



AGENDA ITEM

February 14, 2011

TO: John Szerlag, City Manager

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

SUBJECT: Deficit Elimination Plans - Aquatic Center and Sanctuary Lake Golf Course

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, 2010 the 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

Aquatic Center (AC)

The deficit in net assets of \$388,047 is caused solely by the designation of \$1,718,384 as investment in fixed assets. At the fund level there is a positive fund balance of \$1,330,337 (CAFR, p. 85).

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 2014-15.

AC Net Assets, June 30, 2010	\$	(388,047)
Budgeted expenditures, FY 10-11		(599,996)
Budgeted revenue, FY 10-11		<u>486,900</u>
Estimated Net Assets, June 30, 2011	\$	(501,143)
Estimated expenditures, FY 11-12		(550,000)
Estimated revenue, FY 11-12		<u>621,000</u>
Estimated Net Assets, June 30, 2012	\$	(430,143)
Estimated expenditures, FY 12-13		(550,000)
Estimated revenue, FY 12-13		<u>691,000</u>
Estimated Net Assets, June 30, 2013	\$	(289,143)
Estimated expenditures, FY 13-14		(540,000)
Estimated revenue, FY 13-14		<u>701,000</u>
Estimated Net Assets, June 30, 2014	\$	(128,143)
Estimated expenditures, FY 14-15		(540,000)
Estimated revenue, FY 14-15		<u>701,000</u>
Estimated Net Assets, June 30, 2015	\$	32,857

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 Michigan economy continued to have a strong local impact on recreational spending.

In its sixth year of operations SLGC experienced a negative change in net assets of \$664,226 compared to \$716,054 last fiscal year. Operating expenses increased slightly; as did revenue.

In July, 2010 all operations of the golf course were turned over to Billy Casper Golf, a private management company with operations in several states. They employ a proprietary marketing program to attract and retain golf customers and deliver profitability. Their experience at other municipal courses has shown significantly improved financial results, and it is expected to continue at SLGC. Nevertheless, it is anticipated that the cumulative deficit elimination will be a multi-year effort, as indicated in the following plan:

SLGC Net Assets, June 30, 2010	\$	(3,601,033)
Budgeted expenditures, FY 10-11		(1,901,902)
Budgeted revenue, FY 10-11		<u>1,001,550</u>
Estimated Net Assets, June 30, 2011	\$	(4,501,385)
Estimated expenditures, FY 11-12		(1,700,000)
Estimated revenue, FY 11-12		<u>2,650,000</u>
Estimated Net Assets, June 30, 2012	\$	(3,551,385)
Estimated expenditures, FY 12-13		(1,750,000)
Estimated revenue, FY 12-13		<u>3,180,000</u>
Estimated Net Assets, June 30, 2013	\$	(2,121,385)
Estimated expenditures, FY 13-14		(2,000,000)
Estimated revenue, FY 13-14		<u>3,350,000</u>
Estimated Net Assets, June 30, 2014	\$	(771,385)
Estimated expenditures, FY 14-15		(2,000,000)

Estimated revenue, FY 14-15		<u>3,350,000</u>
Estimated Net Assets, June 30, 2015	\$	578,615

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