



MEMORANDUM

City Manager's Office

TO: The Honorable Mayor and City Commission

FROM: A. Jerome Fletcher II, ICMA-CM, MPA, City Manager

CC: Jason Yarborough, ICMA-CM, Deputy City Manager
Julie Bellia, Assistant City Manager

SUBJECT: City Manager's Thoughts on April 23, 2024 Agenda Item 24-0599

DATE: April 18, 2024

HOW DID WE GET HERE?

Over the last two months, we started a process to propose an amendment to our City charter to allow for borrowing authority for the City of North Port. As a reminder to those not familiar, the City has zero ability to borrow money or incur debt of any kind without going to referendum, as stated in our original 1959 Charter. We have been a mainly "pay as we go" government the entire 65-year history of North Port. This method worked for as long as it could, but Hurricane Ian exposed a serious shortfall in our authority to safeguard our citizens and as well as their investments in North Port's infrastructure. We believe we are the only known local government among the 411 cities and 67 counties in the state of Florida that can't issue debt without prior approval of the voters at referendum. If multiple storms with the intensity of Hurricane Ian hit the city during the same season, then the city may not be able to rebuild, our coffers are not that deep. Most cities have authority under state law, city charter, and/or local ordinance use options that the State of Florida affords all local governments. At times, at the end of these types of loans they are forgiven and turned into grants, but the City is not eligible to take advantage of this program because we can't incur the initial debt due to our charter restrictions.

Based on this unique situation, following Hurricane Ian, the City Commission directed staff to return with ballot language for a voter referendum in an upcoming election to amend the charter and allow the City to borrow funds and incur debt. We are only asking to be allowed the tools that every other municipality and county in Florida have been doing for decades. The City's proposal is more restrictive than what is currently authorized under Florida law because it places a dollar limit on the amount that can be bonded. Regardless, it is state law that all general obligation bonds have to go through a referendum. On February 26th at a Commission Workshop, staff proposed language structured similar to Sarasota County's Charter and Commission directed staff to investigate the possibility of going to a referendum in August 2025. The Commission approved this pathway. It included the ability to borrow for disaster recovery as well as the ability to borrow up to \$28M per project for safety & public health without a voter referendum. Borrowing more than \$28M per project would still require approval via

majority public vote. The City has robust safeguards and mechanism for accountability. There's an overall capacity to sustain long-term debt service obligations. The City would identify various debt affordability measures, both quantitative and qualitative. It would develop guidance that best fits the community and results in policies that support the responsible and affordable use of debt financing. Before any debt is issued, financing needs would be presented to the City Commission for discussion and approval during a public meeting. In addition, debt issuance requires working with a number of independent professionals to ensure a successful financing.

Leading up to recent discussions, in April 2022, the City entered into an agreement to perform architectural, engineering and construction administration services for a new Police HQ and the option of renovating the current police station. On March 2, 2023, the consultant's options were presented, and staff was directed to move the project forward by identifying land to purchase, negotiate with the property owner, and return to Commission for purchase approval for a new Police HQ. Staff was also directed to work with the engineering firm Schenkel & Shultz to prepare a 30% site, drainage, and construction plan for a total consultant fee of \$1M. On July 25, 2023, Commission approved the purchase of five parcels located on North Toledo Blade Boulevard for a new Police HQ for \$2.7M.

On March 7th during a Commission Special Meeting, the staff and consultant presented the study findings, which included models ranging from \$122M for growth to 2065, \$100M for growth to 2050, \$78M for growth to 2030, and \$50M for current growth. NPPD was well supported by the City Commission and directed to move forward with the \$122M model and answer follow-up questions, including identifying funding sources. Commission also directed staff to return draft language for a ballot question combining a request to use surtax for \$50M and borrowing authority of \$35M, both asks being for the new Police HQ.

Staff has received a lot of community support for the NPPD HQ project, and it is greatly appreciated. Staff performed in-person and online community engagement in a community town hall on March 21st. We listened and received feedback. There is a lot of merit in some of the comments that the Police HQ project needs further due diligence. For the most part, all the voices agreed that a Police HQ was needed, but the timing of constructing, funding sources, and the growth dates were all part of the conversation. Also, on April 2nd the Commission met with the North Port Area Chamber of Commerce to discuss the need to use surtax as a funding source for the NPPD project. The main concern was moving Price Blvd Widening Phases 2 and 3 to out years, to be "unfunded" in a yet-to-be-approved Surtax V. This proposed restructure would push back the Price Blvd. Widening Phase II project, which was scheduled to begin 15 years from now, to meet a more urgent need now. But the Chamber made good points that four other surtax requests around the state failed in recent years, so Surtax V is not a done deal and should be treated as such and not with absolute certainty. There were also questions about why the Police HQ project wasn't included in the previous surtax list. To be clear, this is a large-scale infrastructure project. They are not traditionally paid for from surtax but are typically bonded and repaid over 30-40 years. This project would consume roughly one-third of the City's 15-year Surtax IV total, and a lot of other projects and needs would suffer by delay or removal. But this is yet again a "pay as you go" mentality. It is not sustainable. What if you wanted to buy a house and were told to pay as you go, and not borrow from a bank and repay a loan? That is the position our city is in.

On March 7, 2024, the City Commission directed staff to identify \$4M to fund the remainder of the design documents for the Police headquarters. The Commission approved staff's recommendation to

use \$4M identified in the General Fund on April 1, leaving approximately only \$3.5M of General Fund balance. City staff has researched all the options and consulted with our financial advisors, PFM. The most we could come up with is \$35M voter-approved debt (for a millage increase), \$50M in surtax (no millage increase), and an estimate of \$15M (selling property, federal grants, state appropriations, and city fund transfers). But there are too many unknowns at this time to provide a strong level of comfort, and it still falls short of the \$122M model the Commission approved, which has received a lot of feedback that the price is too high.

RECENT EVENTS

Over the last couple of weeks, I have been contemplating on the best option for the city. I believe we should consider an approach that will allow for the long-term needs of the city to be handled responsibly and provide a much-needed facility for the NPPD. I requested our team put together a rough estimate of projects they knew would be needed over the next 10-15 years. It totaled \$1.8B! These needs are in alignment with a city of our age that is growing at our rate, with infrastructure to maintain or replace and other important projects to complete. The surprising part is our inability to clearly see how to fund this amount.

On April 10th our Grants Manager gave us the sobering news that our Hurricane Ian inspections were done and our cost to repair/replace the damage to City facilities is approximately \$8M. Not all of that cost is General Fund cost. But one example is the entire roof at the Morgan Center, which has held up the replacement of the gym basketball floor while we have worked through the insurance and FEMA process. This repair alone is going to cost more than \$2M. As the City makes permanent repairs, insurance will reimburse some costs and then FEMA will evaluate the balance for possible reimbursement, a process that will take years. We still do not have a reliable timetable on when those funds would be received, and neither source will make the City whole, but they will help. Staff is working on a plan that would prioritize and phase in our recovery efforts as quickly as possible. If the City experiences a significant hurricane this season and incurs more damage to already damaged buildings or facilities that have not been repaired yet, we will run into difficulties seeking reimbursement from insurance and FEMA on the new damages, thus adding more burden to our taxpayers.

The city is not equipped to pay for all of these capital repairs and needed projects. Without action another emergency may lead the city towards a fiscal cliff. We believe we must make the charter amendment our first step. Our inability to borrow has handcuffed this city for too long. If the voters allow us to have borrowing authority, we can then build the Police HQ as a future step. But we have a responsibility to allow for a successful future of the city. We must perform an economic development analysis to see how our "growth will pay for growth." The City needs to be able to have a reasonable plan and forecast the positive impacts of all the various growth areas in the city. A dependable determination of expected impact fees we will collect in the coming years based on recently raising our rates - and the need to potentially raise them in the future so we are not playing catch up - will provide a good value for our future.

We also must do a financial analysis to create a plan for paying for \$1.8B in capital needs. There are multiple ways to pay for capital and high-cost needs. Not all debt incurred must be bonds; there are other instruments available. Once the city has borrowing authority, it will allow options such as capital leases, lines of credit, and certificates of participation (COPs). But all debt is a calculated, thoughtful, and responsible decision that would be approved by the Commission, not city staff, in a public setting.

There are internal and external controls in place, just like in almost all other cities and counties where this is a normal part of municipal administration. And just like most individuals seeking to borrow money, the city's borrowing power will be based on its credit rating and what it can reasonably be expected to pay back without overextending itself.

A good example of a useful bonding authority is Warm Mineral Springs. It's an enterprise fund, it has its own revenue source, and it makes hundreds of thousands of dollars annually. If we had the ability to borrow, we could use revenue bonds to finance needed infrastructure improvements without incurring any additional taxpayer burden.

How do we fund our large-scale infrastructure needs? Surtax is not the answer. We offered the \$50M change in the current surtax project list to help solve a problem of today, and other surtax projects totaling approximately \$22M were suggested to help meet this more immediate need as well. There was not a plan to address the \$22M in deferred projects since it was newly identified as a potential funding source for the Police HQ. We need to provide a plan for any surtax list adjustments, rather than just moving them to "unfunded" options for Surtax V.

WHERE DO WE GO FROM HERE?

So where do we go from here, and how to do we not sacrifice our future success while meeting today's challenges? Here are some recommendations:

- We **MUST** make fixing the long-standing problem of not being able to borrow money with a charter change the **FIRST** step before we do anything else. It is very unrealistic to think the City can sustain a "pay as you go" financial model. Staff has proposed charter amendment language, and with Commission direction can finalize the ballot question for the staff-recommended November general election. The City has come of age and must conduct itself like cities of similar size and growth trajectories. Let future residents help absorb the costs as they arrive.
- City Commission has stated a desire to build a \$122M Police headquarters, and staff has recommended a \$100M model, but full funding has not been identified for either option. Recently, Commission approved the request to complete the design, site, and construction planning to 100%, costing \$4M. Once design is done, the City would be committed to a \$100M+ model without concrete funding identified. It would also mean that the final design plans completed in the next year (approximately spring 2025) would have a 90-day Guaranteed Maximum Price (GMP), and we may or may not have fully identified the \$100M+ to begin construction. If our funding is short and not prepared, it will cost hundreds of thousands of dollars to change the completed plans to match our secured funding amounts. I suggest we look at this from the other way around.
- The City may be able to get to the 100% design documents in phases in order to avoid a \$4M one-time hit to the General Fund. There may be an ability to go from 30% to 65% to 100%. This allows time for more of our financial picture to define itself. It would also push back the time when we hit the point in design that "you can't change the model." During the spring/summer of 2025 the project can be revisited to see how much money we have secured from grants, selling property, and a property transfer. Once we know the amount of funding, we have

available to spend, then the consultant can complete their design work and we build what we can afford based on:

- The successful bonding authority of \$28M for the project for safety and public health through the proposed charter amendment
 - Grants and appropriations from our state partners, who we are actively soliciting for financial assistance and will continue to do so through the next 2025 legislative session
 - Staff are also working with our auditors to properly assure we are able to transfer funds for the current Police station
 - Staff will continue to work with the Commission and analyze any decisions of property to sell; there are only a few options of significance for consideration.
- Taking more time while working on the aforementioned items ensures the pathway will be much clearer by next year. If the funding doesn't match the prior approved model, we can work on completing it in phases. Phasing will cost more, but we will build what we can afford.
- The City's purchase of land on North Toledo Blade, our completed 30% design work, and our decision to continue the momentum of more design work shows our commitment to the NPPD and our faith and confidence in our team. The project will NOT be put on the shelf and left unfinished.
- Another benefit: this additional due diligence period would give us time to complete two studies that can help the City's decisionmakers:
 - An economic development study can analyze the changes made to the Unified Land Development Code when it is adopted this summer to maximize commercial opportunities for the City. This will create a plan to show the revenue opportunities and direct staff in the most effective ways to maximize economic development. The Camoin Study has already done some of this work, so this is not starting from scratch, but it will need to be supplemented to include the entire city and new zonings resulting from the new ULDC.
 - A financial condition analysis would use ratios, city comparisons, a grading of the City's conditions, and reveal early warning signs of financial strain. It would also identify unrealized funding sources, help maximize known funding sources, and justify any future millage increase.
 - Prepare a comprehensive Long-Term Capital Improvement Plan (CIP) for North Port. The plan will encompass all city services, including general government, fire district, road and drainage district, solid waste district, and water and sewer utility services. The plan will include a needs assessment and financial projections as well as a framework for prioritization of needs. The objective would be to provide a strategic roadmap for city-wide capital investment, aligning with the City's growth, development needs, and fiscal sustainability. The plan would ensure that capital investments are strategic, cost-effective, and aligned with the needs and priorities of our residents and stakeholders.
- Based on advice from two different special counsels, there are some pathways to further explore using capital leases to pay an annual debt service amount.
 - Standard Lease – No public referendum required if structured as year-to-year, and surtax can't be used for the payments. This would be an approximate \$6-8M annual operating payment.

- Lease Purchase – No public referendum is required, and surtax can be used for the payments. Bond counsel recommends that the City file a bond validation in the court system for this route. There is no guarantee that the City would prevail and any order would be limited to this specific financing endeavor.
- There are some drawbacks to this plan, include:
 - The construction price for the Police HQ is only going to rise. If we use the \$4M to complete the design now, it will lower the price from the current \$122M to approximately \$111M since the project was initially priced to start after a bond approval in November. Starting now saves money. Starting the construction process in spring/summer of 2025 will likely decrease the cost by 6% for any model selected at today's costs.
 - The NPPD will have to incur more cost for trailers/portables at the current Police station. These are needed now for space options and will be extended for at least one more year. They cost a few hundred thousand dollars annually.