

IAC Fall Conference

Alternative Public Financing: P3s & Annual Appropriation Lease Structures



The New Taxpayer: What is the Value?



- **The "Skeptical" Taxpayer:** High research, low loyalty. Residents constantly weigh tax rates against "perceived value"—and are highly willing to vote with their feet. *Source: Majorities view local, state, and federal taxes as too high and delivering too little value for people like them - AP-NORC (University of Chicago)*
- **The "Tax Burden Shift":** The rise in residential property values has shifted more tax burden to residents
- **"Subscription Fatigue":** Residents are aggressively auditing their monthly expenses. They view utility rate hikes and property tax levies exactly like a Netflix price increase. *Source: Deloitte Digital Media Trends*
- **The Generational Divide:** Serving two customer bases with competing demands: *Source: The Pew Charitable Trusts (State Fiscal Health Reports)*
 - The Younger Consumer (Millennials/Gen Z): Demands frictionless digital convenience and affordability, without sacrificing premium amenities (parks, trails, fiber).
 - The Legacy Resident (Boomers+): Skeptical and highly vocal. Demands immaculate city services while demanding taxes remain flat.

The New Taxpayer: Shift in Civic Engagement

From: The Civic Duty Model	To: The Competition Model
Loyalty: "It's my duty to invest in the city's future."	Comparison: "How does our tax rate compare to the next town over?"
Obligation: Residents accept taxes as a cost of membership.	Expectation: Residents demand a "frictionless" ROI for every dollar.
Captured Audience: Residents stay and try to fix local issues.	Exit Strategy: Residents "vote with their feet" (Tiebout Hypothesis).
Broad Support: General bonds pass on "community spirit."	Transactional Support: Bonds only pass if the direct benefit is undeniable.

Financing Tools: Current Financing Trends

Type	Annual Appropriation Lease	Community Infrastructure District (CID)	Public-Private Partnership (P3)
What It Is	A multi-year lease for essential assets, where payments are renewed annually by the county.	A special taxing district created over a new growth area to fund the infrastructure it requires.	A long-term contract with a private firm to design, build, finance, and/or operate a public asset.
Best Used For	Essential equipment (police vehicles, plows) and core facilities (court houses, jails).	Large-scale "backbone" infrastructure for new master-planned communities (arterial roads, sewer trunks).	Complex, revenue-generating projects (water treatment plants, paid parking facilities, conference centers).
Key Advantage	Speed & Certainty. Acquires essential assets today to lock in prices.	Makes Growth Pay for Growth. Isolates the cost of new infrastructure strictly to the new development that benefits from it.	Shifts Risk & Taps Expertise. Transfers construction, operational, and financial risk to the private sector.
Voter Approval	Yes. 50% + 1 if beyond 5-years for court houses and jails.	No. Created by county ordinance; the district incurs the debt, not the county.	Yes. Falls under annual appropriation lease clause and would require 50%+1 for certain facilities.
Risk Profile	Appropriation Risk. The county must appropriate funds each year or lose the asset. (Low risk for truly essential assets).	Development Risk. Bond repayment relies on the new development being built out as planned.	Partner Risk. Success is tied to the financial health and performance of the private partner.

Mechanics of Annual Appropriation Leases & COPS

The Ground Lease & Financing Lease

The public sponsor leases real property to a financing trustee or nonprofit corporation for nominal consideration, then leases it back in exchange for semi-annual lease payments.

Annual Non-Appropriation Clause

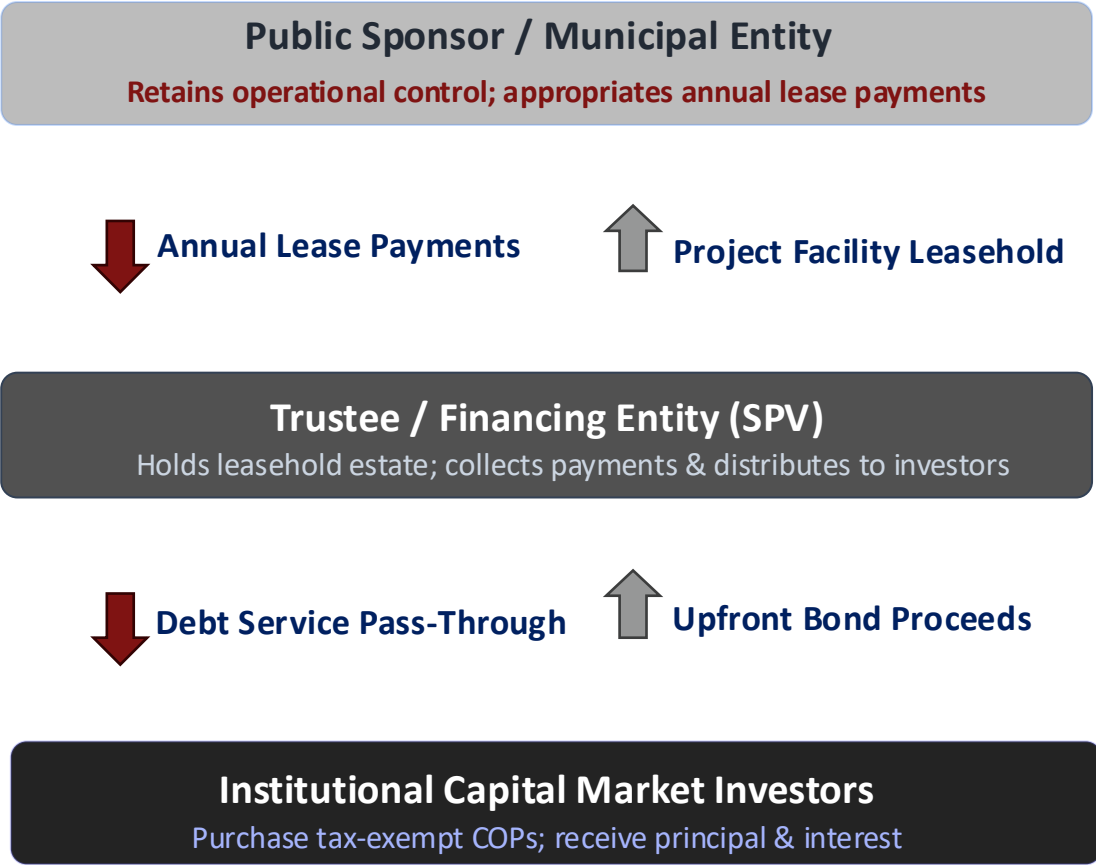
Each fiscal year's payment is subject to governing board appropriation. Failure to appropriate terminates the lease without creating an event of legal bond default.

Certificates of Participation (COPs)

The trustee executes undivided fractional interests in lease rental payments and executes sales to municipal capital market investors as tax-exempt securities.

TRANSACTION FLOW ARCHITECTURE

Tri-Party Legal Relationship



Legal Framework: Navigating Debt Limitations



Constitutional Debt Limitations

State constitution prohibit Idaho political subdivisions from incurring indebtedness exceeding current-year revenue without a public referendum.

Supermajority: Idaho requires a 66.7% voter thresholds for long-term tax backed debt.

Simple Majority: Idaho now requires a 50% +1 voter threshold for leases longer than 5-years for some count facilities.



Annual Appropriation Lease

Because each fiscal period is legally treated as an independent lease term, the public body has not bound future taxpayers to future obligations.

Non-Indebtedness: 2015 GBAD case affirms that unexercised option years do not constitute "indebtedness" under debt limitation clauses.



The Essential Asset Test

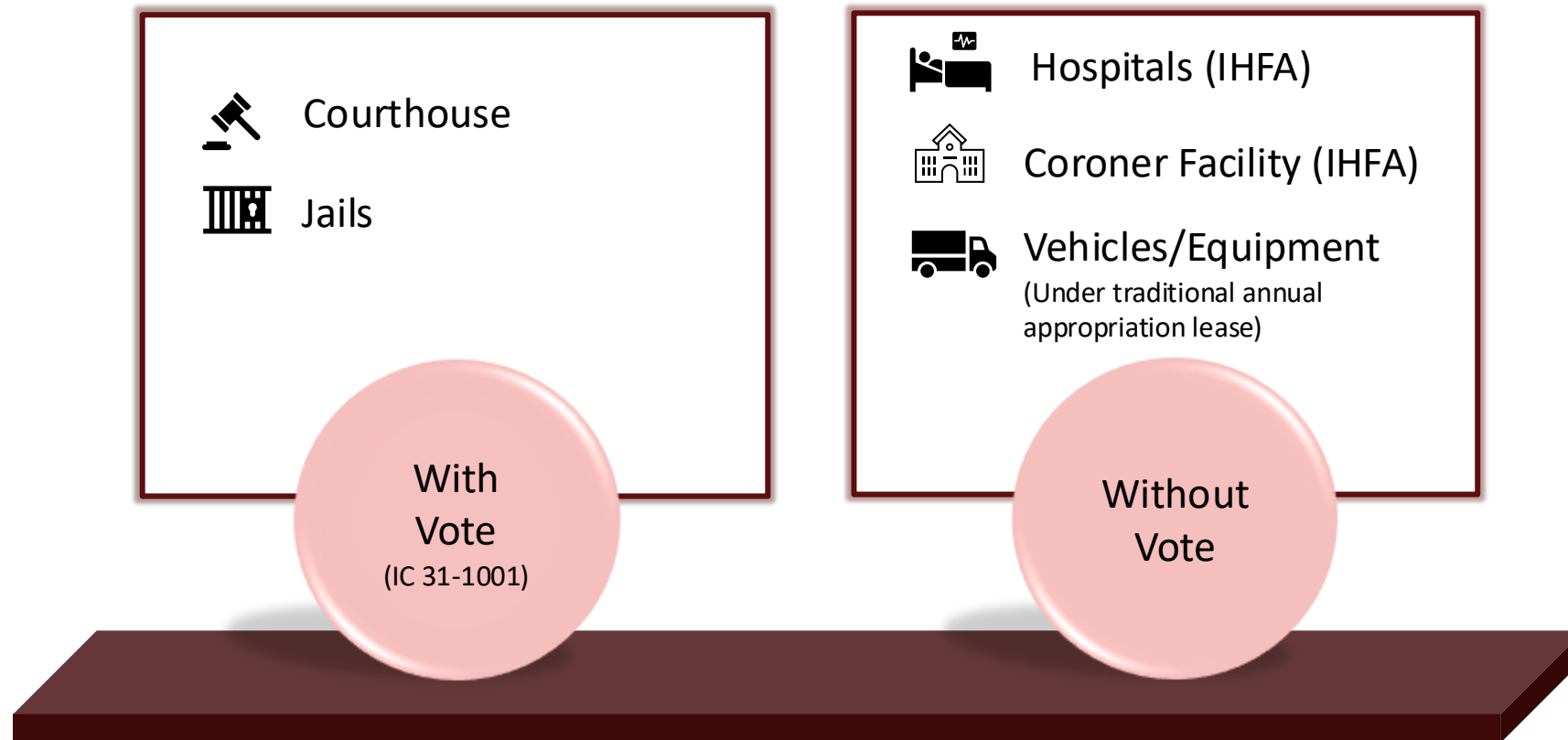
While the legal right to walk away protects the debt requirements, capital markets demand strong structural incentives that guarantee continued annual appropriation.

Non-Appropriation Risk: If the issuer fails to appropriate, the trustee takes possession of the asset.

Essentiality Test: Vital civic facilities provide investors with additional assurance of likelihood of non-renewal

County Leased Facilities

What Qualifies for County Lease Financing Beyond 5-Year Term



What is a P3?

A P3 is neither a "silver bullet" nor "free money". It is a strategic trade-off between cost, control, and risk.



The Cost Trade-off: Financing Premium vs. Cost Certainty

- The Risk: Private capital is always more expensive than public capital
- If the county issues tax-exempt municipal bonds, it will pay the lowest possible interest rate. In a P3, the County pays a higher yield to private investors and lenders.
- Long-term the county is transferring risk for the higher premium cost.

The Control Trade-off: Outsourcing Burden vs. Loss of Flexibility

- Once a P3 contract is signed, the county's hands are tied.
- A P3 forces long-term discipline. It prevents future county boards from cutting facility maintenance budgets during tight fiscal years, protecting the physical asset
- However, it may reduce the county's day-to-day administrative flexibility

Major Pillars of P3s



Lifecycle Risk Transfer (The "Fix-it" Guarantee)

- 1) Shifting the Burden of Asset Maintenance
- 2) Build-to-last alignment:



Performance-Based Payments (The "No Service, No Pay" Rule)

- 1) Baseline: The county and the private partner agree on clear, measurable performance metrics.
- 2) The Deduction (No Service): If something fails that cause a portion of the building to be unusable the a precalculated contract deduction is made.



Budget & Schedule Predictability.

- 1) Developer carries construction risk and financing costs
- 2) Aggressive, Market-Driven Timelines

Design-Build vs P3

Feature	Design-Build (DB)	Public-Private Partnership (P3 / DBFOM)
Contract Duration	Short-term (ends when construction is complete).	Long-term (typically 30 to 50+ years).
Financing	Publicly funded upfront (County cash, grants, or municipal bonds).	Private partner secures upfront financing (equity and private debt).
Long-Term Maintenance	County staff handles all repairs, cleaning, and utility costs.	Private partner is contractually obligated to maintain the facility to "like-new" standards.
Payment Structure	Milestone payments made to the contractor during construction.	No payments are made by the County until the building is open and fully operational.
Risk Allocation	Construction risk is shared; operational and financial risk stays with the County.	All lifecycle risks (design, construction, finance, maintenance) are transferred to the private partner.

Public Private Partnerships “P3”



Design-Build-Finance

The Structure:

The private partner designs, builds, and temporarily finances the capital costs of the construction phase.

Payment Mechanism:

The government typically makes milestone payments or pays a lump sum upon construction completion, taking over full operations and maintenance immediately.



Design-Build-Operate-Maintain

The Structure:

The private partner is responsible for the design, construction, and long-term physical management of the asset.

Payment Mechanism:

The public sector (e.g., the County) provides all upfront capital using its own cash reserves, municipal tax-exempt bonds, or state/federal grants.



Design-Build-Finance-Operate-Maintain

The Structure:

A single private consortium (often organized under a project-specific Special Purpose Vehicle, or SPV) handles the entire lifecycle of the asset—from initial financing and construction to long-term operations and maintenance.

Payment Mechanism:

The private partner recovers its upfront debt and equity investments through either user-pays fees (such as toll revenues) or government availability payments (fixed regular payments from the public sponsor tied to strict performance standards).

Things to consider



Procurement routes: Political subdivisions must follow Idaho’s local procurement statutes. For construction delivery, you can use: Design–Bid–Build or Design-Build.

Leasing authority: To stay within Art. VIII, §3, municipal “lease-purchase” agreements typically include a true annual appropriation out with no penalty for non-renewal.

Revenue-only financing (to avoid “debt” with a tax pledge) Idaho Constitution Art. VIII, §3 expressly permits revenue bonds for utilities and certain facilities, payable solely from rates/charges (majority vote for many utility assets). That revenue-only structure can support a P3 where the private partner is paid from project/user revenues, not taxes.

Urban Renewal Agencies (URAs) as a P3 platform - Under the Urban Renewal Law (Title 50, Ch. 20), a URA can acquire, lease, dispose of property, enter disposition & development agreements, and issue bonds, with the plan approved by the local governing body. This can be powerful for real estate, structured parking, streetscapes, and mixed-use civic projects, often supported by TIF.

Financing Overview

What would a legally workable Idaho P3 look like?

Procurement: Would still be subject to and RFP process under §67-2806A using design-build (§67-2309)

Leasing wrapper:

- Ground lease (public → project company) and facility sublease (project company → public) for 20–30 years.
- Payments are subject to annual appropriation (true non-appropriation out, no penalty), preserving constitutional compliance.

Security & step-in: Lenders get collateral/step-in rights; public retains audit and performance oversight

Backstops: If applicable, use URAs to support certain payment elements (e.g., structured parking) via TIF.

Financing Overview

What would a legally workable Idaho P3 look like?

Revenue-risk concession (parking, solid waste, certain utilities)

Concession agreement grants right to collect rates/fees; public sets regulatory/affordability guardrails.

Financing: 100% private project debt/equity or public revenue bonds payable solely from project revenues (where authorized)

Procurement: RFP under §67-2806A and design-build §67-2309 if capital work is included.



Thank you

Let's collaborate!

ZIONS BANCORPORATION | ZIONS PUBLIC FINANCE

800 W Main Street, Suite 700 Boise, ID 83706



Michael Keith



Michael.Keith@zionsbancorp.com



(208) 501-7533



<https://www.zionspf.com/>

