

Memorandum



Date: February 28, 2021

To: Javier A. Betancourt, Executive Director
Office of the Citizens' Independent Transportation Trust (OCITT)

From: 
Cathy Jackson, Director
Audit and Management Services Department

Subject: Final Audit Report – Charter County Transportation System Surtax Review –
City of Miami, Fiscal Year Ended September 30, 2019

We are in receipt of the City of Miami (City) Response, dated January 29, 2021 (Attachment I) to the above-captioned Audit Report issued September 16, 2020. After reviewing the Response, we are concerned that it did not address the full extent of the City's Unspent Surtax Funds and related Cash Shortfall.

The City had Unspent Surtax Funds of \$47.4 million as of September 30, 2019, but only reported Cash and Investments of \$27.8 million in its *Transportation and Transit Special Revenue and Capital Projects Funds* (Schedule I). This \$19.6 million shortfall is excessive and should be replenished immediately. The City contends that the primary cause of Unspent Surtax Funds is the disallowance of debt service payments from prior year audits, which was the result of the City's excess and unused borrowings. We reaffirm that debt service on borrowed funds that remain unused for many years should not be an allowable use of Surtax Proceeds. As repeatedly recommended since September 30, 2011, OCITT should suspend all future Surtax payments until the City has addressed this issue.

We also disagree with additional statements made in the Response, as explained below.

- **Trolley Advertising Revenues**

The City stated that Trolley advertisement revenues are properly accounted for and should not be included in the *Transportation and Transit Special Revenue Fund*. Per OCITT guidelines, Trolley advertising revenues should be used to fund Transit-related expenditures. As such, we recommend those revenues be accounted for in that fund. This is discretionary but not mandatory.

- **Debt Service and Surtax Allocation**

The City acknowledges that it did not make FY 2019 debt payments on refunded Series 2007 and 2009 Bonds, but rather did pay interest on Series 2018 Bonds. We reaffirm the audit adjustment to disallow unpaid debt service and include the interest paid on Series 2018 Bonds.

The City further believes that 100% of debt service can be paid with Surtax Proceeds, even though there are three sources of repayment – Surtax, Local Option Gas Tax, and Parking Revenues. The City historically established an allocation of repayment among the three sources, and actually allocated 64.3% of debt service for refunded Bonds in FY 2019. Because the debt service payments were not disbursed prior to their refunding, our audit disallowed the amounts, but did allow 64.3% of debt service for Series 2018 Bonds (Schedule I). Therefore, we reaffirm the allocation of debt service among the three repayment sources.

As requested by OCITT, we will continue performing annual audits of the City's use of Surtax Funds. Based on the foregoing, the audit for the fiscal year ended September 30, 2019 has been closed. Please contact me at 786-469-5900, if you have any questions.

CJ: bm

Attachment

c: Honorable Harvey A. Ruvlin, Clerk of the Courts
Geri Bonzon-Keenan, County Attorney
Edward Marquez, Chief Financial Officer
Jimmy Morales, Chief Operations Officer
David Clodfelter, Interim Director, Office of Management and Budget
Arthur Noriega, City Manager, City of Miami

City of Miami - Charter County Transportation System Surtax - Audit Summary

Description	Unspent Surtax Proceeds			Major Cumulative Adjustments				Cash per General Ledger ⁴	Cash Shortfall
	Transit	Transportation	Total	Disallowed Debt Service ¹	Debt not Charged to LOGT and Parking ²	Interest Income ³	Total		
Audits through 9/30/13	\$ 14,435,991	\$ 41,478,496	\$ 55,914,487	\$ 13,218,962	\$ 857,740	\$ 2,000,000	\$ 16,076,702	\$ 35,520,102	\$ 20,394,385
Two Years Ended 9/30/15	13,315,690	51,958,114	65,273,804	15,151,432	857,740	2,856,645	18,865,817	40,454,603	24,819,201
Two Years Ended 9/30/17	-	58,075,856	58,075,856	15,151,432	857,740	3,708,941	19,718,113	36,366,394	21,709,462
Year Ended 9/30/18	-	52,988,141	52,988,141	15,151,432	857,740	3,708,941	19,718,113	34,132,914	18,855,227
Year Ended 9/30/19	-	47,394,264	47,394,264	19,190,817	857,740	3,708,941	23,757,498	27,752,391	19,641,873

Debt Service Claimed and Disallowed

Description	Series 2007 Bonds			Series 2009 Bonds			Series 2018 Bonds - Allowed Debt Service	Total	
	Claimed	Disallowed	Net	Claimed	Disallowed	Net		Claimed	Disallowed, net
Audits through 9/30/13	\$ 18,880,958	\$ (9,772,457)	\$ 9,108,501	\$ 9,581,988	\$(4,304,245)	\$ 5,277,743	\$ -	\$ 28,462,946	\$(14,076,702)
Two Years Ended 9/30/15	4,575,643	(1,061,881)	3,513,762	3,750,418	(870,589)	2,879,829	-	8,326,061	(1,932,470)
Two Years Ended 9/30/17	6,723,748	-	6,723,748	5,510,452	-	5,510,452	-	12,234,200	-
Year Ended 9/30/18	3,372,274	-	3,372,274	2,763,726	-	2,763,726	-	6,136,000	-
Year Ended 9/30/19 ⁵	3,359,879	(3,359,879)	-	2,757,121	(2,757,121)	-	2,077,615	6,117,000	(4,039,385)
	<u>\$ 36,912,502</u>	<u>\$ (14,194,217)</u>	<u>\$ 22,718,285</u>	<u>\$ 24,363,705</u>	<u>\$(7,931,955)</u>	<u>\$ 16,431,750</u>	<u>\$ 2,077,615</u>	<u>\$ 61,276,207</u>	<u>\$(20,048,557)</u>

¹ Debt Service was disallowed because the City had substantial amounts of unused Debt Proceeds. Disallowed amounts were calculated as Debt Service charged to Surtax, multiplied by the percentage of Unspent Proceeds in each year.

² In FY 2008, the City charged 100% of Debt Service to Surtax, yet should have allocated a portion (\$857,740) to Local Option Gas Tax (LOGT) and Parking Revenues, as was done in subsequent years. The City did not record this FY 2008 allocation, and thus it is shown as a cumulative adjustment for each audit period.

³ Amounts represent interest that should have been earned on Unspent Surtax Proceeds that were not recorded by the City.

⁴ A separate *Transit and Transportation Special Revenue Fund* was established in FY 2003, but the detail of claimed expenditures did not tie to General Ledger amounts in the *Special Revenue and Capital Projects Funds* until the FY 2017 audit period.

⁵ In FY 2019, the Series 2007 and 2009 Bonds were refunded prior to the City making any debt payments. Therefore, all Debt Service related to those Bonds was disallowed. The City did not claim Debt Service for the new Series 2018 Bonds. We therefore included 64.3% of FY 2019 Debt Service for Series 2018, allocating the same percentage to Surtax that the City had allocated for the Series 2007 and 2009 Bonds.

City of Miami, Florida

ARTHUR NORIEGA, V
CITY MANAGER



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January 29, 2021

Ms. Cathy Jackson,
Director Audit and Management Services Department
701 NW 151 Court, Suite 8-175
Miami, Florida 33136

Re: City Audit Report - Charter County Transit System Surtax Review Fiscal Year Ended September 30, 2019

We are in receipt of the report dated August 5, 2020, titled "Audit Report – City of Miami Charter County Transportation System Surtax Review for the Fiscal Year Ended September 30, 2019." We would like to thank you and your staff for your assistance and for the opportunity to address the recommendations. We have carefully reviewed each point identified in the Audit Report and offer the following responses to the three recommendations.

Recommendation: The City should ensure all claimed costs are eligible for Surtax use, and prospectively consider recording Trolley advertising revenues in its Transportation and Transit Special Revenue Fund to facilitate accountability.

Response: The City takes care to ensure claimed costs are eligible for Surtax use. In order to properly account for Surtax Proceeds, the City tracks the flow of funds through its Special Revenue and Capital Projects Funds' general ledger accounts. The City has provided documentation, including a reconciliation of available funds, that accounts for the balances in those funds and reconciles to the balance per the Audit Report. With this documentation, enough support was provided to ascertain that advertisement revenues are properly accounted for.

Recommendation: Prospectively, the City should ensure all claimed costs are eligible for Surtax use. City staff should submit a revised Five-Year Transportation Plan, approved by its City Commission, specifying how the \$47.4 million in unspent funds will be used. More importantly, Surtax distribution should be held in Trust by OCITT until the City reduces the estimated \$19 million funding gap. Further, OCITT should formally communicate these concerns to the CITT Board with a plan for timely resolution.

Response: The City takes care to ensure claimed costs are eligible for Surtax use and disagrees with AMS that there is \$19 million funding gap (i.e. \$19.6 million less than should be available, reported in the *Transportation and Transit Special Revenue and Capital Projects Funds*). The primary differences between the City and AMS's balance of unspent funds are related to AMS's disallowance of debt service payments (in prior year audits since 2013), and interest income - which is inflated by AMS due to their interest calculation utilizing the disallowed amounts.

As its basis for the debt service disallowances, AMS asserts that "The City should not charge 100% of the debt service payments to the Surtax" because the bonds are to be repaid with three funding sources – Surtax, Local Option Gas Taxes (LOGT), and Parking Revenues. However, the City disagrees with this assertion. The City pledged 80 percent Transportation Taxes, 100 percent new LOGT, and 20 percent of the City's Parking Surcharge to repay \$57.4 million in Special Obligation Revenue Bonds. Although revenue is pledged from multiple funding sources to ensure there is enough coverage to make payments throughout the life of the bond, the percentage of the pledges does not function as a percentage cap/restriction on the use of the respective funding sources for debt service. Therefore, the City maintains the position that each debt service payment does not have to be allocated amongst the three funding sources; and as a result, the City was within its rights to utilize the Surtax monies for the debt service payments being disallowed by AMS. The amount of the debt service payment that comes from Transportation Taxes is recommended by the City's Office of Management and Budget and approved in the Budget Ordinance by the City Commission.

The City also disagrees with the disallowance of the \$4.8 million debt service for FY19 for the following reasons. TD Bank was the City's paying agent for the 2007 and 2009 Street and Sidewalk Bonds. At the time of closing for the new Series 2018 Bonds, the balance in the bank accounts for the 2007 and 2009 Bonds totaled \$4,876,909.57. These funds were to be used to make future debt service payments for FY2019. The closing took place in November 2018 and the funds were used as the sinking fund contribution towards the new debt. In addition, the City made the interest only payment of \$3,231,127.73 on January 2019 for the new Series 2018 Bonds.

The City's 5 Year Capital Plan outlines the projects that the remaining \$27.8 million of Transportation and Transit funds will be spent on, and can be found on page 263 of the following link:

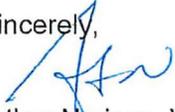
<http://archive.miamigov.com/Budget/docs/FY21/FY%202020-21%20Proposed%20Operating%20Budget%20Book%20-%20Web%20Version%20-%20Final.pdf>

Recommendation: City Staff must strive to provide accurate reports to OCITT.

Response: The City's reporting to OCITT is accurate. The City has provided documentation, including a "Reconciliation of Quarterly Transportation Expenditure Report", reconciled to the balance per the AMS Audit Report. AMS is trying to reconcile using a year-to-date format; however, the OCITT Report is created to track expenditures on a project-to-date basis. As discussed during the audit field work, the City has no problem with reporting expenditures in the format that AMS prefers, but CITT will need to review the report and notify the City of the new

format. In addition, the City communicated with CITT regarding a new template and we were instructed to continue with the old format (project-to-date) for FY19.

Sincerely,

A handwritten signature in blue ink, appearing to read 'AN', is written over the word 'Sincerely,'.

Arthur Noriega, V
City Manager

Cc: Honorable Mayor Francis X. Suarez
Javier A. Betancourt, Executive Director, Office of CITT
Fernando Casamayor, ACM/CFO

City of Miami

ERICA PASCHAL-DARLING, CPA
Director of Finance Department



ARTHUR NORIEGA, V
City Manager

October 28, 2021

Ms. Cathy Jackson,
Director Audit and Management Services Department
701 NW 151 Court, Suite 8-175
Miami, Florida 33136

Re: City Audit Report - Charter County Transit System Surtax Review Fiscal Year Ended September 30, 2020

We are in receipt of the report dated August 30, 2021, titled "Audit Report – City of Miami Charter County Transportation System Surtax Review for the Fiscal Year Ended September 30, 2020." We would like to thank you and your staff for your assistance and for the opportunity to address the recommendations. We have carefully reviewed each point identified in the Audit Report and offer the following responses to the two recommendations.

Use of Transit Proceeds

Recommendation: The City should record Trolley advertising revenues and expenditures in its *Transportation and Transit Special Revenue Fund* to facilitate accountability.

Response: In order to properly account for Surtax Proceeds, the City tracks the flow of funds through its Special Revenue and Capital Projects Funds' general ledger accounts. The City has provided documentation, including a reconciliation of available funds, that accounts for the balances in those Funds and reconciles to the balance per the Audit Report. With this documentation, enough support was provided to ascertain that advertisement revenues are properly accounted for.

Use of Transportation Proceeds

Recommendation: City staff should submit a revised Five-Year Transportation Plan, approved by the City Commission, specifying how the \$45 million in unspent funds will be used. More importantly, Surtax distributions should be held in Trust by OCITT until the City reduces the estimated \$17.4 million funding gap. Further, OCITT should formally communicate these concerns to the CITT Board with a plan for timely resolution. To assure the most effective use of Surtax monies, the City should not be allowed to pledge Surtax revenues toward any future borrowing without OCITT's approval.

Response: The City takes care to ensure claimed costs are eligible for Surtax use and disagrees with AMS that there is \$17 million funding gap (i.e. \$17.4 million less than should be available, reported in the *Transportation and Transit Special Revenue and Capital Projects Funds*). The primary differences between the City and AMS's balance of unspent funds are related to AMS's

disallowance of debt service payments (in prior year audits since 2013), and interest income - which is inflated by AMS due to their interest calculation utilizing the disallowed amounts.

As its basis for the debt service disallowances, AMS asserts that "The City should not charge 100% of the debt service payments to the Surtax" because the bonds are to be repaid with three funding sources – Surtax, Local Option Gas Taxes (LOGT), and Parking Revenues. However, the City disagrees with this assertion. The City pledged 80 percent Transportation Taxes, 100 percent new LOGT, and 20 percent of the City's Parking Surcharge to repay \$57.4 million in Special Obligation Revenue Bonds. Although revenue is pledged from multiple funding sources to ensure there is enough coverage to make payments throughout the life of the bond, the percentage of the pledges does not function as a percentage cap/restriction on the use of the respective funding sources for debt service. Therefore, the City continues to maintain the position that each debt service payment does not have to be allocated amongst the three funding sources; and as a result, the City was within its rights to utilize the Surtax monies for the debt service payments being disallowed by AMS. The amount of the debt service payment that comes from Transportation Taxes is recommended by the City's Office of Management and Budget and approved in the Budget Ordinance by the City Commission.

Sincerely,



Arthur Noriega, V
City Manager

Cc: Honorable Mayor Francis X. Suarez
Javier A. Betancourt, Executive Director, Office of CITT
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