

SEC investigation into Miami's fiscal corruption provokes crisis

Matthew MacEgan
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The City of Miami is ready to declare a financial emergency in the wake of the lowering of their credit rating and a federal investigation into fraudulent financial transactions and corruption.

Investigators for the US Securities and Exchange Commission (SEC) have determined that the City of Miami has misled investors concerning its financial standing. In a letter dated July 23, the SEC made clear that it intends to recommend that a civil injunction be brought against the city in connection with their investigation.

The investigation began with two transfers totaling \$26.4 million during fiscal years 2007 and 2008, which drew from capital projects stores into the city's general fund. These transfers decreased the city's overall deficit before bond-rating companies assembled reports on Miami's fiscal rating. The city then used this to fraudulently offer bonds to finance city projects.

The current inquiry is significant in that it reprises the corruption and bad management practices that resulted in the 1996 takeover of Miami's finances by the State of Florida, when the city tried to hide \$68 million by shifting funds between several accounts.

After the SEC intention was made clear, Moody's, a major credit agency, announced that it would downgrade the City of Miami's credit rating due to the investigation. This reaction has precipitated great fear and concern among Miami officials, who held an emergency meeting last Thursday. A downgrade in the city's credit rating means that it must pay more interest to borrow money.

It has now become necessary for the city to quickly balance its books, since they are \$40 million short on their budget. One way this can be done is for city manager Johnny Martinez and Mayor Tomas Regalado to declare a fiscal emergency, granting dictatorial

powers to Regalado to make any cuts he deems necessary.

Such cuts will target workers. Public buildings face closure, social services will suffer and the general infrastructure will be eroded. Specifically under threat at this time are city employee contracts. The City of Miami has threatened to limit overtime for firefighters and require higher health care contributions to help plug their budget gap.

A Florida law that allows the city to alter union contracts is being utilized to take \$40 million in concessions from police, firefighters and other union workers. Regalado has justified this position by stating that these personnel costs account for 80 percent of the city's \$485 million operating budget for the next year.

During the emergency meeting, employee unions, fearing they will be the targets of emergency cuts, attended to inform the city that they have already endured too many cutbacks. Many city offices have already dug as deep as they can to make cuts. Armando Aguilar, president of the Miami Fraternal Order of Police, suggested in an interview that it is the turn of the citizens of Miami to do their share.

While statewide unemployment stood at 10.6 percent in June, Miami-Dade County was at 13.9 percent with over 182,000 workers unemployed. However, these numbers do not include workers who have stopped looking for work, which would render a true percentage of 22 percent unemployed in the county.

The mismanagement of tax money is not only apparent in Florida. This year in California, the cities of Stockton, Mammoth Lakes, and San Bernardino have all filed for bankruptcy due to the misappropriation of funds. Economists believe that many more cities will follow this lead.

The financial emergency in Miami comes in the wake

of many controversies. The latest concerned a new baseball stadium for the recently renamed Miami Marlins that carried a price tag of half a billion dollars, \$119 million of which was paid by the City of Miami. This cost was especially infuriating to taxpayers when they learned that the team was pocketing millions in profits while “crying poverty,” rather than reinvesting in the team.



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