



AGENDA ITEM

December 9, 2009

TO: John Szerlag, 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, 2009 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.
- Please know that these remedies may require the infusion of General Fund monies.

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.

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 \$12,291,189 is caused solely by the presentation of \$26,070,000 in bonds payable as a liability. At the fund level there is a positive fund balance of \$13,918,803 (CAFR, p. 95).

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, 2009	\$12,291,189
Principal payments FYE 6/30/2010	(1,975,000)
Deficit, June 30, 2010	\$10,316,189
Principal payments FYE 6/30/2011	(2,065,000)
Deficit, June 30, 2011	\$ 8,251,189
Principal payments FYE 6/30/2012	(2,215,000)
Deficit, June 30, 2012	\$ 6,036,189
Principal payments FYE 6/30/2013	(2,365,000)
Deficit, June 30, 2013	\$ 3,671,189
Principal payments FYE 6/30/2014	(2,490,000)
Deficit, June 30, 2014	\$ 1,181,189
Principal payments FYE 6/30/2015	(2,650,000)
Surplus, June 30, 2015	\$ 1,468,811

CITY OF TROY DEFICIT ELIMINATION PLAN

Aquatic Center (AC)

The deficit in net assets of \$426,470 is caused solely by the designation of \$1,872,981 as investment in fixed assets. At the fund level there is a positive fund balance of \$1,446,511 (CAFR, p. 83).

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 Aquatic Center usage and decreasing depreciation charges it is anticipated the deficit will be eliminated in FY 2013-14.

AC Net Assets, June 30, 2009	\$	(426,470)
Budgeted expenditures, FY 09-10		(630,290)
Budgeted revenue, FY 08-09		490,200
Estimated Net Assets, June 30, 2010	\$	(566,560)
Estimated expenditures, FY 10-11		(532,000)
Estimated revenue, FY 10-11		<u>691,000</u>
Estimated Net Assets, June 30, 2011	\$	(407,560)
Estimated expenditures, FY 11-12		(550,000)
Estimated revenue, FY 11-12		<u>721,000</u>
Estimated Net Assets, June 30, 2012	\$	(236,560)
Estimated expenditures, FY 12-13		(560,000)
Estimated revenue, FY 12-13		<u>741,000</u>
Estimated Net Assets, June 30, 2013	\$	(55,560)
Estimated expenditures, FY 13-14		(560,000)
Estimated revenue, FY 13-14		<u>741,000</u>
Estimated Net Assets, June 30, 2014	\$	125,440

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 dismal economy continues to have a strong local impact.

In its fifth year of operations SLGC experienced a negative change in net assets of \$716,054 compared to \$634,790 last fiscal year. Operating expenses increased slightly; the total number of rounds played increased largely due to incentives, which ultimately led to decreased revenue. Additional leagues and outings are reserving for 2010, 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, 2009	\$	(3,330,953)
Budgeted expenditures, FY 09-10		(1,970,300)
Budgeted revenue, FY 08-09		<u>1,189,000</u>
Estimated Net Assets, June 30, 2010	\$	(4,112,253)
Estimated expenditures, FY 10-11		(2,000,000)
Estimated revenue, FY 10-11		<u>2,125,000</u>
Estimated Net Assets, June 30, 2011	\$	(3,987,253)
Estimated expenditures, FY 11-12		(2,100,000)
Estimated revenue, FY 11-12		<u>2,650,000</u>
Estimated Net Assets, June 30, 2012	\$	(3,437,253)
Estimated expenditures, FY 12-13		(2,205,000)
Estimated revenue, FY 12-13		<u>3,180,000</u>
Estimated Net Assets, June 30, 2013	\$	(2,462,253)
Estimated expenditures, FY 13-14		(2,320,000)
Estimated revenue, FY 13-14		<u>3,650,000</u>
Estimated Net Assets, June 30, 2014	\$	(1,132,253)

Estimated expenditures, FY 14-15		(2,440,000)
Estimated revenue, FY 14-15		<u>3,650,000</u>
Estimated Net Assets, June 30, 2015	\$	77,747

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