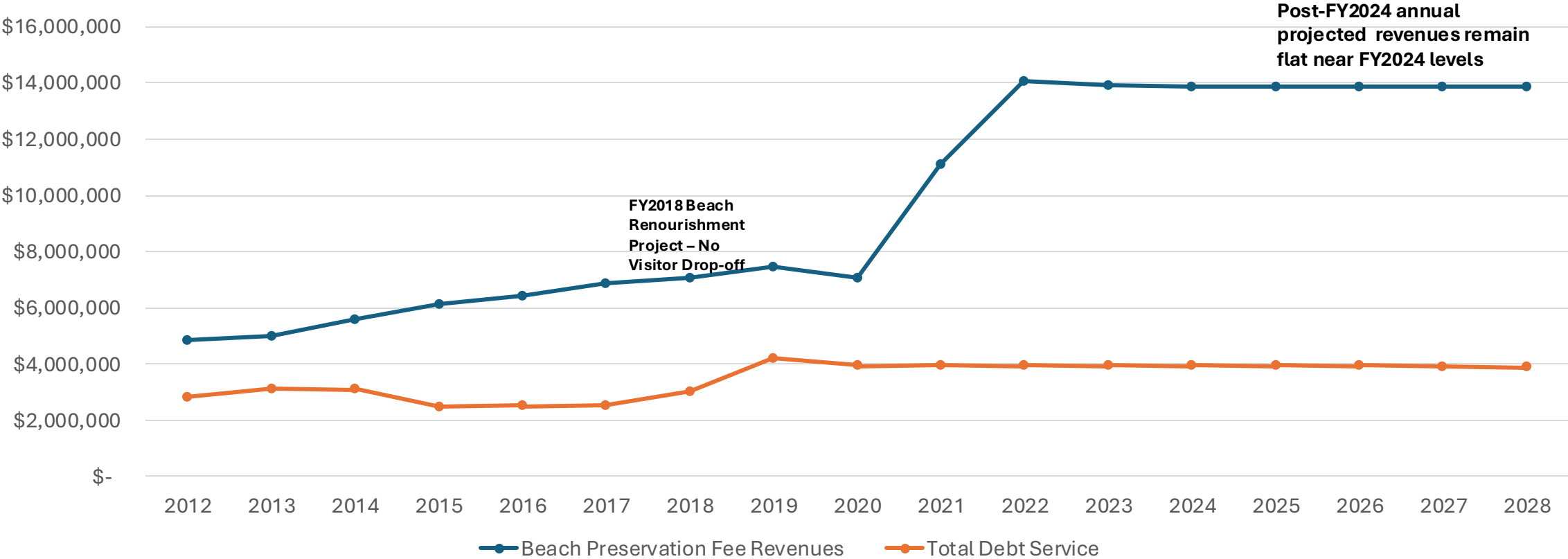
- 2006: \$19,000,000 Certificates of Participation (COPs) Post-2012 Debt Service (Blue)
- 2011: \$11,000,000 Bonds (Orange)
- 2017: \$30,075,000 Bonds (Green): FY2027 (\$3.655M) & 2028 (\$3.84M) Principal Payments are Callable starting 8/1/25*





2025-2026 BEACH RENOURISHMENT – FUNDING OPTIONS

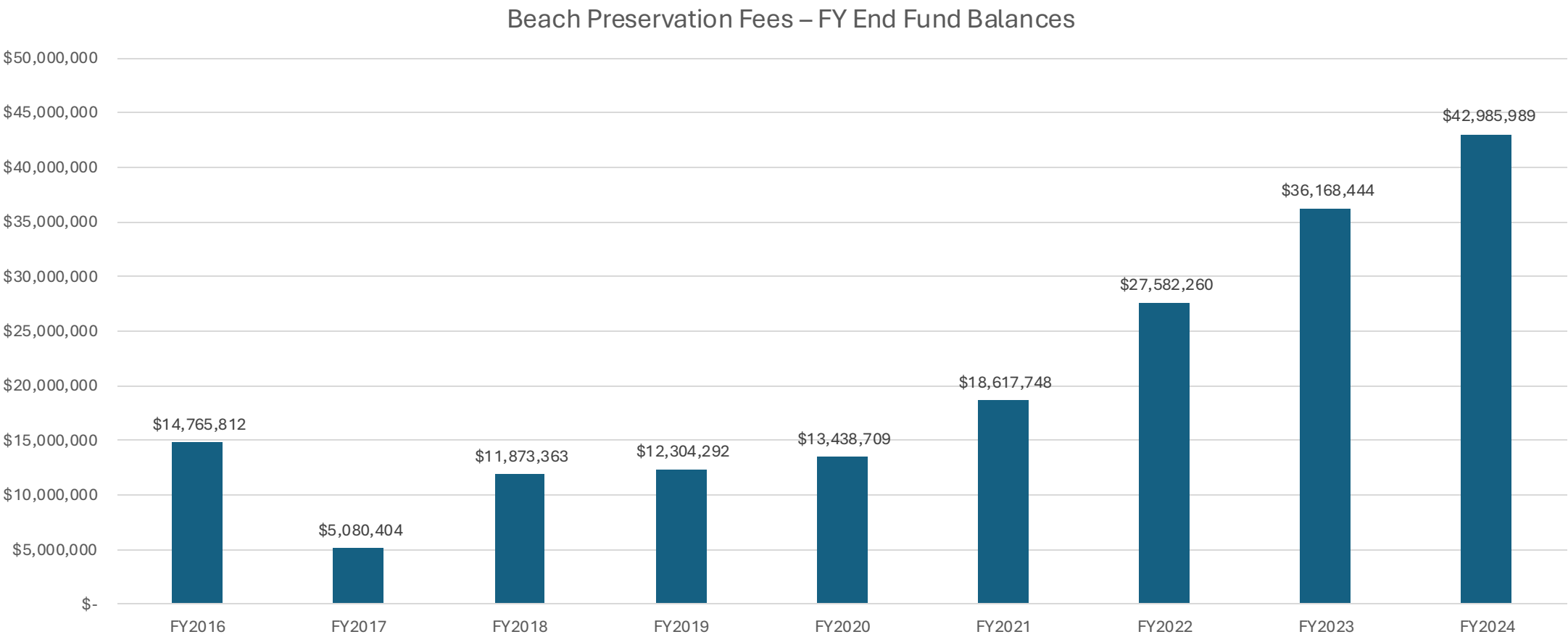
Annual Beach Preservation Fee Collections Far Exceed Annual Debt Payments





2025-2026 BEACH RENOURISHMENT – FUNDING OPTIONS

Beach Preservation Fund Cash Balances Have Grown Steadily Since FY2017





FY2026 BEACH RENOURISHMENT PROJECT FUNDING OPTIONS



2025-2026 BEACH RENOURISHMENT – FUNDING OPTIONS

Items to Consider Since the October 30th Town Council Workshop

- Overall construction industry costs are expected to continue upward, thus Estimated Project Costs range from \$42.5 million to \$48.5 million
- During FY2006, Town Council passed a Beach Preservation Fund Reserve Ordinance to maintain a \$12 million minimum balance
- 1-10 year Tax-exempt Borrowing Rates have increased 20-30 basis points since 10/30/24
- The Town, as of August 1, 2025, has the option to redeem callable bond principal payments (FY2027: \$3.655M; FY2028: \$3.84M) with funds from Beach Preservation Fund and/or Other Sources
- Proposed Carry Forward of approved Beach Renourishment Project costs of \$14.5M to the FY2026 Budget



2025-2026 BEACH RENOURISHMENT – FUNDING OPTIONS

Potential Beach Preservation Fee-Backed Debt Issuance Options to Fund FY2026 Project

	<u>Option 1</u>	<u>Option 2</u>	<u>Option 3</u>
	<u>All Cash</u>	<u>Cash/Debt Mix</u>	<u>All Debt</u>
<u>FY2025</u>			
Approximate Cash Balance as of June 30, 2024	\$ 39,000,000	\$ 39,000,000	\$ 39,000,000
Expected Revenues FY25	\$ 13,800,000	\$ 13,800,000	\$ 13,800,000
Budgeted Non-Beach Renourishment CIP & Operating Expense FY25	\$ (6,500,000)	\$ (6,500,000)	\$ (6,500,000)
Estimated Beach Renourishment CIP FY25	\$ (2,000,000)	\$ (2,000,000)	\$ (2,000,000)
Projected Balance as of June 30, 2025	\$ 44,300,000	\$ 44,300,000	\$ 44,300,000
<u>FY2026</u>			
Expected Revenues FY26	\$ 13,800,000	\$ 13,800,000	\$ 13,800,000
FEMA Past Storms Reimbursement Grants (80% of Anticipated Payments)	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000
Budgeted Non-Beach Renourishment CIP & Operating Expense FY25	\$ (6,500,000)	\$ (6,500,000)	\$ (6,500,000)
Remaining FY26 Series 2017 Debt Service Payments (payable 8/1/25 & 2/1/26)	\$ (3,941,750)	\$ (3,941,750)	\$ (3,941,750)
Cash Payment to Call 8/1/27 & 8/1/28 Principal Payments	\$ (7,495,000)	\$ (7,495,000)	\$ (7,495,000)
Proceeds from potential August 2025 Bond Issue to pay for Capital Projects*	\$ -	\$ 26,000,000*	\$ 48,500,000*
Budgeted Beach Renourishment CIP FY26	\$ (46,500,000)	\$ (46,500,000)	\$ (46,500,000)
Projected Balance as of June 30, 2026***	\$ 663,250 **	\$ 26,663,250	\$ 49,163,250

*Potential FY2026 Bond Issuance would be paid back via Level Debt Service Payments for 10 years (with an 8-year call) with principal payback beginning approximately Aug, 2026 (FY 2027): Option 2: \$3,100,000 per Year; Option 3: \$5,800,000 per Year.

**Would require town ordinance to allow balance under \$12M.

***Projected Balances do not include potential additional interest earnings on unused cash balances associated with Options 2 & 3.



I TOWN OF HILTON HEAD ISLAND

2025-2026 BEACH RENOURISHMENT – FUNDING OPTIONS

Key Outcomes for Each Option

	Option 1 - All Cash	Option 2 - Hybrid	Option 3 - All Debt
Projected Cash Balance on 6/30/2026	\$697,250 (well below \$12 million minimum balance)	\$26,697,250	\$49,197,250
Estimated Annual Debt Service Payments FY2027-2036	\$0	\$3,100,000 (Lower than Current Debt Service)	\$5,800,000 (Higher than Current Debt Service)
Estimated Coverage Ratio*	-	4.48	2.39
Estimated Effect on Bond Ratings	GO- Likely none Beach Preservation Bonds- None	GO – Likely none Beach Preservation Bonds– Potential Upgrade	GO- Likely none Beach Preservation Bonds– Likely none
Natural Disaster Preparedness	Weak, especially in first few years after project completion	Stronger, especially in first few years after project completion	Stronger than Option 2, especially in first few years after project completion
Financing Costs (Tax-exempt)	None	Higher than using cash, though lower than taxable debt	Highest total financing costs, though lower than taxable debt
Spread costs of capital project over useful life of the improvements?	No	Yes, partially	Yes
Investment Income on Remaining Cash Balances & Bond Proceeds (until spent on project)	Very Low	Medium	Highest

*Coverage Ratio = Pledged Revenue/Debt Service Payments



QUESTIONS?

Appendix A - Glossary

•**GO Bond (General Obligation Bond):** A type of bond issued by a government entity (such as a city, county, or state) that is backed by the full faith and credit of the issuer. These bonds are typically repaid through general revenues, such as taxes, and do not have specific revenue streams dedicated to their payment. They are considered low-risk because the government entity has the power to raise taxes to meet repayment obligations.

•**Special Obligation Bond:** A bond issued by a government or other entity that is backed by a specific revenue stream, rather than general tax revenues. These bonds are often issued for specific projects and are repaid using revenue generated by those projects, such as tolls from a toll road or fees from a public utility. Because they are not backed by general tax revenues, they may be riskier than general obligation bonds.

•**Callable Bond:** A bond that can be redeemed by the issuer before its maturity date, typically at a predetermined price. The issuer may choose to call the bond if interest rates fall, allowing them to refinance the debt at a lower cost. Callable bonds generally offer higher interest rates to compensate bondholders for the risk that the bond might be called early.

•**Coverage Ratio for a Municipal Special Obligation Bond.** A financial metric used to assess the ability of the revenue backing the bond to cover its debt obligations. It compares the revenue generated by the issuer (often a local government or public entity) to the bond's debt service requirements (principal and interest payments). In this context, for a special obligation bond, the coverage ratio typically refers to the ratio of pledged revenues (like taxes, fees, or other dedicated revenue streams) to the amount needed to service the debt. A higher coverage ratio indicates a greater margin of safety for bondholders, suggesting the issuer has enough revenue to meet its debt obligations. Here's the general formula for the coverage ratio:

- Coverage Ratio=Pledged Revenue/Debt Service Payments. For example, if a municipality collects \$10 million in revenue to cover \$7 million in annual debt payments, the coverage ratio would be 1.43 ($10,000,000 \div 7,000,000$).
- A coverage ratio above 1 indicates that the issuer has more than enough revenue to meet its debt obligations, while a ratio below 1 suggests a potential shortfall.

Municipal bond credit rating - an evaluation of the creditworthiness of a municipal bond issuer, typically a city, state, or other local government entity. It assesses the issuer's ability to meet its financial obligations, including paying interest and repaying the principal of the bond. These ratings are assigned by credit rating agencies such as Moody's, Standard & Poor's (S&P), and Fitch. The ratings are used by investors to gauge the risk associated with buying a particular municipal bond. The higher the credit rating, the lower the perceived risk, and the lower the interest rate the issuer may need to offer to attract investors. Conversely, a lower credit rating indicates a higher risk of default, which may lead to higher interest rates on the bonds to compensate investors for that risk.

- Credit ratings typically range from:
 - **AAA (or Aaa):** The highest rating, indicating the issuer is highly unlikely to default.
 - **AA (or Aa), A:** High credit quality but with some degree of risk.
 - **BBB (or Baa)** and lower: Indicating a higher risk of default and possibly higher returns for investors.
 - Municipal bond credit ratings help investors make informed decisions based on the issuer's financial stability and likelihood of repaying the bond.

Appendix B – Moody’s Oct 11, 2024 Rating Action - Key Pages

MOODY’S RATINGS

Rating Action: Moody's Ratings upgrades Town of Hilton Head Island, SC's hospitality fee bonds to Aaa and beach preservation bonds to Aa2

11 Oct 2024

New York, October 11, 2024 -- Moody's Ratings (Moody's) has upgraded Hilton Head Island (Town of) SC's outstanding Series 2019 hospitality fee backed debt to Aaa from Aa2 and Series 2017 beach preservation fee debt to Aa2 from Aa3.

The rating upgrades conclude a review for possible upgrade initiated on July 24, 2024 in conjunction with an update to the US Cities and Counties methodology.

RATINGS RATIONALE

The Aaa rating on the town's hospitality fee backed debt is at the same level as its issuer rating, reflecting the somewhat broad revenue base of the hospitality fees (a 2% fee on prepared food and drinks) that is mitigated by strong maximum annual debt service coverage. Total pledged revenues collected in fiscal 2023 provide an ample 7.2x maximum annual debt service. The town's hospitality fee revenue has limited volatility and is expected to continue its trend of steady growth given the town's expanding local economy and tax base.

The Aa2 rating on the town's beach preservation fee backed debt is two notches below its issuer rating, reflecting the narrow revenue base of the beach preservation fees (a 2% fee on short-term accommodations). Total pledged revenues collected in fiscal 2023 provide a solid 3.5x maximum annual debt service. Similar to the hospitality fee revenue, the town's beach preservation fee revenue has experienced limited volatility and will benefit from the town's growing economy and tax base.

RATING OUTLOOK

We do not assign outlooks to issuers with this amount of debt outstanding.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Not applicable (hospitality fee)

- Coverage growth over 4x (beach preservation fee)

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Downgrade of the issuer rating
- Coverage declines to below 4x (hospitality fee)

- Coverage declines to below 2x (beach preservation fee)

LEGAL SECURITY

The hospitality fee bonds are backed by the town's 2% hospitality fee, which consists of a tax on the sale of prepared meals and beverages. The bonds have a 1.20x additional bonds test and a surety funded debt service reserve fund equal to the lesser of the three prong test.

The beach preservation fee bonds are backed by the town's 2% beach preservation fee, which consists of a tax on the revenue generated from the rental of rooms, campgrounds, recreational vehicle spaces, lodging, or other sleeping accommodations furnished to short-term tenants. The bonds have a 1.20x additional bonds test and a surety funded debt service reserve fund equal to the lesser of the three prong test.

PROFILE

The Town of Hilton Head Island is a well-established resort community located in Beaufort County (Aa1) in South Carolina's (Aaa stable) Lowcountry. The town had a population of 37,708 as of the 2022 American Community Survey.

METHODOLOGY

The principal methodology used in these ratings was US Cities and Counties published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425429>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the



THANK YOU

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