



**Management's Discussion and Analysis -
Unaudited
(MD&A)**



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City of North Miami, Florida

Management's Discussion and Analysis – Unaudited

September 30, 2018

The Management's Discussion and Analysis ("MD&A") provides a narrative overview and analysis of the financial activities of the City of North Miami (the "City") for the fiscal year ended September 30, 2018. This MD&A is offered here by the management of the City to the readers of its financial statements. Readers are encouraged to consider the information presented here in conjunction with additional information furnished in the Letter of Transmittal, which can be found starting in the Introductory Section of this report. For simplification, all amounts in this section have been rounded to the nearest one hundred thousand dollars, and due to rounding, may vary somewhat from certain numbers shown in the body of this report.

Financial Highlights

At September 30, 2018, the government-wide assets and deferred outflow of resources of the City exceeded its liabilities and deferred inflows by \$105.9 million compared with \$115.0 million in the previous year.

The City's total net position decreased significantly by (\$6.4 million) in the current year, (367%) compared to an increase of \$2.4 million in the prior year. The significant decrease in the current year was due primarily to the following:

- Recording accumulated expenditures of \$5 million related to Hurricane Irma. Approximately \$3.7 million is expected to be reimbursed by the Federal Emergency Management Agency ("FEMA") in subsequent years.
- The Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in June 2015, which replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended. The adoption of GASB 75 is reflected in the 2018 fiscal year financial statements. Its intent is to improve accounting and financial reporting by requiring an Other Postemployment Benefits (OPEB) liability to be reported on the face of the financial statements rather than in the accompanying notes. The implementation of GASB 75 resulted in an increase in the City's OPEB liability and a decrease in net position of \$2.7 million.

At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3.9 million, a decrease of \$9.7 million in comparison to the prior year's decrease of \$4.8 million. The current year's decrease was due primarily to overall increased expenditures in the general fund of \$3 million; increased expenditures of \$3.7 million in the new special revenue FEMA Recovery Fund; and increased expenditures of \$0.3 million in the Community Redevelopment Agency Fund ("CRA").

Included in the combined ending governmental funds fund balances is \$4.2 million, which is only available for use in the CRA, a component unit of the City. Also included is approximately \$1.0 million, which is only available for use for the Museum of Contemporary Art, Inc. ("MOCA") and \$9.9 million is restricted for landfill closure.

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At the end of the fiscal year, the City's General Fund reported a total fund balance (deficit) of (\$8.1) million of which (\$9.5) million was an unassigned fund net deficit. There was a decrease in current year fund balance of \$3.3 million from operations, primarily due to an overall increase of \$3.8 million in salaries (ranging from 5% to 7% for merit and COLA).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the basic financial statements. This report contains other required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. Both statements are prepared using the economic resources focus and the accrual basis of accounting, which means that revenues include all revenues earned during the year and expenses include all expenses incurred during the year regardless of when cash is actually received or paid.

The statement of net position presents information on all the City's assets and deferred outflows of resources, on one hand; liabilities and deferred inflows of resources on the other hand; the difference between them, reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. It focuses on both the gross and the net cost of the government's various activities and thus summarizes the cost of providing specific governmental services. This statement reports all current year revenues and expenses.

Both government-wide financial statements distinguish functions of the City that are principally supported by ad-valorem taxes and intergovernmental revenues such as shared taxes, grants, etc. (governmental activities) from other functions that are intended to recover all, or a significant portion of their costs, through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works and transportation, culture and recreation, physical environment, and housing and urban/economic development. The business-type activities of the City include a water and sewer utility fund and a storm-water utility fund.

The government-wide financial statements include, not only the City itself, but also the CRA and MOCA, which are separate legal entities for which the City is financially accountable. In addition to the inclusion in the government-wide financial statements, more detail information for the CRA

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and MOCA may be obtained from their separately issued financial statements. Complete financial statements for the CRA and MOCA can be obtained by writing to:

- City of North Miami CRA Executive Director, 776 NE 125 Street, North Miami, Florida 33161
- City of North Miami MOCA Executive Director, 770 NE 125 Street, North Miami, Florida 33161

The government-wide financial statements are presented at the beginning of the basic financial statements section which immediately follows the MD&A.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheets and in the governmental funds statements of revenues, expenditures and changes in fund balances for the General Fund, C.D.B.G. Entitlement, CRA Component Unit and Landfill Closure Fund, which are all considered major funds. Information for the other governmental funds is combined into a single aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements on pages 120-125 of this report.

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The City adopts annual budgets for its major governmental funds: General Fund, CRA, C.D.B.G. Entitlement and the Landfill Closure Fund. To demonstrate compliance with the budget, budgetary comparison schedules have been provided as Required Supplementary Information for each of the major funds identified above. The budgetary comparison schedules can be found on pages 107-110.

Proprietary Funds

The City maintains two different types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer and storm-water operations. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles and its self-insurance activities. Because both of these services predominately benefit governmental rather than business-type functions, they have been included in the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements; only in more detail. The proprietary fund financial statements provide separate information for the water and sewer and storm-water operations. Both funds are considered major funds of the City. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. The basic proprietary fund financial statements can be found on pages 32 - 34 of this report. The individual fund data for the internal service funds is provided in the form of combining statements on pages 126-128.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's fiduciary funds comprise the general employee and the police pension funds and can be found on pages 35-36 of this report.

Notes to the Basic Financial Statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 37-106 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information regarding the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees and retirees and budgetary

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comparison schedules. The required supplementary information can be found on pages 112-119 of this report.

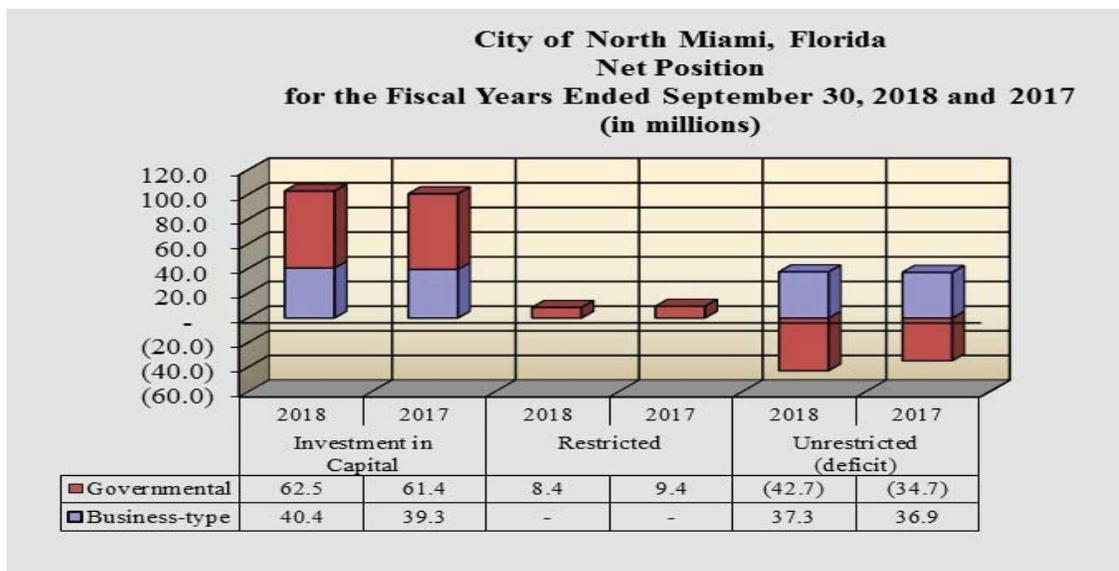
Government-Wide Financial Analysis

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. At the end of the 2018 fiscal year, assets and deferred outflow of resources exceeded liabilities and deferred inflows of resources by \$105.9 million of which approximately 26% was for governmental activities and 74% was for business-type activities.

At the end of the current fiscal year, the City reported positive balances in all three categories of net position for its business-type activities. The governmental activities net position is either restricted as to the purpose to which it can be used, or is invested in capital assets. The governmental activities show a deficit of approximately (\$42.7 million) for unrestricted net position compared to prior year deficit of (\$32.3 million). The unrestricted deficit was due primarily to operations whereby expenditures have exceeded revenues on a cumulative basis. This is in part due to the limited, straight-line rate at which the unearned revenue associated with prepaid rent on a long-term lease of 99 years, can be amortized and recognized into revenue and consequently the general fund’s fund balance.

Although the business-type activities reflect \$37.3 million in unrestricted net position, these resources cannot be used to make up the deficit in governmental activities. The City generally can use only the unrestricted net position to finance the continuing operations of water and sewer, and storm-water operations.



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Summary Statement of Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017*	2018	2017*	2018	2017*
Current and other assets	\$ 53,563,466	\$63,084,436	\$ 51,748,600	\$ 51,825,943	\$ 105,312,066	\$ 114,910,379
Capital assets	62,860,944	62,188,553	45,266,756	44,374,586	108,127,700	106,563,139
Total assets	116,424,410	125,272,989	97,015,356	96,200,529	213,439,766	221,473,518
Deferred outflows of resources	23,526,026	18,028,916	3,177,848	2,483,257	26,703,874	20,512,173
Other liabilities	18,637,260	16,723,055	8,329,186	13,006,792	26,966,446	29,729,847
Noncurrent liabilities:						
Due within one year	3,695,948	3,574,667	785,815	699,283	4,481,763	4,273,950
Due in more than one year	78,443,020	78,329,393	11,890,917	7,651,430	90,333,937	85,980,823
Total liabilities	100,776,228	98,627,115	21,005,918	21,357,505	121,782,146	119,984,620
Deferred inflows of resources	10,967,177	8,559,307	1,427,025	1,110,124	12,394,202	9,669,431
Net position						
Net investment in capital assets	62,452,076	61,365,386	40,449,030	39,310,886	102,901,106	100,676,272
Restricted	8,443,236	9,412,706	-	-	8,443,236	9,412,706
Unrestricted (deficit)	(42,688,281)	(34,662,609)	37,311,231	36,905,271	(5,377,050)	2,242,662
Total net position	\$ 28,207,031	\$36,115,483	\$ 77,760,261	\$ 76,216,157	\$ 105,967,292	\$ 112,331,640

**Net position was restated with the implementation of GASB 75.*

The City's net investment in capital assets, totaling \$103 million represented, by far, the largest portion of the net position. Net investment in capital assets comprises land, buildings, infrastructure and machinery and equipment, less any outstanding related debt used to acquire them. The investment in capital assets increased over the prior year by \$2 million.

The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets was reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the other sources since the capital assets themselves cannot be used to liquidate those liabilities.

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Changes in Net Position

The following is a comparative analysis of the changes in net position for the current and prior fiscal years:

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Program Revenues:						
Charges for services	\$ 25,292,755	\$ 25,686,942	\$ 36,182,376	\$ 34,211,546	\$ 61,475,131	\$ 59,898,488
Operating grants/contributions	6,692,586	5,956,341	-	-	6,692,586	5,956,341
Capital grants/contributions	317,960	670,841	-	-	317,960	670,841
General Revenues:						
Property taxes	20,975,744	19,194,672	-	-	20,975,744	19,194,672
Utility and gas taxes	4,034,989	4,343,095	-	-	4,034,989	4,343,095
Communication services tax	1,203,462	1,212,133	-	-	1,203,462	1,212,133
Franchise fees	3,992,099	4,356,029	-	-	3,992,099	4,356,029
Intergovernmental	11,115,933	9,628,805	-	-	11,115,933	9,628,805
Landfill closure (cost) adjustments	576,286	376,995	-	-	576,286	376,995
Investment earnings	235,600	98,716	-	-	235,600	98,716
Miscellaneous revenues	2,907,367	3,705,137	321,223	105,956	3,228,590	3,811,093
Total revenues	77,344,781	75,229,706	36,503,599	34,317,502	113,848,380	109,547,208
Expenses:						
General government	26,879,421	20,424,384	-	-	26,879,421	20,424,384
Public safety	30,386,983	30,837,393	-	-	30,386,983	30,837,393
Physical environment	591,810	388,242	-	-	591,810	388,242
Transportation and public works	7,806,930	5,954,245	-	-	7,806,930	5,954,245
Housing and urban development	979,480	1,823,347	-	-	979,480	1,823,347
Culture and recreation	13,023,252	11,722,459	-	-	13,023,252	11,722,459
Community planning and development	4,647,836	1,693,997	-	-	4,647,836	1,693,997
Debt service - interest	1,166,356	1,265,498	-	-	1,166,356	1,265,498
Water and sewer	-	-	32,023,616	30,434,388	32,023,616	30,434,388
Stormwater	-	-	2,707,044	2,513,502	2,707,044	2,513,502
Total expenses	85,482,068	74,109,565	34,730,660	32,947,890	120,212,728	107,057,455
Change in net position before transfers	(8,137,287)	1,120,141	1,772,939	1,369,612	(6,364,348)	2,489,753
Transfers	228,835	241,808	(228,835)	(241,808)	-	-
Change in net position	(7,908,452)	1,361,949	1,544,104	1,127,804	(6,364,348)	2,489,753
Net position - beginning	38,468,620	37,106,671	76,574,973	75,447,169	115,043,593	112,553,840
Restatement - GASB 75	(2,353,137)	-	(358,816)	-	(2,711,953)	-
Net position - beginning, as restated	* 36,115,483	37,106,671	* 76,216,157	75,447,169	* 112,331,640	112,553,840
Net position - ending	\$ 28,207,031	\$ 38,468,620	\$ 77,760,261	\$ 76,574,973	\$ 105,967,292	\$ 115,043,593

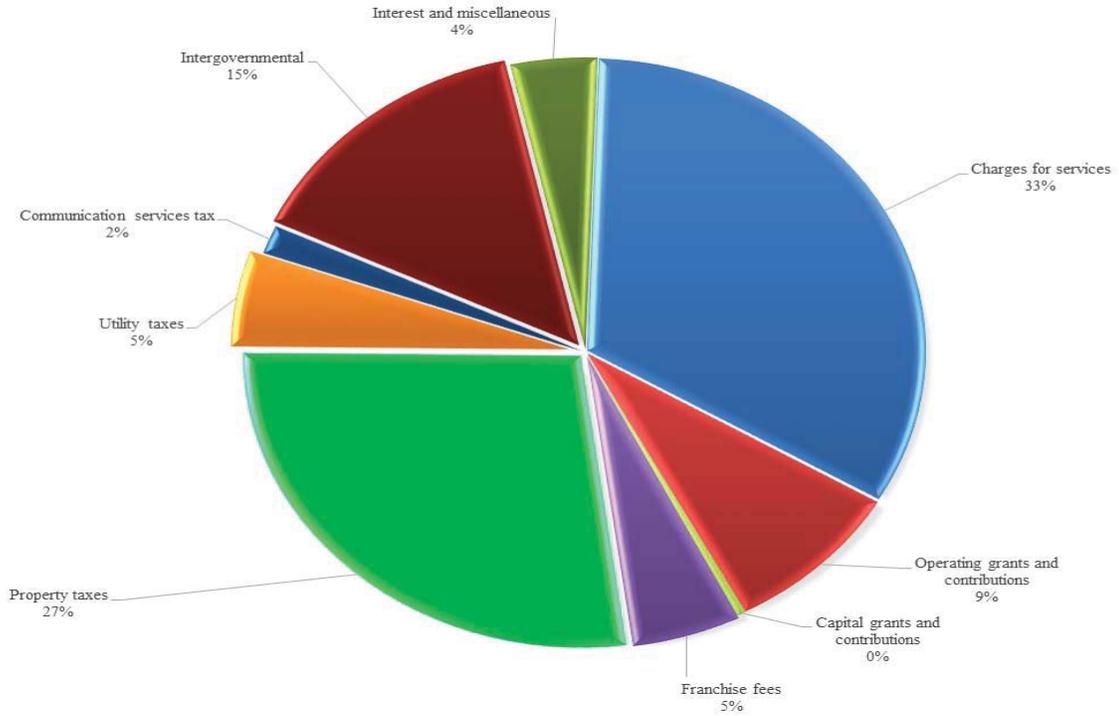
* Beginning net position was restated with the implementation of GASB 75, as of October 1, 2017. Information was not available to restate the prior periods presented in this schedule.

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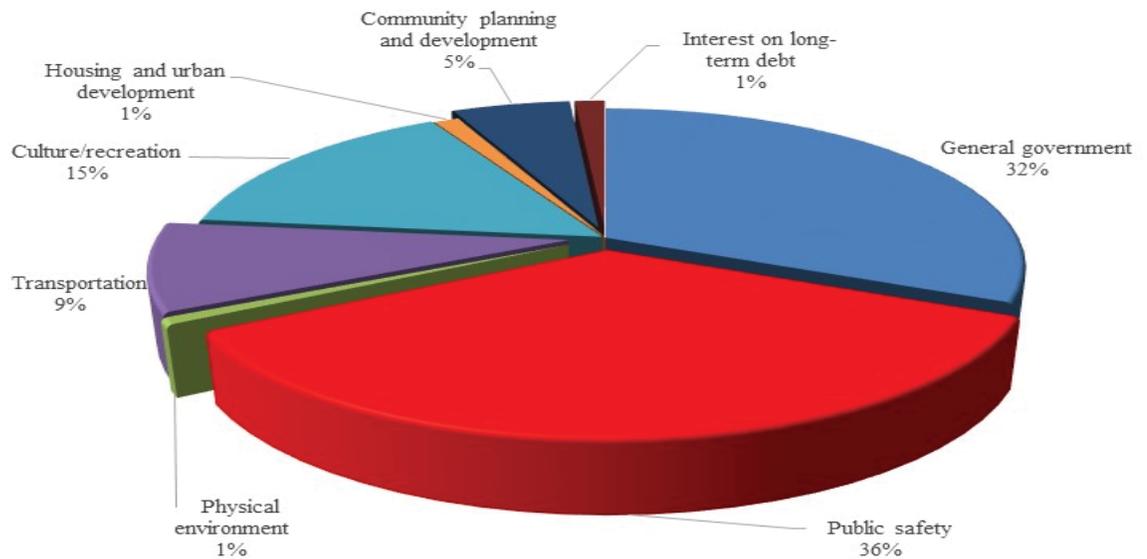
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Revenues by Source - Governmental Activities



Expenditures by Program - Governmental Activities



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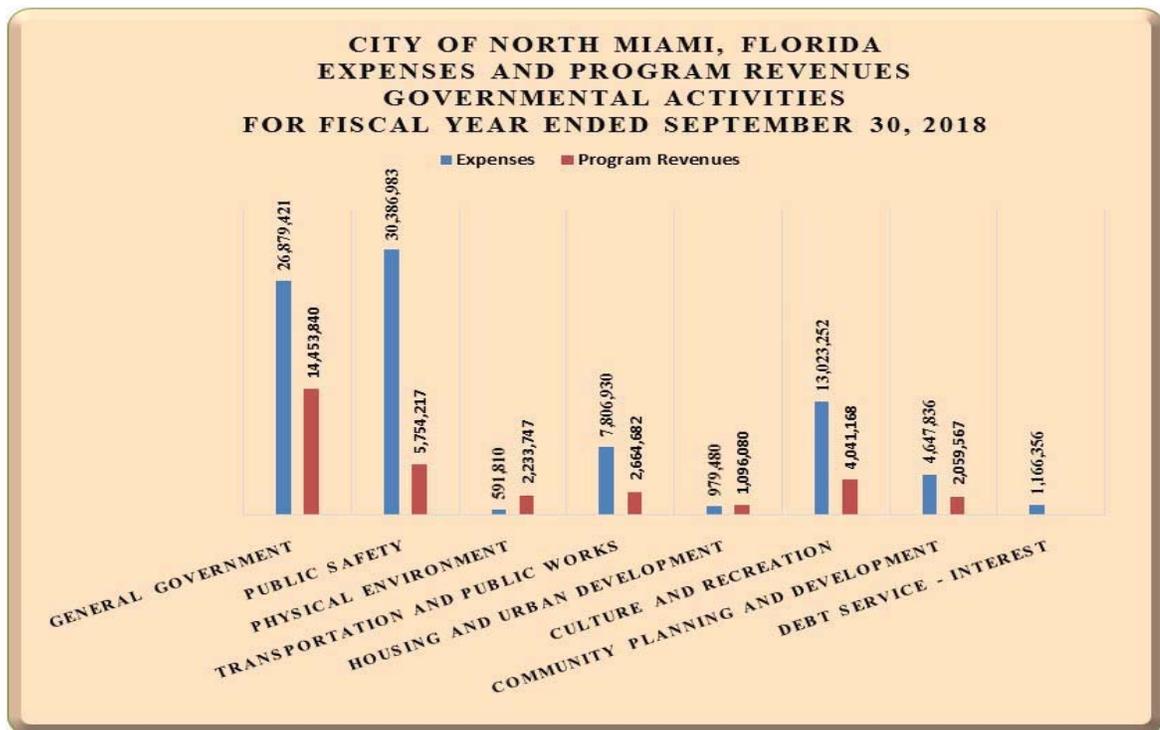
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Governmental Activities

Governmental activities for fiscal year 2018 decreased the City's net position by \$8 million. This resulted primarily from an overall net increase in general government expenses of \$6 million. This increase resulted from hurricane related expenses of \$5 million and increase in salaries of \$3 million. General government, public safety, culture and recreation, and community planning and development services comprised approximately 88% of the City's total governmental activities expenses.

In 2018, property taxes revenue increased from \$19.2 million in the prior year to \$21 million in the current year. The increase was due primarily to:

- collections of delinquent property taxes of approximately \$1.3 million by Miami-Dade County and
- recalculations by Miami-Dade County of amounts related to the CRA TIF which resulted in approximately \$0.3 million refunded to the City.



In 2018, program revenues comprised of charges for services, operating and capital grants, and contributions, represented approximately 43% of the governmental activities total revenues (excluding change in landfill closure cost and transfers). Property taxes, accounting for approximately 43% of general revenues (excluding change in landfill closure cost and transfers), are non-program specific and can be used to fund all activities not covered by program revenues.

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Business-type Activities

	Water and Sewer		Stormwater		Total Business-type Activities	
	2018	2017	2018	2017	2018	2017
OPERATING REVENUES						
Charges for water	\$ 16,278,132	\$ 13,162,846	\$ -	\$ -	\$ 16,278,132	\$ 13,162,846
Sanitary sewer fees	16,200,530	17,354,151	-	-	16,200,530	17,354,151
Stormwater charges	-	-	2,552,977	2,610,940	2,552,977	2,610,940
Charges for services provided to other funds	-	-	-	-	-	-
Other revenues	1,150,737	1,083,609	-	-	1,150,737	1,083,609
Total operating revenues	33,629,399	31,600,606	2,552,977	2,610,940	36,182,376	34,211,546
OPERATING EXPENSES						
Personnel services	4,063,044	4,452,035	548,615	585,536	4,611,659	5,037,571
Wholesale water cost and sewage disposal	16,656,029	15,280,638	-	-	16,656,029	15,280,638
Materials, supplies, services and other operating expenses	9,252,829	8,613,250	1,713,827	1,454,712	10,966,656	10,067,962
Depreciation	2,026,548	1,973,879	370,124	390,087	2,396,672	2,363,966
Total operating expenses	31,998,450	30,319,802	2,632,566	2,430,335	34,631,016	32,750,137
Operating income (loss)	1,630,949	1,280,804	(79,589)	180,605	1,551,360	1,461,409
NON-OPERATING REVENUES (EXPENSES) AND TRANSFERS						
Interest income	186,505	85,446	-	-	186,505	85,446
Other non-operating revenues	-	-	134,718	20,510	134,718	20,510
Interest expense	(25,166)	(114,586)	(74,478)	(83,167)	(99,644)	(197,753)
Transfers out	(202,263)	(215,054)	(26,572)	(26,754)	(228,835)	(241,808)
Change in net position	1,590,025	1,036,610	(45,921)	91,194	1,544,104	1,127,804
Net position- beginning	68,541,517	67,504,907	8,033,456	7,942,262	76,574,973	75,447,169
Restatement - GASB 75	(313,915)	-	(44,901)	-	(358,816)	-
Net position - beginning, as restated	* 68,227,602	67,504,907	* 7,988,555	7,942,262	* 76,216,157	75,447,169
Net position - ending	\$ 69,817,627	\$ 68,541,517	\$ 7,942,634	\$ 8,033,456	\$ 77,760,261	\$ 76,574,973

* Beginning net position was restated with the implementation of GASB 75, as of October 1, 2017. Information was not available to restate the prior periods presented in the MD&A herein.

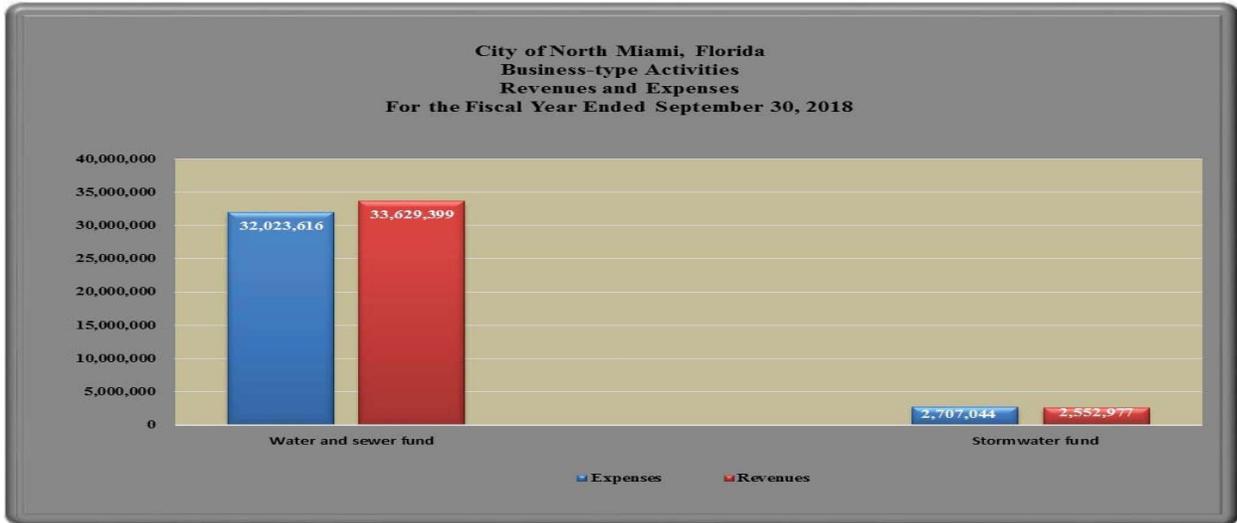
Net position of the City's business-type activities increased from \$76.6 million in the prior fiscal year to \$77.8 million in the current fiscal year.

The net position for the water and sewer fund increased from \$68.5 million in the prior year to \$69.8 million for the current fiscal year. There was operating income of \$1.6 million in the current fiscal year compared to \$1.2 million operating income in the previous fiscal year. The increase of \$0.4 million in operating income over the previous year was primarily due to an increase in charges for services in the current year. In the prior year management determined that approximately \$1.8 million of water and sewer utility billing credits granted to customers in fiscal years 2014 through 2016 was not properly accounted for in the water and sewer fund, this resulted in an adjustment that reduced revenues for the fiscal year ended September 30, 2017.

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The net position for the storm-water utility fund decreased from \$8 million in the prior year to \$7.94 million for the current fiscal year. Operating loss for 2018 was (\$0.1 million) compared to operating income of \$0.2 million in the previous year. The decrease of \$0.1 million in operating income over the previous year was due primarily to overall increase in expenses which included refunds of \$0.1 million to Miami-Dade County for storm water fees.

FINANCIAL ANALYSIS OF THE CITY'S GOVERNMENTAL FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of September 30, 2018, the City's governmental funds reported combined ending fund balances of \$3.9 million, which was a total decrease of \$9.7 million in the current year compared to a \$4.7 million decrease in the prior year. \$18.2 million of the ending fund balances constitutes non-spendable and restricted fund balances, which were not available for spending. Funds were set up to separately account for certain revenue sources that are legally restricted for expenditure for specified purposes. Restricted fund balances of \$18 million included \$9.9 million for landfill closure cost, \$2.7 million restricted for housing and other capital projects and \$4.2 million for CRA projects. At the end of the 2018 fiscal year, governmental funds also included \$0.3 million assigned for various programs. In addition to balances noted above, reported as assigned, governmental funds also showed negative unassigned of \$14.6 million resulting from operations whereby expenditures have exceeded revenues on a cumulative basis over time.

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General Fund

The General Fund is the main operating fund of the City. General tax revenues and other receipts not allocated to another fund by law or contractual commitment, are accounted for in this fund. General operating expenditures and capital improvement costs not paid through another fund are paid from this fund. At September 30, 2018, the general fund had negative unassigned fund balances of \$9.4 million, an increase in the deficit of \$3.3 million over 2017; due primarily to the increased expenditures for salaries, capital projects and public safety related costs.

The General Fund expenditures increased by \$2.9 million or approximately 5% over prior year. Revenues (including other financing sources) increased by \$3.3 million or approximately 6% over the prior year.

Expenditures in the General Fund are shown in the following schedule:

	2018	Percent	2017	Percent	Change		
					Amount	of Total	Amount
General Fund Expenditures							
General government	\$15,044,776	24.7%	\$12,378,728	21.3%	\$ 2,666,048		21.5%
Public safety	28,034,017	45.9%	28,442,358	48.9%	(408,341)		-1.4%
Physical environment	3,985,087	6.5%	3,434,338	5.9%	550,749		16.0%
Transportation	2,737,563	4.5%	3,029,952	5.2%	(292,389)		-9.6%
Culture and recreation	8,879,215	14.6%	8,302,879	14.3%	576,336		6.9%
Community planning and development	1,832,756	3.0%	1,384,496	2.4%	448,260		32.4%
Capital outlay	503,454	0.8%	1,152,140	2.0%	(648,686)		-56.3%
Total expenditures	\$61,016,868	100%	\$58,124,891	100%	\$ 2,891,977		4.98%

In fiscal year 2018, General Fund expenditures increased by \$2.8 million or 5% compared to the prior year. The primary factors contributing to the increase in General Fund expenditures was the overall increase in salaries (ranging from 5% to 7% for merit and COLA) of \$3.8 million.

General Fund revenues (by type) percentage of the total and the amount of change compared to the prior year fiscal year are shown in the following schedule:

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<u>General Fund Revenues</u>	<u>2018</u> Amount	<u>Percent</u> of Total	<u>2017</u> Amount	<u>Percent</u> of Total	<u>Change</u>	
					<u>Increase (Decrease)</u> From Prior Year	
Taxes:						
Ad valorem taxes	\$ 17,712,040	30.1%	\$ 16,907,030	30.4%	\$ 805,010	4.8%
Utility and communication taxes	4,420,867	7.5%	4,728,287	8.5%	(307,420)	-6.5%
Franchise fees	3,992,099	6.8%	4,080,636	7.3%	(88,537)	-2.2%
Total taxes	<u>26,125,006</u>	<u>44.4%</u>	<u>25,715,953</u>	<u>46.2%</u>	<u>409,053</u>	<u>1.6%</u>
Charges for services	10,077,538	17.1%	9,467,004	17.0%	610,534	6.4%
Return on investment - utility	2,479,828	4.2%	2,302,696	4.1%	177,132	7.7%
Fines and forfeitures	899,657	1.5%	1,061,091	1.9%	(161,434)	-15.2%
Intergovernmental	8,754,852	14.9%	8,487,686	15.3%	267,166	3.1%
Licenses and permits	3,749,809	6.4%	3,790,191	6.8%	(40,382)	-1.1%
Interest and other earnings	2,899,201	4.9%	2,669,731	4.8%	229,470	8.6%
Rents and royalties	2,746,174	4.7%	1,767,219	3.2%	978,955	55.4%
Proceeds from capital lease and installment sale	-	0.0%	303,014	0.5%	(303,014)	-100%
Transfers in	1,190,000	2.0%	26,884	0.1%	1,163,116	4326%
Total revenues	<u>\$ 58,922,065</u>	<u>100%</u>	<u>\$ 55,591,469</u>	<u>100%</u>	<u>\$ 3,330,596</u>	<u>6.0%</u>

Explanation for the more significant changes for revenues are as follows:

1. Property tax revenues increased by \$0.8 million or 4.8% due to prevailing economic factors, as the City maintained the same operating millage rate of 7.500 mills.
2. Utility and communication taxes decreased by \$0.3 million primarily due to an adjustment made by the State in 2018 for amounts overpaid to the City in 2017.
3. Charges for services net increase of \$0.6 million or 6.4%, primarily due to increase of approximately \$0.6 million for interfund services based on budgeted allocations.
4. Return on investment – utility increased by \$0.2 million primarily due to increase in budgeted allocation.
5. Fines and forfeitures decreased by \$0.1 million primarily due to less fines from special magistrate sessions.
6. Intergovernmental increased by \$0.2 million or 3%, primarily due to additional amounts received for state revenue sharing.

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7. Interest and other earnings increased by \$0.2 million or 8.6%, primarily due to receipt of miscellaneous new grants, insurance recovery, liens interest penalty charges.
8. Rent and royalties increased by \$1 million or 55%, primarily due to the collection of outstanding rental fees received from the Biscayne Landing relating to the Royal Oaks apartment complexes.
9. Proceeds from capital lease and installment purchase decreased by \$0.3 million or 100%. In the prior year the City recorded a purchase installment agreement. There was no similar transaction for the current year.
10. The increase of \$1.1 million in transfers received from the CRA, to be used for the residential rehabilitation program for the City.

FINANCIAL ANALYSIS OF OTHER GOVERNMENTAL FUNDS

Landfill Closure Fund (Major Fund)

This fund is restricted for funding of remediation and closure costs of an old landfill. The fund was set up from a one-time contribution of \$31 million, which was received from the Miami-Dade County in 2004, and placed in an escrow account. At the end of 2018, the long-term cost was estimated to be \$9 million. The remediation cost for the current year was \$0.6 million. This fund had a restricted fund balance of \$10 million at September 30, 2018. See **NOTE 12** for additional information on the landfill.

CRA Component Unit Capital Projects Fund (Major Fund)

The CRA, a component unit of the City, reported a \$4.2 million restricted fund balance at year end. During the year, approximately \$3.2 million in property tax incremental revenues was recognized in the CRA (both the City and Miami-Dade County portions). The CRA refunded tax increment revenues of approximately \$1.6 million to Miami-Dade County. The City acts as a pass-through for the tax incremental property tax monies that were transferred to the CRA.

The CRA recorded a transfer of \$1.1 million to the City, to be used for the residential rehabilitation program for the City.

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Community Development Block Grant (C.D.B.G.) Entitlement Fund

The C.D.B.G. fund accounts for grant-related revenues and expenditures for housing rehabilitation programs. The negative unassigned fund balance at year-end was \$0.2 million was due to expenditures that were not reimbursed as of 60 days after fiscal year end.

Other Governmental Funds (Nonmajor)

Significant items pertaining to other Governmental Funds (Nonmajor) are as follows:

- Special Revenues restricted fund balance at year-end was \$2.4 million, comprised primarily of:
 1. The Neighborhood Stabilization Program (“NSP”) reported \$0.6 million;
 2. Law Enforcement Trust Fund reported \$0.2 million;
 3. Federal Forfeiture Fund reported \$0.2 million;
 4. Developer Impact Fees Fund reported \$0.7 million; and
 5. MOCA which reported \$0.7 million;

The Home Investment Partnership Program (HIP) and the NSP combined funds awarded a total of \$0.2 million in direct housing grants and aid to home owners and local businesses.

MOCA is included as a component unit of the City because the City provides significant financial support for MOCA’s daily operations. The City provided support of approximately \$2.4 million to fund approximately \$2.7 million of total expenditures shown in MOCA’S financial statements.

Internal Service Funds

In 2018, the General Risk Management Fund reflected net position of \$3.4 million - a decrease from the prior year’s \$4.0 million.

The Fleet Management Fund reflected net position of \$4.8 million compared to prior year’s total of \$4.5 million.

Fiduciary Funds

Net investment income from interest and dividends for both City pension plans combined was reported at \$1.8 million. The Plans’ investment policies set the portfolio allocation. Many U.S. market indices posted favorable returns across the board this year. There was a significant appreciation for both plans of approximately \$20.4 million (prior year net appreciation was \$17.5 million). Employer contribution for 2018, for both plans was \$9 million. During 2018, retirement benefit payouts approximated \$12 million for both plans combined.

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Capital Assets and Debt Administration

Capital Assets

As of September 30, 2018, the City's capital assets for the governmental and business-type activities amounted to \$108 million (net of accumulated depreciation), compared with \$107 million in the previous fiscal year. These assets include land, construction in progress, buildings, and improvements, infrastructure, machinery and equipment and library books. The total net increase in the City's capital assets balances from prior fiscal year was \$1.5 million or 1.4%.

	CAPITAL ASSETS - GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES					
	Governmental		Business-type		Totals	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Capital assets, not being depreciated:						
Land	\$ 12,467,017	\$ 12,467,017	\$ 653,080	\$ 653,080	\$ 13,120,097	\$ 13,120,097
Construction in progress	949,082	994,162	898,886	2,519,687	1,847,968	3,513,849
Total capital assets, not being depreciated	13,416,099	13,461,179	1,551,966	3,172,767	14,968,065	16,633,946
Capital assets, being depreciated, net:						
Land Improvements	18,937,139	18,886,574	1,285,292	154,211	20,222,431	19,040,785
Buildings and improvements	21,280,293	21,087,191	2,474,134	2,469,234	23,754,427	23,556,425
Infrastructure	59,112,226	56,796,571	80,670,336	77,330,608	139,782,562	134,127,179
Machinery and equipment	20,780,262	20,604,416	6,830,358	6,401,339	27,610,620	27,005,755
Library books	2,288,302	2,242,501	-	-	2,288,302	2,242,501
Total capital assets, being depreciated	122,398,222	119,617,253	91,260,120	86,355,392	213,658,342	205,972,645
Accumulated depreciation:						
Land Improvements	(13,791,334)	(13,476,451)	(131,404)	(127,705)	(13,922,738)	(13,604,156)
Buildings and improvements	(10,321,107)	(9,884,952)	(893,749)	(822,996)	(11,214,856)	(10,707,948)
Infrastructure	(29,178,352)	(27,988,247)	(41,394,864)	(39,551,932)	(70,573,216)	(67,540,179)
Machinery and equipment	(17,517,647)	(17,431,450)	(5,125,313)	(4,650,940)	(22,642,960)	(22,082,390)
Library books	(2,144,937)	(2,108,779)	-	-	(2,144,937)	(2,108,779)
Total accumulated depreciation	(72,953,377)	(70,889,879)	(47,545,330)	(45,153,573)	(120,498,707)	(116,043,452)
Total capital assets, being depreciated, net	49,444,845	48,727,374	43,714,790	41,201,819	93,159,635	89,929,193
Total Capital Assets, net	\$ 62,860,944	\$ 62,188,553	\$ 45,266,756	\$ 44,374,586	\$ 108,127,700	\$ 106,563,139

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Total net increase in capital assets for governmental activities (excluding depreciation) was \$2.7 million, primarily due to the following additions:

1. \$2.3 million for infrastructure, primarily for paving of sidewalks and drainage improvement throughout the City.
2. \$0.1 million for machinery and equipment, which included computer software for city hall, police computer equipment and police vehicle equipment upgrades.
3. \$0.2 million for building improvements, primarily for city hall.

Total net increase in capital assets for business-type activities (excluding depreciation) was \$3.3 million, primarily due to the following:

1. Increase of \$2 million for infrastructure, primarily due to lift station upgrades, water distribution line upgrades and the water plant filter project.
2. Increase of \$0.4 million for purchase of machinery and equipment, primarily commercial vehicles for code compliance and public works.
3. Increase of \$0.8 million for construction in progress related to the Winson Water Plant and Sanitary Sewer Lining Rehabilitation projects.

Additional information on the City's capital assets are disclosed in **NOTE 6** starting on page 66 of this report.

Long-term Debt

At September 30, 2018, the City had total outstanding debt of approximately \$18 million (bonds, notes, leases etc.) compared to approximately \$19 million at the end of the previous fiscal year. The majority of the City's outstanding debt was secured by specific revenue sources. The outstanding debts are summarized below:

	Outstanding Debt					
	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Note payable	\$ 13,235,000	\$ 14,005,000	\$ -	\$ -	\$ 13,235,000	\$ 14,005,000
Unamortized bond discount	(571,787)	(664,396)	-	-	(571,787)	(664,396)
Capital lease obligation	355,330	801,566	-	-	355,330	801,566
Purchase installment liability	280,800	409,400	-	-	280,800	409,400
FMLC Series 2016 Refunding (stormwater)	-	-	1,555,000	1,915,000	1,555,000	1,915,000
Unamortized bond premiums and discount	-	-	82,040	102,550	82,040	102,550
State revolving fund loan	-	-	3,042,232	2,864,933	3,042,232	2,864,933
Capital lease obligations	-	-	1,593	2,393	1,593	2,393
Total	\$ 13,299,343	\$ 14,551,570	\$ 4,680,865	\$ 4,884,876	\$ 17,980,208	\$ 19,436,446

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During the fiscal year 2018, the City had the following debt activity:

Governmental Activities – The total debt decreased by a net of \$1 million from the prior year, primarily due to the net effect of scheduled principal payments and amortizations.

Business-type Activities – The total debt decreased by a net of \$0.2 million from the prior year, primarily due to the effect of scheduled principal payments and amortizations.

Additional information on the City's long-term debt and capital leases can be found in **NOTE 7** on page 68.

Overall Budget

The fiscal year 2018 adopted budget of \$166.6 million represents an increase of 9% compared to the fiscal year 2017 Budget. Major contributors to the increase across all funds included: additional ad valorem revenue resulting from the increase in city-wide taxable values, proceeds from SoLē Mia, development, and inclusion of the CRA budget in the total.

The difference between the original and final amended general fund budget for 2018 was approximately \$3.3 million, which represents an increase in overall appropriations from \$71 million to \$74 million. The increase was due to re-appropriations for prior year projects that were approved by the Mayor and Council in the previous year.

The general fund is the largest component of the total budget, accounting for \$73 million or 48% of the total budget. The budgetary highlights are based on the following schedule:

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GENERAL FUND BUDGETARY HIGHLIGHTS

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Ad valorem taxes	\$ 17,202,709	\$ 17,571,073	\$ 17,712,040	\$ 140,967
Utility and communication taxes	4,978,208	4,978,208	4,420,867	(557,341)
Charges for services	10,710,954	10,646,266	10,077,538	(568,728)
Return on investment - utility	2,479,826	2,479,826	2,479,828	2
Franchise fees	4,132,730	4,132,730	3,992,099	(140,631)
Fines and forfeitures	786,836	786,836	899,657	112,821
Intergovernmental	8,349,406	8,474,406	8,754,852	280,446
Licenses and permits	4,029,604	4,029,604	3,749,809	(279,795)
Interest	594,876	594,876	620,277	25,401
Other earnings	5,691,763	5,234,399	2,278,924	(2,955,475)
Rents and royalties	<u>3,285,805</u>	<u>3,284,805</u>	<u>2,746,174</u>	<u>(538,631)</u>
Total revenues	<u>62,242,717</u>	<u>62,213,029</u>	<u>57,732,065</u>	<u>(4,480,964)</u>
EXPENDITURES				
General Government:				
Mayor and City Council	1,132,860	1,475,174	1,439,736	35,438
City Manager	2,349,580	2,696,035	2,692,148	3,887
City Clerk	635,168	696,114	696,114	-
Financial Services	3,306,316	3,279,242	3,211,180	68,062
Legal	1,269,528	1,309,654	1,335,631	(25,977)
Human Resources	776,119	882,790	879,021	3,769
Information Technology	1,834,590	1,777,409	1,597,596	179,813
Management and Budget	354,261	354,261	311,279	42,982
Procurement and Purchasing	491,821	515,335	515,701	(366)
Non-Departmental	<u>10,920,909</u>	<u>9,844,278</u>	<u>2,366,370</u>	<u>7,477,908</u>
Total general government	<u>23,071,152</u>	<u>22,830,292</u>	<u>15,044,776</u>	<u>7,785,516</u>
Public Safety:				
Police	26,383,722	26,322,288	24,985,358	1,336,930
Building and Zoning	1,901,860	1,880,407	1,447,767	432,640
Code Enforcement	<u>1,573,911</u>	<u>1,663,911</u>	<u>1,600,892</u>	<u>63,019</u>
Total public safety	<u>29,859,493</u>	<u>29,866,606</u>	<u>28,034,017</u>	<u>1,832,589</u>
Physical Environment:				
Public Works	<u>4,611,118</u>	<u>4,765,497</u>	<u>6,722,650</u>	<u>(1,957,153)</u>
Total physical environment	<u>4,611,118</u>	<u>4,765,497</u>	<u>6,722,650</u>	<u>(1,957,153)</u>
Economic Environment:				
Community Planning and Development	<u>1,411,772</u>	<u>3,598,820</u>	<u>1,832,756</u>	<u>1,766,064</u>
Total economic environment	<u>1,411,772</u>	<u>3,598,820</u>	<u>1,832,756</u>	<u>1,766,064</u>
Culture and Recreation:				
Parks and Recreation	7,298,942	7,756,100	6,134,232	1,621,868
Library	1,035,666	1,044,666	966,887	77,779
MOCA	<u>1,403,254</u>	<u>1,781,754</u>	<u>1,778,096</u>	<u>3,658</u>
Total culture and recreation	<u>9,737,862</u>	<u>10,582,520</u>	<u>8,879,215</u>	<u>1,703,305</u>
Capital outlay	475,472	855,478	503,454	352,024
Total expenditures	<u>69,166,869</u>	<u>72,499,213</u>	<u>61,016,868</u>	<u>11,482,345</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,924,152)</u>	<u>(10,286,184)</u>	<u>(3,284,803)</u>	<u>7,001,381</u>
OTHER FINANCING SOURCES (USES)				
Reserves	8,423,556	10,595,588	-	(10,595,588)
Transfers in	-	1,190,000	1,190,000	-
Transfers out	<u>(1,499,404)</u>	<u>(1,499,404)</u>	<u>(1,245,564)</u>	<u>253,840</u>
Total other financing sources (uses)	<u>6,924,152</u>	<u>10,286,184</u>	<u>(55,564)</u>	<u>(10,341,748)</u>
Net change in fund balance (deficit)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,340,367)</u>	<u>\$ (3,340,367)</u>
Fund balance (deficit), beginning			<u>(4,842,075)</u>	
Fund balance (deficit), ending			<u>\$ (8,182,442)</u>	

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Actual total revenues were less than final budgeted revenues by approximately \$4.4 million primarily due to the following factors:

- a. Charges for services were \$0.6 million less than the budgeted amount despite having increased \$0.7 million over prior. The increase was anticipated, but the amount of the increase did not fully meet expectations.
- b. Utility and Communication Taxes revenue was \$0.5 million less than the budget because of a true-up adjustment from the State of Florida.
- c. Other Earnings was \$2.9 million less than the budgeted amount primarily because a planned \$3 million for sale of land to a developer did not materialize.
- d. Rents and Royalties were \$0.5 million less than the budget even though there was an increase of \$0.98 million in the current year compared to prior year. The increase was anticipated so a higher amount was budgeted, however the projection was over-estimated.

The net positive variance of \$11.5 million for expenditures was primarily due to the following factors:

- a. The non-departmental variance of \$7.5 million, which includes an allocation for capital projects and contingency.
- b. The police department \$1.3 million variance was due to staff positions that were not filled.
- c. The public works department (\$2 million) variance was due to increased fees from a service provider and internal re-organization resulting in more divisions in the department.
- d. Community planning and development \$1.7 million positive variance was due to reduced grant activities.
- e. Parks and recreation \$1.6 million positive variance was due to staff positions that were not filled, a number of special events that did not take place and some capital projects that did not start in fiscal 2018.

The General Fund deficit will be eliminated through a combination of reducing expenditures and expected ad-valorem revenue increases from development within the City. The current expenditure reduction plan aims to trim 3% of General Fund expenditures from the 2019 budgeted fiscal year, which is projected to reduce expenditures by \$2.1 million for the year ending September 30, 2019, and result in a net increase in the General Fund's fund balance of \$0.44 million. The City is on target to meet the budgeted revenue balance for the fiscal year ending September 30, 2019. Additionally, the City is currently developing a long-term plan to reduce and eliminate the General Fund's fund balance deficit over the next 3 – 5 years, by budgeting for a surplus of revenues over expenditures in each year. The City projects going forward that there will be additional sales tax revenues from a new major business that relocated to the City and an increase in the ad-valorem tax base from the

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SoLē Mia development project, both of which will help reduce the General Fund's fund balance deficit in future years.

Economic Factors and Next Year's Budgets and Rates

In the development of the planned budget year, a number of economic factors are analyzed to ascertain both the immediate and future resources that can be anticipated to fund projected needs in the community. Property values, unemployment rates and median income are three indicators of the health and well-being of a local economy. Although median wages have remained relatively dormant in North Miami, a foundation for growth continues to be laid through emphasis on redevelopment and updating of the City's infrastructure. Currently the unemployment rate for North Miami is approximately 4.2%. This rate has been steadily declining from 2012's high of 9.4%.

The City's adopted fiscal year 2019 budget, prepared on a budgetary basis, presented general fund reserves of \$8.3 million. The term reserves, for budget purposes, refers to pooled cash available to be used to fund current year's operations. It is important to note that the general fund reported a fund balance deficit of \$8.2 million for the year ended September 30, 2018, therefore no accounting reserves are presented for the fiscal year then ended. This is in part due to the limited, straight-line rate at which the unearned revenue associated with a prepaid rent on a long-term lease of 99 years can be amortized and recognized into revenue, and consequently the general fund's fund balance. See NOTE 16 for discussion of the Biscayne Landing Lease.

Economic Impact on the Immediate Budget

For a fifth consecutive year, the City has seen an increase in assessed taxable values as reported by the Miami-Dade Property Appraiser. For fiscal year 2018, the City's assessed taxable value is \$3.1 billion, which is a 9.2% increase from the prior fiscal year. In September 2018, the City Council adopted a millage rate of 7.5000 for the 2018-19 budget. This was the same millage rate as the prior year. Applying the same millage rate to the growing total taxable values is budgeted to generate an additional \$2.2 million in ad-valorem revenue.

Future Economy and Budget Years

While North Miami continues to see improvements in the economy since the recession of 2008, with property tax revenue increasing 35% in the last four years. Despite this, the City is not immune to the growing divide between home prices and the stagnation of wages. The Miami metropolitan statistical area has the second highest disparity in the country between home prices and wages, and North Miami is exposed to this reality as well.

While there are certainly challenges in spurring wage growth in the community, the commercial sector in the community is thriving. With the help of City and CRA assistance and subsidies, new and innovative businesses have entered the downtown region and major corridors. Small business grants that were implemented last year to aid the 90% of North Miami businesses that have less than 10 employees have been a success. Since 2015, North Miami has seen a net increase of more than 250 established businesses throughout the City.

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With the support of market forces and government assistance, the commercial sector in North Miami is rapidly strengthening and will lead to more local job creation and wage growth. Household income in North Miami has increased by nearly \$5,000 over the last four years, outpacing inflation. As the City continues to monitor the state and national economies, there will be several initiatives that will have an interdependent impact on the future local economy and upcoming budget years:

1. ***SoLē Mia*** – The 184-acre mixed-use development, SoLē Mia, is now leasing two 17-story residential rental towers that will have a combined 397 units. A 156,000 square foot Costco Wholesale has opened its new store in North Miami, with Warren Henry Auto Center opening in the second quarter of this year. More rental towers and a commercial complex will be submitting to the City's Development Review Committee later this year. SoLē Mia's continued development will transform the North Miami economy, providing a large boost in revenue to be used throughout the City.
2. ***Capitalize on the CRA*** – The North Miami Community Redevelopment Agency will be a major funding mechanism the City will use to advance the local economy. The CRA continues to grow from TIF contributions year over year with a 32% increase in FY18-19 from the previous Fiscal Year. The FY 18-19 budget calls for continued business grant assistance along with \$3 million in capital projects and downtown marketing. As the TIF contributions grow, the City's utilization of the CRA to provide innovative and capital-intensive services will as well.
3. ***Capital Improvement Plan*** – By continuing to invest in capital projects, which improve parks, streets, sidewalks and its housing stock, the City will attract and retain investors and talent to ensure North Miami will realize its future potential.
4. ***Workforce Development Initiatives*** – The Community Planning & Development Department have implemented scholarship programs, professional development courses, and strategic partnerships to raise the skill level of the North Miami workforce and improve wages in the community.
5. ***Strengthen Footprint*** – Several important indicators that assist in determining a City's financial footprint include the growth of property values, revenues, the amount of debt held, and the ability to pay off that debt. The City of North Miami has growing property values, ad-valorem revenue and reducing debt.
6. ***Transit-Oriented Mobility Hub*** – This year, the City and CRA commissioned the development of a Mobility Hub Master Plan, which was completed and approved by the CRA Board earlier this year. The Plan calls for up zoning of the area within a half-mile radius of the railroad crossing at NE 125 Street, allowing for heights up to 200 feet and the existing of mixed-use development, including multifamily. The Tri-Rail Coastal Link Master Plan calls for a transit station at NE 125 Street, and the Mobility Hub Master Plan predicts a boost in economic development from the adoption of the new Land Use regulations and implementation of the Transit-Oriented development.

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Request for Information

This financial report is designed to provide a general overview of the City of North Miami's finances to demonstrate the City's accountability. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Finance Department.

Finance Department
City of North Miami
776 NE 125th Street
North Miami, Florida, 33161

or

Visit our website at www.northmiamifl.gov/departments/finance/cafr.aspx.