MEMORANDUM

TO: The Honorable Mayor and City Commission

THROUGH: A. Jerome Fletcher II, ICMA-CM, MPA, City Manager Jerome Fletcher Digitally signed by Jerome Fletcher
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Date: 2025.05.19 16:34:49-04'00'
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FROM: Irina Kukharenko, CPA, Assistant Finance Director Irina Kukharenko Digitally signed by Irina Kukharenko
Date: 2025.05.19 16:17:34 -04'00'

DATE: May 19, 2025

SUBJECT: Overview of Alternative Funding Options Following May 13, 2025, Referendum Results

On May 13, 2025, voters in the City of North Port rejected several referendum questions that would have authorized the issuance of bonds for key capital improvement projects. While these bond instruments are generally the most cost-effective financing tools available to municipalities, the referendum results necessitate the consideration of alternative methods to fund these essential infrastructure needs. The following outlines several potential financing approaches, along with their respective advantages, limitations, and proposed next steps.

1. **<u>Certificates of Participation (COPs)</u>**

Certificates of Participation (COPs) are a form of lease-financing arrangement that allows the City to finance facilities without issuing traditional voter-approved bonds. The City enters a lease-purchase agreement with a financing entity, and investors buy shares in the lease payments. The City makes annual appropriations and gains ownership of the facility once the lease is fully paid. This structure has been widely adopted by Florida school districts.

Advantages:

- No Referendum Required: May be pursued without voter approval, allowing the City to proceed more quickly than traditional bond options.
- Maintains Essential Projects: Enables continuation of priority projects, such as the PDHQ, despite referendum results.
- Flexible Structure: Payments can be scheduled to align with available budgetary capacity.
- Widely Used Tool: Frequently utilized by Florida school districts.

Limitations:

- Higher Cost of Borrowing: Interest rates are slightly higher due to non-appropriation risk.
- Complexity: Involves more intricate structuring, requiring a leasing entity, trustees, and legal coordination.
- Asset Encumbrance: The facility is technically owned by the trustee until full repayment.
- Annual Appropriation Requirement: The City must make yearly budget appropriations, creating long-term fiscal obligations.

Next Steps:

- Consult bond counsel to confirm COP compliance with City Charter
- Work with the City's financial advisor to prepare a preliminary financing model
- Identify or establish a leasing entity as needed

2. Public-Private Partnerships (P3)

A Public-Private Partnership (P3) involves partnering with a private sector entity to finance, design, construct, and/or operate a public facility. For example, a developer may fund and construct the police HQ or utility facility, with the City repaying the investment over time through lease or service payments. Some models include performance-based contracts where payments are tied to availability or service outcomes.

Advantages:

- Access to Capital & Off-Balance-Sheet Financing: Useful when the City is constrained by Charter debt limitations.
- Risk Transfer and Expertise: Private entities may assume responsibility for construction cost overruns, delays, or maintenance, often with higher efficiency.
- Timely Project Delivery: Projects can move forward quickly through private sector mobilization.
- Budget Predictability: Payments can be linked to facility performance and availability, incentivizing results.

Limitations:

- Higher Long-Term Cost: The City pays a premium over time due to private sector return requirements.
- Complex Negotiations: Agreements are legally and financially intricate.
- Reduced Flexibility: Long-term contracts limit the City's ability to unilaterally change service levels or facility use.
- Public Control Concerns: Requires strong accountability to ensure public interest is safeguarded.

Next Steps:

- Retain legal and financial advisors with P3 expertise
- Prepare to evaluate conceptual or detailed unsolicited proposals in accordance with City Code, if submitted by interested private entities
- Consider issuing a Request for Information (RFI) to assess private sector interest

3. State Revolving Fund (SRF) Loans

Florida's State Revolving Fund (SRF) offers low-interest loans for eligible water and wastewater projects, funded by federal and state contributions. The Wastewater Treatment Facility improvements could qualify for the Clean Water SRF.

Advantages:

- Low Interest Financing: SRF rates are typically below market.
- No Investor Market Risk: Loan availability is based on eligibility, not market conditions.
- Flexible Repayment and Assistance: May offer deferments or principal forgiveness.
- Supports Essential Infrastructure: Aligns with environmental goals and regulatory mandates.

Limitations:

- Restricted Use: SRF loans are limited to eligible projects (e.g., water quality, sewer, stormwater improvements).
- Program Capacity and Timing: Involves competitive ranking and may delay project start.
- Charter Compliance: Legal review needed to ensure Charter compliance.

Next Steps:

- Consult with legal counsel to confirm alignment with Charter provisions
- Confirm project eligibility with the Florida Department of Environmental Protection
- Submit preliminary planning documents and loan application if applicable

4. **Bank Loans and Lines of Credit**

Bank loans or lines of credit may offer short-term financing or emergency liquidity, such as disaster response funding or interim capital.

Advantages:

- Quick Access for Emergencies: Immediate funding availability for urgent needs.
- Flexibility: Interest is paid only on funds used.
- Simplified Process: Less formal than bond issuance; quicker execution.
- Short-Term Bridging: Can be used temporarily until permanent financing is secured or FEMA reimbursements received.

Limitations:

- Interest Costs and Fees: Potentially higher rates and associated fees.
- Short Maturity: Typically, not suitable for long-term infrastructure funding.
- Bank Credit Capacity: May not be adequate for large-scale needs.
- Charter Compliance: Legal review needed to ensure Charter compliance.

Next Steps:

- Consult with legal counsel to confirm alignment with Charter provisions
- Work with City's financial advisor to solicit proposals from qualified financial institutions

5. **Increasing Fund Balance Reserves**

Increasing fund balance reserves entails allocating a higher portion of annual revenues to savings, which enhances financial flexibility for emergencies or capital initiatives.

Advantages:

- Emergency Readiness: Provides readily available funds for disaster response.
- Improved Credit and Flexibility: Enhances credit profile and response capability.

Limitations:

- Ties Up Funds: Reduces resources available for immediate needs.
- Slow Accumulation: Larger projects may require years of savings.
- Potential Over-Saving: May face public scrutiny if perceived as excessive.
- Limited Scope: May only address smaller-scale or emergency needs without tax and fee increases.

Next Steps:

- Consider creating "capital reserve" or increasing current "emergency and disaster reserve" in the fund balance policy
- Identify recurring revenue sources to support reserve growth

6. <u>Pay-As-You-Go (Pay-Go) Financing</u>

Pay-Go financing utilizes current revenues or accumulated cash to fund projects, avoiding debt entirely. This has historically been the primary method by which the City has financed most of its capital projects.

Advantages:

- No Interest Cost: Maximizes use of City funds for project costs.
- No Debt Obligation and Lower Financial Risk: No long-term liabilities or market exposure.

Limitations:

- Project Delays and Inflation Risk: Project delays caused by the need to accumulate sufficient funds can lead to increased construction costs over time due to inflation.
- Burden on Current Revenues: Could require reallocating funds from existing services, delaying other projects, or increasing taxes or fees to generate sufficient cash flow.
- Revenue Uncertainty: Dependent on stable and surplus-generating budgets.
- Intergenerational Inequity: Places the financial burden on current residents for facilities that may primarily benefit future users.
- Scale Limitations: May not be feasible for larger capital investments.

Next Steps:

- Reassess and reprioritize projects in the Capital Improvement Plan (CIP)
- Align revenue forecasts and CIP scheduling to support phased or deferred implementation using PFM's economic development and financial condition analysis

Conclusion:

The City has other funding options available to address its critical capital infrastructure needs. These options vary in terms of cost, complexity, legal constraints, and timing. Several options may be pursued concurrently or in combination. Upon Commission direction, additional detailed analysis and implementation strategies may need to be presented.