



Management's Discussion and Analysis
(MD&A)



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City of North Miami, Florida

Management's Discussion and Analysis - Unaudited

September 30, 2017

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, 2017. 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, 2017, the government-wide assets and deferred outflow of resources of the City exceeded its liabilities and deferred inflows by \$115.0 million compared with \$112.6 million in the previous year.

The City's total net position increased by \$2.4 million from prior year, approximately 2.13% compared to \$19.9 million in the prior year. We note that in the prior fiscal 2016 year, the City recognized a gain on sale of land parcels of Biscayne Landing of approximately \$12.3 million; and also recorded net prior period adjustments of approximately \$17 million related to the Biscayne Landing long term lease agreement. There were no similar adjustments in the fiscal 2017.

At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$13.6 million, a decrease of \$4.8 million in comparison to the prior year's increase of \$0.3 million. The current year's decrease was due primarily to overall increased expenditures in the general fund of \$3.6 million which includes expenditures for special events (Mardi Gras \$0.2 million); forgiveness of CRA debt of \$0.3 million and expenditures for preparation for Hurricane Irma in September 2017.

Included in the combined ending governmental fund balances is \$4.5 million, which is only available for use in the Community Redevelopment Agency Fund ("CRA") a component unit of the City. Also included is approximately \$1.1 million, which is only available for use for the Museum of Contemporary Art, Inc. ("MOCA").

At the end of the fiscal year, the City's General Fund reported a total fund balance (deficit) of \$4.8 million of which \$4.9 million was unassigned net deficit. The negative balance was due primarily to the current year decrease in fund balance of \$4.8 million from operations.

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.

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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 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.

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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 113 -118 of this report.

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 101 -104.

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 an accounting device 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.

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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 31 - 33 of this report. The individual fund data for the internal service funds is provided in the form of combining statements on pages 119 -121.

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 34-35 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 36-100 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. The required supplementary information can be found on page 112 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 2017 fiscal year, assets and deferred outflow of resources exceeded liabilities and deferred inflows of resources by \$115.0 million of which approximately 33% was for governmental activities and 67% was for business-type activities.

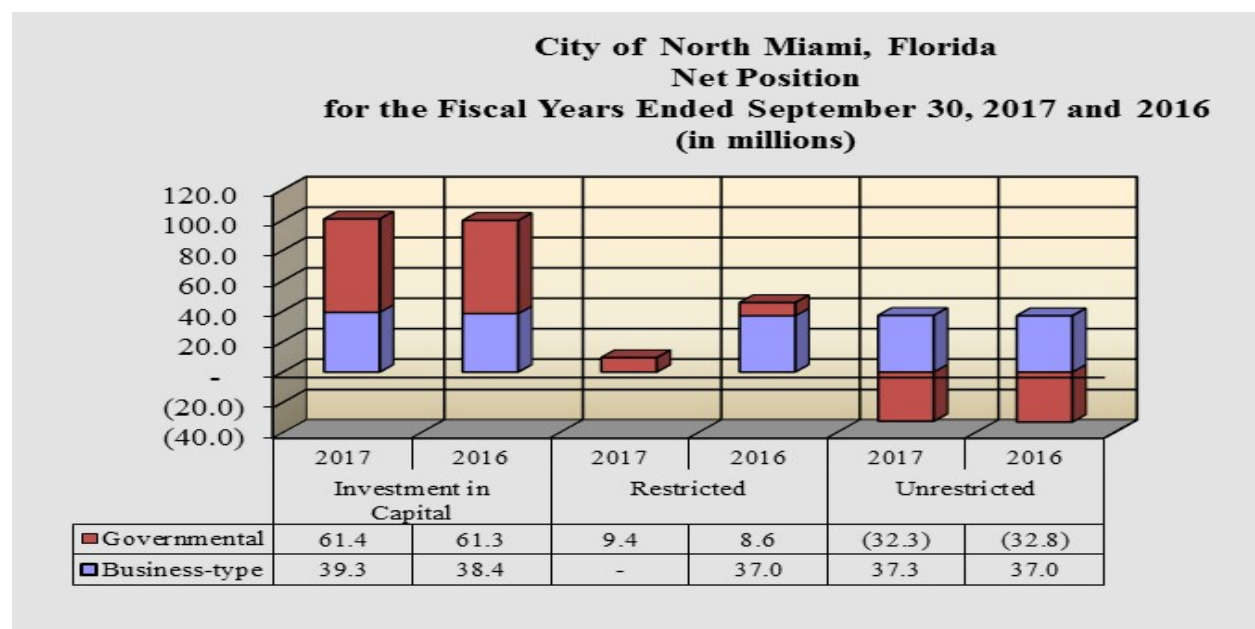
At the end of the current fiscal year, the City reported positive balances in all three categories of net position for its business-type activities. The governmental activities net position is either restricted as to the purpose to which it can be used, or is invested in capital assets. The governmental activities show a deficit of approximately (\$32.3 million) for unrestricted net position compared to prior year deficit of (\$32.8 million). The unrestricted deficit was due primarily to operations whereby expenditures have exceeded revenues on a cumulative basis.

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Although the business-type activities reflect \$37.2 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.



Summary of Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 63,084,436	\$ 68,968,610	\$ 51,825,943	\$ 49,117,361	\$ 114,910,379	\$ 118,085,971
Capital assets	62,188,553	62,476,400	44,374,586	43,875,018	106,563,139	106,351,418
Total assets	125,272,989	131,445,010	96,200,529	92,992,379	221,473,518	224,437,389
Deferred outflows of resources	18,028,916	16,531,740	2,483,257	2,277,936	20,512,173	18,809,676
Long-term liabilities	41,239,106	43,507,003	7,272,106	6,862,186	48,511,212	50,369,189
Net pension liability	34,737,150	43,886,573	4,738,316	6,017,103	39,475,466	49,903,676
Other liabilities	20,297,722	18,037,004	8,988,267	6,269,779	29,285,989	24,306,783
Total liabilities	96,273,978	105,430,580	20,998,689	19,149,068	117,272,667	124,579,648
Deferred inflows of resources	8,559,307	5,439,499	1,110,124	674,078	9,669,431	6,113,577
Net position						
Net investment in capital assets	61,365,386	61,274,246	39,310,886	38,449,795	100,676,272	99,724,041
Restricted	9,412,706	8,644,742	-	-	9,412,706	8,644,742
Unrestricted	(32,309,472)	(32,812,317)	37,264,087	36,997,374	4,954,615	4,185,057
Total net position	\$ 38,468,620	\$ 37,106,671	\$ 76,574,973	\$ 75,447,169	\$ 115,043,593	\$ 112,553,840

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The City's net investment in capital assets, totaling \$101 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 \$1 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.

Change in Net Position

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

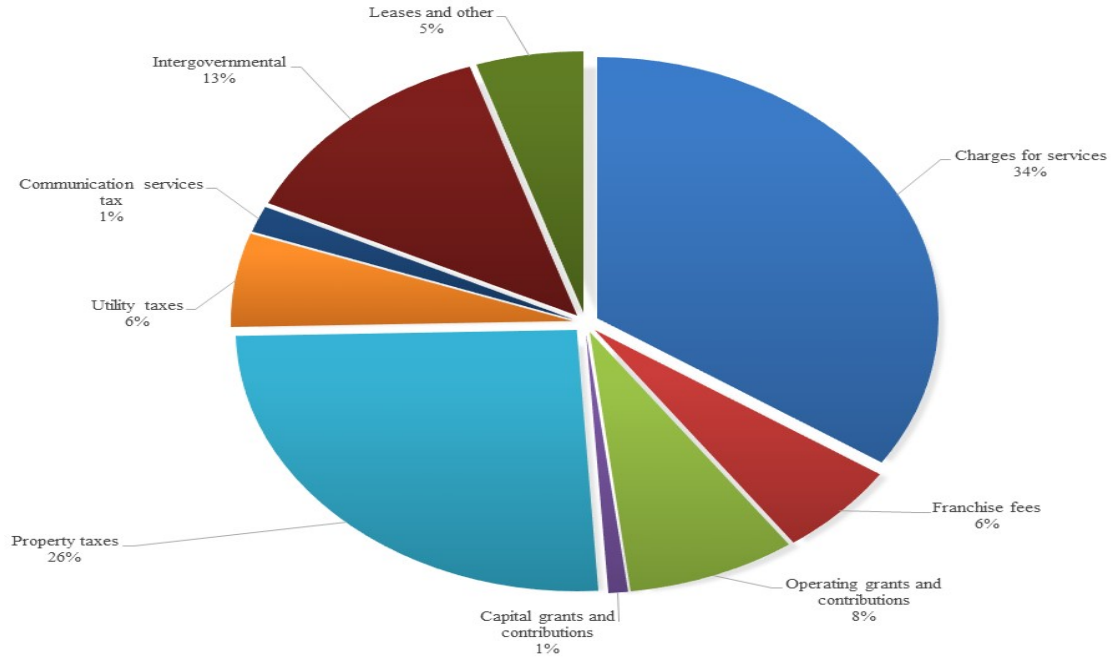
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Program Revenues:						
Charges for services	\$ 25,686,942	\$ 25,053,887	\$ 34,211,546	\$ 34,793,261	\$ 59,898,488	\$ 59,847,148
Operating grants/contributions	5,956,341	5,353,062	-	-	5,956,341	5,353,062
Capital grants/contributions	670,841	544,232	-	-	670,841	544,232
General Revenues:						
Property taxes	19,194,672	18,708,191	-	-	19,194,672	18,708,191
Utility and gas taxes	4,343,095	4,311,844	-	-	4,343,095	4,311,844
Communication services tax	1,212,133	1,308,539	-	-	1,212,133	1,308,539
Franchise fees	4,356,029	3,742,335	-	-	4,356,029	3,742,335
Intergovernmental	9,628,805	9,208,192	-	-	9,628,805	9,208,192
Landfill closure (cost) adjustments	376,995	914,701	-	-	376,995	914,701
Investment earnings	98,716	259,140	-	-	98,716	259,140
Miscellaneous revenues	3,705,137	1,141,460	105,956	299,700	3,811,093	1,441,160
Gain on sale of capital assets	-	12,274,874	-	-	-	12,274,874
Total revenues	<u>75,229,706</u>	<u>82,820,457</u>	<u>34,317,502</u>	<u>35,092,961</u>	<u>109,547,208</u>	<u>117,913,418</u>
Expenses:						
General government	20,424,384	19,969,995	-	-	20,424,384	19,969,995
Public safety	30,837,393	25,166,834	-	-	30,837,393	25,166,834
Physical environment	388,242	1,526,731	-	-	388,242	1,526,731
Transportation and public works	5,954,245	5,771,515	-	-	5,954,245	5,771,515
Housing and urban development	1,823,347	1,119,540	-	-	1,823,347	1,119,540
Culture and recreation	11,722,459	10,623,998	-	-	11,722,459	10,623,998
Community planning and development	1,693,997	2,175,156	-	-	1,693,997	2,175,156
Debt service - interest	1,265,498	1,225,739	-	-	1,265,498	1,225,739
Water and sewer	-	-	30,434,388	28,538,868	30,434,388	28,538,868
Stormwater	-	-	2,513,502	1,848,527	2,513,502	1,848,527
Total expenses	<u>74,109,565</u>	<u>67,579,508</u>	<u>32,947,890</u>	<u>30,387,395</u>	<u>107,057,455</u>	<u>97,966,903</u>
Change in net position before transfers	1,120,141	15,240,949	1,369,612	4,705,566	2,489,753	19,946,515
Transfers	241,808	205,115	(241,808)	(205,115)	-	-
Change in net position	1,361,949	15,446,064	1,127,804	4,500,451	2,489,753	19,946,515
Net position - beginning, as restated	37,106,671	21,660,607	75,447,169	70,946,718	112,553,840	92,607,325
Net position - ending	<u>\$ 38,468,620</u>	<u>\$ 37,106,671</u>	<u>\$ 76,574,973</u>	<u>\$ 75,447,169</u>	<u>\$ 115,043,593</u>	<u>\$ 112,553,840</u>

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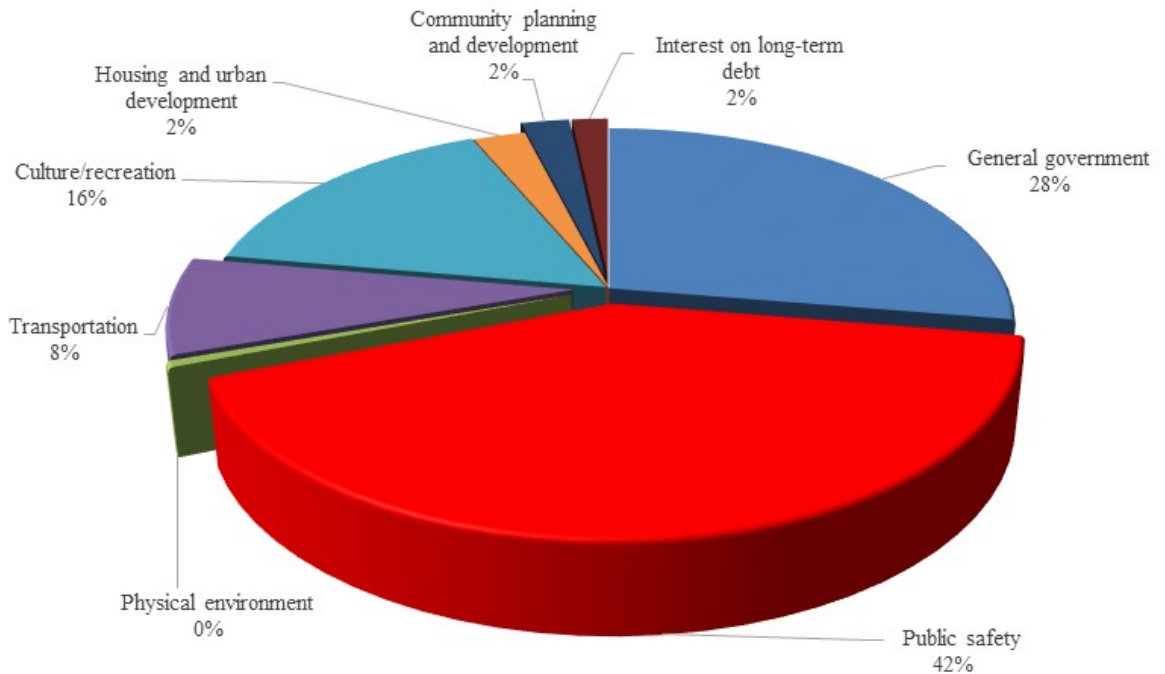
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Revenues by Source - Governmental Activities



Expenditures by Program - Governmental Activities



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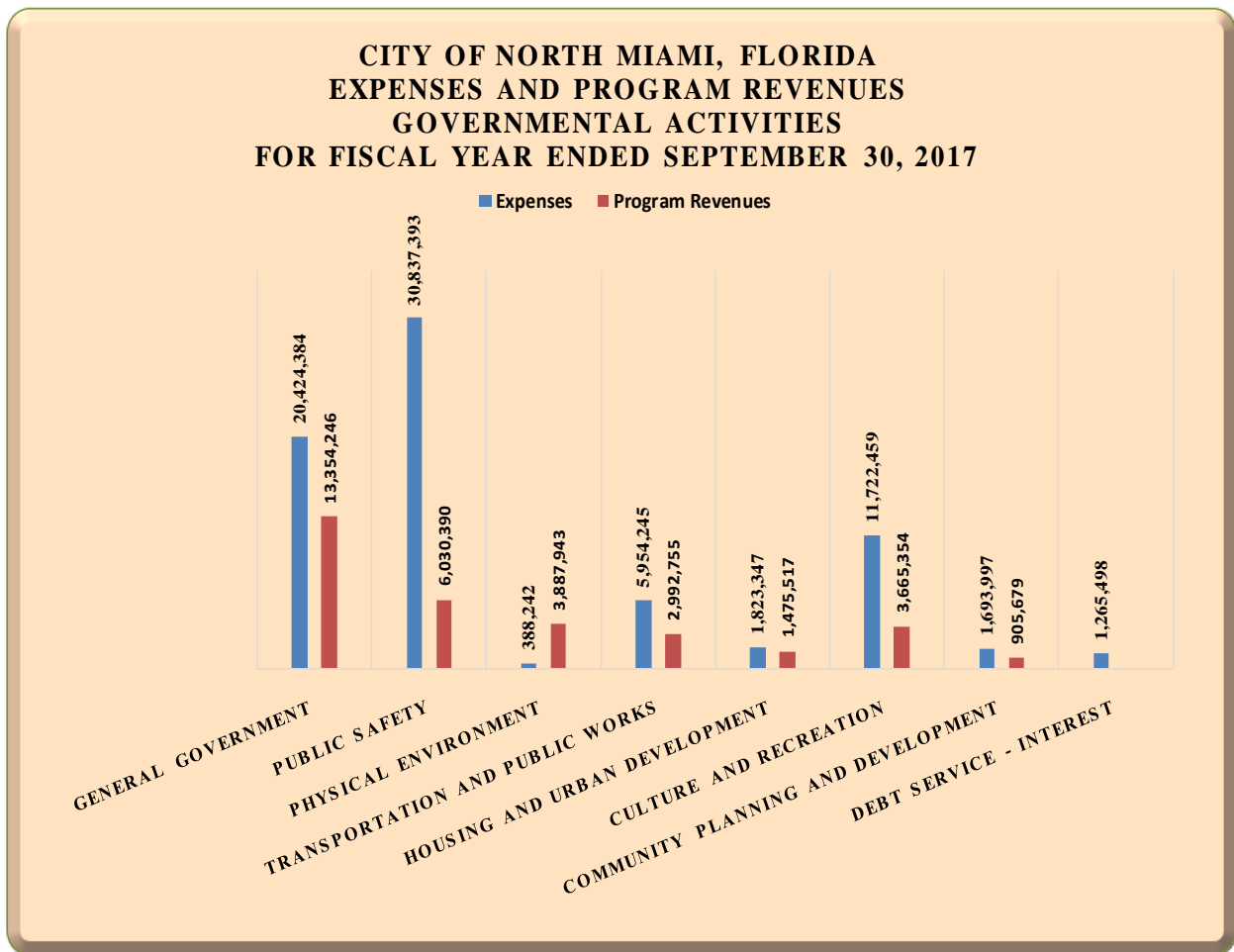
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Governmental Activities

Governmental activities for fiscal year 2017 increased the City's net position by \$1.4 million. General government, public safety, culture and recreation, and community planning and development services comprised approximately 87% of the City's total governmental expense activities. Total related revenues were approximately 74% of total program revenues.

In 2017, property taxes revenue increased from \$18.7 million in the prior year to \$19.2 million in the current year.



In 2017, program revenues comprised of charges for services, operating and capital grants, and contributions, which represented approximately 43% of the governmental activities total revenues (excluding change in landfill closure cost and transfers). Property taxes, which accounted for approximately 26% of general revenues, (excluding change in landfill closure cost and transfers) are non-program specific and used to fund all activities not covered by program revenues.

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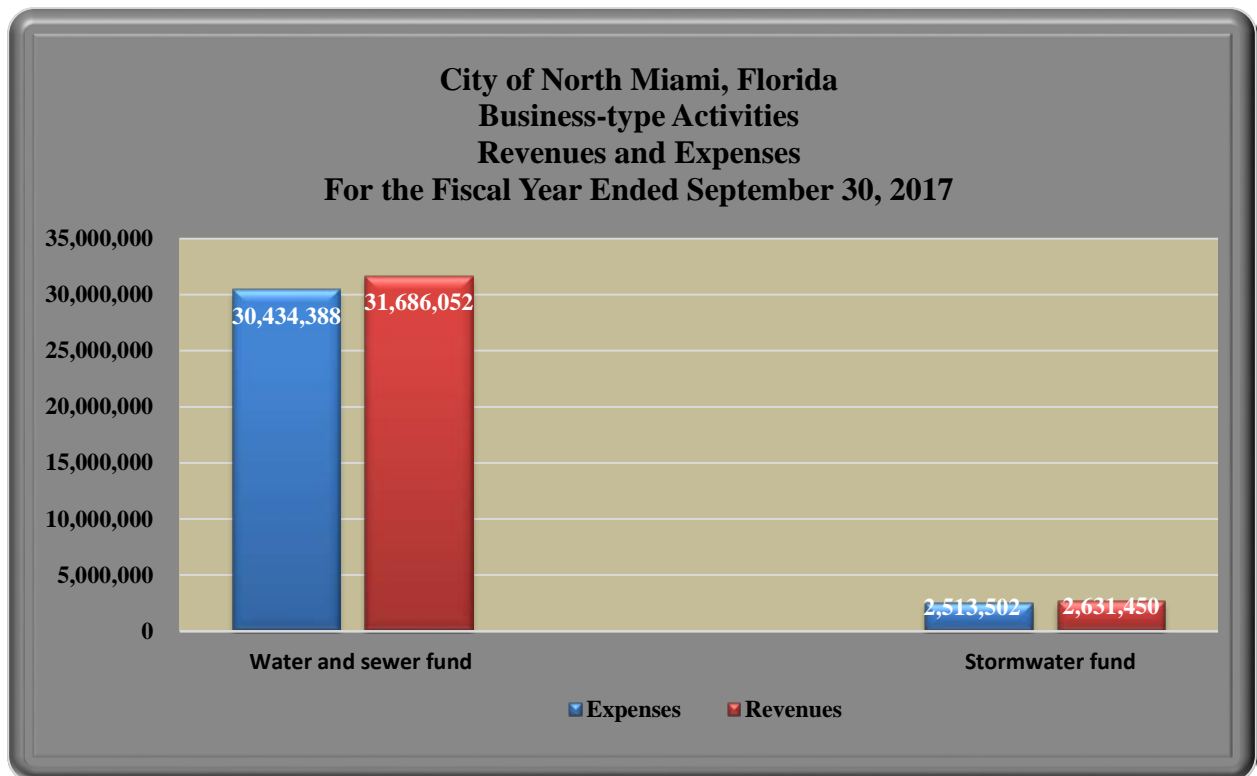
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Business-type Activities

Net position of the City's business-type activities increased slightly from \$75.4 million in the prior fiscal year to \$76.6 million in the current fiscal year.

The net position for the water and sewer fund increased from \$67.5 million in the prior year to \$68.5 million for the current fiscal year. There was operating income of \$1.3 million in the current fiscal year compared to \$3.7 million in the previous fiscal year. The decrease of \$2.5 million in operating income from the previous year was due primarily to an adjustment of \$1.8 million to reduce revenues in the current year. During the year ended September 30, 2017, 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 financial statements.



The net position for the storm-water utility fund increased from \$7.9 million in the prior year to \$8 million for the current fiscal year.

Operating income for 2017 was \$0.2 million compared to \$0.9 million in the previous year. The decrease of \$0.7 million in operating income from previous year was due primarily to recording pension liability in accordance with GASB 68 in fiscal 2017, which resulted in expenses of approximately \$1 million.

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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, 2017, the City's governmental funds reported combined ending fund balances of \$13.6 million, which was a total decrease of \$4.8 million in the current year compared to a \$0.3 million increase in the prior year. \$19.1 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 \$19 million included \$10.4 million for landfill closure cost, \$4.2 million restricted for housing and other capital projects and \$4.4 million for CRA projects. At the end of the 2017 fiscal year, governmental funds also included \$0.4 million assigned for various programs. In addition to balances noted above, reported as assigned, governmental funds also showed negative unassigned fund deficit of \$5.9 million resulting from operations whereby expenditures have exceeded revenues on a cumulative basis.

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 expenses and capital improvement costs not paid through another fund are paid from this fund. At September 30, 2017, the general fund had negative unassigned amount of \$4.9 million an increase of \$4.6 million from 2016, due primarily to the increased expenditures for capital projects and salaries and public safety related costs.

The General Fund expenditures increased by approximately 7% over prior year. Revenues (including other financing sources) decreased by \$1.3 million or less than 1% over the prior year. The decrease in the current year was due, primarily, to the net effect of increase/(decrease) as shown in the schedule below.

The amount of General Fund revenues, by type, percentage of the total and the amount of change compared to last fiscal year are shown in the following schedule:

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<u>General Fund Revenues</u>	2017 <u>Amount</u>	Percent <u>of Total</u>	2016 <u>Amount</u>	Percent <u>of Total</u>	<u>Change</u>	
					<u>Increase (Decrease) From Prior Year</u>	
Taxes:						
Ad valorem taxes	\$ 16,907,030	30%	\$ 16,200,880	28%	\$ 706,150	4.4%
Utility and communication taxes	4,728,287	9%	4,822,495	8%	(94,208)	-2.0%
Franchise fees	<u>4,080,636</u>	<u>7%</u>	<u>3,474,031</u>	<u>6%</u>	606,605	17.5%
Total taxes	25,715,953	46%	24,497,406	43%	1,218,547	5.0%
Charges for services	9,405,144	17%	8,725,129	15%	680,015	7.8%
Fines and forfeitures	1,061,091	2%	1,249,133	2%	(188,042)	-15.1%
Intergovernmental	8,487,686	15%	8,104,090	14%	383,596	4.7%
Licenses and permits	3,790,191	7%	2,015,318	4%	1,774,873	88.1%
Interest and other earnings	5,034,287	9%	3,654,796	6%	1,379,491	37.7%
Rents and royalties	1,767,219	3%	4,268,128	7%	(2,500,909)	-58.6%
Sale of capital assets	-	0%	4,400,914	8%	(4,400,914)	-100.0%
Proceeds from capital lease and installment purchase	303,014	1%	-	0%	303,014	100.0%
Transfers in	26,884	0%	-	0%	26,884	100.0%
Total revenues	<u>\$ 55,591,469</u>	<u>100%</u>	<u>\$ 56,914,914</u>	<u>100%</u>	<u>\$ (1,323,445)</u>	<u>-2.3%</u>

Explanation for the more significant changes are as follows:

- Property tax revenues increased by \$0.7 million or 4.4% due to prevailing economic factors as the City maintained the same operating millage rate of 7.500 mills.
- Franchise fees increased by \$0.6 million due primarily to more timely receipt of funds from for waste collection fees and FP&L franchise fees.
- Charges for services increased by \$0.7 million or 7.8%, due primarily to the following factors:
 - Approximately \$0.4 million increase for off-duty police reimbursements the San Souci guard gate program due primarily to the City meeting the full requirements in 2016 for release of funds from the County;
 - Increase of approximately \$0.4 million for interfund services based on budgeted allocations.
 - Decrease of (\$0.2 million) for administration of lien charges.
- Intergovernmental increased by \$0.4 or 4.7% due primarily to additional payment received for state revenue sharing of \$0.1 and administration fees of \$0.1 from the down town project for off-duty police.
- Licenses and permits increased by \$1.7 million or 88% due primarily to the net effect of increased revenues of \$0.7 million for building permits; forfeited escrow deposits of \$0.4 million; \$0.3 million for plumbing permits; and occupational licenses of \$0.32.
- Interest and other earnings increased by \$1.3 million or 37.7% due primarily to the net effect of the following factors:
 - \$0.6 million for interest on loans receivable from Oleta Partners;
 - \$0.3 million for increased budget allocation for returns on investment in utility;

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- \$1.7 million deferred inflows from prior year, recognized in the current year, relating to prior year sale of Biscayne Landing parcels;
- \$0.1 million decrease in donations - there was a donation of \$0.1 million in the prior year;
- \$0.7 million decrease relating to adjustments that were made in the prior year for in old accounts receivable balances - there were no similar adjustments in the current year;
- \$0.4 million decrease relating to budgeted revenue reserves for future projects;
- Rent and royalties decreased by \$2.5 million or 58% due primarily to factors relating to the Biscayne Landing lease: in the prior year, adjustments of \$3.9 million were made to recognize accumulated lease payments;
- Proceeds from sale of capital assets decreased by \$4.4 million or 100% due primarily to the sale of parcels of land in the prior year relating to Biscayne Landing. There were no similar transactions in the current year.
- Proceeds from capital lease and installment purchase increase by \$0.3 million or 100% due primarily to the following factors:
 - \$0.2 million allocated to the general fund for new capital lease for telephone system which was installed during the fiscal year;
 - \$0.1 million allocated to the general fund relating to the purchase installment arrangement for body-worn cameras for the police department;

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

General Fund Expenditures	2017	Percent	2016	Percent	Change	
	Amount	of Total	Amount	of Total	Increase (Decrease)	From Prior Year
General government	\$12,378,728	21%	\$12,467,133	23%	\$ (88,405)	-1%
Public safety	28,442,358	49%	25,828,075	47%	2,614,283	10%
Physical environment	3,434,338	6%	3,209,048	6%	225,290	7%
Transportation	3,029,952	5%	3,012,373	6%	17,579	1%
Culture and recreation	8,302,879	14%	7,787,169	14%	515,710	7%
Community planning and development	1,384,496	2%	1,495,041	3%	(110,545)	-7.4%
Capital outlay	1,152,140	2%	675,766	1%	476,374	70%
Total expenditures	<u>\$58,124,891</u>	<u>100%</u>	<u>\$54,474,605</u>	<u>100%</u>	<u>\$ 3,650,286</u>	<u>7%</u>

In fiscal year 2017, total General Fund expenditures increased by 7% \$3.7 million compared to the prior year.

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The primary factors contributing to the increase in total General Fund expenditures was the overall increase in salaries (ranging from 5% to 7% for merit and COLA) of \$3.2 million.

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 2017, the long-term cost was estimated to be \$9.6 million. The remediation cost for the current year was \$0.7 million. This fund had a restricted fund balance of \$10.3 million at September 30, 2017. 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 \$4.5 million committed fund balance at year end. During the year, approximately \$2.3 million in property tax incremental revenues was recognized in the CRA (both the City and Miami-Dade County portions). The City refunded tax increment revenues of approximately \$1.3 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 special item of \$0.3 million for forgiveness of debt related amounts payable to the City from fiscal year 2014 for expenditures incurred by the City on behalf of the CRA. The City decided to absorb the costs and forgive the outstanding amount.

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 incurred, which exceeded the amounts that were restricted or assigned for CDBG purposes.

Other Governmental Funds (Nonmajor)

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

- Special Revenues restricted fund balance at year-end was \$3.8 million, comprised primarily of:
 - The Neighborhood Stabilization Program (“NSP”) reported \$0.7 million;
 - Law Enforcement Trust Fund reported \$0.2 million;
 - Federal Forfeiture Fund reported \$0.4 million;
 - Half-Cent Transportation Surtax Fund reported \$1.2 million;
 - Developer Impact Fees Fund reported \$0.4 million; and

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- MOCA which reported \$0.7 million;

The Home Investment Partnership Program (HIP) and the NSP combined funds awarded a total of \$0.6 million in direct housing grants and aid to home owners and local businesses.

- MOCA is included as a component unit of the City due primarily to the fact that the City provided significant financial support for its daily operations. The City provided support of approximately \$1.4 million to fund approximately \$2.4 million total expenditures shown in MOCA'S financial statements.

Internal Service Funds

In 2017, the General Risk Management Fund reflected net position of \$3.9 million: a slight increase over the prior year.

The Fleet Management Fund reflected net position of \$4.5 million compared to prior year's total of \$2.9 million.

Fiduciary Funds

Net income from investments (interest and dividends) for both plans combined was reported at \$19 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 \$17.5 million (prior year net appreciation was \$15.1 million). Employer contribution for 2017, for both plans was \$8.7 million. During 2017, retirement benefit payouts approximated \$11.6 million for both plans combined.

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2017, the City's capital assets for the governmental and business-type activities amounted to \$106.6 million (net of accumulated depreciation), compared with \$106.4 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 investment in capital assets from prior fiscal year was \$0.211 million or less than 1%.

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	CAPITAL ASSETS - GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES					
	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Capital assets, not being depreciated:						
Land	\$ 12,467,017	\$ 12,600,765	\$ 653,080	\$ 653,080	\$ 13,120,097	\$ 13,253,845
Construction in progress	994,162	1,043,261	2,519,687	1,471,729	3,513,849	2,514,990
Total capital assets, not being depreciated	13,461,179	13,644,026	3,172,767	2,124,809	16,633,946	15,768,835
Capital assets, being depreciated, net:						
Land Improvements	18,886,574	18,804,994	154,211	154,211	19,040,785	18,959,205
Buildings and improvements	21,087,191	20,825,409	2,469,234	2,460,235	23,556,425	23,285,644
Infrastructure	56,796,571	55,308,745	77,330,608	75,958,037	134,127,179	131,266,782
Machinery and equipment	20,604,416	19,607,573	6,401,339	5,967,333	27,005,755	25,574,906
Library books	2,242,501	2,184,924	-	-	2,242,501	2,184,924
Total capital assets, being depreciated	119,617,253	116,731,645	86,355,392	84,539,816	205,972,645	201,271,461
Accumulated depreciation:						
Land Improvements	(13,476,451)	(13,161,661)	(127,705)	(124,003)	(13,604,156)	(13,285,664)
Buildings and improvements	(9,884,952)	(9,457,093)	(822,996)	(748,514)	(10,707,948)	(10,205,607)
Infrastructure	(27,988,247)	(26,784,504)	(39,551,932)	(37,667,787)	(67,540,179)	(64,452,291)
Machinery and equipment	(17,431,450)	(16,413,082)	(4,650,940)	(4,249,303)	(22,082,390)	(20,662,385)
Library books	(2,108,779)	(2,082,932)	-	-	(2,108,779)	(2,082,932)
Total accumulated depreciation	(70,889,879)	(67,899,272)	(45,153,573)	(42,789,607)	(116,043,452)	(110,688,879)
Total capital assets, being depreciated, net	48,727,374	48,832,373	41,201,819	41,750,209	89,929,193	90,582,582
Total Capital Assets, net	\$ 62,188,553	\$ 62,476,399	\$ 44,374,586	\$ 43,875,018	\$ 106,563,139	\$ 106,351,417

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

1. \$0.1 million was due primarily to the purchase of library books and subscriptions.
2. \$0.2 million was for construction in progress, primarily for roadway improvement projects.
3. \$1.3 million was for infrastructure, primarily for paving of sidewalks and drainage improvement throughout the City.
4. \$1 million was for machinery and equipment, which included the cisco phone system for city hall, the police body camera system, and police simulator.
5. \$0.3 million was for building improvements, primarily for North Miami City Hall and Moca.
6. \$0.1 million was for land and land improvements, primarily for creating pocket parks, fencing, and concrete walls throughout the City.
7. \$0.1 million decrease for valuation adjustments of real property.

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Total net increase in capital assets for business-type activities (excluding depreciation) was \$2.9 million, due primarily to the following:

1. \$1.9 million for construction in progress, primarily for the Winson Water Plant and Sanitary Sewer Lining Rehabilitation projects.
2. \$0.5 million for infrastructure, primarily for lift station upgrades, water plant fluoride system, and anthracite media filter.
3. \$0.434 million for purchase of machinery and equipment, primarily for vehicles.

Additional information on the City's capital assets are disclosed in **NOTE 6** starting on page 64 of this report.

Long-term Debt

At September 30, 2017, the City had total outstanding debt of \$19.4 million (bonds, notes, leases etc.) compared to \$20.4 million at the end of the previous fiscal year. The majority of the City's outstanding debt was secured by specified revenues. The outstanding debts are summarized below:

	<u>Activities</u>		<u>Activities</u>		<u>Totals</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Note payable	\$ 14,005,000	\$ 14,725,000	\$ -	\$ -	\$ 14,005,000	\$ 14,725,000
Unamortized bond discount	(664,396)	(761,916)	-	-	(664,396)	(761,916)
Capital lease obligation	801,566	1,098,926	-	-	801,566	1,098,926
Purchase installment liability	409,400	-	-	-	409,400	-
FMLC Series 2016 Refunding (stormwater)	-	-	1,915,000	2,265,000	1,915,000	2,265,000
Unamortized bond premiums and discount	-	-	102,550	123,060	102,550	123,060
State revolving fund loan	-	-	2,864,933	2,996,913	2,864,933	2,996,913
Capital lease obligations	-	-	2,393	-	2,393	-
Total	<u>\$ 14,551,570</u>	<u>\$ 15,062,010</u>	<u>\$ 4,884,876</u>	<u>\$ 5,384,973</u>	<u>\$ 19,436,446</u>	<u>\$ 20,446,983</u>

During the fiscal year 2017, the City had the following debt activity:

Governmental Activities – \$14.5 million. The total debt decreased by a net of \$0.5 million over the last year, due primarily to the net effect of scheduled principal payments and amortization of \$1.1 million and new lease of \$0.2 million. In addition, the City entered into an installment purchase agreement for police body-worn cameras.

Business-type Activities – \$4.8 million. The total debt decreased by a net of \$0.5 million over last year, due primarily to the effect of scheduled principal payments of \$0.5 and addition of new capital lease.

Additional information on the City's long-term debt and capital leases can be found in **NOTE 7** on page 66.

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Overall Budget

The fiscal year 2017 adopted budget of \$151.1 million represents an increase of 8% compared to the fiscal year 2016 Budget. Major contributors to the increase across all funds included: additional ad valorem revenue resulting from the increase in city-wide taxable values, insourcing of the Building Department, proceeds from SoLēMia development, and inclusion of the CRA Budget in the total. The general fund is the largest component of the total budget, accounting for \$66.6 million or 44% of the total budget. The budgetary highlights are based on the following schedule:

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GENERAL FUND BUDGETARY HIGHLIGHTS

**CITY OF NORTH MIAMI, FLORIDA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
UNAUDITED
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Ad valorem taxes	\$ 17,363,582	\$ 17,363,582	\$ 16,907,030	\$ (456,552)
Utility and communication taxes	5,292,003	5,292,003	4,728,287	(563,716)
Charges for services	9,829,491	9,829,491	9,405,144	(424,347)
Franchise fees	3,938,066	3,938,066	4,080,636	142,570
Fines and forfeitures	735,870	735,870	1,061,091	325,221
Intergovernmental	7,752,319	7,752,319	8,487,686	735,367
Licenses and permits	3,715,830	3,715,830	3,790,191	74,361
Interest and other earnings	4,510,353	4,510,353	5,034,287	523,934
Rents and royalties	1,417,000	1,507,001	1,767,219	260,218
Total revenues	<u>54,554,514</u>	<u>54,644,515</u>	<u>55,261,571</u>	<u>617,056</u>
EXPENDITURES				
General Government:				
Mayor and City Council	846,730	844,818	1,169,891	(325,073)
City Manager	1,845,826	1,785,396	1,739,063	46,333
City Clerk	759,908	749,825	786,256	(36,431)
Financial Services	2,933,912	2,808,325	2,883,938	(75,613)
Legal	1,273,311	1,274,755	1,219,691	55,064
Human Resources	719,443	695,934	730,715	(34,781)
Information Technology	2,159,794	2,047,385	1,964,622	82,763
Management and Budget	323,540	314,121	320,122	(6,001)
Procurement and Purchasing	392,749	379,689	364,932	14,757
Non-Departmental	11,908,474	12,242,598	1,199,498	11,043,100
Total general government	<u>23,163,687</u>	<u>23,142,846</u>	<u>12,378,728</u>	<u>10,764,118</u>
Public Safety:				
Police	24,849,855	24,911,213	25,703,410	(792,197)
Building and Zoning	1,940,015	1,917,434	1,244,690	672,744
Code Enforcement	1,630,158	1,533,248	1,494,258	38,990
Total public safety	<u>28,420,028</u>	<u>28,361,895</u>	<u>28,442,358</u>	<u>(80,463)</u>
Physical Environment:				
Public Works	2,106,000	2,957,508	3,434,338	(476,830)
Transportation	2,191,960	3,034,995	3,029,952	5,043
Total physical environment	<u>4,297,960</u>	<u>5,992,503</u>	<u>6,464,290</u>	<u>(471,787)</u>
Economic Environment:				
Community Planning and Development	1,156,759	2,131,220	1,384,496	746,724
Total economic environment	<u>1,156,759</u>	<u>2,131,220</u>	<u>1,384,496</u>	<u>746,724</u>
Culture and Recreation:				
Parks and Recreation	7,066,359	5,680,685	6,082,562	(401,877)
Library	1,026,665	915,630	875,401	40,229
MOCA	1,436,148	1,318,532	1,344,916	(26,384)
Total culture and recreation	<u>9,529,172</u>	<u>7,914,847</u>	<u>8,302,879</u>	<u>(388,032)</u>
Debt service	-	21,252	-	21,252
Capital outlay	-	1,570,503	1,152,140	418,363
Total expenditures	<u>66,567,606</u>	<u>69,135,065</u>	<u>58,124,891</u>	<u>11,010,174</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(12,013,092)</u>	<u>(14,490,551)</u>	<u>(2,863,320)</u>	<u>11,627,231</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	303,014	303,014
Reserves	6,563,797	7,700,561	-	(7,700,561)
Transfers in	6,904,138	8,297,478	26,884	(8,270,594)
Transfers out	(1,454,843)	(1,507,488)	(1,643,369)	(135,881)
Total other financing sources (uses)	<u>12,013,092</u>	<u>14,490,551</u>	<u>(1,313,471)</u>	<u>(15,804,022)</u>
SPECIAL ITEM				
Forgiveness of debt	-	-	(317,965)	(317,965)
Net change in fund balances	<u>\$ -</u>	<u>\$ 0</u>	<u>\$ (4,494,756)</u>	<u>\$ (4,494,756)</u>
Fund balances (deficit), beginning			(347,319)	
Fund balances (deficit) - ending			<u>\$ (4,842,075)</u>	

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The difference between the original and final amended budget for 2017 was approximately \$2.6 million, which represents an increase in overall appropriations from \$66.6 million to \$69.1 million. The increase was due to re-appropriations for prior year projects that were approved by Mayor and Council in the previous year.

Actual total revenues were more than final budgeted revenues by approximately \$0.6 million due primarily to the following factors:

- a. Ad Valorem revenue was close to \$0.5 million less than expected due to the new interlocal agreement with the North Miami Community Redevelopment Agency (CRA) and Miami-Dade County. The new agreement and its Tax Increment Finance or TIF methodology increased the City TIF contribution to the CRA mid-year.
- b. Utility and Communication Taxes revenue was a little more than \$0.5 million less than the budget and Charges for services revenue was also about \$0.5 million less than the budget due to timing differences between collections and posting at the end of the fiscal year. Close to \$1.6 million in revenue was recorded as unavailable revenues for fiscal 2017 in accordance with GASB 63. The difference will be reflected in revenues for fiscal year 2018.
- c. The remainder of the revenue sources, including Franchise Fees, Fines and Forfeitures, Intergovernmental, Licenses and Permits, Interest and Other Earnings, and Rents and Royalties exceeded budgeted expectation by a little more than \$2 million as conservative estimates were employed.

The net positive variance of \$11 million for expenditures was due primarily to the budgeted reserve of \$10 million in non-departmental which includes an allocation for capital projects, contingency, and fund reserve per resolution.

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 resources that will be available to fund expected public services, as well as 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 is being laid through renewed emphasis on redevelopment and annexation. Currently the unemployment rate for North Miami is approximately 5.6%, (an eight year low). This rate represents a reduction from a high of 9.4% in 2012.

Economic Impact on the Immediate Budget

For the Fourth consecutive year, the City of North Miami saw an increase in assessed taxable values as reported by the Miami-Dade Property Appraiser. For fiscal year 2017, the City's assessed taxable value is \$2.8 billion, which is a 9% increase from the prior fiscal year. In September 2017, the City Council adopted a millage rate of 7.5000 for the 2017-18 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 \$1.6 million in ad valorem revenue.

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Future Economy and Budget Years

While North Miami continues to see improvements in the economy since the recession of 2008, 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 assistance and subsidies, new and innovative businesses have entered the downtown region and major corridors. New small business grants are coming online this year to aid the 90% of North Miami businesses that have less than 10 employees. 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. 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. ***SoLēMia*** – The 183-acre mixed-use development, SoLēMia, broke ground in 2015, and is estimated to create approximately \$4 billion in property value when completed. The development will create an estimated 14,000 long and short-term jobs with a requirement that at least 10% of project related jobs created be set aside for North Miami residents. In a trade area that has over \$8 billion in consumer expenditures each year, SoLēMia's 1.2 million square feet of mixed-use development will transform the North Miami economy.
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. On December 6, 2016, the Miami Dade County Board of County Commissioners approved the 2016 North Miami Community Redevelopment Agency (NMCRA) Plan Amendment and a Second Amendment to the Interlocal Cooperation Agreement extending the life of the NMCRA to 2044. The updated plan calls for redevelopment of Downtown and Major corridors, capitalization of the tri rail coastal link, preservation of neighborhood character and investment in workforce and affordable housing.
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, reducing debt and a steady reserve fund.

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6. ***Land Use & Zoning Updates*** – Improved Land Development Regulations (LDRs) and zoning codes were adopted to allow for greater density, increased heights, and more flexibility in uses. The updated LDRs have resulted in more development applications in the last six months than have been previously submitted in the last six years. Property improvements increase tax revenue and service fees to the City resulting in greater wealth and higher quality services.

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.