Response to Questions on the FY 2011 Budget

Request By: Supervisor Foust

Question: Does the County have a procedure for reviewing its capital assets to determine whether tax payers would benefit by the sale of an asset to the private sector and lease back by the County? If so, what is the procedure? If no, does staff recommend that such a procedure be implemented? If not, why not?

Response: County staff did perform a review of all County-owned property in November 2005. This review identified that the County owned 741 parcels totaling 3,913.7 acres. The median acreage was .78 acres and there were 244 parcels smaller than 2 acres. Furthermore, of the total parcels, 252 were used by County facilities, 295 were not suitable for development due to shape, size, environmental issues and/or zoning, and 170 were legally encumbered, i.e., no density, dedicated open space, or proffer condition.

The following types of facilities are located on the 252 County-owned parcels referenced above: Administrative facilities, Wastewater Treatment facilities, Solid Waste facilities, Fire Stations, Police Stations, Libraries, Park and Ride locations, Recreation Centers, Courthouse and Public Safety facilities, pumping stations, detention ponds, housing units, training, shelters, detention, and other miscellaneous uses. It should be noted that the majority of the County owned acreage, 1,685 acres, is located in the Mt. Vernon District which has the I-95 Landfill and the Noman M. Cole, Jr. Pollution Control Plant.

The inventory of County property has not appreciably changed since 2005. However, the County has transferred ownership of approximately 79 parcels to the Park Authority as the land was immediately adjacent to Park Authority land, previously proffered to the County as open space or park land, etc.

The County does not have a set procedure for periodically reviewing its capital assets for private sector sale and/or lease back. Any transaction of this nature would be handled on a unique case by case basis. A procedure is not recommended for the following reasons:

1) Per the previous analysis, current assets were deemed by the Board to be unsuitable for sale, leaseback or private development.
2) For assets already acquired, this would be seen as a sign of fiscal distress and be evaluated as such by the bond rating agencies.
3) For assets still being paid for through General Obligation Bonds it would be difficult to enter into a sale and lease back arrangement. Tax consequences and defeasance of any outstanding bonds would severely curtail any benefit. Again this would be seen as a distress issue by the bond rating agencies.
4) Investors are primarily interested in toll roads and bridges. Most of the County's building assets are with the school system. The County owns libraries, police and fire stations, the courts, etc. Other funds, such as Wastewater and Solid Waste funds do own and operate special purpose facilities.
5) It is anticipated that any lease payments due to the private sector would be generally more than the cost of our own debt.

6) Such a lease would likely add to the County's debt burden, thereby reducing debt capacity available for other projects. If structured as an operating lease, the County risks losing total control of the asset at the end of the lease term.
7) Such programs may be considered as an alternative financing mechanism for new construction or extensive renovation, however, the cost-benefit of the project would be evaluated against traditional pay-as-you-go and general obligation debt alternatives which will be less expensive than private sector financing.
8) The IRS has severely curtailed the tax benefits available to the private sector from such programs which would be reflected in the pricing offered for our asset with a discount expected from the County.
9) The market for resale of any such debt instrument is also severely limited and would be reflected by a further discount in pricing.
10) Toll road type securitizations typically transfer various levels of political control and/or decision making to the private entity. The County may not find this acceptable.
11) Sales of assets in the current marketplace environment are not expected to yield high rates of return.