

MEMORANDUM

Date: September 3, 2018
To: To Whom It May Concern
From: Terry Henley, Assistant Budget Director
RE: Memorandum for Record



Terry Henley
09-03-2018
FLORIDA DRIVERS Lic. - ID
Dawn Ann Mergelsberg
DAWN ANN MERGELSBERG
NOTARY SEPT. 3, 2018

Written between August 9 and September 3 2018, the purpose of this memo is to document recent events concerning the Budget and the City of North Miami.

I have consulted my attorney about the pressure and threats I have received from the Deputy City Manager to misrepresent revenue to cover growing expenses. On August 9 2018 specifically, I was berated by the Deputy City Manager for what he said were “errors” in my estimates of future revenue and I was told to add \$3.3M in speculative revenue as well as underestimate current year expenses by another \$150k. The Deputy also told me the “word on the street” was that I was “sabotaging” this administration. That night I called my attorney and asked for legal advice. The attorney said if it is not illegal then I should do what my supervisors are requesting and document. I also called a Professor of Ethics and Finance in Public Administration at the Askew School of Public Administration in Tallahassee. The professor said that the budgeting practices are not illegal, but simply “bad business” practices. Considering the ethical and legal advice, I implemented the mandated changes and continued to provide the Deputy with more “optimistic numbers” that would reduce the deficit. These revisions are documented on reconciliation reports emailed on August 10 and August 15 among other dates. I do not want to challenge the legitimacy of any of these new revenue assumptions made by the Deputy considering his threats to terminate and blame me for the City’s excessive spending and resulting deficit. The Deputy’s involvement and the City’s history of terminating finance professionals who speak out against Management initiatives demonstrate the threats are not just words. The termination of Veron Paul, former Finance Director, is an example of the consequences of someone who blew the whistle on how the early retirement incentive package would have a negative financial impact on the city. The rising cost of staffing and pension costs as seen in Exhibit One proves he was correct. The City Manager’s SEC investigation that exonerated him but found his former Budget Director at the City of Miami, guilty of fraud, is also a concern that I will be targeted.

I went through this exercise a year earlier when the Deputy pressured me to underestimate current end-year expenses in order to have more resources available for next year’s planned expenses, The result was apparent when the financial statements showed the 2017 actuals where close to \$1M more than the estimated expenses that I was pressured to underestimate. Last year’s budget development also included a projected deficit of more than \$4M. This was resolved by the Deputy’s instruction to me to add \$5M in SoleMia Developer revenue in order to balance. This year, only \$2M of this \$5M was collected when \$2M from Costco at SoleMia was received. The other \$3M never came in or is expected to be received. The \$2M check was also an item at a Council meeting on April 24 (Tab H) this year where a discussion on appropriating the funds to the reserve was suggested by the City Manager. The Council said to give the check back. At an internal meeting I reminded the City Manager that the Costco revenue was anticipated and used to balance this year’s operating expenses and could not go to a “super reserve” like he mentioned at the council meeting. His response was that he did not know that. He also said that he will not send the check back and “they can go fuck themselves”.

In the last four weeks, a number of adjustments totaling more than \$11M were made to the budget in order to balance. As Shown in Exhibit Two, which was emailed to management a number of times to demonstrate the deficit. The Deputy City Manager is responsible for most of the mandated changes, including ones I challenged him about that I did not think were accurate or sound financially. Two of the most speculative changes include a revision to the surplus/deficit account in the amount of \$1,682,717 and adding \$1,357,140 to the GASB63 account for deferred revenue. The former, I explained is inaccurate because we did not received any of this money this year so it is not right to record it as revenue received in the FY18 year-end estimate. The 2017 financial statements also show a negative surplus/deficit of -\$350k. The latter is wrong because in order to add GASB 63 revenue to FY19 revenue, there must be a corresponding contra-revenue or negative to

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balance this recording. The Finance Director was present in the Deputy's office when I got the orders to record this revenue for next year. When I asked him about it in person he did not have a response to justify the recording.

A significant maneuver that altered the budget was the City Manager's phone request to me on Saturday, September 1 to remove \$3M in the expense budgeted reserve. In North Miami, the reserve is a budgeted expense and has a corresponding budgeted revenue to balance each other. There should be \$10M in the budgeted expense and revenue reserve. Due to growing expenses and exceeding the budget, the revenue reserve has shrunk. The day before the Deputy told me that Manager wanted to meet me at City Hall at 9am. When the Manager did not show up or answer my calls, I text him the deficit was \$4.9M at the time and I was available. The Manager called me back and was upset with my text and directed me to make the \$3M adjustment, as seen in Exhibit Two.

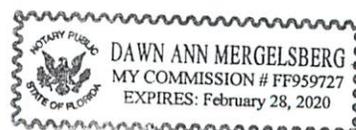
On Monday August 27, the deficit was decreased to less than \$1.5M when I shared my report that morning. The Deputy said "the rest of the deficit is on you Terry" and a book better be printed by 9am tomorrow with no expense reductions. Balancing without cutting expenses meant I could only inflate revenues. Knowing it was unreasonable to expect much more in collections next year, I cut the general fund contribution to Risk Management General Liability by \$1,269,930 and increased FY19 revenues in some miscellaneous areas to secure a balanced budget. This cut to Risk Management did not follow the directions but was the best I could do in terms of stewardship considering the alternative was inflating revenues more than what was reasonable. I later got calls from the Deputy to fund 25 new police officers at a prorated amount and had to make a number of other adjustments to balance. That morning the Personnel Administrator told me the City Manager requested all the applicants for my job and is ready to start the interview process. The last minute decision making meant there was no time for a quality control check and Department Heads never got a chance to review their final budget before it was sent to Council. Considering the harassment and pressure I received from Management, as well as the advice solicited from my attorney and ethics consultant, I did the best I could professionally.

Exhibit One:

General Fund						
Personnel Increase Over Last 5 Years						
	2014	2015	2016	2017	2018	2019 Proposed
Salary	31,135,775	33,032,517	33,922,385	37,083,459	39,976,563	44,351,435
Total Budget	58,506,539	60,132,888	57,390,109	66,567,606	70,666,273	70,260,422
	53%	55%	59%	56%	57%	63%

FRS Increase						
	2014 (FRS not budgeted)	2015 (FRS not budgeted)	2016 (FRS not budgeted)	2017 Actual (FRS not budgeted)	2018	2019 Proposed
Pension	-	-	-	176,546	293,964	448,764
Total Budget	58,506,539	60,132,888	57,390,109	66,567,606	70,666,273	70,260,422
	0%	0%	0%	0.27%	0.42%	1%

Pension Increase Over Last 5 Years						
	2014 Adopted	2015 Adopted	2016 Adopted	2017 Adopted	2018 Adopted	2019 Proposed
Pension	5,877,496	7,163,114	8,165,016	7,358,511	7,863,551	9,030,908
Total Budget	58,506,539	60,132,888	57,390,109	66,567,606	70,666,273	70,260,422
	10%	12%	14%	11%	11%	13%



[Handwritten Signature] - 09-03-2018

FLA. DRIVERS LICENSE ID
Dawn Ann Mergelsberg - NHenley_00268
DAWN ANN MERGELSBERG 09-03-2018

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Exhibit Two:

Deficit Reduction Changes After Report on 8-9-18

Increased revenues to include \$261,467 in re-occurring revenue in various accounts	261,467
Revised Surplus/deficit account by \$1,682,717 increase	1,682,717
Added FY19 GASB 63 Revenue \$1,357,140	1,357,140
Included Police 185 Contribution Offset	627,494
Reduced non-dept. YEE Expenses by \$150,000	150,000
Increased Sanitation Rev by \$628,338 to reflect rate change to \$325	628,338
Total	4,707,156

Deficit Reduction Changes After Report on 8-10-18

Reduced FY18 Year-end Projected Expenses by \$412,419	412,419
Increased FY18 Year-end Projected Revenue by \$122,070	122,070
Increased FY19 Projected Revenue by \$504,762	504,762
Reduced FY19 Expenditure Budget by \$19,003	\$19,003
Total	1,058,254

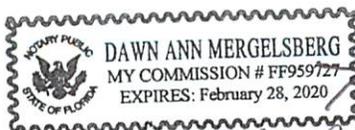
Deficit Reduction Changes After Report on 8-15-18

Added Contract Compliance revenue from WastePro	150,000
Increased Waste Collection Tax Rev in FY18 Year end Projection	184,285
Increased Waste Collection Tax Rev in FY19 Budget	184,285
Included Cops Grant Expense	(206,050)
Added contra rev in expenses for Vacancy Rate	500,000
Removed \$3M in Reserve Expense per CM	3,000,000
Total	3,812,520

Deficit Reduction Changes After Report on 8-26-18

FY19 Contra expense for Police 185 50/50 Share	101,403
WastePro Outstanding Contract Compliance Revenue Payments (Removed later)	210,000
Cut FY19 Payout for sick/vacation leave	120,000
Increased Enterprise Contribution	327,854
Increased Finance Lease for Clerk Portion	(15,000)
Funded Min Wage for full-time	(22,984)
Increased Policed Staffing for SoleMia	(553,900)
Misc.	23,726
Inserted Refund from Risk Management for prior year over contribution	1,269,930
Total	1,461,029

Total Changed to Balance 11,038,959



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