



April 7, 2015

Honorable Mayor and City Commissioners  
City of Fort Lauderdale  
100 N. Andrews Avenue  
Fort Lauderdale, FL 33301

Dear Honorable Mayor and City Commissioners;

During the regularly scheduled Budget Advisory Board (BAB) meeting on March 18, 2015, the Board unanimously passed four (4) motions related to the City Hall building, Police Headquarters, and other facilities, along with a recommendation to maximize operational efficiencies.

***Motion I. Feasibility Study***

**Motion to request that the City Manager have a feasibility study completed, including an estimate for construction costs for a new or renovated City Hall and Police Headquarters.**

*Supporting Narrative: The Budget Advisory Board wants to acknowledge and agree with, the discussion the City Commission had at their Workshop meeting, the afternoon of February 17th, concerning the relocation and construction of the Federal courthouse, and the City's monitoring of the potential for a public private partnership to accomplish this replacement of a public facility.*

*Also discussed at that time, was the potential for the replacement of the City of Fort Lauderdale Police Headquarters, and the request from the City Commission that staff prepare a feasibility study for the replacement of the police facilities.*

*The Budget Advisory Board requests that the City Commission also direct the City Manager's office to pursue a feasibility study for the replacement of City Hall to include consideration of a co-location approach or the creation of 'governmental campus' which could include both facilities. The Board notes that some of these issues were initially studied in the recent CBRE study (Real Property Market Analysis - 2014) of the City's property assets.*

*"The Police Department facility has outlived its useful life, is too small and functionally obsolete. Building capital improvements and repairs will continue to accumulate." (CBRE Report, p 35).*

## ***Motion II. Comprehensive Proposal for City Hall and Police Headquarters***

**Motion to request that the City Manager explore a comprehensive proposal for replacement of the City Hall, the Police Headquarters, and any other necessary facilities to include funding options (i.e. sale of surplus land, public private partnerships, future repair and maintenance savings, bonds, etc.).**

*Supporting Narrative: The Board notes the City's recent facilities assessment study (Facilities Condition Assessment 11/2014) assessed the repair and rehabilitation needs of City facilities. Two of the facilities found to be in the most need of repair were Police Headquarters and City Hall. They, however were not the only facilities identified – others examples included park buildings and IT facilities.*

*This request is to have the City Manager's office develop a comprehensive set of policies and criteria to first identify the facilities most in need of replacement, and then to identify one or more funding mechanisms which may be available to accomplish the identified replacement. The investigation of funding mechanisms should be a broad one including, without limitation, the use of special assessment mechanisms, public-private partnerships -- such as joint-ventures for mixed use development or use of Design Build Maintenance and Operation procurement approaches – bonds, and ad valorem taxes.*

*The Board has developed materials which outline and begin the identification of an overall approach to this analysis. (Exhibits 1 and 2 attached)*

*See also, for example, potential mechanisms identified under Motion III below.*

*"The Police Department facility has outlived its useful life and is functionally obsolete." (CBRE Executive Summary, p 8).*

*"City Hall has outlived its useful life and is functionally obsolete." (CBRE Executive Summary, p 9).*

## ***Motion III. Criteria for Weighing Repairs vs. Replacement of Facilities***

**Motion to request that the City Manager develop a process and criteria for weighing the advisability of spending money on significant repairs to City facilities vs. replacing/leasing those facilities. This source of potential savings should be considered as a potential capital funding mechanism.**

*Supporting Narrative: A potential source of capital funding may be the savings of repeated expenses to repair instead of replace facilities – 'throwing good money after bad' as it were. The start of this approach was used in the recent Bridges Master Plan, where the report suggests replacement of certain bridges rather than their repairing them.*

*The Board also notes that direct replacement of a facility may not be necessary, if a more efficient approach would be to lease the needed facilities from the private sector. This approach is included in the overall systematic approach, referenced above, which the Board has developed. The CBRE*

*study also suggested that replacement of the Police Headquarters should be seriously weighed against the accumulation of repeated capital investments.*

*This request is to have the City Manager develop a process and criteria which can examine the issue of 'repair vs. replacement' in a comprehensive and rigorous way.*

*The CBRE report "recommends that Fort Lauderdale partner with a 3rd party provider of real estate services firm to manage its administrative/operating real estate." (CBRE, Executive Summary, p 7).*

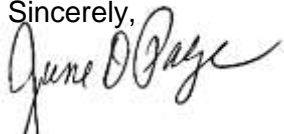
#### ***Motion IV. Exploration of Operational Efficiencies***

**Motion to request that the City Manager develop a comprehensive approach to, and criteria for, whether operational efficiencies can be achieved by sharing space and other resources among City departments and agencies. This source of potential savings should be considered as a potential capital funding mechanism.**

*Supporting Narrative: Another potential source of savings which might be able to be used to support the funding of facilities, perhaps especially for administrative facilities, would be the savings and efficiencies from the co-location of related administrative or other City functions. This should be, for example, included in considerations during feasibility studies – especially across multiple facilities. A potential example would be the request above concerning Police Headquarters and City Hall.*

Thank you for the continued opportunity to serve in this capacity. Please contact me directly should you have any questions or comments.

Sincerely,



June D. Page  
Chair  
Budget Advisory Board

Attachments: Exhibit 1 – Letter Regarding Asset Classification, drafted by Board Member Bryson Ridgway, on behalf of the Budget Advisory Board - dated March 18, 2014  
Exhibit 2 – Capitalization Strategies

c: Lee Feldman, City Manager  
Jonda K. Joseph, City Clerk  
Stanley D. Hawthorne, Assistant City Manager  
Emilie Smith, Budget Manager  
Budget Advisory Board

**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 stormwater management systems, 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 the private sector, 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 and 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 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 cost of asset ownership includes the cost of capital and management of operation. Whether or not the private market should be considered is largely a function of how much management is required by operation of the asset. The more operation required the more attractive private providers will be.

The private market can provide a number of benefits to a municipality and on certain occasions should be considered in lieu of public management. When ownership of an asset requires regular maintenance and management the private sector should be considered as the private market's effectiveness in managing risks and operations within their core competency can prove to be cheaper over the long run. In contrast, assets that require a large capital investment and subsequently little management should be performed by the City as the benefit of risk management by the private sector is not substantial enough to offset its more expensive capital.

**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 an appropriate return of capital invested.

**Rival vs. Non-Rival:** A good or service is rival when consumption of one unit by an individual excludes another individual from enjoying that same good or service, either excluding use all together or by increasing the cost of enjoyment by the additional user. So a good is non-rival when use of a good or service by one individual doesn't preclude others from enjoying that good or service at the same cost (e.g. broadcast television, street lights, clean water, and air). Determination of a good as non-rival is often not 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 (e.g. clean water is practically non-rival, but with a large enough population, it can become rival).

**Excludable vs. Non-Excludable:** A good or service is excludable when you can prevent 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 problem. (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	<b>Public Goods</b>

EX 2 - Capitalization Strategies

Example of Potential Capitalization Strategies for Specific Projects

Specific Project Examples	Step 1 Public or Private	Step 2 (A) Benefits Who	Step 2 (B) Useful Life	Step 2 (C) Practicality of Providing Collateral	Step 2 (D) Private Interest	Category Nabor Category Selection	Step 3 & Explanations Select Options (ranked)
Stormwater Improvements - Public Spaces	Public Asset	City Wide	20-40 Yrs.	Range from Practical to Difficult	Yes	Stormwater	<p>(1) Bond &amp; Infrastructure Sales Tax - Tax is collateral for Infrastructure Bond. Provides upfront capital and collateral from residents and visitors alike [cheap capital, difficult approval, low maintenance project].</p> <p>(2) Bond &amp; Ad Valorem Tax - Tax is collateral for bond issuance. Of all the collateral options this option is the most practical to distribute cost, but requires voter approval. [cheap capital, equitable cost distribution, difficult approvals]</p> <p>(3) User Fees (Home Rule/Storm Fee/etc.) - Collateral for bond issuance. User Fees may provide more flexibility in apportioning tax. [cheap capital, ability to equitably allocate cost, home rule approval - could combine with other source]</p> <p>(4) Special Assessment (Home Rule) - Collateral for bond issuance. Assessment to all property owners. [cheap capital, less equitable, home rule approval, combine with other source]</p> <p>(5) Sale-Leaseback or Public Private Partnership: Upfront capital provided by private market and capitalized by city. Not preferred because higher cost of private capital is not offset by mitigation of operational risk: there is little operational risk of asset (compare to city hall).</p>
Bridges - Public Thoroughfares	Public Asset	City Wide	20-40 Yrs.	Range from Practical to Difficult	Yes	Transportation Projects	<p>(1) Bond &amp; Infrastructure Sales Tax - Tax is collateral for Infrastructure Bond. Provides upfront capital and collateral from residents and visitors alike [cheap capital, difficult approval, low maintenance project].</p> <p>(2) Bond &amp; Ad Valorem Tax - Tax is collateral for bond issuance. Of all the collateral options this option is the most practical to distribute cost, but requires voter approval. [cheap capital, equitable cost distribution, difficult approvals]</p> <p>(3) User Fees (Home Rule/Storm Fee/etc.) - Collateral for bond issuance. User Fees may provide more flexibility in apportioning tax. [cheap capital, ability to equitably allocate cost, home rule approval - could combine with other source]</p>

							<p>(4) Special Assessment (Home Rule) - Collateral for bond issuance. Assessment to all property owners. [cheap capital, less equitable, home rule approval, combine with other source]</p> <p>(5) Sale-Leaseback or Public Private Partnership: Upfront capital provided by private market and capitalized by city. Not preferred because higher cost of private capital is not offset by mitigation of operational risk: there is little operational risk of asset (compare to city hall).</p>
Stormwater Improvements - Neighborhood	Public Asset (Club Good)	Neighborhood	20-40 Yrs.	Practical	Yes	Neighborhood & Stormwater	<p>(1) User Fees (Home Rule/Storm Fee/etc.) - Collateral for bond issuance. User Fees may provide more flexibility in apportioning tax. [cheap capital, ability to equitably allocate cost, home rule approval could combine with other source]</p>
							<p>(2) Special Assessment (Home Rule) - Collateral for bond issuance. Assessment to all property owners. [cheap capital, less equitable, home rule approval, combine with other source]</p> <p>(n/a) Ad Valorem Tax - doesn't benefit entire tax base.</p>
Bridges - Private Neighborhoods	Public Asset (Club Good)	Neighborhood	20-40 Yrs.	Practical	Yes	Transportation	<p>(1) User Fees (Home Rule/Storm Fee/etc.) - Collateral for bond issuance. User Fees may provide more flexibility in apportioning tax. [cheap capital, ability to equitably allocate cost, home rule approval could combine with other source]</p>
							<p>(2) Special Assessment (Home Rule) - Collateral for bond issuance. Assessment to all property owners. [cheap capital, less equitable, home rule approval, combine with other source]</p> <p>(n/a) Ad Valorem Tax - doesn't benefit entire tax base.</p>
Police Station	Public Service & Public/Private Asset	City Wide	40+ Years	Liability - Not Practical; but Assets - Practical	Potential	General Gov't Cap. Asset	<p>(1) Ad valorem Tax obligation to either (a) borrow money for improvements, (b) sale and lease-back or lease elsewhere. [collateralized, so capital costs are cheap, political approval challenged]. Need collateral because owner can't take back asset.</p> <p>(2) Infrastructure Sales Tax - Utilize sales tax to raise Infrastructure Bonds. [fate of city projects in the hands of county citizens]</p> <p>Note: Public Private Partnership - Either of the two options above could be used to finance a Public Private Partnership.</p>

(n/a)  
(n/a)  
(n/a) Non-Ad Valorem Taxes - *believed to be insufficient.*

City Hall	Public Service & Private Assets Avail.	City Wide	40+ Years	Liability - Not Practical; Assets - Practical	Yes	General Gov't Cap. Asset	<p>(1) Sale Leaseback - Sell building, City collects assets and posts portion as collateral to buyer, signs a lease using CBA (no voter approval*), and has new owner perform capital improvements. [Generates cash today, collateralized lease commitment = lower lease pmts.] Form of a PPP.</p> <p>(2) Ad valorem Tax obligation to either (a) borrow money for improvements, (b) sale lease-back or lease elsewhere. [collateralized so capital costs are cheap, but political approval challenged].</p> <p>(3) Lease Purchase - Technically includes a sale component. However, we could Lease Purchase another building, which enables us to lease office space without a voter approval [Generates less cash and has higher capital costs, but less than CBA].</p> <p>(4) Covenant to Budget (CBA) - (a) can't borrow money for improvements, (b) Sale Lease-back [Generates less cash and/or higher capital costs due to lack of collateral].</p>
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