

CITY OF FORT LAUDERDALE

OFFICE OF THE CITY AUDITOR

Review of the Proposed Budget for Fiscal Year 2020/2021

Report #19/20-08

August 12, 2020



Memorandum

Memo No: 19/20-10

Date: 8/12/2020

To: Honorable Mayor and Commissioners

From: John C. Herbst, CPA, CGFO, CGMA
City Auditor

Re: Review of the Proposed Budget for Fiscal Year 2021

The City Auditor's Office (CAO) has performed a review of the FY 2021 Proposed Budget. The budget is compiled by the City Manager of the City of Fort Lauderdale, pursuant to section 4.09 of the City Charter. Our evaluation consisted of staff inquiries, analytical procedures, review of documentation provided by management, limited testing of the evidence provided to substantiate staff's assertions, and an enhanced working relationship with the Office of Management and Budget (OMB) to understand COVID-19 related adjustments, analytics, and assumptions for potential revenue shortfalls and increased expenses.

CONCLUSION

While the City Manager's initial proposed budget for the primary government as presented is balanced, subsequent events since its submittal to the City Commission in July may change that outlook. Certain revenue and expense items have changed, and pending further review of those changes we are unable to conclude at this time whether the final budget is in fact balanced and that all known and determinable revenues and expenditures are reasonable and materially correct. Accordingly, we will continue to work closely with OMB, the Finance Department and the City Manager's Office to evaluate the proposed budget before the first public hearing in September.

The proposed millage is in compliance with Florida Statutes, and the priorities established in the Commission Annual Action Plan (CAAP) all show funding allocations in the coming year.

The Areas of Concern noted below, is a contributing factor to the CAO's determination.

Objectives

The primary focus of our review was to ensure that the budget is balanced, revenue and expenditure estimates are reasonable and materially correct, and that the proposed millage is in compliance with Florida Statutes. We did not attempt to identify operational areas where additional cost savings might be achieved.

Scope

We analyzed the City Manager's Proposed Budget for FY 2021 as presented to the City Commission. The material reviewed included the Budget Message, Executive Summary including supporting tables and schedules, as well as revenue and expenditure detail reports from the City's new SHERPA software system, which replaced the budget preparation system (BPREP). The CAO further examined items of interest identified by the City Commission and Budget Advisory Board (BAB), and considered other issues that may impact the City and the City's obligations.

The CAO would like to recognize that OMB has continued its constructive dialogue with the Budget Advisory Board. Due to COVID-19, the Revenue Estimating Committee discussions did not take place in person, but all departments were on virtual meetings to discuss their respective budgets and potential changes for the upcoming year. In addition, OMB staff have continued to develop and maintain a robust approach to organizing and compiling budget information and supporting documentation. The CAO would like to further recognize OMB's efforts in the implementation of the new SHERPA system and that it was implemented ahead of schedule.

As in the past several years, the CAO considers the overall review of the Budget and OMB's work compiling the Budget to be a low risk engagement due to the following criteria:

- The CAO budget review is performed every year.
- Multiple enhancements to the budget process have been incorporated over the last few years and the process continues to be improved as needed.
- Ongoing and frequent communication between OMB, the Budget Advisory Board, the CAO, and the City Commission continue.
- OMB has had continuity of senior staff within the department and the quality of their work has also remained consistent high.
- No significant errors or misstatements were noted on previous reviews.

Methodology

The CAO performed various analytical procedures, reviewed budget support worksheets and made inquiries of OMB, Finance Department, and individual department budget coordinators as needed. Additionally, the CAO compared the line item detail from the Proposed Budget to the projections of actual expenditures through 9/30/2020. Furthermore, the CAO analyzed trends and variances of the three prior fiscal years' budget vs. actual to gain a historical perspective to identify opportunities to improve the accuracy of revenue and expenditure estimates.

Finally, as part of our audit work the CAO attended all virtual meetings, due to COVID-19, and any relevant meetings as they related to the development of the new Budget. This participation provided further insight into potential future operating conditions and budget requests. By coordinating with staff during the preparation of the budget, rather than after its presentation to the City Commission, the CAO continues to implement a continuous audit approach. This results in a deeper understanding of the departmental budget requests and service level enhancements.

Areas of Concern

Subsequent events

1. Possible unbalanced General Fund budget:

The CAO concurs that, in accordance to information provided on the State's website, State Shared Revenues will be \$2.8 million less than originally proposed. This may be offset as a result of increased savings resulting from the refinancing of our Pension Obligation Bonds at rates more favorable than what was originally anticipated. While it appears that those savings will be sufficient, they will still need to be analyzed further by our office before the first public hearing in September.

2. Funds being withheld from productive use:

Management is contemplating a method of paying debt service that will produce an excess amount in the City of Fort Lauderdale Taxable Special Obligation Refunding Bonds Series 2020 reserve. The proposed budget includes refinancing debt service savings of \$738,000, but the actual refinancing debt service savings for FY 2021 is \$3.9 million. Management is proposing to overfund the debt service fund upfront by an additional \$2.1 million.

A debt service fund is used to account for the accumulation of resources for paying principal and interest on long-term debt. Money set aside in reserves must be used only in compliance with statutory provisions and bond covenants, which determine how reserves are established and how they may be funded, expended, and discontinued. Generally, cities are not limited as to how much money can be held in reserves; however, reserve balances should be reasonable. While it is a prudent practice for officials to save for future expenditures, overfunding reserve balances can result in the real property tax burden being greater than necessary, because the excess funds are withheld from productive use.

3. Necessary expenses not included in the proposed budget:

- This budget reflects the City's attempt to contain both payroll and pension related costs. The budget presented is relying upon certain concessions being made by the Teamsters and Federated unions, as well as the successful conclusion of the Police and Fire unions negotiations. If these negotiations are not successful, there could be a shortfall in the budget being presented. While Teamsters and Federated communicated that they are open to waiving the COLA, they are requesting that the City move forward with the Florida Retirement System (FRS); at this time no Memorandum of Understanding has been issued. As a result, we are not able to conclusively state that the desired savings will be achieved, leaving a potential funding gap.
 - The proposed general fund budget includes a reduction \$700,000 to the original \$1.1 million FRS proposed budget for the delay in the implementation of the FRS. The budget may need to be increased based upon the results of the Teamsters and Federated negotiations.

- Although City Management has budgeted \$2.6 million for completing the ERP implementation, this amount might not be inclusive of all costs. The project had been put on hold until an independent review was completed by an external consulting firm, Panorama. While the budgeted amount is based on Panorama's estimate, negotiations had not yet taken place with the third-party consultant that will be implementing the project, and the phased approach to implementation had not been finalized yet. Also, there is turnover in project participants that might require an additional learning curve and supplemental resources, and there is no deadline established for the implementation. Based on the complexity of the project, and early stages of planning and negotiations, management's budget reflects their best estimate based on the information available to them today.

4. Unknown COVID 19 impact to Parking Fund

With all the business and recreational closures as a result of the pandemic, the Parking Fund is being negatively impacted. There is currently not enough information to predict with a high degree of certainty the actual dollar impact on the fund for the multiple variables involved; the time span of the closures, which operating costs can be reduced as a result of the closures and whether the parking rates will remain at the current amounts. At this time we are not comfortable stating that the Parking Fund has a balanced budget.

5. Pending resolution of the Suntex Marina Redevelopment Project agreement, additional funding may need to be re-allocated within the CIP for:

- \$2.5 million for replacement of the Las Olas Marina Pump Station
- Replacement of 300 feet of sewer pipe associated with the Las Olas Marina Pump Station. The Public Works department is in the process of arriving at a final dollar figure for this project which is unknown at the time of this memorandum.

6. Other items noted during our review which OMB plans to include on the list of changes from the Proposed Budget to Adopted Budget:

- As a result of a change in the method of collecting Stormwater Fees from an internal process to the use of the County Ad Valorem tax bills, Utility Billing revenue is overstated by \$486,653.
- The budget includes \$300,000 in revenue from Bahia Mar that will not occur.

7. As disclosed in the Proposed Budget book page 98:

No adopted budget was included in FY 2020 for the Tax Increment Revenue 2015 Loan associated with the WAVE, since it was anticipated that it would be paid off with the reimbursement from South Florida Regional Transportation Authority (SFRTA). The City has not received the reimbursement from SFRTA, and as such the City was not able to pay off the loan as originally expected. This budget includes the loan's debt service funding requirement for FY 2021.

8. Additional information to be considered

The City Property & Casualty Insurance Fund's budget includes a \$5 million transfer to fund balance. This represents an increase in allocated charges to the various funds to facilitate the rebuilding of the reserves. As of September 30, 2019, the City recognized a liability of \$18 million in the City Insurance Fund related to a class action filed by residents of the Durrs Neighborhood and surrounding areas. Per City policy, reserves that fall below the minimum required balance will be replenished over a three-year period.

Management Response to City Auditor's Review

Management is in receipt of the City Auditor's Annual Budget Review memo. While there was not sufficient time to provide written responses to areas of concern identified by the Auditor prior to agenda publication, we plan to address all concerns at the Joint Meeting of the Budget Advisory Board and Commission on August 18, 2020.

cc: Christopher J. Lagerbloom, City Manager
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Laura Aker Reece, Director, Office of Management and Budget
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