

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

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

Personnel Attending

Stanley Hawthorne, Assistant City Manager
 Emilie Smith, Budget Manager
 John Herbst, City Auditor
 Marco Hausy, Audit Manager
 Laura Recce, CIP Assistant Grant Manager
 Darlene Pfeiffer, Business Manager, Mobility and Transportation
 Paul Vanden Berge, Fire Rescue Department Budget Coordinator
 Diane Lichenstein, Senior Financial Management Analyst
 Charmaine Eccles, Budget Department and Board Liaison
 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 6:05 p.m.

2. Roll Call

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

3. Approval of Meeting Minutes

A. February 2014 Regular Meeting

Mr. Nesbitt had a question about a statement on page 4 and Ms. Smith agreed to check.

Motion made by Mr. Oelke, seconded by Mr. Nesbitt to table approval of the minutes. In a voice vote, motion passed unanimously.

4. Public Input

None.

5. Old Business

A. Alternative Funding Sources for Capital Improvements Follow-Up
Bryson Ridgway, Budget Advisory Board member

Mr. Ridgway had created a three-step analytical framework for prioritizing individual assets. The first step was to determine whether the asset was private or public. To do this, they would identify services or products the City should provide. Something for the public good was non-rival and non-excludable, meaning that the private market would be unable to derive a profit from it. Mr. Ridgway illustrated the terms with examples.

Mr. Ridgway continued that step two was to determine: who benefited from the asset; the useful life of the asset; what collateral was practical for the City to provide; whether the private market was interested in providing capital. Mr. Ridgway stated step three was to determine which capital strategies were available.

Mr. Dewey thought the framework components offered opportunities to expand the analysis. Determining who would pay and how costs were allocated were very important issues for infrastructure. Chair Page felt this helped clarify the Board's thinking and would be very useful. Mr. McMullen wanted to remain mindful of "who our customer is" and to make the information helpful to the City Commission.

Mr. Nesbitt asked how the report to the Commission would look: would they identify key areas the Board felt should be priorities and/or focus on funding? Mr. Ridgway felt they knew what the top priority items were and the Board could use the analysis to guide discussion on those items. Mr. Nesbitt asked if the Board's report would recommend funding mechanisms. Chair Page said this analysis was a framework to begin their

discussions. Mr. Nesbitt appreciated that they now had funding mechanisms other than taxes to recommend to the Commission.

Ms. Smith said the matrix was set up by how staff was analyzing the infrastructure issues. Two studies were currently underway: a bridges study to determine structural deficiencies, and the facilities condition assessment study on 140 City facilities. But neither study would cover streets, sidewalks, streetscapes and multi-modal challenges. She felt Mr. Ridgway's analysis would help the Board make recommendations for funding mechanisms for specific categories of assets.

Mr. Hawthorne said the Board must remember the big picture and what was currently going on: development of the Community Investment Plan as part of the budget cycle. He reminded the Board to maintain high-level focus and to deliver a simple message to the Commission. The Commission would see the report and focus not only on the needs but also on creative ways of looking at them that the Board could suggest.

Mr. Orshefsky asked if there were any legal impediments to the City using the funding instruments Mr. Nabors had explained to the Board. Ms. Smith stated the biggest challenge would be a special assessment, which required proof that the property being assessed derived a special benefit from that assessment. The other issue was that some of the areas of the City with the highest needs were lower income areas, the residents of which could not afford an assessment.

Mr. Ridgway said Mr. Nabors had described the legal limitations when he first addressed the Board. When Mr. Nabors categorized types of projects, he had suggested specific funding methods for those categories.

Mr. Orshefsky asked where roads would be addressed. Ms. Smith explained that the City already set aside \$730,000 per year for street improvements/replacements and now had \$2.5 million programmed for the highest properties. They were in the process of conducting a street index to determine the highest areas of need.

Mr. Orshefsky asked about the City's capital matching requirement for the Wave project and how this would be financed. Ms. Smith stated the City anticipated the remaining \$8.5 million would be funded through a land swap, not cash.

Mr. Nesbitt hoped the Board could consider whether the City needed to own 143 buildings and whether they should consider leasing instead of making capital improvements. Mr. Ridgway stated there were consultants who could analyze and make recommendations about this.

Mr. Ridgway had distributed copies of the matrix to Board members and explained how it was organized. The sources of revenue were those they could use to take out debt.

The categories columns indicated whether each was suitable for a particular funding source. The top priority projects the Board wanted to present to the Commission were City Hall, the police station, stormwater improvements, bridges and park improvements. Mr. Hawthorne said last year, addressing infrastructure had become a priority for the Commission. Chair Page said the Board's list would comprise the projects they felt the City should take on. She noted that they needed to know how much projects would cost before they could recommend whether a project should be financed. Ms. Smith reported that staff would determine costs through developing the CIP and the budget. The Commission was in the process of prioritizing projects to include in the CIP this year. Mr. Hawthorne agreed to send Board members the list of criteria the Commission used.

Mr. Orshesky suggested defining categories of improvements rather than listing individual ones to narrow application of the matrix to types of improvements. They could then prioritize the types of improvements.

In order to move forward, Mr. Ridgway suggested beginning their discussions using the categories. Ms. Smith reminded the Board that the City had \$4.8 million set aside in the FY 2014 for capital improvements. This could be used as debt service for a special obligation bond for funding some of the improvements. Mr. Saito suggested they could use that money for items on the list that would be more challenging to capitalize.

The Board discussed options for proceeding. Mr. Ridgway suggested selecting four or five categories to put through the analysis. He felt neighborhood and City infrastructure were the most pressing and had the most political support. Chair Page noted that after the facilities assessment came back, they could focus on some buildings. Mr. Oelke recommended getting feedback from the City Commission regarding the direction *they* wanted to pursue. Mr. Hawthorne cautioned the Board about making the categories so broad that they lost identity. Mr. Ridgway agreed to add to the matrix a few of the items the Board had discussed, including their possible funding sources. Chair Page wanted to focus on areas they knew the Commission had an interest.

6. New Business

A. 2013 Neighbor Survey Results

Susanne Torriente, Assistant City Manager

Ms. Torriente gave a Power Point presentation, a copy of which is attached to these minutes for the public record.

B. Multimodal Connectivity Program Presentation

Renee Cross, Principal Planner – Transportation & Mobility Department

No discussion.

C. Expectations of FY 2015 Departmental Budget Review Sessions

Chair Page remarked that the Board did not want the same type of presentations from the departments this year as they had been given last year. She intended to send an email indicating specific topics on which departments should concentrate. Chair Page also asked that any presentations be emailed to the Board prior to the meetings.

Chair Page stated the sessions last year had “failed miserably” and she asked Board members what specific information they wanted to hear. Mr. McMullen wanted to know how the requests were tied to the strategic plan. Mr. Oelke requested hearing about how departments were interconnected and how one department could help another, as well as how a budget constraint in one department might affect another department.

Ms. Smith agreed to send Board members copies of last year’s template and Chair Page asked Board members to email her suggestions to add to the template.

7. Joint City Commission Budget Workshop - April 28, 2014

No discussion.

8 Communications to the City Commission

None.

Other Discussion Items and Announcements

None.

9. Adjourn

Upon motion duly made and seconded, the meeting was adjourned at 8:17 p.m.

Documents Attached:

Mr. Ridgway’s analytical framework and matrix

Any written public comments made 48 hours prior to the meeting regarding items discussed during the proceedings have been attached hereto.

MEMORANDUM
Budget Advisory Board
Fort Lauderdale, Florida

March 18, 2014

Via Email

Chairwoman June Page
Budget Advisory Board
Fort Lauderdale, Florida

RE: Asset Classification Framework

Chairwoman Page:

The City of Fort Lauderdale has a tremendous task before them. There are a number of capital assets that need to be recapitalized. The purpose of this document is to outline a potential analytical framework that the City can use to determine how best to meet this challenge. The committee does not have the intimate knowledge or resources necessary to determine the best method of capitalization for every asset. However, we can provide a criteria that the city may find helpful when making these decisions. I do believe that large capital asset projects like City Hall, the Police Station, and large infrastructure projects such as parking, bridges, and roads warrant discussion by the committee specifically.

Objective of this memorandum

1. Deliver an *Analytical Framework* for the City Manager's Office and BAB to use when discussing how to capitalize assets.
2. Setup a discussion on how to capitalize large capital asset projects like City Hall, the Police Station, and various infrastructure projects (parking garages, roads, bridges, etc.).

Analytical Framework Summary

A step by step analytical framework is described below and supported by a matrix attached to this letter.

Step 1: Public and Private Goods

Question: Should we provide this asset and to what extent?

Determine whether or not the good or service that we are looking to develop resources (buildings, equipment, etc.) for is a private or public good (See Note 3).

The following questions identify whether or not we should have a certain asset and to what extent.

- 1) Is the good or service by in large a public or private good? (e.g. City Hall supports the managerial and administrative function of the City, which is a necessary component of local government, a public good).
- 2) How much of the current good or service is truly public? (e.g. the City Manager's office needs to be provided by the City, however, does the City's printing department qualify as a public good? If not then eliminate the printing departments space needs from asset requirements, in this case reduce the size requirement of City Hall.

In political science, public and private goods are differentiated by their rival or excludable qualities. Pure public goods are non-excludable and non-rival, but there are quasi-public goods that should still qualify as a public good (see Note 3). Given the subjective nature of this topic I would recommend that pure private goods, i.e. goods that are clearly private (e.g. printing, landscaping services) be set aside for divestiture, and set aside quasi-public goods for later discussion.

The City should sell or divest private goods and services to reduce the amount or quantity of assets requiring capitalization. These services or goods can be provided to the City and the public by the private market (see Notes 1 and 2).

**Step 2: Asset
Characteristics to
Consider**

Questions: What characteristics affect how I will capitalize the subject asset?

Characteristic A: Who benefits from this public good?

Determine what entities or properties directly and indirectly benefit from the good or service being provided by the subject capital asset. Those who benefit should by in large finance the cost of the capital asset. Beneficiaries could be a single entity, street, neighborhood, district, city, type or types of organizations.

- 1) Identify the organizations that benefit and consider how direct or indirect that benefit may be.
- 2) Identify the property owners that benefit and consider how direct or indirect that benefit may be.

The costs of goods or services that benefit specific properties or entities should be financed largely by the benefiting entities and properties.

Characteristic B: What is the useful life of the subject asset?

Determine the useful life of capital asset to help match the appropriate financing option with the asset. Use a standardized useful life table such as MACRS to determine useful life.

While not a rule, the following financing methods are recommended for capital assets with useful lives equivalent to:

- 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

Note the available financing options for a specific asset.

Characteristic C: What collateral is practical for the City to provide?

The ability to provide collateral is fundamental to the ability to borrow and the

cost of said capital. The ability to provide stronger collateral increases the liability to the city but also makes the city more attractive to finance and results in more capital at a lower cost.

- 1) Is the passing of a referendum practical in this situation?
- 2) Can the City earmark funds to service debt or liabilities?

These characteristics help determine how confident the private market will be that they any capital they loan will be repaid.

Characteristic D: Is the private market interested in providing this capital asset or service in a form suitable to the city?

Can we have the private market capitalize our capital assets and have the City lease those assets from the private market? Although the private market will require profit they provide several advantages to the city (see Notes 1 and 2) and the cost isn't always higher than goods or services provided internally.

- 1) Is the service already provided by the private market?
- 2) Is the capital asset viable for private use; if so how much modification is needed? (i.e. private demand for the asset serves as "collateral" for the asset).
- 3) Does the capital asset provide a fundamental service to the Public that is not easily replaced?

Note private market interest in providing service or capital asset.

Step 3: Determine Eligible Capitalization Strategies & Select

Question: What capitalization strategies are eligible?

Consider the characteristics determined above and compare to Robert Nabors memorandum or exhibit in the back.

Note the capitalization strategies eligible for use and select the strategy that best fits the needs of the city and characteristics of the asset.

This memo is meant to serve as a framework for our initial discussion on how to capitalize various capital assets. Ultimately the committee should improve this memo, have it be signed by the committee, and use it as a framework to discuss how to capitalize major capital assets like City Hall, the Police Station, and infrastructure projects such as roads, parking, and bridges.

Best Regards,

Bryson Ridgway
Budget Advisory Board Member

Notes

(1) Benefits and Costs of Using the Private Market

The private market can provide a number of benefits to a municipality and on certain occasions should be considered in lieu of public management.

Costs: The private market only performs services for profit, which requires that the private market charge in excess of the cost of production. In essence the additional cost of a service is the profit in which they charge. Additionally, the municipality will lose control over the production of these goods or services.

Benefits: The benefits are both direct and indirect.

- i. **Flexibility:** The private market provides services on demand, so when services are not needed the City does not have to carry the fixed cost of operating a specific service. If the private market is able to compliment demand from the public with demand from the private sector and constantly employ their resources, then the fixed cost associated with downtime is not passed onto the City. This is one of the ways the private market can deliver the same product at a lower cost.
- ii. **Liability:** The use of the private market for goods or services shifts risk onto the private market. For example if the City were to rent City Hall then the liability associated with the replacement of mechanical equipment and structural elements would be shifted to the private market. It is true that the cost of this shift in liability is priced into the profit, but private companies historically manage risk better (through specialization) and are set aside less than public entities to manage these risks.
- iii. **Managerial Focus:** City Hall has a number of competing interests to manage. The strategic vision of City Hall's leaders is their greatest responsibility; however, any strategic vision requires tactical implementation. If the City is able to outsource certain activities, then they will be able to shift the time that spend managing non-core business units (e.g. printing services) and focus on the core strategic initiatives.
- iv. **Specialization:** The private market is able to develop competitive advantages through specialization. These competitive advantages generally result in either lower costs of production or higher quality goods and services and sometimes both. These factors can result in the delivery of private market goods and services at a price that includes cost and profit but less than the cost only price of production by the public. *A win-win for public and private markets.*

(2) City Demand Sponsors Economic Development

When appropriate, the use of private service providers can deliver the same service at equal to or lesser than the cost of providing it in-house. This is due to economies of scale, development of core competencies, etc.

City demand for private local business goods and services can incubate economic activity within the city that increases employment, quality of life, and tax revenues. These businesses can provide these services in other markets, which will increase local economic activity via the export of goods or services by the private provider to other markets. (e.g. spinning off the printing services division, providing a municipal contract for work and introducing the Fort Lauderdale based firm to other municipalities who previously used the City's printing services). It is possible this firm could grow to provide municipal printing services to cities across the county, state, nation, etc. and be a model of economic development activity sponsored by the City.

**(3) Public vs. Private
 Capital Assets**

Special Note: I believe it is best consider quasi-private or quasi-public goods and services as "public" for the time being and focus on divesting from goods and services, when possible, that are clearly private in nature.

By definition, an asset is Public if the private market fails to provide such a good or service. The private market fails to provide services that are non-rival and non-excludable; private market failure is due to an inability to generate a return of capital invested.

Rival vs. Non-Rival: A good or service is rival when the consumption of one unit diminishes the ability of others to enjoy an additional unit due to an increase in cost. So a good is non-rival when the consumption of more of a good or service does not cause a marginal (higher cost per unit) increase in cost. (e.g. broadcast television, street lights, clean water, and public safety). Determination of a good as non-rival is not always absolute as non-rival goods are measured on a continuum, i.e. a good is non-rival up until a certain point and at which point it may become rival in nature.

Excludable vs. Non-Excludable: A good or service is excludable when you can prevent people (consumers) who have not paid from having access to it. In comparison, a non-excludable asset does not allow a private provider to ensure payment from those that enjoy the use of an asset (the free rider and tragedy of the commons problems). (e.g. lighthouses, national defense, and ocean resources).

The combination of answers to the questions about rivalry and excludability help dictate the best way to provide services that are necessary for and demanded by the public.

	Excludable	Non-excludable
Rival	Private Goods	Common Goods/Resources
Non-rival	Club Goods	Public Goods

EXHIBIT A: Capitalization Strategy Matrix & Important Examples

Capitalization Strategy Matrix

		Step 1	Step 2 (A)	Step 2 (B)	Step 2 (C)	Step 2 (D) Private	Nabor Categories - Eligibility for Revenue and/or Liability Sources						
		Public or Private	Benefits Who	Useful Life	Strength as Collateral	Preference for Revenue Type	General Government Capital Assets	Neighborhood Improvements	Assessment Projects	Stormwater	Neighborhood Bridge	Canal Maintenance	Transportation Projects
Revenue Sources													
Revenue	Ad Valorem Taxes		City Wide	1 to 40+ yrs.	Strong	Strong	Yes	Yes	Yes				Yes
Revenue	Non Ad Valorem Taxes		City Wide	1 to 40+ yrs.	Moderate	Strong	Yes	Yes	Yes	Yes			Yes
Revenue	CIP Fund		Varies	1 to 40+ yrs.	Moderate	Moderate							
Revenue	Covenant to Budget (CBA)		City Wide	1 to 40+ yrs.	Weak	Weak							
Revenue	Home Rule Revenue		Varies	1 to 40+ yrs.	Strong	Strong		Varies	Varies	Varies	Varies	Varies	Varies
Revenue	Regulatory Fees		Specific Group	1 to 40+ yrs.	Strong	Strong							
Revenue	User Fees		Specific Group	1 to 40+ yrs.	Strong	Strong				Yes			
Revenue	Special Assessments		Specific Group	1 to 40+ yrs.	Strong	Strong		Yes	Yes	Yes	Yes	Yes	Yes
Revenue	Tax Increment		Specific Group	1 to 40+ yrs.	Moderate	Moderate Private MKT.		Yes	Yes	Yes	Yes	Yes	Yes
Revenue with Liability				Useful Life	Dependence on Collateral	Interest in Providing Liab.	General Government Capital Assets	Neighborhood Improvements	Assessment Projects	Stormwater	Neighborhood Bridge	Canal Maintenance	Transportation Projects
Liability	Lease		n/a	1 to 7 yrs.	Varies	Yes	Yes						
Liability	Capital Equip. Master Lease		n/a	1 to 7 yrs.	Varies	Yes	Yes	Yes	Yes		Yes	Yes	Yes
Liability	Lease to Purchase		n/a	3 to 10 yrs.	Varies	Yes	Yes						
Liability	Bonds		n/a	10 to 40+ yrs.	Required	Yes	Yes - VA	Yes	Yes	Yes	Yes	Yes	Yes
Liability	Tax Increment Financing		n/a	10 to 40+ yrs.	Required	Yes		Yes	Yes	Yes	Yes	Yes	Yes
Rev/Liab.	Sale Leaseback		n/a	10 to 40+ yrs.	Varies	Yes	Yes						
Rev/Liab.	Sale of Lease		n/a	10 to 40+ yrs.	Varies	Unknown	Yes						
Rev/Liab.	Energy Service Company		n/a	3 to 10 yrs.	Required	Yes		Yes	Yes				
Rev/Liab.	Public Private Partnership		n/a	3 to 40+ yrs.	Varies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

VA= Voter Approval required.

Framework Implemented on Larger Capital Projects

		Step 1	Step 2 (A)	Step 2 (B)	Step 2 (C) Practicality of Providing Collateral	Step 2 (D) Private Interest	Step 3 Select Eligible Option	Nabor Category
Specific Project Examples		Public or Private	Benefits Who	Useful Life				
City Hall		Public*	City Wide	40+ yrs.	Difficult	Yes - High	Sale Leaseback with Covenant to Budget	General Government Capital Assets
Police Station		Public	City Wide	40+ yrs.	Difficult	Yes - Moderate	Sale Leaseback with Covenant to Budget	General Government Capital Assets
Stormwater - Flood Controls		Public	Specific Group	40+ yrs.	Moderate	Yes - Depends	Bond with Fees and/or Special Assessments	Stormwater
Bahia Mar		Private	Specific Group			Yes	Sell or Hold if no mgt. required (note low cap rates)	None
Cemeteries		Private	Specific Group			Unknown	Sell if possible	None
Marina		Private	Specific Group			Yes	Sell	None
Police Cars		Public	City Wide	5 yrs.	Attainable	Yes	Lease (Discuss collateral with Robert)	General Government Capital Assets