An Ounce of Prevention: Investing in Resilience

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Local Government Commission
New Partners for Smart Growth
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When Deferred Maintenance is the Disaster

Image credit: weather.gov

Lucy Nicholson / Reuters

AP Photos/Mike Meadows
How We Create Opportunities for Financing Protection & Prevention

1. Finding the ‘Biggest Losers’: Who is currently losing money or facing a near-term shortfall without a specific resilience investment?


3. Fostering Flexibility: Linking revenue & non-revenue generating projects and services.

4. Fixing Procurement: Removing barriers to finding and sourcing new solutions.
Infrastructure as Financial Risk Reduction

- A lot of infrastructure is designed to reduce risk
  - Public sector assets & services are safer
  - AND insurance companies lose less money when public & private policy holders are better protected
- We developed Resilience Bonds as one way of ensuring the *financial* value created by these public investments returns to the public sector
How Resilience Bonds Work

Policy Holder → Insurance Policy → Cat Coverage → Property Insurance Co. → Catastrophe Bond Investors
How Resilience Bonds Work

Public Works Project

Project Funding

Project Benefits

Policy Holder

You Are Here

Cat Coverage

Property Insurance Co.

Insurance Policy

Catastrophe Bond Investors

How Resilience Bonds Work: The diagram illustrates the process where a Public Works Project receives funding and benefits from a Policy Holder, who has an Insurance Policy with a Property Insurance Co. that provides Catastrophe Bond Coverage. Investors invest in the Catastrophe Bond, which then funds the project.
How Resilience Bonds Work

- **Resilience Project**
  - Project Funding
  - Project Benefits

- **Policy Holder**
  - Insurance Policy

- **Cat Coverage**
  - Property Insurance Co.
  - Avoided Losses

- **Catastrophe Bond Investors**
How Resilience Bonds Work

Resilience Project

- Project Funding
- Project Benefits

Resilience Project

- Avoided Losses
- Reduced Premiums
- Reduced Risk to Principal

Policy Holder

- Insurance Policy

Cat Coverage

- Property Insurance Co.

Cat Coverage

- Catastrophe Bond Investors
WHAT IS YOUR MAIN REASON FOR EXPLORING A RESILIENCE BOND?

**PERIL / LIABILITY**
- I want to reduce expected losses from potential disasters.

  - Have you characterized your expected losses for specific peril(s)?
    - N
    - Y

  - Consider using catastrophe modeling to characterize your exposure (expected financial losses) and to explore options for expanding insurance coverage & improving protection. Collect baseline data on local assets and exposures, as needed.

**PROJECT**
- I have resilience project idea/plan and need funding.

  - Have you characterized your expected losses for specific peril(s)?
    - N
    - Y

  - Do you have any specific project(s) in mind to reduce the risk of these expected losses?
    - N
    - Y

  - Have you quantified the benefits (risk reduction) provided?
    - Y
    - N

  - Does the project have clear design specifications and/or set a level of protection (e.g., 500-year storm)?
    - Y
    - N

  - Consider using standard programs (e.g., FireWise) to incentivize property level risk reduction and/or engaging a resilient infrastructure design firm to develop a project vision to reduce risk and lower your insurance costs.

**INSURANCE**
- I want to reduce insurance costs or increase coverage.

  - Have you evaluated your insurance needs?
    - Y
    - N

  - Talk to your financial advisor. Discuss what combination of property and catastrophe insurance is the best fit for your local needs.

**PROJECT DESIGN**
- Is your project designed to reduce a specific risk(s)?
  - Y
  - N

- Consider (re)designing projects to improve local risk reduction potential and/or expand local benefits to engage other interested bond co-sponsors.

**MODELING**
- Use catastrophe modeling to quantify the risk reduction (reduced expected loss).

- Consider using catastrophe modeling to characterize your risk and to help set project design goals/specifications & optimize the financial value (reduced expected loss) of different levels of protection with your insurance coverage and with the coverage of other potential beneficiaries.

**BOND DESIGN & STRUCTURING**

![Diagram of bond design and structuring process.]

GREAT!
A Resilience Bond could be a good fit for you.

Talk to your financial advisor and CONTACT US at info@refocuspartners.com to discuss options for bond design.

Excerpted from *A Guide for Public-Sector Resilience Bond Sponsorship* (September 2017)

www.refocuspartners.com/rebound
Finance Starts on the Drawing Board

**Project Design & Development**
- Construction / Implementation
- Detailed Engineering / Planning
- Conceptual Design

**Procurement**
- Construction RFP
  - Hoboken Northwest Resiliency Park (2017)
- Design RFP
- Performance Contract
- Open Competitions
  - RE.invest Initiative (2015)
  - Build it Green (2017)
- Requests for Ideas

**Funding / Financing Options**
- Private Equity
- Private Debt
- Public-Private Partnership
- PRI / Impact Investments
- Philanthropic Grants
- State/Local Funds (Grants, Revolving Loans, Etc.)
- Federal Funds (CDBG-DR)

**Financing**
- Full repayment + ROI req’d
- No (or minimal) repayment req’d
We Can’t Afford Not to Invest in Resilience
Questions?

Contact: info@refocuspartners.com