

Brevard County

Half Cent Sales Tax – Save the Lagoon Project Status Report

October 25, 2017



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Transmittal Letter

October 25, 2017

The Audit Committee of
Brevard County, Florida
2700 Judge Fran Jamieson Way
Viera, Florida 32940-6699

Pursuant to the approved Brevard County 2016/2017 internal audit plan, we hereby present our first internal audit status report of the Half Cent Sales Tax – Save the Lagoon Project. We will be presenting this report at the next scheduled Audit Committee meeting on November 1, 2017, and a copy will be provided to the independent Save Our Indian River Lagoon (SOIRL) Citizen Oversight Committee (COC).

Updated progress reports will be presented to include the progress of the implementation of the Project Plan and the use of the tax, as described within Next Steps at periodic internals, and presented to the Audit Committee at least semi-annually.

We would like to thank the staff and all those involved in assisting the Internal Auditors in connection with this review.

Respectfully Submitted,

RSM US LLP
INTERNAL AUDITORS

Background



History of the Lagoon

The Indian River Lagoon (IRL) system includes Mosquito Lagoon, Banana River Lagoon, and Indian River. This is a unique and diverse system that connects Volusia, Brevard, Indian River, St. Lucie, and Martin counties. The IRL is part of the National Estuary Program (NEP), one of 28 estuaries of National Significance, and has one of the greatest diversity of plants and animals in the nation. A large portion of the IRL system, 71% of its area and nearly half its length, is within Brevard County and provides County residents and visitors many opportunities and economic benefits.

Efforts have been ongoing for decades to address various sources of pollution within the Lagoon, including stormwater runoff from urban and agricultural areas, wastewater treatment facility (WWTF) discharges, septic systems, and excess fertilizer applications.

Despite significant load reductions, in the last five years, signs of human impact to the IRL system have been magnified. In 2011, the “superbloom” occurred, an intense algal bloom in the Mosquito Lagoon, Banana River Lagoon, and North IRL, as well as a secondary, less intense bloom in the Central IRL. There have also been recurring brown tides; unusual mortalities of dolphins, manatees, and shorebirds; and large fish kills due to low dissolved oxygen from decomposing algae.

Ordinance 2016-15



- The Brevard County Board of County Commissioners (BOCC) adopted Ordinance 2016-15 on August 23, 2016. The ordinance placed a Tax Referendum on the upcoming election ballot for voter consideration.
- On November 8, 2016 within the territorial limits of Brevard County, the Tax Referendum was voted on and passed with 62% favorable vote, to allow for a half-cent sales tax on sales within the County.
- This legally restricted tax will help pay to restore the IRL over a 10-year period by implementing the approved Save Our Indian River Lagoon Project Plan, as amended. The total cost of the current Plan is \$302 million.
- The Ordinance authorizes the use of the half cent sales tax to provide restoration services to improve the quality of the water and the lagoon through methods such as:
 - Waste Water Treatment Facility Upgrades for Reclaimed Water,
 - Fertilizer Education,
 - Storm-water Outfall Treatment,
 - Septic to Sewer Integration,
 - Septic Upgrades,
 - Muck Removal and Dredging,
 - Oysters and Restoring Living Shorelines and
 - Monitoring, Reporting and Adapting.

Referendum



BALLOT Brevard County, Florida

Caption: Save Our Indian River Lagoon ½ Cent Sales Tax Referendum

To restore the Indian River Lagoon through financing, planning, constructing, maintaining, and operating capital improvements and capital maintenance projects and programs designed to improve water quality, fish, wildlife and marine habitat, remove muck and reduce pollution, shall an ordinance be approved levying a ½ cent sales tax for ten years and requiring deposit of all revenue to a Save Our Lagoon Trust Fund solely for such projects, with citizen committee oversight and annual independent audits?

- YES For the ½ cent sales tax
- NO Against the ½ cent sales tax

SOIRL Committee

The Oversight Committee

The Ordinance requires the creation Brevard County Save Our Indian River Lagoon (SOIRL) Citizen Oversight Committee (COC). The COC is made up of seven members and seven alternates across seven different fields including:

- Finance
- Science
- Tourism
- Real Estate
- Technology
- Education / Outreach
- Lagoon Advocacy

Additionally, the COC meetings usually include the following County Staff at each meeting:

- Natural Resources Management (NRM) Director
- Boating & Waterways Program Coordinator
- Assistant County Attorney
- Executive Secretary
- SOIRL Program staff, as appropriate

The role of the SOIRL COC per the Bylaws adopted on February 17, 2017, is to review monitoring data on timeliness of project delivery, actual and updated project costs and actual nutrient removal effectiveness; review new literature and local studies on the types of projects included in the plan and potential alternative project types; evaluate alternative project proposals received from the community; and recommend adjustments to the Project Plan to be approved by the Board of County Commissioners.



The SOIRL COC meets on a monthly basis starting on December 16, 2016, and has continued to meet once a month except June, 2017 to allow for the Natural Resources Management Director to fill staffing needs. In total as of October 2017 there have been 10 meetings held.

<http://www.brevardfl.gov/SaveOurLagoon>

Project Plan

The Project Plan was developed in partnership with scientists, economists, environmentalists and multiple government agencies. The current version of the plan was recommended by the COC in February, and approved by the BOCC in March 2017.

The plan was estimated to go for a timeline of 10 years. The Committee will expedite the process, with approvals, to allow for spending earlier in the project as revenues continue to exceed expectations, to-date.



Figure ES-1: Save Our Indian River Lagoon Project Implementation Schedule

Table ES-1: Summary of Project Types, Costs, and Nutrient Reductions in the Save Our Indian River Lagoon Project Plan

Project Category	Project Type	Estimated Total Project Cost	Nitrogen Reductions (lbs/yr)	Average Cost/lb/yr of TN	Phosphorus Reductions (lbs/yr)	Average Cost/lb/yr of TP
Reduce	Fertilizer Management/Public Education	\$625,000	6,123	\$102	813	\$769
	WWTF Upgrades for Reclaimed Water	\$9,400,000	40,778	\$214	TBD	TBD
	Septic System Removal	\$41,764,000	56,509	\$852	N/A	N/A
	Septic System Upgrades	\$22,192,000	27,659	\$802	N/A	N/A
	Stormwater Projects	\$10,375,000	113,036	\$88	16,303	\$604
Remove	Muck Removal	\$198,100,000	491,300	\$408	73,650	\$2,733
Restore	Oyster Reef Living Shorelines	\$10,000,000	21,120	\$473	7,181	\$1,393
Respond	Projects Monitoring	\$10,000,000	N/A	N/A	N/A	N/A
Total	Total	\$302,456,000	756,525	\$400 (average)	97,947	\$3,088 (average)

Project Plan – October 2017

Brevard County Save Our Lagoon Dashboard

9 Projects In Contract

143 Projects In Plan

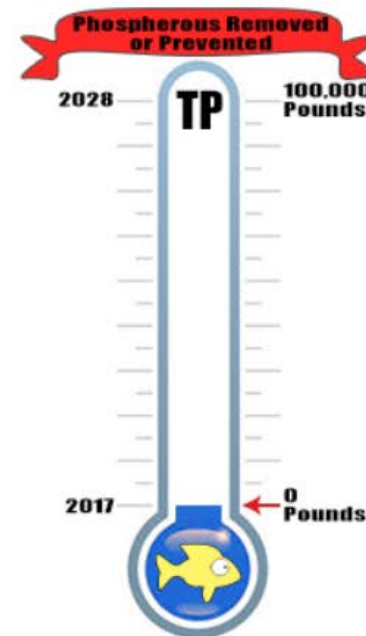
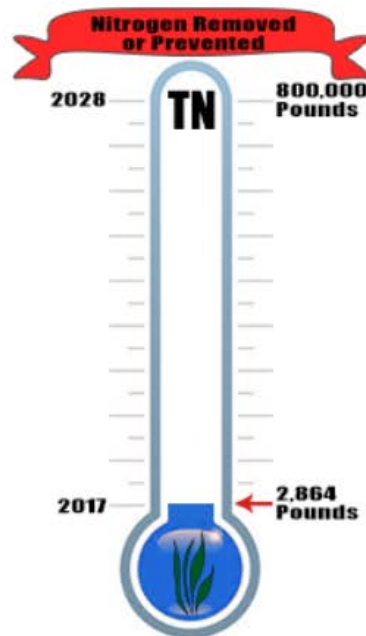
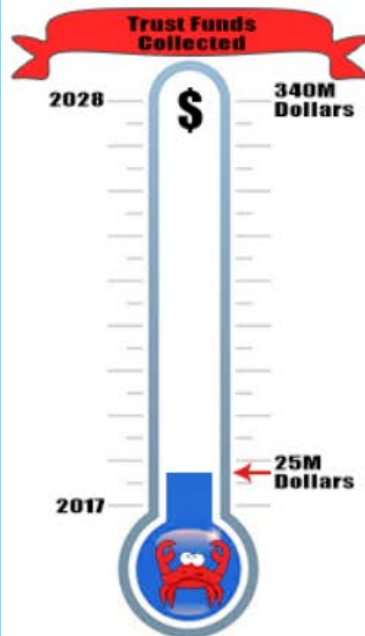
(plus 1387 septic tank upgrades)

\$25M

Tax Dollars Collected

\$340M

Revenue Projected



Note: The \$340M shown above is projected revenue in the current approved Project Plan, as amended. Actual anticipated revenues may be higher, and will be budgeted accordingly each year. See page 9 for actual collections to-date.

Project Plan

Project Name	Cost	Year	
		Year 1	Year 2
Fertilizer Management/Public Education	\$625,000	Year 1 of Program \$125,000	Year 2 of Program \$125,000
WWTF Upgrades	-	-	-
City of Titusville	\$8,000,000	Design & Permitting \$500,000	Bid & Mobilize \$500,000
Osprey WWTF	\$1,400,000	Construction \$1,400,000	-
City of Palm Bay WRF	-	-	-
Septic System Removal	-	-	-
Banana River Lagoon	\$12,260,000	Design & Permitting \$500,000	Sykes Creek N \$1,720,000
North IRL	\$12,820,000	Design & Permitting \$500,000	Cocoa K & Melbourne \$920,000
Central IRL	\$16,684,000	Design & Permitting \$500,000	Palm Bay 1/2 Sewer \$3,882,000
Septic System Upgrades	-	-	-
Banana River Lagoon	\$4,128,000	24 Upgrades \$384,000	26 Upgrades \$416,000
North IRL	\$8,240,000	35 Upgrades \$560,000	40 Upgrades \$640,000
Central IRL	\$9,824,000	44 Upgrades \$704,000	50 Upgrades \$800,000
Stormwater Projects	-	-	-
Banana River Lagoon	\$4,625,000	2 Projects \$400,000	3 Projects \$475,000
North IRL	\$4,850,000	3 Projects \$525,000	4 Projects \$675,000
Central IRL	\$900,000	1 Project \$275,000	1 Project \$225,000
Muck Removal	-	-	-
Mosquito Lagoon	\$16,100,000	-	-
Banana River Lagoon	\$71,750,000	Mathers Bridge Area \$5,250,000	8% of Canals \$5,250,000
North IRL	\$89,250,000	1/3 Eau Gallie Area \$8,750,000	2/3 Eau Gallie Area \$17,500,000
Central IRL	\$21,000,000	-	-
Oyster Restoration/Living Shorelines	-	-	-
Banana River Lagoon	\$4,230,000	0.846 Miles \$423,000	0.846 Miles \$423,000
North IRL	\$4,320,000	0.864 Miles \$432,000	0.864 Miles \$432,000
Central IRL	\$1,450,000	0.290 Miles \$145,000	0.290 Miles \$145,000
Project Monitoring	\$10,000,000	Year 1 Monitoring \$1,000,000	Year 2 Monitoring \$1,000,000
Total	\$302,456,000	\$22,373,000	\$35,128,000

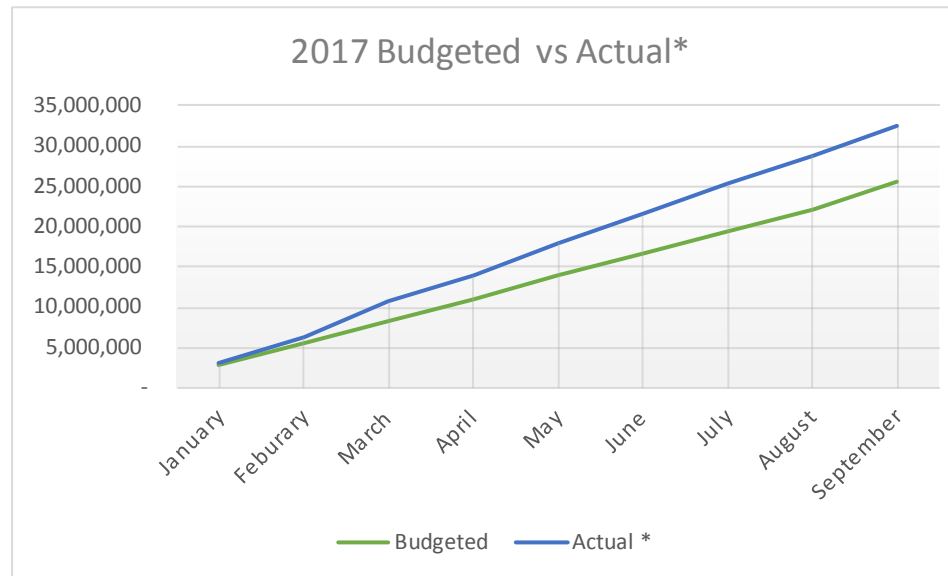
- The project plan is detailed and robust, broken down by project, category, and timeline budget.
- In order to provide transparency into the fiscal responsibility for the tax, as well as other funding (federal and state matching grants, other partnership dollars, etc.) and track projects, Natural Resource Management, Finance and Budget are utilizing the County's SAP system to monitor project costs, in addition to spreadsheets.

Revenue Status

Current and Future Revenue Projections

The SOIRL Project started earning sales tax revenue in January 2017. Fiscal Year 2017 revenues were budgeted at \$25,500,000. As is customary with sales tax, the first payment is received 2 months after being earned, starting with January collections being paid in March 2017. As of September 2017, for the seven months collected to-date (Jan-July), received a total of \$24.9Million with a projected additional earned amount not yet collected totaling \$7M for the remainder of the Fiscal Year, for a total earned amount of \$32M; well over the expected \$25.5M budgeted. A full year's projection would be expected to be higher.

The FY18 approved budget for tax revenue is \$34M, which is anticipated to be exceeded at this time, given the 9-month trend of \$3.5M per month on average. The budgeted revenues may be adjusted during the County's mid-year supplemental review, as needed.



* Actual Revenue is for seven months collected plus projected additional earned not yet collected through fiscal year end.

Inter-municipal Contracting Status

Cost Sharing Contracts

In order to carry out portions of the Project Plan, the County must enter into agreements with local municipal governments where the IRL shares jurisdiction. Based upon the current Project Plan, as amended, there are multiple municipal partners with whom the County will need to contract, on a reimbursement basis, to distribute the Trust funds. An agreement must be executed for each project, so there may be multiple agreements for one municipality. Municipal partners with Year 0 and Year 1 projects in the approved plan include:

- ✓ City of Cape Canaveral
 - ✓ City of Cocoa
 - ✓ City of Cocoa Beach
 - ✓ City of Melbourne
 - ✓ City of Palm Bay
 - ✓ City of Rockledge
 - ✓ City of Titusville
 - ✓ City of West Melbourne
 - ✓ Town of Indian Harbour Beach
- Natural Resources Management worked with the County Attorney to develop an Inter-local Municipal Contract template, which was approved by the BOCC on May 23, 2017. The County must now work with each agency to negotiate terms and develop statements of work in order to establish accountability and compliance conditions. Currently, agreements have been fully executed with 3 municipalities, with 4 additional submitted for review and execution by the respective municipalities.
- Due to the projects just getting underway and contracting still in progress, there have been no invoices from or payments made to these municipal partners as of October 2017.

Accounting / Monitoring and Oversight

SAP Setup and Utilization for Project Tracking

- On July 28, 2017, RSM met with County Finance, Natural Resources Management and Budget to go over the setup and configuration of the SAP system for the tracking of project budgets and expenses of the Save Our Indian River Lagoon Project Trust Fund. Items discussed included:
 - Use of a Special Revenue Fund (Fund 1260) to distinguish these restricted funds from other County dollars;
 - Use of individual Cost Centers per Agency / Municipality;
 - Use of an Internal Order number (IO) or Funded Program (FP) number to track individual projects for non-county and county projects, respectively;
 - Purchase Orders will be issued for the estimated project costs for the current fiscal year, coded using Cost Center / IO / FP convention to track costs per project; and
 - PO are issued to encumber budgeted funds for outside projects or vendor contracts. Internal county project costs (such as labor) would be tracked by FP.
- As inter-agency contracts are executed, the County continues to develop the budget build out in order to allocate and encumber fund using IO / FP – to-date budget is being allocated to cost centers, but not the individual IO or FP. Finance and Budget are working on a process to allocate to the project level, rather than just the cost center.
- There are funds that have been expended on County projects that will be reclassified to the Cost Center / FP once the SAP setup has occurred and respective costs accumulated.

Accounting / Monitoring and Oversight

The County Ordinance, and the subsequently approved “Save Our Indian River Lagoon Trust Fund” requirements specify the allowable uses of the funds. These include capital improvement, capital maintenance, the cost of issuing bonds, and specific restoration project costs. While intentionally broad to allow flexibility with changes to the Project Plan as needed, the highest risk area for potential accusation of misuse or waste of funds could be attributed to items 5 and 6 on the list:

- ***“Save Our Indian River Lagoon Project Plan restoration project related operation and maintenance expenses”***
- ***“Save Our Lagoon Project Plan education and community awareness initiatives or programs”***

The Ordinance is not specific on the definition of these items, and which activities are eligible for accumulating costs. Defining and tracking these expenses are critical to successfully monitoring the plan.

Some examples of costs identified that could fall into these categories include:

- “Respond” funds - \$1,000,000 per year is allocated to update the plan, identify new trends and changes and update project eligibility of the existing projects scheduled to be executed. We recommend the Respond funds be a separate cost center within SAP, and IO’s be issued for specific contracts.
- Staff salaries and other operating costs, which are separate from Respond money.



Accounting / Monitoring and Oversight

Included in O&M costs, which would be specifically date related to the projects in the Project Plan, the department of Natural Resources Management received permission from the BOCC to hire six additional personnel, utilizing the tax.

- As of October 2017, five of those positions have been filled (2 engineers, 2 environmental specialists and 1 fiscal analyst). The sixth position is on hold in order to analyze program needs.
- All the new positions are fully funded by the tax and the people will perform no additional County responsibilities outside of the Lagoon.

Items to Consider:

- Tracking the full- time SOIRL employees – similar to grant programs, the County should consider having the employee complete an affidavit of time and effort. For the first two years, this could be done more frequently (quarterly) and then consider an annual certification that all time is spent on Lagoon-related projects and activities.
- The Ordinance states that ***“Brevard County staff will provide project monitoring reports to the Oversight Committee and will work with them to recommend adjusting planned projects, as needed.”*** How does / should the County track and expense the time of existing County personnel that support the program, as those located within Natural Resources Management, Finance and Budget. Is any of their time allocable to the Trust? Should they also be completing T&E reports.
- Clarification and definition of eligible Operation and Maintenance expenses per the Ordinance is needed.

Next Steps / Role of Internal Audit

- ✓ Internal Audit (IA) will continue to attend the SOIRL COC meetings.
- ✓ As contracts are executed and costs are accumulated, IA will review the SAP setup as previously described, and make recommendations for project monitoring and tracking, as needed.
- ✓ As project reimbursement requests are submitted by partners, IA will review management's monitoring for compliance, to determine that adequate controls are in place for the review and approval of payment prior to disbursement of funds.
- ✓ IA will review the project monitoring reports and periodically select samples for testing to determine whether project-related costs are properly accumulated and disbursed through the Trust.

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