Memorandum

MIAMI-DADE COUNTY

Date:	September 1, 2015
To:	Honorable Chairman Jean Monestime and Members, Board of County Commissioners
From:	Carlos A. Gimenez County Mayor
Subject:	Report on Management of Special Taxing Districts

Agenda Item No. 2(B)8

Scope of Report

The Board of County Commissioners (Board) approved Resolution No. R-616-15 directing the County Mayor or the County Mayor's Designee to prepare a status report on the past, current and future management of Special Taxing Districts (Districts) within Miami-Dade County (County). This report details actions taken or currently being implemented regarding the management and the rate-setting process for Districts for the upcoming fiscal year. The report also identifies a future management action plan for the Districts.

Background

Districts in the County are authorized under the Florida State Constitution Home Rule Amendment Article VIII, Section 11, Dade County Home Rule Charter (1)e. The Board's authority to create Districts under the Home Rule Charter is declared under Article 1, Section 1.01 (A)11. The method to levy non-ad valorem assessments to fund Districts is governed under Florida Statute 197.3632 and under Chapters 18-14 and 28.15(g) of the Miami-Dade County Code (Code). All Districts require Board approval established by the Board's adoption of an ordinance after a public hearing to create a District, including its geographic boundary, defined type, level of service provision and initial assessment.

Districts are administered by the Public Works and Waste Management Department (PWWM), which accepts applications received through the development process or from resident petitions to create a District under the legal process outlined above. Developer initiated Lighting Districts are part of the platting process, and it is the developer who is responsible for providing the initial cost of creating the District and the first year of operating expenses. These funds are held in trust until the District is created by the Board.

Districts are created to provide services such as street lighting, security guard, and multipurpose maintenance for landscaping and grounds, water bodies (lakes, waterways, etc.) maintenance, and fixtures (entry features, wall, etc.) within a defined geographical boundary. Districts can also be created to fund the construction of specific capital improvements. Street lighting service is contracted through Florida Power and Light (FPL) with payment covering charges for the light fixtures specified for the District, the operating cost for electricity, as well as ongoing maintenance. Security guard services are contracted by PWWM or through an inter-local agreement with a municipality. While PWWM administers all Districts, the Parks, Recreation and Open Space Department (PROS) manages and provides direct service for Multipurpose Maintenance Districts with County staff and equipment or through private contracts.

An annual District assessment is collected through the property tax bill and funds the direct service provided, administrative and indirect costs related to the District. The initial assessment is established at the time the ordinance is approved and adopted by the Board creating the District. If the assessment increases beyond the established rate, the Board must adopt a non-ad valorem assessment roll at a new public hearing between January 1 and September 15 each year. The public hearing must be properly noticed at least 20 days in advance by newspaper, and a letter must be sent to each affected property owner along with a posting of notice at five (5) different locations within the District. Until this fiscal year,

non-ad valorem assessment rates were approved as part of the County's annual budget process and included in the Truth in Millage Notice (TRIM). In establishing the FY 2016 assessment, the County recommended rate increases through the required process and individually noticed each property owner impacted by an increase.

There are 1,068 active Districts in the County. Of these, there are two (2) active Capital Improvement Districts and one (1) active Roadway Maintenance District. There are 190 inactive Districts, which are Districts that have been created by the Board and are in the County's financial system for which no service is being provided and no assessment is being collected. At the end of FY 2014, active Lighting Districts had a combined fund balance of $3.4 million; active Security Guard Districts had a combined fund balance of $680,000; and active Multipurpose Districts had a combined fund balance of $5.6 million.

Past Management Practices

An Audit and Management Services Department audit of the Districts completed nearly 20 years ago in 1996 identified a number of issues in the management of the Districts. Findings demonstrated weakness in financial procedures, rate-setting practices, and a lack of control mechanisms. While management's response to the 1996 audit acknowledged the findings outlined above and additional information from the auditors in 1999 indicated that corrective measures were underway, those measures were not completely implemented.

As noted in my "Information Memorandum" to the Board dated June 25, 2015 regarding Districts and rate setting process, subsequent to the PWWM consolidation, a new internal audit of the Districts was requested by the department's senior management. A review of financial records at that time disclosed that a majority of the Districts, collectively, had surplus project balances while a minority had project shortfalls. At the end of FY 2014, 1,000 of the 1,068 Districts, or 94 percent, had surplus balances, while 68 Districts, or six (6) percent, had deficit balances.

In addition to the surplus funds reflected in the Districts at the end of FY 2014, the Finance Department identified two (2) surplus non-project balances accruing interest in the general ledger that had not been allocated to the Districts since 2003. The first of these in the amount of $937,493 accounts for Tax Collector distributions plus interest earnings from pooled cash. The second represents a surplus fund balance of $1.4 million accruing over time due to reimbursements in excess of costs in the PWWM's Districts Division. Staff was also made aware of $920,335 of expenditures relating to Security Guard Districts from prior to FY 2003 through FY 2012, that were not allocated to the appropriate Security Guard Districts during this period.

Corrective Management Actions: In FY 2015

In November of 2014, the PWWM Districts Division management was replaced. While the audit was being conducted, senior staff evaluated existing staff and functional positions to identify strengths and weaknesses. They commenced an intensive assessment of division operations, including reviewing and tracking internal procurement and payment methods and eliminating service charges to Districts that were duplicative or unnecessary. Staff also analyzed alternatives for lowering operating costs; consolidating certain staffing functions in-house; and co-locating functions to enhance the efficiency and effectiveness of the operations, particularly through better physical oversight and communications. As a result of these changes, PWWM staff began meeting with numerous homeowner associations, civic associations, and individuals. Since that time, staff has attended multiple meetings, responded to dozens of emails and letters, and answered hundreds of phone calls to address residents' concerns.

The PWWM Director also requested and selected a Management Working Group (Working Group) comprised of senior financial professionals from other County departments. The Working Group collaborated with PWWM and PROS staff, and confirmed historical findings, evaluated staffing levels and

qualifications, performed due diligence addressing audit concerns, and formulated recommendations for corrective measures that have been and will continue to be implemented through the current rate-setting process and into the next fiscal year.

The Working Group conducted an in-depth review of the FY 2015 projections and FY 2016 proposed budgets for each Special Taxing District to assess the appropriateness of the FY 2016 assessment rates as follows:

- ensuring current year projections were updated for actual FY 2015 expenses;
- verifying the annual rate of increase in street lighting costs with FPL management, resulting in a reduction from two (2) to one (1) percent in FY 2016;
- confirming that direct service operating expenses were based on applicable contract rates for Security Guard and Multipurpose Districts;
- evaluating the reasonableness of other operating expenses, including other County charges for service, and modifying budgets, where necessary;
- establishing a reasonable operating contingency, not to exceed ten (10) percent of operating expenses, in anticipation of provisions for early payment discount on the property tax bill, as well as unanticipated expenses that may occur during the year (unused contingency funds will roll over to the following year and factor into the new assessment amount calculation);
- assessing staff requirements and revising the FY 2016 PWWM's District Division table of organization to ensure the efficient and effective operation of these functions, such as recommending reducing staff from 26 to 22 positions, establishing a dedicated District Fund Accountant position that reports to the PWWM Controller, and creating a dedicated budget position that reports to the Budget and Fiscal Management Division Director; and
- updating the Labor Cost Distribution in PWWM to accurately account for allocating staff time to the correct District type and activity; the Working Group also instructed PROS staff to update its cost allocation method and confirmed the addition of a full-time administrator dedicated to managing Multipurpose Maintenance Districts; these actions will result in a more effective organization. On a combined basis, administrative costs will be reduced by 18 percent from $3.586 million to $2.931 million.

The reduction in administrative cost and exhaustive review of operating expenditures has allowed staff to develop new assessment rates to the benefit of many Districts. These reviews have also ensured that the level of service provided is consistent with the service approved by the Board for each District. Any changes to the level of service can only be approved through the established legal process on a case by case basis. As a matter of policy, I have instructed staff that I expect an election to take place by balloting the residents prior to undertaking any change in the level of service in any District, as allowed by law.

The County's Audit and Management Services Department has issued the draft of the audit conducted of all Special Taxing Districts managed by the County. Corrective actions taken by PWWM management to date are outlined in "Management's Response" to the audit.

District Assessment Rates for FY 2016

The analysis of each District's fiscal position, coupled with budgetary adjustments, lead to a recommended rate-setting method for the Board's consideration in adopting final District assessment rates for FY 2016. This has been a difficult exercise because every District budget is unique with different financial characteristics. The County, however, is obligated to ultimately set rates to fund all costs. The approach to establishing recommended assessment rates for FY 2016 is equitable and fair, within the rule of law and in the interest of resolving District issues.

Assessment rates previously advertised and noticed remain unchanged for the August 2015 TRIM Notice. The Board will be presented with substitute legislation on September 1, 2015, which includes the rates that were either previously noticed or that have been recommended for revision. All recommended revised rates are lower than those in the agenda item considered June 30, 2015.

Projections for surplus account balances and shortfalls belonging to each active District have been completed for the end of FY 2015. Funds identified in the two (2) surplus project balances discussed on Page 2 have been distributed to the benefit of each District according to its allocated share, except for funds allocated to Security Guard Districts, which will be held in abeyance pending final identification and reconciliation of the $920,335 of Security Guard District expenditures. Once these expenses are reflected in the proper Security Guard District, surplus funds will be distributed. A final reconciliation will be performed for each Security Guard District and adjustments will be made to the following year's rate, if necessary, for the expense.

Similarly, Lighting Districts with surplus project balances as a result of unused developer deposits will continue to carry surplus balances until District infrastructure is completed in accordance with the ordinance or until funds are expended. Districts with developer deposits will be reconciled annually to ensure surplus funds available are used in the following year's rate setting process.

Districts with surplus balances were analyzed for the next three (3) years. Budgets were developed inclusive of an operating contingency and annual growth rate. Districts with artificially low assessment rates due to a large prior year surplus were also brought back to an assessment rate that will fund actual operating costs. Surplus funds were then applied to the benefit of each District to offset necessary rate increases over a three-year period. This ensures surplus funds are used to benefit the District and minimize rate adjustments. Projected remaining surplus funds, after consideration of forecasted annual costs for the next three (3) fiscal years, will be refunded in FY 2016 to the property owner if the amount exceeds $50.00 per parcel or folio. Amounts under $50.00 will be retained as carryover in the District due to the cost of distribution. All costs for the distribution of any surplus funds must be charged to the District.

Unfortunately, in keeping with the rule of law, Districts with projected deficit balances in FY 2015 must be assigned an assessment rate that eliminates any shortfall and also funds projected FY 2016 operating costs. These assessment rates are expected to stabilize in FY 2017 to the rate required to fund forecasted operating costs. Any prior year shortfall will be eliminated with the one-time adjustment. Subsequent years should remain balanced and only require adjustment for normal operating expenses and inflation which is forecasted at three (3) percent.

Next Steps

While much has been accomplished since last November, more work lies ahead in the remainder of this fiscal year and throughout next fiscal year. This work includes:

- finalizing and implementing the recommended position and staffing changes to the PWWM District Divisional table of organization;
- implementing management's corrective action in response to the Audit and Management Services audit;
- developing and implementing external audit procedures for the FY 2015 year end during the first quarter of FY 2016;
- implementing formal policies and standard operating procedures for the Districts and PWWM District Administration;
- reconciling and distributing $920,335 of Security Guard District expenditures within the first quarter of FY 2016 (thousands of invoices are currently being reviewed to identify the correct District);

- completing the review of, and recommending any amendments to, existing or new legislation for Board consideration that may be necessary or prudent for the more efficient and effective operation of the Districts;
- continuing to analyze alternatives for improving the delivery of District service at a lower cost; and
- establishing an interactive District website on www.miamidade.gov/publicworks/special-taxing.asp for ongoing disclosure and improved outreach.

It is my intent to continue to provide updates to the Board beyond this initial report regarding the Districts and any other relevant matters. Should you have further questions, please contact Alina T. Hudak, Deputy Mayor and Director of the Public Works and Waste Management Department, at (305) 375-2531.

Alina T. Hudak
Deputy Mayor