



CITY COUNCIL ACTION REPORT

December 8, 2008

TO: Phillip L. Nelson, City Manager

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

SUBJECT: Agenda Item – Deficit Elimination Plans

Background:

- It is a requirement of the State of Michigan that any fund 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, 2008 the Downtown Development Authority, Aquatic Center and Sanctuary Lake Golf Course funds met this criterion.

Financial Considerations:

- The attached DEP(s) recognizes the cause of these negative net assets and identifies 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 PLAN

Downtown Development Authority (DDA)

The deficit in net assets of \$13,798,765 is caused solely by the presentation of \$27,920,000 in bonds payable as a liability. At the fund level there is a positive fund balance of \$14,412,583 (CAFR, p. 94).

Notwithstanding any surplus of revenue over expenditures which will reduce the deficit, principal payments on the bonds payable will eliminate the deficit as follows:

Deficit, June 30, 2008	\$13,798,765
Principal payments FYE 6/30/2009	(1,850,000)
Deficit, June 30, 2009	\$11,948,765
Principal payments FYE 6/30/2010	(1,975,000)
Deficit, June 30, 2010	\$ 9,973,765
Principal payments FYE 6/30/2011	(2,065,000)
Deficit, June 30, 2011	\$ 7,908,765
Principal payments FYE 6/30/2012	(2,215,000)
Deficit, June 30, 2012	\$ 5,693,765
Principal payments FYE 6/30/2013	(2,365,000)
Deficit, June 30, 2013	\$ 3,328,765
Principal payments FYE 6/30/2014	(2,490,000)
Deficit, June 30, 2014	\$ 838,765
Principal payments FYE 6/30/2015	(2,650,000)
Surplus, June 30, 2015	\$ 1,811,235

CITY OF TROY DEFICIT ELIMINATION PLAN

Aquatic Center (AC)

The deficit in net assets of \$407,269 is caused solely by the designation of \$1,968,970 as investment in fixed assets. At the fund level there is a positive fund balance of \$1,561,701 (CAFR, p. 82).

Since the AC's inception the policy of the City has been for revenue to cover operating expenses excluding depreciation, and this goal has essentially been achieved. With an anticipated improvement in the local economy and decreasing depreciation charges it is anticipated the deficit will be eliminated in FY 2012-13.

AC Net Assets, June 30, 2008	\$	(407,269)
Budgeted expenditures, FY 08-09		(633,510)
Budgeted revenue, FY 08-09		487,200
Estimated Net Assets, June 30, 2009	\$	(553,579)
Estimated expenditures, FY 09-10		(608,000)
Estimated revenue, FY 09-10		<u>661,100</u>
Estimated Net Assets, June 30, 2010	\$	(500,479)
Estimated expenditures, FY 10-11		(532,000)
Estimated revenue, FY 10-11		<u>691,000</u>
Estimated Net Assets, June 30, 2011	\$	(341,479)
Estimated expenditures, FY 11-12		(550,000)
Estimated revenue, FY 11-12		<u>721,000</u>
Estimated Net Assets, June 30, 2012	\$	(170,479)
Estimated expenditures, FY 12-13		(560,000)
Estimated revenue, FY 12-13		<u>741,000</u>
Estimated Net Assets, June 30, 2013	\$	10,521

CITY OF TROY DEFICIT ELIMINATION PLAN

Sanctuary Lake Golf Course (SLGC)

A number of factors contributed to this deficit, the initial being the delay in opening 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.

The recently confirmed national Recession has clearly had a strong local impact.

In its fourth year of operations SLGC experienced a negative change in net assets of \$634,790 compared to \$622,950 last fiscal year. Operating expenses decreased but were more than offset by reduced revenue. Additional leagues and outings are reserving for 2009, but until the economy recovers and discretionary spending increases it is anticipated that the deficit elimination will be a multi-year effort, as indicated in the following plan:

SLGC Net Assets, June 30, 2008	\$ (2,614,899)
Budgeted expenditures, FY 08-09	(1,981,210)
Budgeted revenue, FY 08-09	<u>1,411,500</u>
Estimated Net Assets, June 30, 2009	\$ (3,184,609)
Estimated expenditures, FY 09-10	(1,900,000)
Estimated revenue, FY 09-10	<u>1,700,000</u>
Estimated Net Assets, June 30, 2010	\$ (3,384,609)
Estimated expenditures, FY 10-11	(2,000,000)
Estimated revenue, FY 10-11	<u>2,125,000</u>
Estimated Net Assets, June 30, 2011	\$ (3,259,609)
Estimated expenditures, FY 11-12	(2,100,000)
Estimated revenue, FY 11-12	<u>2,650,000</u>
Estimated Net Assets, June 30, 2012	\$ (2,709,609)
Estimated expenditures, FY 12-13	(2,205,000)
Estimated revenue, FY 12-13	<u>3,180,000</u>
Estimated Net Assets, June 30, 2013	\$ (1,734,609)

Estimated expenditures, FY 13-14		(2,320,000)
Estimated revenue, FY 13-14		<u>3,650,000</u>
Estimated Net Assets, June 30, 2014	\$	(404,609)
Estimated expenditures, FY 14-15		(2,440,000)
Estimated revenue, FY 14-15		<u>3,650,000</u>
Estimated Net Assets, June 30, 2015	\$	805,391

Under this plan the deficit will be eliminated by June 30, 2015. Please advise if further information is requested.