



Hamilton County

County Administrator

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To: Board of County Commissioners

From: Patrick Thompson, County Administrator

Subject: Jail Strategic Financing Plan

Date: June 13, 2006

Copy: Simon Leis, Jr.
Ronald Roberts
Christian Sigman

Purpose

The purpose of this memo is to respond to the BOCC approved resolution (Attachment A) calling for the administration to develop a financing plan for the proposed new jail. In developing this plan we examined several options in the areas of financing, revenue generation, construction procurement, site location, and operations. Analysis continues on many of these fronts. The approach in this plan is aligned with the facility recommendations in the Hamilton County Corrections Master Plan (CMP) prepared by Voorhis Associates.

In summary, I recommend the BOCC increase the sales tax from 6.5% to 6.75% for the construction and financing of the new jail. This approach would generate \$32.5 million annually and will limit financing costs because of a shorter financing period of 8-10 years. We are still assessing options for increased operating costs. More detailed operating costs will be determined once the size of the facility, the detailed design, and site location are finalized. The sections that follow provide information as to funding options assessed.

NOTE: We have worked with each of the commissioners as they form their policy positions on this important issue for the county. We will continue to provide objective support in your efforts to come to agreement on the financing, facility size, facility location, etc. I realize a proposal has been announced publicly by a commissioner. My recommendation is based on choosing a funding stream and financing approach to minimize debt service costs for the project. This

recommendation can be modified to include other policy considerations of the BOCC such as an associated property tax rollback as well as the size of the facility.

Cost Analysis

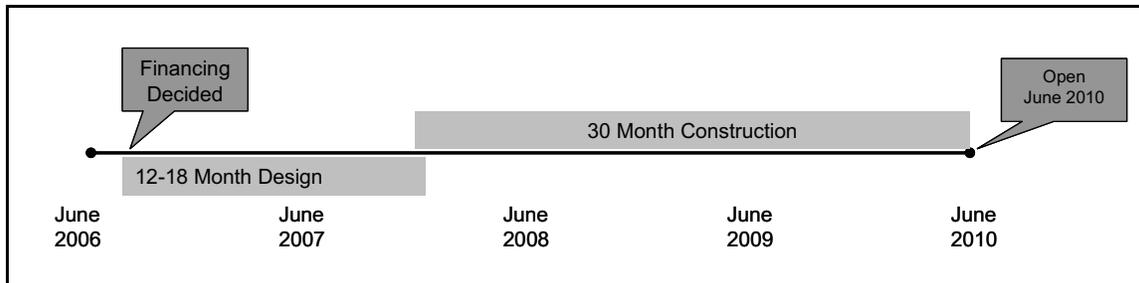
An initial step in developing the financing plan was to validate the cost estimates in the CMP. We have contacted several architectural design firms to reaffirm the cost estimate provided by Voorhis Associates in the CMP report submitted to the BOCC in late 2005. The informal responses from these firms support the \$225 million estimate provided in the CMP for a 1,800 bed jail near downtown. Two of the firms recommended a more detailed analysis of the specific space requirements of each functional area of the proposed facility to possibly reduce the square footage of the building. This will be done during the detailed design phase of the project.

We have also conducted a thorough review of a proposal by URS Corporation to expand the Justice Center. A Justice Center expansion was not examined in detail in the CMP because of several risk factors. URS recently approached the county with a potential solution for a Justice Center expansion based on their work in 1996 to add 600 beds onto the Hamilton County Justice Center (HCJC). At this time, a site near downtown is still the recommended approach as opposed to expanding the HCJC because of the increased construction and operating risks associated with a 1,800 bed HCJC addition. Attachment B includes the Voorhis Associates review of the URS Justice Center expansion proposal.

Schedule

The design and construction of a 1,800 bed facility is estimated to take 42-48 months. Assuming architectural design is complete in early 2007 and no extraordinary delays associated with site acquisition and construction, the new facility would become operational in mid-2010. Until that time, the county would house up to 200 inmates per day at the Butler County jail. These housing costs as well as associated additional transportation and public defender costs will be included in the financing approach as there are insufficient general fund reserves to carry these costs. Figure I provides a major milestone calendar for the jail expansion.

Figure 1 – Jail Expansion Schedule



Capital Cost Options

The estimated construction cost for the 1,800 bed facility is \$225 million. This project will be debt financed; however, the amount, term, and issuing entity have not been finalized. The table below lists various funding sources considered to finance the construction of the facility as well as the operating costs of housing inmates in Butler County during the construction period.

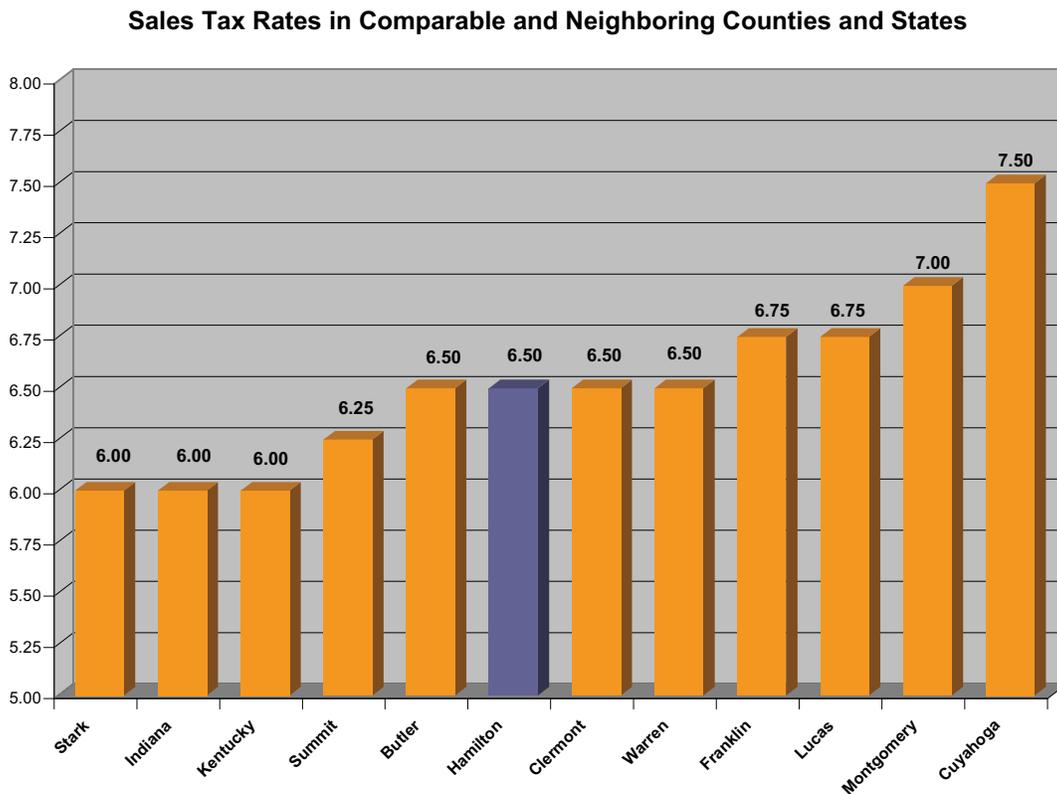
Table I – Potential Capital Funding Sources

<i>Source</i>	<i>Comment</i>	<i>Advantages</i>	<i>Disadvantages</i>
County Sales Tax	Increase the current sales tax rate in some increment from 6.5% to 7.0%. Each 0.25% generates approximately \$32.5M annually.	51 of 88 counties are already at 6.75% or higher. Could be set as ending date certain. 45% of the burden to non-county residents.	Revenue has been flat for 5-years.
Jail Property Tax Levy	A property tax-based levy on the fall ballot. Sized to reflect cost estimate and financing approach.	Could be structured to end date certain.	Adds an additional levy on an already uncompetitive property tax structure.
Per Household Assessment Requires ORC change	Similar to stormwater assessment per property. Assessment would be determined by ultimate cost estimate and financing.	Does not require voter approval. Could be structured to target jurisdictions with high arrest rates. Very visible on tax bill.	Very visible on tax bill. Individual jurisdictions may change arrest procedures or establish relationships with other jails (if legally possible).
Federal “Cap Funds”	U.S. Marshals Service (USMS) capital funding to assist local jails that house federal prisoners. Local support ranges from \$100,000 to \$2-3 million.	May be able to develop a long-term guaranteed housing agreement.	The CAP Funds program has not been funded in several years in the federal budget. USMS is requesting additional funding in 2008 for CAP.
Federal Earmark	Request an earmark in the federal appropriations process via our congressional delegation.	Does not require a local match.	Uncertain success and the length of time to get the federal budget approved.
State DRC Grant	The Department of Rehabilitation & Correction (DRC) has in the past provided funding assistance (grants) to local jails.	Does not require a local match. Butler County received \$10M in 1999.	Uncertain success given the tight state budget. State capital resources are scarce.
City Contribution	The City would provide an annual contribution to offset the construction of the facility.	Recognizes that the City is a major consumer of jail services.	Singles out the City.

Capital Cost Recommendation

Given the magnitude of the project, I recommend that the BOCC consider an increase in the sales tax from the current 6.5% to 6.75%. This increase would generate approximately \$32.5 million annually. As detailed in the graph that follows and in Attachment C the county's sales tax is equal to or less than the other Ohio urban counties. Using this approach would provide resources immediately in 2007 to fund interim operating costs of housing inmates in Butler County and limit financing costs during construction. It is estimated that the sales tax increase would end in 8-9 years.

Graph I – Current Sales Tax Rates



Concurrent with increasing the sales tax rate, we will continue to seek funding support from state, local, and federal sources. To the extent that these resources materialize, the bonds would be paid off earlier and the sales tax increase would end sooner.

Given the magnitude of this project we have been working closely with our bond counsel (Peck, Shaffer, Williams LLP), financial advisors (Public Financial Management Inc.), and the Prosecutor's Office to ensure the proposed financing plan conforms to the Ohio Revised Code concerning permissive sales taxes and prudent debt financing. Attachment D includes an opinion from the Prosecutor's Officer affirming the ability of the BOCC to increase the sales tax.

A similar proposal as a ballot initiative with an offsetting property tax roll-back and levy reductions has been publicly announced. The aforementioned Prosecutor's Option also includes

an opinion concerning a question raised by the County Auditor as to the ability to enact a property tax rollback supported by a sales tax increase. Both options were deemed permissible.

Operating Cost Options

The planned 1,800 bed facility would consolidate three older facilities and result in annual operating savings that partially offset the increased costs of the new facility. The primary savings is the \$2.0 million annual lease payment for the Queensgate facility. In conjunction with the Sheriff’s Office, an annual net operating cost of the new facility is estimated at \$7.5 million beginning in mid-2010. This would provide for 170 additional correctional officers.

Table II – Potential Operating Funding Sources

<i>Source</i>	<i>Comment</i>	<i>Advantages</i>	<i>Disadvantages</i>
Booking Fee Requires ORC change – currently set at \$5 per the ORC	A \$5 fee included in current court fees.	The users help pay for the operations.	Court fees and fines are not a consistent revenue sources because they are occasionally waived by judges and associated collection challenges.
City Contribution	The City of Cincinnati would provide an annual contribution to offset operating costs.	Recognizes that the City is a major consumer of jail services. Specifically, 56% of all arrests.	Singles out the City.
Per diem rates for housing federal prisoners U.S. Marshals Service (USMS)	Inter-governmental Agreement (IGA) for up to 200 federal inmates per year for 5 years. Current max is 35 inmates.	No cost to the County, provides for immediate use upon completion of the new facility.	Results in an effective reduction in net additional beds from 800 to 635 for the term of the 5-year agreement.
Sheriff Asset Forfeiture Funding	The Sheriff Department maintains asset forfeiture accounts for various sheriff enforcement actions.	A non-tax.	Not a reliable funding stream. Somewhat restricted use and exclusive control of the Sheriff.
Court Fines and Fees	Set by ORC and applied by Judges.	Users would be shouldering some of the cost to build.	Court fees and fines are not a consistent revenue sources because they are occasionally waived by judges and associated collection challenges.
Expenditure Reductions	Reprioritize expenditures across the entire Hamilton County general fund budget.	Sets funding priority.	Each reduction will have a constituent base to challenge the reduction.
Program Efficiencies	Efforts to provide services for less cost.	Demonstrates good stewardship of limited resources.	Not a consistent funding stream and may be better suited to improved capacity and productivity as opposed to redirecting resources.

We are still assessing options for increase operating costs. The ultimate operating costs will be determined once final design, site location, and size of the facility are finalized.

I am available to discuss this financing plan as you deliberate on this important issue.