



**Memorandum No: 23-101**

**Date:** August 16, 2023

**To:** Honorable Mayor, Vice Mayor, and Commissioners

**From:** Greg Chavarria, City Manager

**Re:** Management Response - Review of the Proposed Budget for Fiscal Year 2023/2024

This memo is in response to the City Auditor's Office (CAO) review of the FY 2024 Proposed Budget. We would like to thank the City Auditor and his team for the important work that they do to validate that the budget is balanced, and that the millage follows Florida Statutes. Management has reviewed the areas of concern identified by the City Auditor and has provided responses to the concerns identified below:

**Areas of Concern**

The "Areas of Concern" are the items that do not impact our overall conclusion; however, they are important to consider for both the proposed budget and how it may impact the city in the next few years.

1. It is unclear whether the amounts budgeted for capital improvement projects (CIP) will be sufficient. There are unforeseen variables in construction and with the recent increase in inflation, which includes material and labor, and any unforeseen costs at development sites. In addition, there may be several potential unaccounted costs throughout the project's lifespan, especially as the city embarks on new projects that are urgently needed. Hence, the CAO is unable to assess the accuracy of the amounts for CIP projects.

Some examples include, but are not limited to:

- a. Police Station – Work-In-Progress;
- b. Water Treatment Plant and Associates City Enabling Work – Work-In-Progress;
- c. Parks Improvements – Parks Bond – Work-In-Progress;
- d. City Hall – Urgently Needed.

Management Response: Management concurs that inflationary considerations will disproportionately impact capital projects as there is a timing delay between the initial project approval and the completion of the procurement process. Project managers carefully reviewed all existing CIP budgetary requests as a part of the budget development process and adjusted budgets, as needed, for any known - or anticipated - inflationary factors. The updated cost estimates represent the best estimation management currently has, and these estimates costs have been included as part of the Proposed Community Investment Plan. This approach was shared in the Preliminary Budget Memo and the City Manager's Budget message.

Management concurs that in the coming fiscal year, additional cost increases and project modifications are likely, but we are not certain which projects may be impacted. The City maintains a healthy fund balance, which staff will rely on, as needed, to fund costs beyond those incorporated into our CIP based upon project managers' best professional estimates. It is imperative that fund balance is preserved at an optimal threshold to support inflationary costs for critically needed infrastructure capital projects.

2. In December 2019, the city created a Post-Retirement Pay Steps Plan (PPS) for the Police and Firefighters. The PPS Plan Trust is a single employer defined benefit plan and administered by the City of Fort Lauderdale Commission as the Board of Trustees with a Trust Administrator. A review of the city's Annual Comprehensive Financial Report identified a material accounting adjustment to the PPS Plan Trust. The net pension liability was increased to \$70.3 million due to an error in the discount rate used. This increase in liabilities has potential future budgetary impacts to the General Fund Balance.

Management Response: The Post-Retirement Pay Steps Plan (PPS) was designed as an Other Post Employment Benefit (OPEB) plan that was established in FY 2019. Prior actuarial reviews analyzed the PPS as an OPEB plan. The City's new outside auditor determined the PPS should be analyzed as a traditional pension plan and therefore required a depletion analysis, which was not required for the PPS plan. The City previously used the then prevailing discount rate of 7%; however, based on the results of the depletion analysis, a crossover rate of 2.91% was applied. This is because of the GASB 67/68 pension standards, that govern how we account for the plan assets. The increase in the net pension liability does not affect the General Fund budget, because the annual contribution amounts are not actuarially determined, but rather are calculated based on the City's savings resulting from the increased member contributions to the Police and Firefighters pension plan. Staff will review these findings in the context of the initial plan design to determine if any PPS modifications are necessary.

We will continue to support a comprehensive and transparent budget process in partnership with the City Auditor's Office and we look forward to the budget hearings scheduled for September 5<sup>th</sup> and 13<sup>th</sup>, 2023.

c: Patrick Reilly, City Auditor  
D'Wayne M. Spence, Interim City Attorney  
David R. Soloman, City Clerk  
Susan Grant, Assistant City Manager  
Anthony G. Fajardo, Assistant City Manager  
Laura A. Reece, Director, Office of Management and Budget