



## MEMORANDUM

To: Residents of the Town of Cutler Bay

From: Robert Daddario, Finance Director

Date: August 19, 2015

Re: Quarterly Financial Report for the Quarter Ended June 30, 2015

On behalf of the Mayor and Town Council, please find enclosed the quarterly General Fund financial report for the nine months and quarter ended June 30, 2015. This report reflects year-to-date June 30, 2015 revenue and expense activity through August 7, 2015.

The General Fund is the chief operating fund of the Town. It is used to account for the general operating revenues and expenditures, as well as to account for the collection and recording of property taxes that have been assessed on properties within the Town's boundaries, subject to millage rates established by the Town Council.

The Town's operating results for the first nine months of fiscal year 2015 have been unfavorable versus budget. As will be explained in the narrative below, part of that is simply due to the timing of actual revenues and expenditures versus the budget. The Town continues to maintain its financial strength and healthy financial reserves.

The operating budget results fluctuate from period to period as a result of the normal timing flow of revenue collections and expenditure payments. For example, the bulk of the property taxes are collected in the first several months of each fiscal year. Year to date through June 30<sup>th</sup> (i.e., the first nine months of the fiscal year), the Town has collected roughly 97% of the ad valorem taxes it budgeted for the entire fiscal year. Going forward, the amount collected for property taxes will, naturally, be much less than collected through the nine months ended June 30, 2015.



Some other items of interest are discussed below:

### **Franchise Fees**

This category primarily relates to the FPL franchise fee payment the Town receives each year, but it also includes the solid waste franchise fees that the Town collects from haulers licensed to operate in the Town pursuant to the Town's solid waste franchise fee ordinance. The budget for this line item represents the pro-rated annual amount. Since the FPL franchise fee is not received until the summer (generally in August), it appears that there is an unfavorable variance for this revenue category, even though that is not the case.

The amount shown in the actual column for the nine months ended June 30, 2015 (\$162,525) represents solid waste franchise fees earned in that period. This compares favorably with the budget for this specific item (\$135,000 pro-rated budget for the first nine months of the fiscal year).

After the closing of the June quarter, we were informed by the County that the Town's 2015 FPL Franchise Fee payment would amount to \$1,034,676, which exceeds the amount the Town budgeted for this item (\$950,000). This amount was received and recorded in August 2015.

### **Building & Zoning**

Building & Zoning revenues in the first nine months of the year have come in approximately \$44,000 lower than anticipated as a result of timing delays for certain anticipated commercial development projects in Town. Given the delays encountered, it is anticipated that this revenue category will fall short of the amount budgeted for the year. However, since the Town's expenditures related to the permitting function are variable based on the amounts of revenues collected (see paragraph below), the shortfall in permit revenues will not have an adverse impact on the Town's finances since there will be correspondingly less expenditures made to the contractor that performs the permitting and inspection functions for the Town. We will monitor the progress of these projects and inform the Town and the Town Council if further delays are forecast.

Permit revenues are "shared" with the 3<sup>rd</sup> party company contracted with to provide such services. The contractor is paid a percentage of the revenues collected and the Town retains a portion (the contractor pays its own operating costs out of its share of the revenues at no additional cost to the Town).



The current contract with this vendor recently negotiated by Town Staff provides for a more favorable “share” of the revenues for the Town and this new revenue split has resulted in increased net revenue for the Town.

### **State Pass-Through Revenues**

For the most part, revenues passed through from the State have exceeded budget estimates. The Town’s collections of the Local Government Half-Cent Sales tax have remained particularly strong. Municipal Revenue Sharing program payments from the State have lagged from budget estimates year to date through June, but at this point we do not consider it to be a significant problem to the Town from a total revenue standpoint.

Of course, we will continue to monitor these revenue sources, as we do with all of our other revenue sources, in order to keep the Town and the Town Council abreast of any material adverse impacts.

### **Town Hall Building (Cutler Bay Town Center)**

For the first nine months of FY 2014-15, the Town has generated approximately \$369,400 in rental income from the Town Hall Building, which is approximately \$43,000 less than the pro-rated budget amount. This revenue shortfall is due primarily to rent abatements.

In November, one tenant received rent abatement (“free rent”) pursuant to their existing lease. Then, as a result of an HVAC problem and emergency repair (see discussion below), all tenants were given a one month rent abatement. Most tenants took that in December 2014, although some opted to take it in January 2015. A new leasing agent was recently hired by the Town (selected through a competitive bid process) and it is hoped that this new agent can pursue new rental opportunities as we move forward.

Year to date operating expenses were approximately \$519,000, which were approximately \$47,000 **less** than the pro-rated budget amount for the first nine months of the year. This resulted from favorable budget variances of approximately \$89,000 and \$68,000 in the second and third quarters, respectively, which recouped the entire approximate \$110,000 first quarter shortfall (and then some). This improvement over the past two quarters resulted primarily from lack of unanticipated repair and operating costs and from “normalization” of actual expenditures versus the pro-rated budget.



As discussed more fully in the first quarter report, the first quarter operating expense unfavorable variance resulted primarily from the timing of the property tax payment on the building and the mechanical failure of the HVAC system which required unanticipated equipment rental and repair and maintenance costs (offset by savings in professional services and other contractual services which helped limit the department's overall first quarter operating expense unfavorable budget versus actual performance to the aforementioned \$110,000).

In the second and third quarters, the Town was able to operate on a more normalized basis with significant reductions in repairs and equipment rental costs as the HVAC issue from the first quarter did not carry over into subsequent quarters. Also, the impact of the large first quarter payment of property taxes continued to normalize versus the pro-rated budget for that item. As a result, the Town was able to turn around the first quarter's unfavorable operating expense variance into a year to date favorable variance.

Capital improvements for the first nine months of the fiscal year totaled approximately \$335,250 through June 2015, primarily related to the elevator modernization project.

### **Other Revenues**

Other revenues have performed strongly during the first nine months of the year and reflect an approximate \$205,000 favorable budget variance, due primarily to better than budgeted revenue collections of lien search fees, burglar alarm fees, parks fees, judgements and fines, and code violation fees

### **Debt Refunding**

In May 2015, the Town refunded certain of its debt with TD Bank related to the Town Hall Building and adjacent land parcel, totaling \$12,306,539. **Certain of the old loans were refunded into new loans on more favorable terms to the Town. No new debt was incurred.** As more fully discussed in the report provided by Town Staff and the Town's financial advisor, the debt refunding provides substantial benefits to the Town in terms of flexibility and savings.

The refunding transaction simply replaced the old loans with new loans on better terms at the same principal amount. However, to accommodate this from an accounting standpoint, debt proceeds revenue and debt service expenditures were recorded (both in the principal amount of \$12,306,539).



While this transaction has no net impact to the Town's "bottom line" results (i.e., revenue in and expenditures out were recorded in the same amount), the attached quarterly report shows that the Town has a favorable Debt Proceeds revenue variance and an unfavorable Debt Service expenditure variance. Without the impact of this refunding transaction, there would be no such revenue variance and the expenditure variance would have been favorable.

### **Legal Fees**

For the first nine months for FY 2014-15, legal fees are approximately \$20,500 over the pro-rated budget. As explained more fully by the Town Attorney, this variance results primarily from the unanticipated litigation costs associated with the Publix Old Cutler Road project. However, as also mentioned by the Town Attorney, there is a strong likelihood that the Town will be able to recoup most, if not all, of its legal costs associated with this litigation.

### **Other Contractual Services**

Other contractual services (excluding Planning & Zoning), have an unfavorable variance of approximately \$27,200 for the first nine months of the year. This primarily relates to the timing of certain Public Works and Parks activities. It should also be noted that a substantial portion of the Public Works expenditures in this category relate to sidewalk repairs and replacements which are being funded by transfers in of local option gas taxes from the Special Revenue fund, and not by general fund revenues.

### **Quality Neighborhood Improvement Program ("QNIP")**

As a condition of incorporation, the Town is required to pay its share of the QNIP bonds issued (or authorized) by the County at the time of incorporation, as set forth in the Town's Interlocal agreement with the County. The full, yearly, QNIP payment was made to the County in the first quarter of the year (as it is each year), while the budget amount on the enclosed financial report represents a pro-rated (three months) amount. This is not a true over-budget line item and this anomaly will self correct as the year progresses. In fact, the actual QNIP payment (\$348,924) for the year came in under the amount budgeted for the whole year (\$400,000).

***Further information regarding any of the above noted matters, or any other details related to the Town's first quarter results, may be obtained through the Finance Department during regular business hours.***



Town of Cutler Bay  
Revenues and Expenditures

**PRELIMINARY  
GENERAL FUND**

	Year-to-Date Nine Months Ended June 30, 2015			Quarter Ended June 30, 2015		
	Actual	Pro-rated Budget	Fav (Unfav) Variance	Actual	Pro-rated Budget	Fav (Unfav) Variance
<b>Revenue</b>						
Ad Valorem Taxes	4,215,113	3,257,803	957,310	179,044	1,085,934	(906,890)
Local Option Fuel Tax-6 cents	414,587	383,875	30,713	143,739	127,958	15,782
Utility Services	2,037,667	1,950,000	87,667	696,263	650,000	46,263
Franchise Fees	162,525	847,500	(684,975)	50,351	282,500	(232,149)
Communications Services Tax	968,002	937,164	30,838	304,108	312,388	(8,280)
Local Government Half-Cent	2,380,334	2,233,541	146,793	814,702	744,513	70,189
State Revenue Sharing Proceeds	957,888	1,008,737	(50,848)	341,831	336,246	5,586
Building & Zoning	815,152	858,750	(43,598)	257,716	286,250	(28,534)
Town Hall Building Rentals	369,403	412,500	(43,097)	148,423	137,500	10,923
Other Revenues	825,882	620,775	205,107	313,658	206,925	106,733
Interest Income	48,874	30,000	18,874	15,636	10,000	5,636
	13,195,427	12,540,644	654,782	3,265,471	4,180,213	(914,743)
Debt Proceeds	12,306,539	-	12,306,539	12,306,539	-	12,306,539
Transfers In	-	417,000	(417,000)	-	139,000	(139,000)
<b>Total Revenue</b>	<b>25,501,965</b>	<b>12,957,644</b>	<b>12,544,321</b>	<b>15,572,009</b>	<b>4,319,213</b>	<b>11,252,796</b>
<b>Expenditures</b>						
Salaries, Payroll Taxes and Benefits	1,959,820	2,344,816	384,996	721,811	781,605	59,794
Professional Services:						
Law Enforcement	6,405,829	6,691,553	285,724	2,144,767	2,230,518	85,751
Other	106,054	210,000	103,946	50,592	70,000	19,408
Legal Fees	339,299	318,750	(20,549)	133,599	106,250	(27,349)
Accounting & Auditing	27,765	31,500	3,735	17,935	10,500	(7,435)
Contractual Services:						
Planning & Zoning	485,619	604,650	119,031	159,826	201,550	41,724
Other	1,204,147	1,176,881	(27,266)	475,715	392,293	(83,422)
Travel & Per Diem	39,492	55,125	15,633	12,418	18,375	5,957
Utilities, Communications & Freight Services	201,595	218,235	16,640	66,481	72,745	6,264
Rentals & Leases	61,318	67,385	6,067	21,877	22,461	584
Insurance	138,024	150,000	11,977	55,344	50,000	(5,344)
Other Current Charges	381,924	482,990	101,066	112,713	160,997	48,284
Office and Operating Supplies	116,949	144,000	27,051	48,354	48,000	(354)
Town Hall Building:						
Operating	519,035	565,989	46,954	120,295	188,663	68,368
Capital Outlays	335,251	427,500	92,249	32,050	142,500	110,450
Debt Service	11,089,468	714,000	(10,375,468)	10,614,109	238,000	(10,376,109)
Contributions & Aid to Other Govt Entities	-	225,000	225,000	-	75,000	75,000
Capital Costs - Other	100,958	274,350	173,392	41,923	91,450	49,527
QNIP Debt Payments	348,924	300,000	(48,924)	0	100,000	100,000
Debt Service - Other	2,231,326	539,250	(1,692,076)	1,872,988	179,750	(1,693,238)
	26,092,794	15,541,973	(10,550,821)	16,702,794	5,180,656	(11,522,138)
Transfers Out	-	-	-	-	-	-
<b>Total Expenditures</b>	<b>26,092,794</b>	<b>15,541,973</b>	<b>(10,550,821)</b>	<b>16,702,794</b>	<b>5,180,656</b>	<b>(11,522,138)</b>
Budgeted carryover, net of reserves	-	2,584,329	(2,584,329)	-	861,443	(861,443)
<b>Excess of Revenue Over Expenditures, net of Transfers</b>	<b>(590,829)</b>	<b>-</b>	<b>(590,829)</b>	<b>(1,130,785)</b>	<b>-</b>	<b>(1,130,785)</b>