



Joseph M. Centorino, Inspector General

June 16, 2022

TO: Honorable Mayor and Members of the City Commission
FROM: Joseph Centorino, Inspector General

RE: Inspector General G.O. Bond Quarterly Report
OIG No. 22-13

INTRODUCTION

This report is written in compliance with Section 2-256(j) of the City of Miami Beach Code, which requires the Office of the Inspector General (OIG), on a quarterly basis, to prepare and submit to the City Commission a written report concerning the planning and execution of the General Obligation Bond Program, including, but not limited to, progress reports, financial analysis and potential risks. The review is based on official city records, OIG attendance at implementation and oversight committee meetings, interviews with staff and other department personnel as well as regular discussions with the Program Director. This report is intended to provide the Mayor, City Commission and the general public with useful information and periodic evaluations regarding the implementation of the G.O. Bond projects to date.

UPDATE

The G.O. Bond projects are facing the impacts of rising inflation as well as COVID-19 supply chain issues. In November, 2021, the Program Director, Maria Hernandez, advised the G.O. Bond Oversight Committee of the cash flow projections for Tranche 1 projects and has revised those projections this quarter. Spending 85% of the available money in Tranche 1 is the critical target that would trigger the ability of the City to go back to the bond market for additional funding for future projects. Ms. Hernandez reported that the expected dates for that critical target have been delayed by seven months for the parks category, six months for the infrastructure category, and five months for the public safety category. The Oversight Committee will be asked to approve funding swaps for projects so that dollars can be moved into projects where they can be spent faster to facilitate progress.

The total amount of money for Tranche 1 projects is \$151 million. Of the 57 projects in the G.O. Bond, 42 are commencing within Tranche 1 and current projected schedules indicate that 18 of those will be completed within Tranche 1. The rest, or 24 projects, will move into Tranche 2. With respect to the sub-projects, the expectation is that 63 of the total 84 will be completed within Tranche 1. In other

words, 75% of the sub-projects will be completed and 43% of the main projects will be completed within Tranche 1.

The City's CFO, John Woodruff, has also provided a detailed explanation to the Oversight Committee of the strategy for funding the different tranches. He acknowledged that the goal for Tranche 1 was to meet the critical target within three years, but that it will most likely take four because of the unexpected impacts causing delays. He said, "I think also part of what's making folks nervous is we kind of know we're in a rising interest rate environment... Ideally, it would be great if we could get to that point sooner. But, the thing to remember is we're still well under the interest rates that we initially took to the voters back in 2018. So even though it's not as sweet as maybe a year ago, it's still going to be better than whatever the voters heard when we were talking about this program originally."

The Oversight Committee inquired about planning for future budgets so that extra money could be identified to fill some of the anticipated funding gaps. Mr. Woodruff shared with the Oversight Committee information from the recent budget retreat that started the formal budget process for fiscal year 2022-2023. He reported that every single capital project is facing higher costs as bidders determine how to factor in the uncertainty of inflationary pressures. The two G.O. Bond projects that are potentially facing large funding gaps are the 72nd Street Complex and the Bayshore Park project, with possible gaps of \$5-10 million and \$7 million, respectively. Woodruff said, "There is a lot of uncertainty. We really don't know. So part of our strategy for this budget cycle... is to take 14 million in savings from the general fund and resort tax fund and put together a pot of money to work with... And we're trying not to fund new projects in the new capital budget cycle and just focus on the most important projects there... But we just may not be able to do everything or as fast as everybody hoped initially." Mr. Woodruff concluded by telling the Oversight Committee that he is recommending that no new projects get funded unless they are a high priority. At this time, projects that have been funded will not be unfunded and the money from the general and resort tax funds will allow the Commission to manage the fiscal uncertainty as the bids come in for G.O. Bond projects. David Martinez, Director of Capital Improvement Projects, advised the Committee that there has not been a change in the scope of the 72nd Street project.

The City staff is working with the City Attorney's Office to determine whether there are contractual mechanisms that could prevent further cost escalations. The escalations to date have been significant. Maurice Gibb Park, for example, had an estimated increase of approximately 15% in general and construction costs. Bayshore Park saw a 25% increase in estimated costs. Moving projects into design rather than starting construction may also be one solution in the short term. The Oversight Committee Chairperson encouraged Mr. Woodruff to bring projects to them and use them as a sounding board to assist the City in prioritizing the projects.

This quarter, the Commission passed Resolution 2022-32047, which adopted a new internal controls policy for major construction projects. The OIG and City staff worked collaboratively to create a policy which reflects the best practices recommended by the General Accounting Office, the National Institute for Government Procurement, the City's Capital Improvements Program and the City's Procurement Department. The policy requires that any major design change in a construction project, defined as a change to the scope that requires significant redesign or revision to any major design element or any change that may result in a project construction cost increase of more than 10%, requires the responsible City Department to initiate, prepare and sign a "Request for Major Modification to the Project's Scope" which shall be submitted to the Project Directors and respective Assistant City Managers. On March 2, 2022 the new policy was presented to staff working on G.O. Bond projects and again to the G.O. Bond Oversight

Committee on March 31, 2022. The Directors of Procurement and Public Works assured the Oversight Committee that the policy, which codifies under one umbrella how large construction projects should be managed, should not delay the G.O. Bond projects. As the City navigates the financial uncertainty related to the larger G.O. Bond projects, the OIG believes this policy will provide important information to the Oversight Committee and City Manager to assist in decisions that may impact project scope and/or prioritization.

Finally, there has been extensive discussion this quarter about Fire Station #1. On June 22, 2022, the Commission will hear a request for a certificate of appropriateness for the demolition of the South Shore Community Center. If this happens, the childcare center, which is located within the Community Center, will be displaced. Originally, the City had an agreement with the owner of the building across the street for a five year lease to relocate the child-care services, but the agreement has been cancelled. The Commission has not yet addressed this issue. The City is working on a long-term solution, but in the short term, finding a space has been challenging. The Oversight Committee was advised by Ms. Hernandez that it is possible the Commission will make the demolition contingent on finding a child-care center and this could delay or stop the project if the issue is not resolved.

The Oversight Committee Chair, Karen Rivo, expressed her concern that this is a priority project and the urgency needs to be conveyed to the staff and Commission. One member said, "We need that fire station...I know this is a sensitive subject but to hold all of us who live in South Beach...to a public safety concern issue over this is something that really needs to be looked at...So I don't know the answer but we can't let this thing drag on." The Committee passed a motion to advise the Commission that it wanted this project prioritized and a temporary solution for the placement of the childcare center found so that the project could continue as the City locates a permanent place for the children. The current plan is to continue forward with 60% design development in June and complete construction documents by the end of the year.

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05/16/2022
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06/16/2022
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cc: Alina T. Hudak, City Manager

