

MIAMIBEACH

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OFFICE OF THE CITY MANAGER


LETTER TO COMMISSION

TO: Mayor Dan Gelber and Members of the City Commission

FROM: Jimmy L. Morales, City Manager

DATE: May 22, 2020

SUBJECT: **Updated Revenue and Expenditures for MXE Area**



This Letter to Commission is provided as a summary of the updated revenue and expenditure report for the Mixed-Use Entertainment District (MXE), to include those portions of Washington Avenue zoned CD2 from 5-16 street.

On October 30th, 2018 Mayor Dan Gelber created the Mayor's Panel on Ocean Drive. The Panel consisted of 15 members which split into two subcommittees in order to provide targeted recommendations; the Safety, Security and Infrastructure("SSI") and the Business and Culture ("BCP") subcommittees. At the April 2019 SSI subcommittee meeting, a motion was made and passed to review and update a July 2018 LTC (LTC#387-2018), regarding revenues generated and the cost of services in the MXE. The full Panel voted in support of the subcommittee motion and it was provided to the Commission in October of 2019 as part of their final recommendations.

Following support and direction from the City Commission to reevaluate the 2018 LTC, the Administration engaged Lambert Advisory. Lambert was tasked with performing a cost benefit assessment as the update to the LTC.

As seen in the below graphic and noted by Lambert in **Attachment A** "the updated analyses identifies several cost and revenue sources that were not delineated in the LTC. Accordingly, there are select sources for which there is a measurable change from the prior year based upon a modification to departmental allocations to the MXE based upon updated processes that were adjusted as a result of greater insight as to how best distribute certain shared revenues and/or costs; or, the basis of information used at the time of the study which may have included either budgeted vs. actual 2016/17 and/or 2017/18 figures. In any case, the analysis herein provides a comparative representation of year-over-year costs for the MXE district, with a clarification of any adjustments and modifications."

Item	LTC	Update 2016/17	Update 2017/18
Revenue			
Property Tax	\$11,847,604	\$16,424,524	\$16,989,819
Resort Tax	\$11,409,364	\$21,215,442	\$22,421,580
Parking	n/a	\$8,325,199	\$9,039,539
Half-penny Tax	n/a	\$1,345,725	\$1,509,389
TCED	n/a	n/a	n/a
Other (BTR, Fees, etc.) ²	n/a	\$ 972,250	\$1,088,768
Sub-Total Revenue	\$23,337,968	\$48,283,140	\$51,049,095
Costs			
Police	\$30,097,697	\$30,137,273	\$36,791,243
Fire & Emergency	\$15,364,286	\$15,364,286	\$8,983,501
Parking	\$141,975	\$2,586,483	\$2,726,701
Sanitation	\$2,953,204	\$2,953,205	\$5,554,838
Parks & Recreation	\$1,179,831	\$1,179,831	\$635,013
TCED	\$280,296	n/a	n/a
Code	\$1,049,885	\$1,205,304	\$2,057,468
Transportation	\$715,000	\$715,000	\$715,000
Sub-Total Costs	\$51,782,176	\$54,141,382	\$57,463,764
Net Fiscal Benefit/Cost	(\$28,444,208)	(\$5,858,242)	(\$6,414,669)

Due to the refined methodologies in assessing the revenue and costs generated, the above updated figures, while less than the previously stated deficit, still reflects a deficit. The attached Technical Memorandum outlines Lambert Advisory's methodologies and findings.

If you have any questions, please email Amy Mehu at amymehu@miamibeachfl.gov.

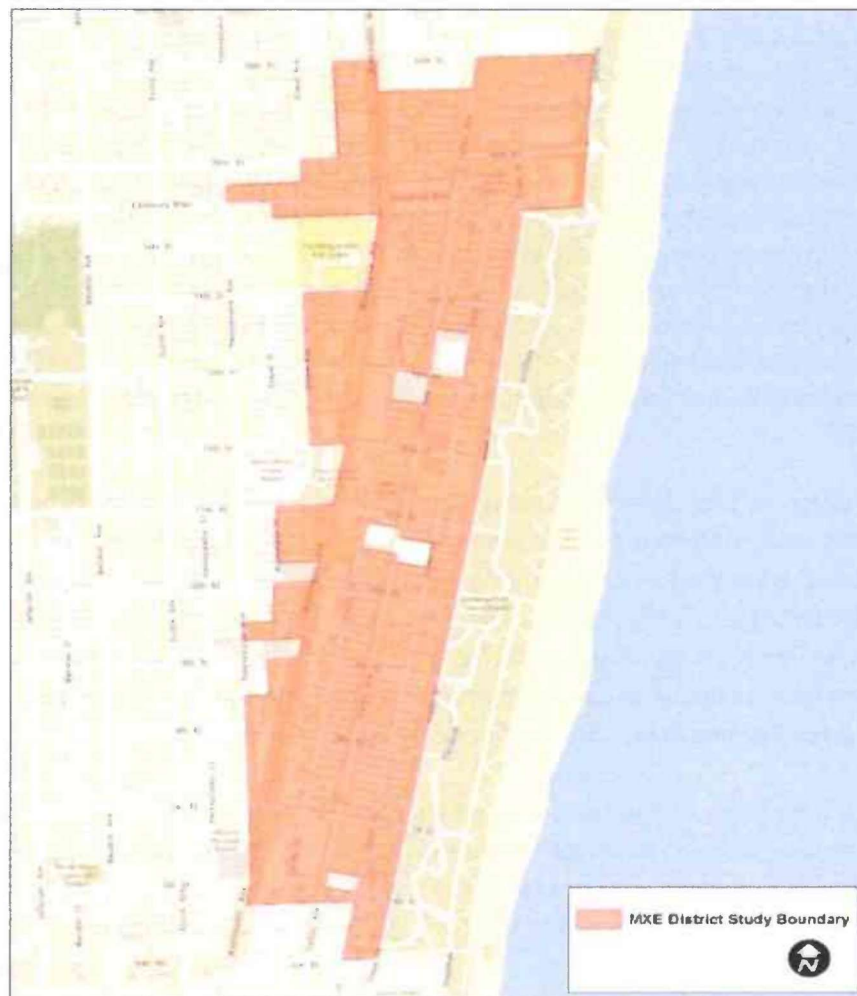
JLM/EC/AM

TECHNICAL MEMORANDUM

To: City of Miami Beach
From: Lambert Advisory, LLC
Date: May 22, 2020
Subject: MXE Cost Benefit Assessment

Lambert Advisory (Lambert) has completed its preliminary cost benefit assessment associated with the Mixed Use Entertainment (MXE) District, which is generally defined by the area encompassing: 5th Street to the south; 16th Street to the north; properties bounding Washington Avenue to the west; and, Ocean Drive to the east.

Figure 1: MXE District/Area 4 Boundary Map



The cost benefit assessment herein has been conducted to provide an update to a previous analysis prepared by the City and included within a Letter to Commission (LTC#387-2018). In brief, that memorandum (referred to herein as "LTC") provided an overview of the cost of providing city services to the MXE District in comparison to the revenue the area generates.

This Technical Memorandum provides the key assumptions and findings associated within the updated MXE District cost benefit assessment (referred to herein as "Update"). Importantly, the research, analysis and documentation are based upon a few guiding principles. Namely, an understanding of the of the cost benefit assessment process as it relates to the goals and objectives of our specified scope of work. In that, the initial step was to generally detail what a cost benefit assessment is and identify some of the more notable challenges impacting this process. From a certain standpoint, a cost benefit analysis can be viewed as relatively simplistic as it is a matter of identifying sources of revenue created by an asset(s) against the cost to operate and manage those assets – in this case, the public spaces and City services provided to the MXE District. Revenue can be quantitatively identified through sources such as ad valorem tax, sales tax, licensing fees, permitting fees, and assessments, among others. Accordingly, costs can be directly attributed to employment/wages (full time equivalent jobs), goods and services used, and administration/management of the City. The differential between these two is theoretically the net benefit or cost. However, the fact is, it is not that straight-forward. On both the revenue and cost side, there are challenges associated with shared resources and operations between the MXE District and other areas of the City which cannot be easily distinguished and/or simply allocated to a specific boundary. For instance, there are visitor expenditures that are being captured in other areas of the City outside of the MXE District (ie. hotel stay) and for which at least some portion of that expenditure applies to the MXE District since a primary reason for some visitors is associated with visiting the MXE (South Beach). In contrast, there may be some costs that are not being allocated to the MXE District that should be otherwise allocated to it – for example, given the international prominence of the "South Beach" and "Miami Beach" brands there is a cost of reputation from serious crimes or a steady stream of traffic accidents or fatalities which follow those involved in the accidents leaving the MXE late at night. Likewise, those accidents or crimes while potentially occurring outside the MXE may involve individuals who spend the majority of their time prior to the incident within the MXE.

As it relates to direct costs for this effort, the City – through each of the operating departments – prepared estimates of cost for four primary Zones or Areas within its boundaries and the MXE District defined as Area 4. As part of this assessment, we participated in meetings (or calls) with each applicable department to gain an understanding of the key functions within each department and, specifically, obtain insight into how revenues and/or costs are allocated to the MXE District. Through this process, we sought to understand departmental operations and the allocation process, but also identify applicable revenue and costs that should be included in the cost benefit assessment in addition to those identified in the LTC.

The following is a summary of revenue and expenses when comparing the prior Letter to Commission (LTC) and the analysis prepared by Lambert Advisory which at the behest of the City developed a much deeper understanding of the revenue and costs than the City's initial analysis; and, for which the update analysis was prepared for FY2016/17 and FY2017/18 – identified below in columns labeled Update:¹

¹ Subject to final verification by the City upon receipt of all departmental costs and revenue.

Figure 2: MXE District Cost Benefit Assessment – Summary of Key Findings

Item	LTC	Update	Update
Revenue		2016/17	2017/18
Property Tax	\$11,847,604	\$16,424,524	\$16,989,819
Resort Tax	\$11,409,364	\$21,215,442	\$22,421,580
Parking	n/a	\$8,325,199	\$9,039,539
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Net Fiscal Benefit/Cost	(\$28,444,208)	(\$5,858,242)	(\$6,414,669)

As shown above, the Update analyses identifies several revenue sources that were not delineated in the original LTC. Accordingly, there are select sources for which there is a measurable change from the prior year based upon a modification to departmental allocations to the MXE based upon updated processes that were adjusted as a result of greater insight as to how best distribute certain shared revenues and/or costs; or, the basis of information used at the time of the study which may have included either budgeted vs. actual 2016/17 and/or 2017/18 figures. In any case, the analysis herein provides a comparative representation of year-over-year costs for the MXE district, with a clarification of any adjustments and modifications.

In sum, the Update analysis, though still reflecting a deficit and subject to modification, shows a more balanced cost to benefit ratio within the MXE District. However, this updated information, leads us to the question – what does this really mean for future policy decisions? Is the area performing at peak, or should it be contributing more of a benefit since it is often regarded as the *centerpiece* of economic activity within the City? Furthermore, the MXE District with its 8,600 jobs represents 15 percent of the City's employment; however, 85 percent of these jobs are in the more modest wage Accommodation and Retail sectors. This compared to the 55 percent of Accommodation and Retail jobs within the City, which has a more balanced proportion of higher wage FIRE and Profession Services sector jobs.³

Importantly, this singular analysis does not fully answer these questions. For one, there needs to be further clarification associated with certain revenues and costs that can only be vetted through a more comprehensive process than what was undertaken as part of this scope of service. In that regard, visitor,

² Represents estimated MXE BTR collections as proportion of total City-wide collections based upon Half-Penny Tax historical pro-rata ratios

³ Florida Department of Economic Opportunity (FDEO) – Miami Dade County, Q1 2019; US Census On-the-Map (2017)

stakeholder and business surveys will help to better define what other sources of revenue and cost should be attributed to the MXE District that is not currently being captured in the district. There is no possible way to precisely account for these ancillary/indirect revenue and cost factors, but more comprehensive data will certainly help to narrow the window. Secondly, it will be beneficial to identify certain elements within the MXE District for which the City can help to improve and maximize the benefits in relation to costs that flow into the City. This specifically includes physical planning related adjustments and policy modifications – which the City already recognizes through its recently approved Entertainment District Study.