

City of Miami

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INDEPENDENT AUDITOR GENERAL



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March 2, 2017

Honorable Members of the City Commission
City of Miami
3500 Pan American Drive
Coconut Grove, FL 33133-5504

Re: Review of Impact Fee Revenues and Expenditures
Report No. 17-02

Executive Summary

As a result of a City of Miami (City) Commissioner's inquiries during the September 8, 2016 City Commission meeting discussion of Resolution #5, regarding use of parks and recreation impact fees, we reviewed actual impact fee revenues for fiscal year 2011 (FY11) through FY16 and estimated impact fee revenue for FY17, as well as appropriations for FY12 through FY17.

The collection and expenditure of impact fees are governed by Chapter 13 of the City Code entitled: "Development Impact and Other Related Fees". The intent of the ordinance is to lessen the "impact" that new developments have on levels of City parks and recreation, public safety (fire and police), and general government services. Accordingly, based on the size and/or scope of a development, the ordinance requires developers to pay impact fees to the City so that they can bear their "...share of the costs of providing public facilities, facility capacity, and capital equipment needed to accommodate the demand generated by new development."

The objective of this review was to determine whether the City is at risk for refunding any of the collected impact fees to developers; because, according to Section 13-6(d)(1) of the Code, the City is obligated to pay refunds of collected impact fees if it fails to appropriate or spend the collected fees by the end of the calendar quarter immediately following six years of the date the impact fees were paid. Therefore, we determined whether all impact fees collected from October 2010 through September 2016 (FY11 through FY16), as well as estimated FY17 impact fee revenues, had been appropriated by December 31, 2016.

Based on the results of our review, we noted that including estimated FY17 impact fee revenue of \$18.6 million and FY17 appropriations of \$33.6 million, all FY11 through FY17 actual and estimated impact fee revenues of \$101.3 million have been appropriated within the six year time frame mandated by the ordinance.

We wish to express our appreciation for the cooperation and courtesies extended to us by the City's management and staff, especially the Planning and Zoning Department, while conducting the review.

Sincerely,



Theodore P. Guba, CPA, CIA, CFE
Independent Auditor General
Office of the Independent Auditor General

cc: The Honorable Mayor Tomas Regalado
Daniel J. Alfonso, City Manager
Victoria Mendez, City Attorney
Todd Hannon, City Clerk
Fernando Casamayor, Assistant City Manager/Chief Financial Officer
Nzeribe Ihekwaba, Assistant City Manager/Chief of Operations
Alberto Parjus, Assistant City Manager
Christopher Rose, Director, Office of Management and Budget
Luis Hernandez-Torres, Budget Analyst, Office of Management and Budget
Jose M. Fernandez, Director, Finance Department
Members of the Audit Advisory Committee
Audit Documentation File

Review conducted by: Lewis Blake, CPA, CIA, Audit Manager

Review reviewed by: Robyn Sachs, IT Audit Administrator, CPA, CIA, CISA, CISSP

**REVIEW OF IMPACT FEE REVENUES AND EXPENDITURES
OCTOBER 1, 2010 THROUGH SEPTEMBER 30, 2016
Report No. 17-02**

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SCOPE, OBJECTIVES, AND METHODOLOGY

The scope of the review was to determine whether the City is at risk for refunding collected impact fees to developers pursuant to Section 13-6(d)(1) of the City Code, which states that the City is obligated to pay refunds of collected impact fees if it fails to appropriate or spend the collected fees by the end of the calendar quarter immediately following six years of the date the impact fees were paid. The review covered the period October 1, 2010 through September 30, 2016, and selected transactions prior and subsequent to this period. In general, the review focused on the following objectives:

- To gain an understanding of the impact fee appropriation/budgeting procedures.
- To determine the amount of impact fee revenue generated during the review period.
- To determine the amount of impact fee revenue that was budgeted/appropriated and expended within the review period.

We conducted this review in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our review objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our review objectives.

The review methodology included the following:

- Reviewed applicable provisions within the City Code of Ordinances, and City policies and procedures.
- Obtained a legal opinion requesting clarification of language in Chapter 13 of the City Code which stipulates a six-year time limit for the City to either expend and/or appropriate collected impact fees.
- Interviewed and made inquiries of staff within the City's Office of Management and Budget and the Finance Department; in order to gain an understanding of how impact fee revenue is budgeted and expended.
- Compiled, examined and analyzed impact fee related appropriations and revenue generated during the review period.
- Concluded based on the results of our analyses; and,
- Performed other review procedures as deemed necessary.

BACKGROUND

The Impact Fee Ordinance

The collection and expenditure of impact fees are governed by Chapter 13 of the City Code entitled: "Development Impact and Other Related Fees". The intent of the ordinance is to lessen the "impact" that new developments have on levels of City parks and recreation, public safety (fire and police), and general government services. Accordingly, based on the size and/or scope of a development, the ordinance requires developers to pay impact fees to the City so that they can bear their "...share of the costs of providing public facilities, facility capacity, and capital equipment needed to accommodate the demand generated by new development."

Mandatory Time Limit for Spending/Appropriating Impact Fees Collected

As described above, the City is at risk for refunding collected impact fees to developers pursuant to Section 13-6(d)(1) of the City Code, which states that the City is obligated to pay refunds of collected impact fees if it fails to appropriate or spend the collected fees by the end of the calendar quarter immediately following six years of the date the impact fees were paid. We obtained a legal opinion from the Office of the City Attorney confirming this requirement.

Impact Fee Budgeting Process

Several months subsequent to the issuance of the City's audited financial statements in March of each year, the City's Office of Management and Budget (OMB) notes impact fee revenue reported in the City's financial statements, actual impact fees collected to date, and projected impact fees to be collected during the remainder of the fiscal year. These items are the basis for appropriating such revenue so that the monies can be legally expended. Subsequent to gathering actual and estimated impact fee revenue, OMB meets with user departments which detail how they wish to expend the impact fee monies. Such deliberations with City user departments, as well as with City Commissioners, are the basis of appropriations that are submitted for review and approval by the City Commission and published in the City's six-year capital improvement plan.

REVIEW RESULTS AND CONCLUSIONS

Overall Conclusion: Based on the results of our review, we noted that including estimated FY17 impact fee revenue of \$18.6 million and FY17 appropriations of \$33.6 million, all FY11 through FY17 actual and estimated impact fee revenues of \$101.3 million have been appropriated within the six year time frame mandated by the ordinance.

Details of our review follow:

ANALYSES PERFORMED:

Impact Fee Revenue

According to Section 13-13(c) of the City Code, "The city finance department shall establish separate accounts and maintain records for each such account, whereby impact fees collected are segregated by type of impact fee and by benefit district or applicable sub-district. A separate account shall be maintained for each type of impact fee by benefit district or sub-district as follows: **fire-rescue** impact fee north sub-district, fire-rescue impact fee south sub-district, **police** impact fee district, **general services** impact fee district and **parks** and recreation impact fee district." We noted that prior to FY14 all impacts fees were grouped together under one general impact fee account (i.e. 31100.40100.463200.000.00000).

Therefore, for FY11 through FY16, in order to determine the amount of impact fee revenue collected by benefit district (i.e. Parks, Fire, GSA, and Police), we obtained reports generated from the City's Oracle financial accounting system (Oracle) showing collected and recorded impact fees by benefit district. (See Schedule 1, page 4). We also obtained estimated FY17 impact fee revenue data from the City's Office of Management and Budget (OMB).

Impact Fee Appropriations

The City's Impact Fee Ordinance requires that fees paid must be either expended or appropriated within six years from the end of the calendar quarter in which the fees were paid. Accordingly, we determined whether all impact fees collected from October 2010 through September 2016 (FY11 through FY16), as well as estimated FY17 impact fee revenues, had been appropriated by December 31, 2016.

In order to derive total impact fee appropriations during the scope period, we obtained reports from Oracle listing impact fee appropriation amounts and the corresponding legislation (i.e., resolutions approved by the City Commission) approving the appropriations. Using the individual project information listed in the legislation/resolution (i.e., project number, project name, benefit district, appropriation amount) we reconciled the totals in the legislation (resolutions) to the totals in Oracle.

We then compared total actual and estimated revenue generated during the scope period to total appropriations and noted any differences. (See Schedule 1, page 4)

SCHEDULE 1

Analysis of Impact Fee Revenue and Appropriations (Amounts in 1,000s of USD\$):

Actual Impact Fee Revenue (Rev.) by Benefit District for FY11 thru FY16									
Benefit District	FY11	FY12	FY13	FY14	FY15	FY16	FY17 Estimated (Est.) Rev.	Total Rev. (Actual & Est.) FY11-FY17	
Parks	826	3,293	7,307	16,704	16,562	19,815	15,550	80,057	
GSA	95	251	525	1,238	1,156	1,450	850	5,565	
Fire	194	466	921	2,275	2,071	2,656	1,399	9,982	
Police	239	328	369	1,336	1,022	1,572	792	5,658	
Total Rev	1,354	4,338	9,122	21,553	20,811	25,493	18,591	101,262	
FY 2011 through FY 2016 Appropriations (Appr.)							FY 2017 Appr.	Total Appr. FY12-FY17	Appr. ÷ Actual and Est. Rev.
Parks		774	3,344	2,555	34,889	11,327	27,483	80,372	100%
GSA		88	258	502	2,153	823	1,753	5,577	100%
Fire		0	660	0	4,780	1,971	2,559	9,970	100%
Police		221	349	25	2,352	869	1,851	5,667	100%
Total Appr.	0	1,083	4,611	3,082	44,174	14,990	33,646	101,586	100%
<p>Results: Including estimated FY17 impact fee revenue of \$18.6 million and FY17 appropriations of \$33.6 million, all FY11 through FY17 actual and estimated impact fee revenues of \$101.3 million have been appropriated within the six year time frame mandated by the ordinance.</p>							<p>Note: Total Appr. exceeded Total Rev. because FY17 revenues are estimated.</p>		
							Total Actual FY11-16 Rev. plus Est. FY17 Rev.	\$101,262	
							Total Appr. FY12-17	\$101,586	

OVERALL CONCLUSIONS AND RECOMMENDATION:

Based on the results of our review, we noted that including estimated FY17 impact fee revenue of \$18.6 million and FY17 appropriations of \$33.6 million, all FY11 through FY17 actual and estimated impact fee revenues of \$101.3 million have been appropriated within the six year time frame mandated by the ordinance.

However, when we compared the amount of impact fee appropriations totaling \$44.69 million for projects listed by funding source in the FY15 capital improvement plan (CIP) with the total amount of FY15 impact fee appropriations of \$44.17 million indicated in Oracle, we noted a \$525,000 difference.

According to OMB, the difference is attributed to the fact that a project management software called TRACS was used to generate a listing of projects in the FY15 CIP by funding source (e.g., impact fees); and, Oracle was used to generate a listing of projects by benefit district in the CIP. However, there were two projects in TRACS that should have been funded via the General Fund instead of with impact fees. As a result, the defunding of these projects of impact fees was not reflected in TRACS at the time the listing was published in the CIP.

Appropriation information listed in TRACS should agree with the respective project information indicated in Oracle. The accuracy of this information facilitates accountability and transparency regarding how impact fee monies are expended.

RECOMMENDATION: Office of Management and Budget

We recommend that the Office of Management and Budget (OMB) ensure that impact fee-funded projects listed in TRACS are reconciled with Oracle before the capital plan is published.

- **OMB Response:** The recommendation is currently standard practice, but was not fully in place in FY 2014-15.