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CITY AUDITOR'S OFFICE

TO: Jim Burch, Community Redevelopment Board Chairman  
THRU: Margaret Krym, City Auditor *MK*  
FROM: Timothy DiSano, Senior Auditor *TD*  
DATE: April 15, 2016  
SUBJECT: Special Project – CRA Financial Variance Analysis

**Background**

At the request of the Community Redevelopment Agency (CRA) Board Chairman, the City Auditor's Office performed a financial variance analysis of the CRA. The CRA is an agency established pursuant to state and local laws, to focus attention and resources in a specific area characterized by blight and disinvestment. The agency encourages public and private investment in the redevelopment area to improve economic growth and quality. In FY2013 the City Council replaced the independent Board of Commissioners, who had governed the CRA, and took responsibility for the CRA as the governing Board of Commissioners, directing CRA policy and programs.

**Management Responsibilities**

This other engagement (special project) was performed to assist the CRA Board Chairman in obtaining an understanding of how the CRA has performed financially under City Management vs the former Independent Board of Commissioners. This other engagement does not constitute an audit performed under Generally Accepted Government Auditing Standards (GAGAS).

**Objective**

To determine the following:

- I. How has the financial condition of the CRA changed from FY2012 (before the governing board change) to FY2015 (several years after the City Council took over the responsibility for governing the CRA)?
  
- II. Do governing laws and regulations allow the CRA to maintain a fund balance?

### **Methodology**

The engagement consisted of performing the following:

- We obtained a detail drill down of the FY2012 to FY2015 revenues and expenditures from Finance, compared them to the Comprehensive Annual Financial Reports (CAFR) for accuracy.
- Performed a financial analysis of the FY2012 to FY2015, revenues and expenditures, documented any significant increase or decrease and obtained comments from Financial Services regarding the changes.
- To substantiate some of the comments by Financial Services, we visited Lee County Property Appraiser – online parcel history (leepa.org) and determined if taxable property values have increased or at least maintained value for some judgmentally selected parcels within the CRA land area.
- We also inquired with the City Attorney’s Office regarding the appropriateness of the CRA maintaining a Fund Balance on the financial statements.

The detail drill down of revenue and expenditures is attached as an appendix to this memorandum.

### **Conclusion**

Based on the work performed, we report the following:

#### **I. Objective – Financial Analysis results:**

##### **Revenue:**

Overall revenue increased 63.45% or \$328,264, which appears reasonable. The following contributed to this change.

- An increase of 57% or \$264,326 in Tax Incremental revenue (TIF).
- A transfer in from the City of Cape Coral General Fund of \$100,000, intended for the establishment of a revolving fund for the streetscape program.
- The addition of the Golf Course into the CRA land area.
- A decrease in rental revenue
- Other minor decreases in smaller revenue accounts.

##### **Expenditures:**

Historical expenditures decreased 87% or \$881,193. The following contributed to this change.

- Salary/wages and related personnel costs decreased 75% or \$240,605.
- Spending for other professional services of \$212,897 was eliminated 100%.

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- Incentives for CRA programs in the amount of \$125,373 was eliminated 100%
- Spending for studies and master plans of \$78,527 was eliminated 100%
- Spending to lease CRA offices of \$52,955 was eliminated 100%
- The cost to maintain attorneys on retainer of \$39,111 was eliminated 100%.
- Along with other decreases or increases in smaller expenditure accounts.

These decreases were offset by a \$339,152 increase in an account called “Improvements Other Than Bldgs.” Financial Services explained that this amount represents an allocation of restricted fund balance for specifically identified CRA projects.

### **Debt Expense:**

CRA indebtedness is related to undergrounding the LCEC transmission lines in the CRA land area. The 2014 Annual Report stated that the remaining outstanding debt was \$3,661,540. According to the FY2016-2018 proposed budget, the annual debt service payment is \$416,854 and will continue through 2024. The Financial Services Department stated that the CRA makes this debt payment to the City of Cape Coral. The City then makes the payment to the lender.

It should be noted that the FY2012 expenditures exceeded revenues by \$817,914 while the FY2015 expenditures exceeded revenues by \$43,697. Continuing to expend at the FY2012 pace would not have been supported by revenues and would have depleted available restricted fund balances at an unsustainable rate.

### **II. Objective – Fund Balance appropriateness:**

The September 30, 2012, annual CAFR showed a restricted fund balance of \$2,367,748. On September 30, 2015, the annual CAFR report indicated that the CRA had an ending restricted fund balance of \$1,746,773, which was \$620,975 or 26.23% less than 2012. However, an additional amount of \$339,152 was reported as being held in an account “Improvements other than Buildings”. The Financial Services Department stated that the “Improvements other than Buildings” does represent fund balance as well but is specifically identified for CRA projects.

According to Florida Statute section 163.387 (7) *“On the last day of the fiscal year of the community redevelopment agency, any money which remains in the trust fund after the payment of expenses pursuant to subsection (6) for such year shall be:*

- a. Returned to each taxing authority which paid the increment in the proportion that the amount of the payment of such taxing authority bears to the total amount paid into the trust fund by all taxing authorities for that year.*

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- b. Used to reduce the amount of any indebtedness to which increment revenues are pledged.*
- c. Deposited into an escrow account for the purpose of later reducing any indebtedness to which revenues are pledged, or*
- d. Appropriated to a specific redevelopment project pursuant to an approved community redevelopment plan which project will be completed within 3 years from the date of such appropriations.”*

Therefore, according to the Florida Statute section 163.387 (7), a CRA has numerous options to dispose of year ending balances, however establishing a fund balance does not appear to be an option.

We appreciate the assistance provided by management and staff for their efforts to complete this special project.

We are available to respond to any questions or concerns you may have about the information contained in this document. You may contact Tim DiSano at 242-3308 or Margaret Krym 242-3380.

Attachment

C: CRA Board of Commissioners  
John Szerlag, Executive Director of the CRA  
Dolores Menendez, City Attorney  
Rebecca van Deutekom, City Clerk  
Audit Committee

City of Cape Coral  
City Auditor's Office  
Special Project - CRA Financial Variance Analysis  
FY2012 to FY2015

Attachment

	FY 2012 Actual *	FY 2015 Actual *	\$ Increase (Decrease)	Comments by Financial Services
<b>Revenue</b>				
Lee County and Cape Coral - Tax Incremental Revenue (TIF)	465,694	730,020	264,326	TIF revenues have been increasing and the Golf Course addition to CRA is now generating TIF.
Transfer in from General Fund	-	100,000	100,000	Transfer to the CRA was to establish an annual \$100K revolving fund contribution from the City for the streetscape program.
Other minor increases and decreases	51,650	15,589	(36,062)	Decrease in rental income, long term investment earnings and other .
<b>Total Revenue</b>	<b>\$ 517,344</b>	<b>\$ 845,608</b>	<b>\$ 328,264</b>	
<b>Expenditure</b>				
Salaries and wages and related expenses	320,252	79,647	(240,605)	Eliminated all but one employee including Executive Director and Administrative Assistant.
Other Professional Services	212,897		(212,897)	Eliminated consultants
CRA Incentive Programs	125,373		(125,373)	Eliminated incentives for programs
Studies & Master Plans	78,527	-	(78,527)	
Building Rental/Leases	52,955		(52,955)	Allowed rental lease of offices to expire
Legal Services	39,111	-	(39,111)	Eliminated outside attorneys on retainer
Public Relations	62,266	30,566	(31,700)	
Printing	21,871	-	(21,871)	
Facilities Charges	24,905	4,787	(20,119)	
Other misc. costs with variances under \$10K	76,964	18,929	(58,035)	
<b>Total Expenditures before specifically identified project funds</b>	<b>1,015,123</b>	<b>133,929</b>	<b>(881,194)</b>	
Improvements Other Than Bldgs		339,152	339,152	Fund balance specifically identified for CRA projects.
<b>Total Expenditure</b>	<b>\$ 1,015,123</b>	<b>\$ 473,081</b>	<b>\$ (542,042)</b>	
<b>LCEC Undergrounding Debt - Payments</b>	<b>320,135</b>	<b>416,224</b>	<b>96,089</b>	
<b>Total Expenditures</b>	<b>\$ 1,335,258</b>	<b>\$ 889,305</b>	<b>\$ (445,953)</b>	
<b>Expenditure Category</b>				
Personnel	\$ 320,252	\$ 79,647	(240,605)	
Operating	693,444	54,282	(639,162)	
Capital Outlay	1,427	339,152	337,725	
Debt Service	320,135	416,224	96,089	
<b>Total Expenditures</b>	<b>\$ 1,335,258</b>	<b>\$ 889,305</b>	<b>(445,953)</b>	
<b>Expenditure in Excess of Revenue</b>	<b>\$ (817,914)</b>	<b>\$ (43,697)</b>	<b>774,217</b>	
<b>Year End Restricted Fund Balance</b>	<b>\$ 2,367,747</b>	<b>\$ 1,746,773</b>	<b>(620,974)</b>	

\* Source of data - Audited Comprehensive Annual Financial Report