APPROVED

BUDGET ADVISORY BOARD MEETING
CITY OF FORT LAUDERDALE
100 NORTH ANDREWS AVENUE
8th FLOOR CONFERENCE ROOM
FORT LAUDERDALE, FLORIDA, 33301
FEBRUARY 19, 2014 – 6:00 P.M.

Board Member	Attendance	10/2013 through 9/2014 Cumulative Attendance Present	Absent
June Page, Chair	P	5	0
Drew Saito, Vice Chair [arr. 6:17]	P	4	1
Chip Burpee	P	4	1
Josias Dewey	P	4	1
Nadine Hankerson	A	2	3
James McMullen	P	4	1
Fred Nesbitt	P	5	0
Robert Oelke	P	5	0
Bryson Ridgway	P	2	3

Personnel Attending

Kirk Buffington, Director of Finance
Stanley Hawthorne, Assistant City Manager
Diane Lichenstein, Senior Financial Management Analyst
Marco Hausy, Audit Manager
Laura Recce, CIP Assistant Grant Manager
Emilie Smith, Budget Manager
John Herbst, City Auditor
Darlene Pfeiffer, Business Manager, Mobility and Transportation
Charmaine Eccles, Budget Department and Board Liaison
Paul Vanden Berge, Fire Rescue Department Budget Coordinator
Lisa Edmondson, Prototype Inc.

Communications to the City Commission

None.

Purpose**:** To Provide the City with input regarding the taxpayers' perspective in the development of the annual operating budget; to review projections and estimates from the City Manager regarding revenues and expenditures for upcoming fiscal year; to advise the City Commission on service levels and priorities and fiscal solvency; and to submit recommendations to the City Commission no later than August 15 of each year regarding a budget for the upcoming fiscal year.

Items were discussed out of order.

1. Call to Order
The meeting of the Budget Advisory Board was called to order at 6:02 p.m.

2. Roll Call
Roll was called, and it was determined a quorum was present.

3. Approval of Meeting Minutes
A. January 2014 Regular Meeting

Motion made by Mr. Oelke, seconded by Mr. Burpee, to approve the minutes of the Board's January 2014, meeting. In a voice vote, motion passed unanimously.

4. Public Input
None.

5. Old Business
A. Alternative Funding Sources for Capital Improvements Follow-Up
Robert L. Nabors, Shareholder, Nabors Giblin & Dickerson, PA

Mr. Ridgway had sent an email to Chair Page regarding the City's capital assets. Mr. Ridgway had performed research to help the Board to address the issue. The primary problems were:

1. What capital assets should be prioritized?
2. When do they need to be capitalized?
3. How could they be capitalized?
4. What was the best ways to manage the capital assets?

The Facilities Condition Assessment would address the first two questions. As for how to pay for the assets, Mr. Ridgway said they must commit revenue by putting capital up front or by securitizing debt. He suggested they also discuss how the assets were managed.

Chair Page suggested they need not wait for the Facilities Condition Assessment report and Ms. Smith stated staff had a sense of the conditions but they did not know the magnitude. She reminded the Board that this study did not include streets or bridges but they were performing a separate bridge assessment. Ms. Smith said departments would include unfunded needs in their budgets in the upcoming cycle. She referred to the five-year CIP, which identified $178 million in unfunded needs in The General Capital Projects Fund. This excluded items in the Facilities Condition Assessment.

Mr. Oelke requested a presentation from the Transportation and Mobility Department regarding multi-modal improvements and how these would be funded.

Mr. Ridgway asked Mr. Nabors if the Covenant to Budget Appropriation (CBA) was flexible and could be used as collateral for a lease-to-purchase. Mr. Nabors said usually, a CBA was not tied to a specific source and it was not generally used as a standalone security. If so, it must pass a capacity test. A covenant was usually from things like asset sales taxes, not revenues that must be used for the purposes for which they were levied, like fees. If a CBA was used for a bond, they would make a covenant with bondholders regarding capacity in the future so they were not put at risk. Mr. Nabors said he did not consider CBAs as strong standalone securities but something that could bolster weaker securities.

Mr. Ridgway asked what restriction would prevent them from using ad valorem revenue to secure financing. Mr. Nabors stated there was a constitutional limitation that bonds payable from ad valorem revenue maturing in more than 12 months required a referendum. The Constitution did not prohibit the City from using ad valorem property tax to pay debt service but they could not "pledge" it because a bond was a contract and a bond owner could then compel a government to make a budget decision. This applied to bonds, leases and any contractual obligation.

Mr. Herbst stated they could not grant a security interest in property, such as a fire truck, because they could not have such property repossessed. Mr. Nabors concurred, and said this also applied to leases and mortgages, since this usually entailed a right to recapture as asset if they were not paid. He said a lease/purchase option was a way to enter into a long term commitment that "skirted around" this problem.

Mr. Nesbitt asked how the lease/purchase worked. Mr. Nabors explained that most schools are financed this way now. A school board creates a not-for-profit corporation and that corporation enters into a lease agreement with the school board for a school. The school board's obligation to make payments under the lease are secured by non-ad valorem and tax revenues actually budgeted for such purpose during any fiscal year. The not-for-profit then assigns to a trustee its right to receive the lease payments from the school board. That lease was subject to an annual appropriation and if the school board decided not to appropriate in a budget cycle, the corporation and its trustee used debit instruments called Certificates of Participation (COP) to participate in the stream of revenue the lease created. The corporation's trustee issued debt (like a bond issue) to build the school. The trustee sells COPs secured by the school board's lease payments. The proceeds from the sale of COPs are used to construct the school. The term of the lease expires either on (a) the date on which all scheduled lease payments have been made; or (b) the first day of any fiscal year in which the school board adopts an annual budget without appropriating sufficient funds to make the scheduled lease payments. The title to the school is transferred to the school board after all lease payments have been made. The lease is structured so that the amount of the payments equal the principal and interest due that year.

Mr. Nesbitt asked if this could be done through a private company and Mr. Nabors replied that this would not have the tax exempt status that the not-for-profit corporation would. He stated this was generally done for new facilities and the lease agreement is for the useful life of the facility. Mr. Ridgway asked about taking equity out of an existing building and Nabors said the City could do this the same way: sell a facility to a not-for-profit the City created and the corporation would lease it back to the City. The purchase price for the facility would be obtained through the sale of certificates of participation in the lease. Mr. Nabors informed Mr. Nesbitt that they could include more than one facility. Mr. Nabors informed the Board that COPs were rated and underwritten the same as a bond issue.

Regarding special assessments, Mr. Nabors said since 1989, an assessment could be added onto a property tax bill. This could be used to pay or many kinds of neighborhood improvements, such as stormwater and drainage projects. Mr. Nabors replied to a question from Mr. Saito by explaining that it was expensive to set up the COP because they needed attorneys, financial advisors and a rating agency.

Chair Page asked if Mr. Nabors agreed with Mr. Ridgway's assertion that most ways to raise capital were only good for three to seven years. Mr. Nabors said the length of the lease should match the useful life of the facility or property. He added that the same not-for-profit involved in the lease could enter into a maintenance agreement for the facility.

Mr. Herbst said State law permitted a public/private partnership. The City should ask itself if it needed to own City buildings. He did not believe the City needed to own office space property; he thought the type of leases the City could get were enticing to property owners. Mr. Nesbitt said this also raised a question about the City owning land without building on it because it took the land off the tax rolls. Mr. Herbst related that the City Commission had raised the same issue when discussing affordable housing recently. The City had hired a firm to reassess the marketability and necessity of City-owned parcels.

Mr. Hawthorne said CBRE was managing all City properties and was in the process of assessing of them all since the City had eliminated the Property Manager position a couple of budget cycles ago.

Chair Page asked if Tax Increment Financing (TIF) could only be used in blighted areas. Mr. Nabors explained that State statute qualified CRA blighted areas only for TIF. He said municipalities could also use Tax Increment under their Home Rule power by creating a Tax Increment area and adopting an ordinance to create a trust fund to keep the increment. Ms. Smith said this could also be done informally, by declaring administratively that they would dedicate the increment to a particular project or use. Mr. Nabors explained that the reason they could use the TIF through a trust fund was because no one had the right to compel the TIF. Generally, the TIF was created based on the value of an area and they agreed by ordinance to take a percentage of the increase in value to put into the trust fund. The money did not come from that specific area; it came from the entire City and the TIF was used to manage the contribution to the TIF fund.

Mr. Nabors cited the city of Titusville, which had used a TIF to fund an economic development plan. The city utilized some of the TIF proceeds as security for a bond issue to make required improvements to public infrastructure to support a redevelopment of a large parcel containing a decaying mall in the center of the city. The commitment by the city to fund the infrastructure created an economic environment in which a developer was willing to purchase the land and redevelop the parcel. This is a classic example of a public/private partnership where a developer would not have bought the land and engaged in the renovation project without a city commitment to make substantial public infrastructure improvements.

Chair Page asked Mr. Nabors for a recommendation on creative financing for the City's capital improvement needs. Mr. Nabors felt Mr. Ridgway's paper was a good start. He thought the sale/leaseback option was the most obvious suggestion.

Mr. Oelke recalled Mr. Nabors discussing spinning off facility operations at a previous meeting. Mr. Nabors stated this required a very complicated analysis of any equity in the facility and the bond terms. He was unsure Fort Lauderdale was a good candidate for this. Mr. Nabors explained that since the City had a regional system, they could create a regional utility authority and sell the asset to that authority. They must examine the agreements they had with other municipalities to determine if this was permitted.

Mr. Oelke asked how the City's pension obligation bonds affected their ability to bond in the future. Mr. Nabors said the City's debt affected the market's ability to accept additional debt. Mr. Nabors explained that taxes were authorized by the legislature. Home rule allowed a city to control fess, special assessments and tax increments, which allowed the city to profit, provided the profit was not unreasonable.

Ms. Smith asked if the Board wanted to explore specific tools and Mr. Ridgway wished to create categories, and in each category they would ask if individual items were for the public or private good. Once they determined the public goods, they would discuss whether they should own or lease.

Mr. Hawthorne stated they needed to discuss the assessments, such as stormwater needs, Transportation and Mobility and the Facilities Assessment that would be presented to the Board. The City Commission had emphasized that they must get serious about maintenance, infrastructure and beautification "because we're going down" and the Board should be prepared to discuss it at their next joint meeting.

Mr. Hawthorne reminded the Board that they were also looking at financial integrity principles and policies the City Commission wanted to move forward. Mr. Feldman wished to identify financial integrity principles before they developed policies. Mr. Hawthorne thought the paper Mr. Ridgway had drafted would fit into the financial integrity principles. These principles would be used to address maintenance, infrastructure and beautification needs.

Mr. Hawthorne reported at their next meeting, staff would present the results of the second annual neighbor survey. In the survey, he said the community recognized that their infrastructure needs were the top priority.

Chair Page said Mr. Ridgway had indicated it would be a good idea to identify infrastructure needs, group them together and identify public from private and Mr. Hawthorne had suggested feeding this into the principles of how they could funds these needs. Mr. Hawthorne thought the high-level principles recommended by the Board could be used by the City Commission and then they could focus on financing options.

Mr. Oelke asked if the Facilities Assessment would address restrictions on assets such as the Bahia Mar and the Executive Airport. Ms. Smith assumed the analysis would take these things into consideration.

Mr. Nabors felt that categorizing the needs was a wise step. He said the financing options would vary depending on the project category.

Mr. Herbst thought the City would benefit from a buy versus lease discussion. If they wanted to consider it seriously, they must estimate costs to build and maintain a facility over its life and compare this to a lease payment.

Mr. Hawthorne acknowledged that the “elephant in the room” was the political issues that would arise when they discussed lease versus buy but he thought Mr. Nabors had presented examples of how this could be used that he thought might help them get above the “elephant in the room.”

Chair Page thought the categorization would be easy to tackle if they had the data. Mr. Nesbitt wondered if the Board wanted to get down to that level of detail. He recommended that at their next meeting with the City Commission they educate the Commission about the financing options, and to give them example the Board thought might work in Fort Lauderdale for certain projects, without making a specific recommendation. This would get the Commission thinking about the options.

Mr. Saito agreed and noted that information would be coming in through the course of the year and eventually they could make several different recommendations. After the Facilities Assessment was completed they might determine there were too many things to fix at once and it was more important to prioritize. Mr. Nesbitt felt it was the City Commission's responsibility to prioritize.

Mr. Oelke suggested the Board could come up with recommendations for categories of projects and the Commission could steer them in a particular direction to focus the process when the information started to come in.

Mr. Ridgway volunteered to create the categories and the Board could discuss possible options for them at their next meeting. Mr. Oelke asked if they should include facilities the City was already leasing where there might be operational advantages to consolidating. Mr. Dewey thought it would be interesting to know how successful other municipalities had been in leasing non-essential space. Mr. Herbst noted he had seen smaller governments utilizing commercial space when existing spaces became uninhabitable, with the intent of moving out when they had the ability to construct their own buildings.

Mr. Oelke said they needed to discuss where pensions were going in the future and asked that they follow up on this at a future meeting. Chair Page confirmed it would be on a future agenda.

6. New Business

A. General Fund Risk Assessment Discussion

Ms. Smith informed the Board that the City Manager had charged staff with conducting an analysis of General Fund risk to determine their actual risk instead of accepting the GFOA's recommendation of 16.67% reserves. They were in the process of drafting the paper after receiving input from the financial advisor. Ms. Smith agreed to send the draft to Board members for review in the next week or so. She estimated they would need 20% reserves.

Mr. Hawthorne felt the reserves would need to be "closer to 16 plus 20 or more" when all the risks were considered.

Ms. Smith stated 16.67% was approximately $45 million and 20% would be approximately $54 million.

Mr. Saito asked about the impact of Hurricane Wilma and Ms. Smith reported they estimated the City's out-of-pocket for the series of events around Hurricane Wilma was approximately $7-8 million but they had just been informed that FEMA had de-obligated some of the funding they had provided and the City must pay back almost $10 million. She attributed this to the fact that the City had not had the right reporting structure or experts in place to manage the event. The City was appealing this decision. Mr. Feldman had put together a team of people to be trained as experts in FEMA data collection and reporting.

Mr. Herbst said he had served as FEMA coordinator in two municipalities and was very well-versed in the protocol. His staff would scrutinize every bill when there was another event.

7. Joint City Commission Budget Workshop - April 2014 (Date to be confirmed)
Chair Page summarized Mr. Ridgway would categorize the capital assets in the next two weeks and the Board would begin formulating initial recommendations, considering the categories and the types of financing they had learned about.

8 Communications to the City Commission
None.

Other Discussion Items and Announcements
Mr. Oelke asked if the City would add a funding source for Other Post Employment Benefits (OPEB). Mr. Buffington wished the City to go out on its own using a competitive process to determine who could best manage the OPEB Trust for the City. Ms. Smith reported the City currently operated on a pay-as-you-go basis and contributed $2.5 million annually. In addition, they were establishing a reserve of $1 million per year.

Chair Page announced that Douglas Wood had left the City's employ and Kirk Buffington was now the Director of Finance.

Ms. Smith reported departmental presentations would be made in May. The Revenue Estimating Committee would begin meeting in March.

9. Adjourn
Upon motion duly made and seconded, the meeting was adjourned at 8:03 p.m.

Documents Attached:
February 19 email to Chair Page from Mr. Ridgway regarding the City's capital assets
Five-year CIP document, http://www.fortlauderdale.gov/documents/cip/CIP2014-2018.pdf

[Minutes prepared by J. Opperlee, ProtoType Inc.]

Budget Advisory Board
Fort Lauderdale, Florida

February 19, 2014 Via Email

Chairwoman June Page
Budget Advisory Board
Fort Lauderdale, Florida

RE: Capitalization of Capital Assets

Chairwoman Page:

My initial intention was to do preliminary research about strategies to potentially capitalize the aging capital assets of the City. Capital assets being defined as assets (1) used in operations and (2) having an initial useful life in excess of one year; this term is inclusive of both tangible (e.g. buildings, land, equipment, infrastructure) and intangible assets (e.g. easements, software, water rights).

In addition to discussing how we capitalize our capital assets, I believe the Budget Advisory Board (BAB) should discuss what we should capitalize and when it is necessary to do so. I have included some preliminary thoughts to initiate this conversation, but I believe the discussion should be left to the Board and the City.

Problem Statement

Fort Lauderdale needs to repair or replace existing capital assets and make new capital improvements required by changing environmental factors (i.e. rising tides, storm water management, community investment in business and quality of life).

Objective of this memorandum

To provide a framework for the BAB to discuss and recommend priorities and strategies to effectively manage current and future capital assets of the City.

Primary Problems to Address

1. What capital assets need to be capitalized (*City to identify and prioritize non-discretionary and/or select discretionary capital assets*)?
2. When do these assets need to be capitalized?
3. How do we capitalize the capital assets?
4. How best to manage our capital assets?

1. What capital assets need to be capitalized?

The City is currently in the process of performing an assessment of capital assets which should catalogue all of the City's capital assets and remaining useful life. The BAB should discuss and recommend criteria that will assist the City in determining (a) what assets are essential to the execution of the City's mission, and (b) how important each asset is to the execution of that mission. Ideally this would help the city produce a prioritized list of capital assets that are essential to the execution of the City's mission.

One of the first topics of discussion should be the difference between public and private goods/services. Generally, the City should invest in capital assets that deliver public goods/services that the private market fails to provide. The BAB should consider recommending the divesture of private goods/assets that have market value. Public goods/services are non-rival and non-excludable, which prevents the private market from producing these goods/services (e.g. lighthouses, public roads, parks). Additionally, the citizen feedback surveys should be a useful tool in establishing priority amongst the public goods/services.

(2) When do these assets need to be capitalized?

I believe the assessment of capital assets will provide this data. Cross referencing this data with the list of prioritized capital assets could be used as an action list going forward.

(3) How do we capitalize the capital assets essential to the City's mission?

When recommending how to capitalize our capital assets the BAB and City should take into consideration the duration and nature of both the revenue and expense events. The BAB could recommend criteria for the use of the City to determine what strategies work best. In an effort to initiate this conversation I believe the following topics warrant discussion and consideration as criterion.

a) Duration of capital asset – the duration is the expected useful life of the asset. A standard rule of thumb is that capital assets with useful life's of:
    i. Less than 1 year (not a capital asset) – funded using cash
    ii. 1-3 years – funded using leases
    iii. 3-7 years – consider lease to purchase
    iv. 10 + years – consider dedicating a long term funding source, i.e. bonds
b) Nature of Revenue & Expense – funding reoccurring expenses with reoccurring revenue and invest one time revenue events into assets that retain or produce value in the future (i.e. don't mortgage our future).

(4) How best to manage our Capital Assets?

An important topic of discussion is how we manage our capital assets. A significant benefit of leasing an asset is that the liability associated with management can be shifted to another party, in this case the private market. In addition to the opportunity to shift liability (e.g. an unscheduled HVAC replacement), the private market has the potential to deliver higher quality service at the same or lesser cost than the City. This is not meant to be imply that the City isn't a good steward of their capital assets, but rather acknowledge that certain private companies with significant resources have built core competencies in capital asset management (the difference between a generalist and a specialist).

The BAB, City, and City Commission should discuss if there are opportunities to enhance the management of our capital assets by outsourcing the management of particular assets. In addition to discussing the quality, net cost, and benefits of outsourcing management, there should be a discussion of the risks associated with losing control of these services and whether or not those risks outweigh potential rewards.

Strategies to Finance Capital Improvements

Outlined below are prominent financing strategies that are at our disposal. This information has been broken into two subjects. First, a discussion about how the City can make long term commitments to service different liabilities, and then discuss the methods by which the City can attract capital.

Allocation of Revenue to Service Liabilities
In order to attract capital providers to the City, the City will have to show to capital providers how the City will service debt. Outlined below are the more prominent strategies to create revenue and service debt.

Ad Valorem Taxes

Ad valorem taxes are considered general revenue for the general-purpose local governments.

a) Fort Lauderdale may not exceed 10 mills.
b) Additional mills provided for municipal services.
c) Additional mills for special districts if authorized by law and approved by voters.

Special Notes/Questions:
Are there any conditions placed on ad valorem property taxes that prevent the City from signing a lease for City Hall or the Police Station? Would it need to be in the form of a CBA?

Home Rule Revenue

Home Rule Revenue outlines potential sources of revenue that fall within the purview of the municipality to determine and collect. Regarding fee collection, except for occasions where the City desires to subsidize certain activities, we should ensure that the fees fully reimburse the City for activities where there are or could be fees. Special assessments and tax increments could be valuable revenue sources for some of the capital improvements we are discussing and should be evaluated further.

a) Regulatory Fees
b) User Fees
c) Special Assessments
d) Tax Increment

Collection of Fees: Require a relationship between the fee payer and the charge, which cannot exceed the market price (e.g. building permits, business registration fees)

Special Assessments: Must provide a benefit to the property and consistently appropriated to the properties charged (e.g. trash collection, storm water, etc.).

Tax Increment: Conditioned on the same criteria as special assessments and most frequently used in blighted areas.

Special Notes/Questions:
Need to review special assessments and tax increments in more detail.

Covenant to Budget (CBA) - *Means to Commit Capital*

A Covenant to Budget and Appropriate (CBA) is a means to provide security to capital/capital asset providers ("Capital Provider"). The CBA allocates money to repay the Capital Provider; the collateral provided to the Capital Provider is a "promise" to repay but not a lien. This financing option is more feasible when the asset in question is essential to the operation of the city and either the City cannot secure a similar asset for a lesser price or the location allows the Capital Provider to readily reposition the asset for use in the private market.

Special Notes/Questions:
This is an essential component to understand as it enables a number of the financing options outlined above without voter approval. There are several statutory requirements and private market motivations to understand to make this viable. I recommend discussion more with Robert Nabors.

Instruments that Provide Capital to the City (and create liabilities)

The following are prominent strategies used to raise capital for different projects that realize the City's mission.

Leases

Leases allow the City to command the use of an asset and finance the cost of the asset over a portion of the useful life. Depending on the lease, the City may be able to shift liabilities to the private market.

a) Provides use of an asset while financing cost of use over term of lease.
b) Potentially shifts liabilities associated with ownership to the private market

Criteria to Discuss:
a) What is the City's philosophy on when to lease versus own.
b) Generally, should only be used on assets with useful lives between 1-7 years, preferably 3-7.

Lease to Purchase

Means to acquire property without an initial upfront capital investment. This program is structured like a mortgage, where monthly payments include interest and principal components. By the end of the term, the City (leasee) has paid the Landlord/Seller (leasor) the equivalent of the initial purchase price plus interest.

a) City signs a lease for term that is equivalent to the asset's useful life
b) Asset in question generally has a useful life in excess of 3 years
c) City's lease payments are in excess of a typical lease structure; the

excess payment is applied against a stipulated purchase price

Criteria to Discuss:

a) What type of assets should we Lease to Purchase?
b) Only use on assets with useful lives between 3-7 years.

Special Notes/Question:

a) What type of commitments can the City provide to a Seller/Lessor with and without voter approval?

Bonds

Bond issued by a municipality or their agencies to raise capital. These bonds may be general obligations (all sources of revenue secure the bond, e.g. POB) or secured by specified revenues (secured by specific revenue source, e.g. Water Sewer Fees).

a) Attractive means to finance large capital expenses for assets that have long useful lives (in excess of 10 years).
b) Political approval of bonds varies by type of security.

Criteria to Discuss:

a) What minimum criteria should the City meet in order to justify the creation of a long term liability like a Bond?
b) Should only be used on assets with a useful life longer than 10 years.

Tax Increment Financing (TIF)

The purpose of TIF is to fund investment in a community where additional development might not occur. TIF creates a capital inflow that is invested in a specific area for a purpose; TIF assumes that the capital investment will result in property value appreciation resulting in higher tax revenue. The additional tax dollars associated with the property value appreciation are earmarked to service the debt that created the one-time capital inflow.

a) Law supports use in blighted areas.
b) Generally used to finance infrastructure improvements like roads, bridges, storm water.

Criteria to discuss:

a) Used only in blighted areas that without TIF capital would not be reinvested in.
b) Used only on infrastructure improvements.
c) Used only when subject improvements are holding back additional investment, i.e. the lack of infrastructure is a hindrance to community reinvestment.

Special Notes/Question:

a) ***Question***: Is there a strict definition of “blight” when seeking TIF, e.g. could storm water improvements in been done through TIF if voter will is lacking and the lack of performing certain work would result in blight down the road?

Sale Leaseback

Sale of a City owned asset where the city maximizes the value of the asset through the execution of a long term lease obligation (ideal for real estate assets). Results in a lump sum capital inflow and shifts management, maintenance, and repair liability to the private market.

a) Creates a one-time capital inflow to the city.
b) City leases asset from purchaser.
c) Lease creates a City liability.
d) Potentially shifts risk and liability from the City to the private market.
e) Potential means to "finance" capital improvements.

Criteria to discuss:

a) Approval process for lease (CBA or Voter event?).
b) Appropriate use/reinvestment of city proceeds.
c) Balance of new flexibility, uncertainty, liability.

Special Notes/Questions:

a) Need to further understand what means are available to enter into a long term lease obligation that is marketable and politically feasible.

Sale of Lease

To my knowledge this hasn't been done, but there isn't any reason why it can't be if a Sale Leaseback is feasible. This is concept is very similar to the Sale Leaseback, except that the City retains ownership of the asset at the end of the lease. The City would enter into a long term lease with a private entity, which would pay the City a lump sum in return for the future lease payments.

a) Essentially a Sale Leaseback, except instead of selling an asset you sell your lease payments and retain ownership (removes reticence to sell)
b) e.g. A 30 year lease would result in 85% of the proceeds that would normally be provided by a traditional Sale Leaseback, except you own the property still.

Special Notes/Questions:

a) Uncharted territory, however, the same product as a Sale Leaseback with a modification benefitting the city.

Energy Service Company's (ESCo's)

Energy Service Company's that will make improvements to capital assets that result in energy cost savings. In return for financing the cost of these improvements the City commits to allocate a portion of the energy savings to the ESCo.

a) No capital commitment from City.
b) Similar concept to TIF in that value created by the investment is used to finance an initial capital event.

Criteria to Discuss:

a) The law and economic motivations of ESCo's drive the criteria ranging from viability to lawfulness.

In summary, this memorandum is not conclusive and only meant to outline high-level topics and identify an initial framework in which to address them. More understanding needs to be garnered about the different ways to raise capital and securitize the instruments providing that capital.

Best Regards,

Bryson Ridgway
Budget Advisory Board Member