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Newark Mayor Booker Employs “Green Monetization” to Fund Budget, Improve Buildings

Newark (NJ) Mayor Cory Booker

Newark (NJ) Mayor Cory Booker and his team recently faced a difficult challenge increasingly common to cities – the need to fill a large budget gap, which would require the city to cut services, increase taxes and/or or find another source of capital. The difficulty would be in balancing these alternatives.

As mayors know all too well, cities across the country are struggling to balance their budgets in the face of federal and state aid cuts, falling tax revenues, and steady increases in health and pension costs. “Unlike the federal government, cities and states have very few levers at their disposal to maintain vital government services through deep recessions. Tax increases and layoffs are often viewed as the only solution. The problem is the significant harm that will follow if these measures are taken too far, or are executed without careful coordination. So it may sometimes be prudent to issue bonds or find alternative sources of capital as part of the mix,” Booker explained.

“Our hope in Summer 2010 was to raise money by unlocking the value of certain city assets,” said Booker. ***The mayor and municipal council, in exploring the options, spoke with the Conference of Mayors Business Council member Class Green Capital Partners, a specialized municipal advisory firm that helps cities access alternative, low-cost capital through their real estate and infrastructure assets, while simultaneously improving the assets’ energy efficiency and overall value***.

Working with Class Green from this perspective, and with other city and county advisors, the city sought support from the Essex County Executive Joseph D. Vincenzo to pursue a 20-year sale-leaseback of city-occupied properties with the Essex County Improvement Authority (ECIA), which in turn would issue tax-exempt bonds to finance the transaction. After the 20-year lease, title to the properties would revert back to the city for $1. As a key part of the transaction, the city would reinvest at least 20 percent of the transaction proceeds into the properties themselves. This would fund important repairs, produce significant energy savings and - based on New Jersey law and prior fiscal policy - make it more likely that the state would approve the transaction. The county executive was willing to partner with the city, provided that there was substantive investment in the applicable buildings, and further, that meaningful steps were being taken to bring the city’s budget into balance.

The structure worked: the municipal council, ECIA and New Jersey Local Finance Board approved the transaction, and it closed in December 2010.

“Under this approach, Newark used its buildings to cost-effectively raise capital. Rather than selling them outright, we basically used them as collateral, while also improving them, lowering their operating costs, and advancing the City’s green agenda,” said Booker.

The lowest effective cost of capital available in the market was obtained, Booker noted, by combining the city’s credit, third-party bond insurance, a 98 percent tax-exempt structure, and energy efficiency and other savings from the investments in sustainability.

The real estate underlying the transaction consisted of 16 city properties, including the Municipal Courthouse, Symphony Hall, police and fire headquarters and stations, and several city office buildings. Of the $73 million in total proceeds, $40 million went to the city’s general fund. This not only preserved vital city services and jobs, but reduced by over half an otherwise significant property tax increase. Another $11 million paid down existing debt and transaction costs, and the remaining $22 million, or about 30 percent of the total, went to fund sustainability, structural and other improvements to the buildings. Targeted sustainability improvements included upgrades to the mechanical and lighting systems, building envelopes, solar installations, and measures to enhance indoor environmental quality.

Booker’s take-away? “This creative transaction helped us balance short and long term needs. We met pressing funding requirements, while at the same improving the operating and environmental performance of key city properties,” he said.

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