



CITY COUNCIL ACTION REPORT

December 8, 2006

TO: Phillip L. Nelson, City Manager

FROM: John M. Lamerato, Assistant City Manager/Finance & Administration
James A. Nash, Financial Services Director

SUBJECT: Agenda Item – Downtown Development Authority and Sanctuary
Lake Golf Course Deficit Elimination Plans

Background:

- It is a requirement of the State of Michigan that any fund or component unit of a municipality reporting negative net assets shall file a Deficit Elimination Plan (DEP) with the Department of Treasury after approval by the local legislative body.
- For the fiscal year ending June 30, 2006 the Downtown Development Authority (Component Unit) and Sanctuary Lake Golf Course fund meet this criteria.

Financial Considerations:

- The attached DEP(s) recognize the causes of these negative net assets and identify future remedies.

Legal Considerations:

- The governing body of the employer must certify by resolution that any DEP is approved and adopted.

Policy Considerations:

- Adoption will satisfy State of Michigan reporting requirements (Goal III).

Options:

- Staff recommends that City Council approve the DEP(s).

CITY OF TROY DEFICIT ELIMINATION PLANS

Downtown Development Authority

This fund was recognized as a component unit for the first time this year. As a result its outstanding long-term debt created a reported deficit net asset position of \$19,289,971. This deficit will be lowered each year when tax increments are collected and debt payments are made.

Sanctuary Lake Golf Course

A number of factors contributed to this deficit, the most significant being the delay in opening Sanctuary Lake Golf Course (SLGC). The debt service payment schedule was based upon the course being in full operation prior to July 1, 2004. That not being the case, first year revenue was well below projections while fixed costs remained in place. As a new entity with no net asset reserve available, the revenue shortfall immediately created the deficit situation.

In its second year of operations SLGC experienced a negative charge in net assets of \$557,510 compared to \$787,998 last fiscal year. Tee times have been shortened, additional leagues and outings are reserving for 2007 and increased marketing efforts are underway. With the current industry wide softness in golf sales it is anticipated that the deficit elimination will be a multi-year effort, as indicated in the following plan:

| | | |
|-------------------------------------|----|------------------|
| SLGC Net Assets, June 30, 2006 | \$ | (1,357,159) |
| Budgeted expenditures, FY 06-07 | | (2,059,880) |
| Budgeted revenue, FY 06-07 | | <u>1,864,070</u> |
| Estimated Net Assets, June 30, 2007 | \$ | (1,552,969) |
| Estimated expenditures, FY 07-08 | | (1,716,000) |
| Estimated revenue, FY 07-08 | | <u>2,180,000</u> |
| Estimated Net Assets, June 30, 2008 | \$ | (1,088,969) |
| Estimated expenditures, FY 08-09 | | (1,767,480) |
| Estimated revenue, FY 08-09 | | <u>2,400,000</u> |
| Estimated Net Assets, June 30, 2009 | \$ | (456,449) |
| Estimated expenditures, FY 09-10 | | (1,900,000) |
| Estimated revenue, FY 09-10 | | <u>2,400,000</u> |
| Estimated Net Assets, June 30, 2010 | \$ | 43,551 |

Under this plan the deficit will be eliminated by June 30, 2010. Please advise if further information is requested.