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South Miami Pays Up Debt to IRS

South Miami has recently agreed to pay up \$276,000 it owes to the IRS being taxes, penalties and interests to settle an IRS investigation. At the same time, the city also agreed to pay back \$6.6 million to investors who bought city bonds. These actions came arising from a US Securities and Exchanges Commission investigation. The SES investigation is still ongoing.

The city bonds were sold as a means to raise funds for the construction of a five-storey garage with retail units in downtown South Miami. When local governments sell bonds, they can either be taxable or tax-exempt. Taxable bonds would offer higher interest rates than non-taxable ones. The ones sold by South Miami to the investors were tax-exempt bonds. But local governments who sell tax-exempt bonds are bound by certain regulations according to the Inland Revenue Code.

According to the code, there is a limitation to the purposes for which the money raised by the bonds is to be used. Local governments may use them only for purposes that benefit the public. The tax law prohibits local governments from helping private firms access the bonds to get the low interest rate for projects that are not deemed for public benefit.

In the case of South Miami, the city violated the tax code when it entered into a 50 year contract with a company to manage the garage, city finance director Alfredo Riverol said. The tax code allows for five, ten, fifteen or twenty year agreements with management companies. But because the South Miami agreement was for 50 years, the IRS considered it a private business use.

As a result the city of South Miami was ordered by the IRS to repay \$1.7 million of a \$6.5 million bond in 2002 and another \$3.8 million of a \$5.6 million bond in 2006. In addition, the city also paid off an outstanding balance of \$800,000 of a tax-exempt loan it took from SunTrust in 2009 for \$1 million.

All in all on August 17, the city paid out about \$6.6 million. Money for the partial repayment of the tax-exempt bonds and loan came from a recent \$7.6 million SunTrust loan approved by the city council this year.