



# Ideas in Action

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## The Miami Financial Crisis: What Happened?

*By: Professor Frank Sherwood, Ph.D., Professor Emeritus, Reubin O'D. Askew School of Public Administration and Policy, Florida State University. This article appeared recently as a guest editorial on January 19, 1997 in the Tallahassee Democrat.*

Two things happened in 1996 that revealed Miami to be a government in trouble. The first was the accusation of corruption against several of its key leaders. One member of the city commission, the city manager and the director of finance have been charged with various forms of financial misconduct.

This surfacing of corruption in the city led in turn to the second factor: full exposure of long-existing financial problems. The best estimate -- and Miami's financial records are so poor that this is only an estimate -- is that the city is running an annual deficit of \$68 million, \$48 million of which is recurring. That is 17.5 percent of its operating budget -- in a circumstance where any deficit is illegal.

### City's troubles could spread

The trouble in Miami may not remain solely a local catastrophe. One financial newsletter noted that not only were \$423 million in Miami bonds in trouble, but the state's overall financial condition has been brought into question. Indeed, it was even suggested that Miami might be just the first of a set of collapsing governments across the country.

For the first time in the state's history, Gov. Lawton Chiles appointed a financial-emergencies oversight board to monitor the Miami situation. So great was the concern that Lt. Gov. Buddy MacKay was named chair of this five-person committee, charged with bringing Miami back to solvency.

Robert Bradley, director of Florida's Office of Planning and Budgeting, pointed out recently that there will be no default in Miami. That can happen only with the governor's approval, and that will not be obtained. But there is plenty to be done before the house is put back in order. His comments on the public-administration aspect of the debacle are particularly worthy of examination.

## **Elected officials lived well**

First, the accountability system seems to have broken down. Too many people apparently had their hands in the cookie jar. Elected officials lived well. They each had several assistants, more than in most similar-sized governments, to support them in their part-time jobs; and each had a full-time lobbyist.

Warnings from auditors about emerging financial difficulties were ignored. Elections did not appear to bring about greater accountability; at best, there was a papering over of the problems. Second, Bradley observed it is very difficult in such situations to separate corruption from just plain wasteful behavior. Nobody seemed to care very much whether the accounting system provided a correct picture of the city's finances.

Today, Bradley noted, it is impossible to get an accurate report of the existing assets of the city. The accounting system cannot provide such information. In Fact, the city relies on its banks to tell it how much money it has on a daily basis. Third, Bradley provided a litany of malignancies in the city's financial management:

- The deficits were primarily chalked up in recurring expenditures, which means that the city was over spending on its regular operations.
- Other capital expenditures were approved without knowing where the money was to come from.
- The city has no reserves, which in some cases are required. The reserves were tapped in some very "creative" ways, according to Bradley.
- There has been a consistent mingling and co-mingling of enterprise and general-revenue funds.
- There has been a continual under budgeting of expenditures, interest and pension costs.
- A revenue enforcement and collection system operates that is inexplicable by any normal standards. Revenues that should have been collected were not.
- In the last two years, payroll costs have exceeded budgeted amounts; overspending has occurred in other budget categories; and revenues have been over estimated.

Fourth, the depravities were not restricted to financial matters. More fundamentally, it was the way in which the city went about its business that left little emphasis on accountability and efficiency of performance. The city appears to have a civil service culture that protects jobs from the bottom to very close to the top and emphasizes self interest. One of three employees has filed worker compensation claims; 60 percent of those in refuse collection have done so. The incentive to pursue such claims is high; full salary and no income tax on it. Where the jobs are not part of

civil service, they have tended to be filled on a patronage basis rather than one based on merit. In collective-bargaining relationships with employees, there has been little evidence of a management presence. The tendency has been to accept the demands of the employees.

#### **Even better managed, city would have problems**

Organizational arrangements in the city also attracted Bradley's attention: questionable delegations, illogical structure, very little staff support of the city manager, who also suffered a lack of traditional managerial prerogatives, such as a capacity to hire and fire; and a budget operation in the finance department that did not reflect concerns for performance data and policy analysis.

Even if the city of Miami had had outstanding management, there would still have been problems. It is a central city of about 373,000 in a metropolitan community of two million. It has been rated the fourth poorest city in the United States.

Bradley observed that there is a high percentage of homes in the city of Miami that pay no property tax. Their assessed valuation is under the exemption limit of \$25,000. With a relatively small tax base, the municipality has reached the 10-mill tax cap permitted in Florida.

#### **Wiping the city out only a short-term fix**

If Miami is disincorporated, responsibility of municipal services would fall to Metropolitan Dade County, which already provides them to about a million people. But that would probably not be for long. The likelihood is that the richer communities will incorporate as separate municipalities and join 23 others in the county, further Balkanizing MetroDade.

The state's involvement in the Miami situation places it in an unfamiliar role. The state is moving gingerly, borrowing from the experiences of other states with similar problems. One important comparative insight is that the best strategy is one of working with the local government, rather than taking over from it.

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Dr. Frank Sherwood is a retired professor of public administration who held the Jerry Collins chair at Florida State University in the Reubin O'D. Askew School of Public Administration. Dr. Sherwood received his AB Degree in Political Science from Dartmouth College, then went on to acquire a Certificate in Politics, Philosophy and Economics from St. Catherine's Association, Oxford University. Later, he received his MS in Public Administration and his Ph.D. in Political Science from the University of Southern California. In addition to his service at FSU, Dr. Sherwood serves as a Fellow for the National Academy of Public Administration and is a past President of the American Society for Public Administration. Dr. Sherwood has contributed a number of fiscal policy articles to Florida TaxWatch.

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