

**CITY OF FORT LAUDERDALE  
INTERNAL AUDIT OFFICE  
AUDIT REPORT**

**Review of the Adequacy  
of the  
City's Payment in Lieu of Taxes (PILOT)  
Charged to the Various Enterprise Funds**



**AUDIT NO. 03/04-XX-07  
DATED February 18, 2004**

**MEMORANDUM NO. 04-33**

**DATE:** February 18, 2004

**TO:** Finance Director/Terry Sharp

**SUBJECT:** *Review of the Adequacy of the City's Payment in Lieu of Taxes (PILOT) charged to the Various Enterprise Funds*

Enclosed is the "subject" Final Report of Audit.

Allyson C. Love  
Internal Audit Director

1 Attachment - Final Report of Audit

c: City Commission  
Audit Advisory Board  
Acting City Manager/Alan Silva  
Assistant City Manager/Bud Bentley

ACL/cs

**REPORT OF AUDIT NO. 03/04-XX-07**

**DATE:** January 28, 2003  
**TO:** Finance Director/Terry Sharp  
**VIA:** Internal Audit Director/Allyson C. Love  
**FROM:** Assistant Director of Internal Audit/James Hamill/522-2604x52  
**SUBJECT:** *Review of the Adequacy of the City's Payment in Lieu of Taxes (PILOT) charged to the Various Enterprise Funds.*

**BACKGROUND**

The City of Fort Lauderdale's (herein "City") General Fund assesses an annual Payment in Lieu of Taxes (PILOT) to each of the four Enterprise Funds: (1) Sanitation; (2) Water and Sewer; (3) Executive Airport; and (4) Parking Services. The purpose of a PILOT is to provide resources to the General Fund from the Enterprise Funds to compensate it for General Government Services (Public Safety etc.). Enterprise Funds operate on a cost recovery basis and are profit motivated, similar to a private business. The rates/fees charged by an enterprise fund are intended to fully recover the cost of providing their services. Enterprise Funds are exempt from ad valorem property taxes because they fall under the tax-exempt umbrella of the local Government. However, if the enterprise funds were private taxable entities they would pay property taxes. The PILOT represents the taxes the enterprise funds would otherwise be required to pay if they were taxable.

The City calculates the PILOT by multiplying the ad valorem tax rate by the historical cost (undepreciated values) of each of the Enterprise Fund's Total Fixed Assets, which is calculated as follows:

Land  
+Buildings  
+Equipment  
+Improvements  
+Work In Progress  
+Water & Sewer Lines<sup>1</sup>  
=Total Fixed Assets

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<sup>1</sup> Water and Sewer Fund Only

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### SCOPE

The overall objective of our review was to determine the adequacy of the PILOT charged to the Enterprise Funds. Internal audit evaluated the calculation methodology to determine if the PILOT amount is equitable and provides reasonable cost assistance to the General Fund. The PILOT amounts (budget and actual) were traced through the City's Financial Accounting Management Information System (FAMIS) and followed through to the September 30, 2002 Comprehensive Annual Financial Report (CAFR).

We reviewed Fiscal Year 2003 and Fiscal Year 2004 PILOT(s) which included the PILOT spreadsheet and its underlying support documents during the months of December 2003 and January 2004. The audit was done according to generally accepted government auditing standards.

### OVERALL EVALUATION

Internal Audit was unable to determine the adequacy of the PILOT charge to Enterprise Funds since no evidence was available to support the last time a market value base amount for the real property fixed assets of the Enterprise Funds was accomplished. Furthermore, the City does not adjust the PILOT annually by a Consumer Price Index factor. Incremental annual increases will assure the PILOT amounts remain current and adequately support the General Fund in the provision of general government services.

### FINDING 1

***The City's General Fund could have been increased by \$1,138,529 if a mechanism existed to adjust the PILOT annually for inflationary/market value price changes. Furthermore, the City was not able to provide any support to evidence when real properties of the Enterprise Funds were last appraised.***

*To maintain the currency of the PILOT, the real property fixed assets base should be firmly established based upon an appraisal of fair market value; and thereafter,*

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*the base should be adjusted by a CPI factor to maintain the adequacy of the PILOT amount year after year.*

Internal audit performed an analysis to illustrate the 5-year effect of annual CPI/inflationary increases to quantify the economic benefit to the General Fund. This analysis revealed the City's General Fund could have realized an additional \$1,138,529 (**Schedule**).

We also identified that no appraised values exist for the real property assets of the Enterprise Funds and an appraisal of these assets is essential to the establishment of an objective valuation base.

The adequacy of the current methodology was never questioned or critically evaluated in terms of providing adequate resources to the General Fund.

Annual increases will provide sufficient PILOT funds to cover cost increases associated with the delivery of general government services.

### **RECOMMENDATIONS AND MANAGEMENT COMMENTS**

The *Finance Director* should:

**Recommendation 1.** *Request a current appraisal of each of the Enterprise Funds real property fixed assets to establish a proper base amount for calculation of PILOT.*

**Management Comment.** *Management concurred with the finding and recommendation and stated:* "The Broward County Property Appraiser does update the value of the taxable improvements on City land. For example, the improvements at the Executive Airport by lessees are taxable and the values are evaluated routinely. However, the value of water and sewer lines, water treatment plants, parking garages and the like are not. To comply with this recommendation, the City's real estate section in Public Service will need to contract with an outside appraiser and the cost of such appraisal would be charged to the appropriate enterprise fund. Before conducting such an appraisal, there should be a cost/benefit analysis of the merits of proceeding and explore other options for establishing a base if the cost outweighs the benefit." **Estimated completion date June 30, 2004.**

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**Recommendation 2.** *A written procedure should also be established to describe the methodology used to calculate PILOT and a mechanism should be incorporated into the procedure to require annual inflationary/Consumer Price Index (CPI) adjustments. Furthermore, static amounts should not be rolled forward from one fiscal period to the next.*

**Management Comment.** *Management concurred with the recommendation and stated:* “The documentation that has existed to support the PILOT calculation has been an excel spreadsheet that at least indicated the basic calculations. While an annual adjustment is important, an alternative to the CPI approach would be to compare the change in cost for police and fire protection since the rationale for the payment in-lieu of taxes is a tax payment by a City entity that would cover general City services received by a similar enterprise in the private sector. This factor could be different from a general CPI amount. The reason for the static amount being rolled over in FY2004 was the lack of staffing in the budget office during the budget development period. It has not been routine to roll over the same numbers year after year.” **Estimated completion date June 30, 2004.**

### **FINDING 2**

***The City’s PILOT amounts are not reported as Operating Transfers-In and Operating Transfers-Out in the City’s CAFR. As a result, the City’s full compliance with GASB Statement 34 is not completely assured.***

*Per GASB 34 Statement 34 paragraph 112 b- Non-Reciprocal interfund activity is the internal counterpart to non-exchange transactions. It includes: (1) Interfund transfers - flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. This category includes payments in lieu of taxes that are not payments for, and are not reasonably equivalent in value to the services provided. In governmental funds, transfers should be reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary Funds, transfers should be reported after nonoperating revenues and expenses...*

Per an e-mail from Jake Lorentz, Assistant Director of Technical Services, from the Government Finance Officer’s Association, “Something assessed to an enterprise fund as a PILOT is an interfund transfer out unless it is

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reasonably equivalent in value to the services provided. There needs to be a connection between the amount charged and the value of services provided. That is, they need to meet the definition of interfund services provided and used to be treated similar to the private-sector (i.e., as revenues and expenditures). PILOTS typically aren't of this nature so it is just a movement of resources among funds which meet the definition of interfund transfers”.

The City’s Finance staff believed the PILOT amounts were more in the nature of quasi-external transactions (dated terminology) and believed they should be reported as revenues and expenditures as opposed to operating transfers between funds.

Proper financial disclosure will assure compliance with Governmental Generally Accepted Accounting Principles (GAAP) and enhance the usefulness of the City’s Financial Reports to all interested stakeholders.

### **RECOMMENDATION 3**

*The City’s Finance Director should reflect the PILOT amounts as Operating Transfers-In to the General Fund and Operating Transfers-Out of the Enterprise Funds consistent with GASB 34 and the definition of non-reciprocal interfund activity.*

### **MANAGEMENT COMMENT**

***Management concurred with the finding and recommendation and stated:*** “The rationale for recording PILOT payments as revenue to the General Fund is that a private enterprise that pays property taxes is shown as revenue. The services being received are general City services such as police and fire protection. The City’s outside auditor will be consulted for an opinion on the appropriate way to record this transaction.” **Estimated completion date June 30, 2004.**

### **EVALUATION OF MANAGEMENT COMMENTS**

Management comments and actions taken and/or planned are considered responsive to the recommendations.

Illustrative Example of Consumer Price Index (CPI) Adjusted PILOT for the Enterprise Funds: Sanitation, Water & Sewer, Executive Airport and Parking Services							
Month	CPI Index Factor	% Increase in Index	Base Amount adjusted by an annual CPI Factor	Total Millage Rate	Unadjusted PILOT	CPI Adjusted PILOT	Difference
<b>Sanitation</b>							
Sep-98	490.10		\$ 4,687,530	-	-	-	-
Sep-99	502.90	2.61%	4,809,954	5.6733	\$ 26,593.76	\$ 27,288.31	\$ 694.55
Sep-00	520.30	3.46%	4,976,375	5.5664	26,092.66	27,700.49	1,607.83
Sep-01	534.00	2.63%	5,107,408	5.5664	26,092.66	28,429.88	2,337.21
Sep-02	542.10	1.52%	5,184,880	5.3730	25,186.10	27,858.36	2,672.26
Sep-03	553.00	2.01%	5,289,132	5.2685	24,696.25	27,865.79	3,169.54
					<b>\$ 128,661.43</b>	<b>\$ 139,142.83</b>	<b>\$ 10,481.40</b>
<b>Water &amp; Sewer</b>							
Sep-98	490.10		\$ 261,586,327	-	-	-	-
Sep-99	502.90	2.61%	268,418,208	5.6733	\$ 1,484,057.71	\$ 1,522,817.02	\$ 38,759.31
Sep-00	520.30	3.46%	277,705,297	5.5664	1,456,094.13	1,545,818.77	89,724.63
Sep-01	534.00	2.63%	285,017,545	5.5664	1,456,094.13	1,586,521.66	130,427.53
Sep-02	542.10	1.52%	289,340,845	5.3730	1,405,503.33	1,554,628.36	149,125.03
Sep-03	553.00	2.01%	295,158,619	5.2685	1,378,167.56	1,555,043.18	176,875.62
					<b>\$ 7,179,916.87</b>	<b>\$ 7,764,828.99</b>	<b>\$ 584,912.12</b>
<b>Executive Airport</b>							
Sep-98	490.10		\$ 207,444,460	-	-	-	-
Sep-99	502.90	2.61%	212,862,312	5.6733	\$ 1,176,894.65	\$ 1,207,631.75	\$ 30,737.10
Sep-00	520.30	3.46%	220,227,204	5.5664	1,154,718.84	1,225,872.71	71,153.87
Sep-01	534.00	2.63%	226,025,998	5.5664	1,154,718.84	1,258,151.12	103,432.27
Sep-02	542.10	1.52%	229,454,482	5.3730	1,114,599.08	1,232,858.93	118,259.85
Sep-03	553.00	2.01%	234,068,121	5.2685	1,092,921.14	1,233,187.90	140,266.76
					<b>\$ 5,693,852.56</b>	<b>\$ 6,157,702.41</b>	<b>\$ 463,849.85</b>
<b>Parking Services</b>							
Sep-98	490.10		\$ 35,458,369	-	-	-	-
Sep-99	502.90	2.61%	36,384,439	5.6733	\$ 201,165.96	\$ 206,419.84	\$ 5,253.87
Sep-00	520.30	3.46%	37,643,316	5.5664	197,375.47	209,537.75	12,162.29
Sep-01	534.00	2.63%	38,634,501	5.5664	197,375.47	215,055.09	17,679.62
Sep-02	542.10	1.52%	39,220,530	5.3730	190,517.82	210,731.91	20,214.09
Sep-03	553.00	2.01%	40,009,137	5.2685	186,812.42	210,788.14	23,975.72
					<b>\$ 973,247.13</b>	<b>\$ 1,052,532.72</b>	<b>\$ 79,285.60</b>
<b>Five Year Summary by Fund</b>							
	<b>Unadjusted PILOT</b>	<b>CPI Adjusted PILOT</b>	<b>Difference</b>				
<b>Sanitation</b>	\$ 128,661.43	\$ 139,142.83	\$ 10,481.40				
<b>Water &amp; Sewer</b>	7,179,916.87	7,764,828.99	584,912.12	* \$250,000,000 in Water and Sewer Lines were excluded from calculation.			
<b>Executive Airport</b>	5,693,852.56	6,157,702.41	463,849.85				
<b>Parking Services</b>	973,247.13	1,052,532.72	79,285.60				
	<b>Additional PILOT</b>	<b>\$</b>	<b>1,138,528.96</b>				