

Bond Case Briefs

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Miami Taxpayers Have to Dip Into Rainy Day Fund to Pay Legal Settlements with Unions.

Miami's government could face a tough financial future after it has been forced to dip into its reserves to pay for two costly legal settlements with its police and fire unions.

The city has settled pension and salary disputes with the unions to the tune of \$53.5 million, resolving a legal battle stemming from austerity measures taken during the Great Recession. More than half of the money will come from the city's reserves, which will dip about \$10 million below the city's self-imposed threshold for maintaining a healthy rainy day fund.

The decrease could impact the city's ability to borrow money for public projects. Bond rating agencies look at reserve balances when assigning ratings to cities. If Miami's rating were lowered, it would mean the city would have to deal with higher interest rates when paying off municipal bonds.

Coupled with conservative financial projections that assume Florida voters will approve a state constitutional amendment that would expand the homestead exemption and reduce property tax revenue, city administrators say they will have to tighten their belts because of a potential \$20 million deficit in the next fiscal cycle.

"We have to find ways to increase revenue and cut expenses," said City Manager Emilio Gonzalez.

While the city has to pay out hefty legal settlements, it could have been worse. A city fiscal analysis shows the city could have been on the hook for \$486,000,000 in back pay and pensions for the city's police officers and firefighters. Settlements with each union approved by commissioners this month total \$53.5 million, which includes about \$37 million in upfront payments that will diminish the reserves. The commission approved the agreements and new labor contracts with the firefighters union Oct. 11 and the police union at Thursday's commission meeting.

The contracts passed with little public discussion, though on Thursday, Commissioner Joe Carollo commented on the possible money issues down the road.

"If we don't start cutting back now and finding new revenue, we're going to be in big trouble in the next fiscal cycle," he said.

"I agree," said Christopher Rose, the city's budget director.

Rose told the Miami Herald city departments have already begun meeting to discuss ways to save more and spend less. The city's finance staff anticipates costs will increase and property tax revenue growth will slow.

"We're being very cautious heading into the future," he said.

One measure is already in motion. Commissioners are considering increasing parking rates across the city for nonresidents, a change that could bring in an estimated \$6 million in revenue. After

initial approval in September, the rate hike needs one more vote to become law.

The union lawsuits were precipitated by the actions taken the last time Miami faced a serious fiscal crisis.

In 2010, the city declared a financial emergency and invoked a state law that allowed administrators to force open union contracts and unilaterally impose cuts — the city cut salaries by as much as 12 percent and capped pensions. The controversial maneuver, led by former Mayor Tomás Regalado, saved the city about \$100 million in labor costs and helped it avoid a financial meltdown as it faced a securities fraud investigation and flirted with bankruptcy. But the unilateral cuts also spurred lawsuits from the unions, who ultimately won in the Florida Supreme Court.

Instead of facing a nearly half-billion-dollar liability, the city hashed out deals with each bargaining group to settle the litigation and agree on new contracts.

“I believe we reached a fair deal with the city,” said Freddy Delgado, president of the Miami Association of Firefighters. “This is a new beginning with a new administration that values its employees. Our agreement brings stability to the city’s finances and we will continue to serve the citizens of Miami with excellence.”

After the upfront payments, which will occur after the legal formalities, each group will receive annual damages payments of between \$2 million and \$3 million over the next several years. The city budget, which went into effect Oct. 1, already factored in the pay increases under the new police and fire contracts. Firefighters are getting a 5 percent raise across the board. Police are receiving 3 percent.

THE MIAMI HERALD

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October 25, 2018 09:14 PM