



CITY of NOVI CITY COUNCIL
Agenda Item 3
June, 17 2019

SUBJECT: Approval of deficit elimination plans for the Capital Improvement (CIP) Fund and the Corridor Improvement Authority (CIA) Fund.

SUBMITTING DEPARTMENT: Finance

CITY MANAGER APPROVAL: 

BACKGROUND INFORMATION:

The State of Michigan requires formal deficit elimination plans to be approved by the governing body for any funds reflecting a deficit in an annual audit. The City is being proactive and submitting for approval the deficit elimination plans for the Capital Improvement Program (CIP) Fund and the Corridor Improvement Authority (CIA) Fund prior to the fiscal year 2018-2019 annual audit being performed (see formal description of plans attached). Both these funds have a property tax levy and are utilizing internal borrowings to advance fund significant capital improvements. Since the accounting rules dictate that internal borrowings must be shown as a liability on the balance sheet rather than revenue, both funds will be showing deficits for FY 2018-2019 and in each year succeeding until the loans are paid off.

The Mayor and City Council passed resolutions for both funds to borrow internally using long-term capital reserves from other City funds since it was determined to be the most beneficial way to handle the financing in order to immediately begin construction on several significant projects. The Mayor and City Council noted the overall citywide benefit from saving several hundred thousand dollars of bond issuance costs and keeping the millions in interest costs within the City instead of formally issuing bonds. In addition to cost savings, the market rate of interest charged on the borrowing would be a better rate of interest than what the other funds are currently earning. Internal borrowings also allow the City to make monthly loan payments to minimize interest costs. The CIP and CIA Funds may repay the balance early without penalty if the resources are available as well.

RECOMMENDED ACTION: Approval of deficit elimination plans for the Capital Improvement (CIP) Fund and the Corridor Improvement Authority (CIA) Fund.

City of Novi
Deficit Elimination Plan
Corridor Improvement Authority Fund (CIA)
June 17, 2019

During fiscal year 2019 the City created a new Corridor Improvement Authority (CIA) which covers the majority of the area along Grand River Avenue within the city limits. The purpose of the CIA is to reinvest in the Grand River Avenue corridor with the property tax capture revenue from the City and County. The City has obtained county approval to capture their related tax levies. The base year was established for tax year 2018 and the first year tax capture will take place for fiscal year 2020. The CIA has more than \$125 million in taxable value related to new projects over the next couple years with the projection of more than double that amount over the next ten years. One of the most significant issues the CIA is going to address is traffic along the corridor. As a result, the authority has decided to immediately begin construction on completing the Ring Road which has an estimated cost of \$5.8 million. The City has agreed to fund \$1.8 million of the project out of the Major Street Fund with the balance of approximately \$4 million to be paid by the CIA. The City has also agreed to loan the entire fund balance in the capital project Special Assessment Revolving Loan Fund (SARLF) to front the CIA's costs of this project and have the balance repaid with interest as the captures are received. To the extent the tax captures are not sufficient to cover the repayment, the loan would be forgiven and the costs paid by the SARLF. After reviewing funding options (internal borrowings vs. bond issuance) it was determined that the most beneficial way to handle the financing was to borrow internally using SARLF reserves. Internal borrowing will save the City thousand dollars of bond issuance costs and more than six hundred thousand in interest costs incurred would stay within the City. In addition to cost savings, the market rate of interest charged on the borrowing would be a better rate of interest than the SATLF is currently earning. Internal borrowings would also allow the City to make monthly loan payments to minimize interest costs and the CIA Fund could repay the balance early without penalty if the resources were available. The borrowings will be repaid annually over the next seven years of the levy (see attached repayment schedule) or until paid in full prior to beginning any new projects. Construction on the Ring Road project began during fiscal year ending June 30, 2019.

While using internal borrowings is the most beneficial way to fund the road project, governmental accounting rules are significantly different on how to record the borrowing transactions in the financial statements. If the City were to have formally issued bonds, the proceeds of the bonds would have been recorded as revenue in the CIA Fund and there would have been positive fund balance in the fund during the entire ten year period of the levy. Internal borrowings are **NOT** shown as revenue in the financial statements, instead shown as a liability on the balance sheet. As a result, the CIA Fund will be showing the cost of the \$4 million road project but will not be showing any revenue. The CIA Fund, therefore; will show a fund deficit at June 30, 2019 and in each year over the next seven years until the borrowing is repaid. Overall the borrowing of \$4 million of the anticipated tax capture of \$29.6 million (over the next 20 years) leaves a comfortable cushion in case of any significant change in the amount of taxable value available for capture.

The State of Michigan requires a formal deficit elimination plan be prepared and approved by the governing body for any fund with a deficit in the annual audit. The City is being proactive in having the deficit elimination plan approved before the annual audit is even performed.

City of Novi
CIA Fund Fiscal Year June 30, 2020 and Projections Through Fiscal Year June 30, 2027

	<u>6/30/2019</u>	<u>6/30/2020</u>	<u>6/30/2021</u>	<u>6/30/2022</u>	<u>6/30/2023</u>	<u>6/30/2024</u>	<u>6/30/2025</u>	<u>6/30/2026</u>	<u>6/30/2027</u>	<u>Total</u>
Revenues										
Property Tax Revenue Capture	-	98,377	302,560	562,674	820,013	981,830	1,102,503	1,228,052	1,228,052	6,324,061
Internal Loan	4,000,000	-	-	-	-	-	-	-	-	4,000,000
Interest	-	-	-	-	-	-	-	10,800	30,000	40,800
Total revenue	<u>4,000,000</u>	<u>98,377</u>	<u>302,560</u>	<u>562,674</u>	<u>820,013</u>	<u>981,830</u>	<u>1,102,503</u>	<u>1,238,852</u>	<u>1,258,052</u>	<u>10,364,861</u>
Expenditures										
Ring Road	4,000,000	-	-	-	-	-	-	-	-	4,000,000
Internal Loan Repayment - Principal	-	(21,623)	181,911	447,483	718,246	901,611	1,049,332	723,041	-	4,000,000
Internal Loan Repayment - Interest (3%)	-	120,000	120,649	115,191	101,767	80,219	53,171	21,691	-	612,689
Total expenditures	<u>4,000,000</u>	<u>98,377</u>	<u>302,560</u>	<u>562,674</u>	<u>820,013</u>	<u>981,830</u>	<u>1,102,503</u>	<u>744,732</u>	<u>-</u>	<u>8,612,689</u>
Revenues over (under) expenditures	-	-	-	-	-	-	-	494,120	1,258,052	1,752,172
Estimated Beginning Fund Balance	-	-	-	-	-	-	-	-	494,120	-
Estimated Ending Fund Balance	-	-	-	-	-	-	-	494,120	1,752,172	1,752,172
Estimated Financial Statement Fund balance (deficit)	(4,000,000)	(4,021,623)	(3,839,712)	(3,392,229)	(2,673,983)	(1,772,372)	(723,041)	494,120	1,752,172	1,752,172

GRAND RIVER CORRIDOR

TAXABLE VALUE PROJECTIONS

CLASS	PARCEL #	PROPERTY ADDRESS	SEV	TV-INCREASE	1.020%	1.020%	1.020%	1.020%	1.020%	1.020%	1.020%	1.020%	1.020%	1.020%	1.020%	1.020%	1.020%	1.020%	1.020%	1.020%	1.020%	1.020%	1.020%		
				2017 TV	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	
		Total for district	285,016,160	245,310,040	250,216,241	255,220,566	260,324,977	265,531,476	270,842,106	276,258,948	281,784,127	287,419,810	293,168,206	299,031,570	305,012,201	311,112,445	317,334,694	323,681,388	330,155,016	336,758,116	343,493,279	350,363,144	357,370,407	364,517,815	
		2% NEW PER YEAR:		0	5,004,325	5,104,411	5,206,500	5,310,630	5,416,842	5,525,179	5,635,683	5,748,396	5,863,364	5,980,631	6,100,244	6,222,249	6,346,694	6,473,628	6,603,100	6,735,162	6,869,866	7,007,263	7,147,408	7,290,356	
		ESTIMATED TAXABLE VALUE:		245,310,040	255,220,566	260,324,977	265,531,476	270,842,106	276,258,948	281,784,127	287,419,810	293,168,206	299,031,570	305,012,201	311,112,445	317,334,694	323,681,388	330,155,016	336,758,116	343,493,279	350,363,144	357,370,407	364,517,815	371,808,171	
		CAPTURED TAXABLE VALUE:			9,910,526	15,014,937	20,221,436	25,532,066	30,948,908	36,474,087	42,109,770	47,858,166	53,721,530	59,702,161	65,802,405	72,024,654	78,371,348	84,844,976	91,448,076	98,183,239	105,053,104	112,060,367	119,207,775	126,498,131	
				<i>New value from potential projects</i>	4,250,000	29,166,668	40,833,334	37,583,334	11,666,666																
					12,035,540	37,015,650	68,838,290	100,321,564	120,118,428	134,881,753	150,241,516	166,221,813	182,847,714	200,145,302	218,141,713	236,865,178	251,438,863	259,429,493	255,035,444	244,513,876	235,224,736	238,777,816	248,424,439	258,460,787	
2027 on (debt gone)		50% Millage Rate	Millage Rate	Jurisdiction																					
0.0050884		0.0052688	0.0105376	City	63,412.85	195,028.06	362,695.18	528,574.26	632,879.97	710,664.98	791,592.50	875,789.49	963,388.04	1,054,525.57	1,149,345.06	1,247,995.25	1,324,781.08	1,366,882.11	1,343,730.75	1,288,294.71	1,239,352.09	1,258,072.56	1,308,898.68	1,361,778.19	19,067,681.38
		0.00202	0.00404	Oakland Co. Operating	24,311.79	74,771.61	139,053.35	202,649.56	242,639.22	272,461.14	303,487.86	335,768.06	369,352.38	404,293.51	440,646.26	478,467.66	507,906.50	524,047.58	515,171.60	493,918.03	475,153.97	482,331.19	501,817.37	522,090.79	7,310,339.43
		0.0007775	0.0015555	OCC	9,360.64	28,788.92	53,538.98	78,025.10	93,422.11	104,904.28	116,850.34	129,279.02	142,209.81	155,663.01	169,659.72	184,221.89	195,556.58	201,771.29	198,353.82	190,170.67	182,946.04	185,709.45	193,212.11	201,017.88	2,814,661.63
		0.0001073	0.0002146	Oak Co. HCMA	1,291.41	3,971.78	7,386.35	10,764.50	12,888.71	14,472.81	16,120.91	17,835.60	19,619.56	21,475.59	23,406.61	25,415.63	26,979.39	27,836.78	27,365.30	26,236.34	25,239.61	25,620.86	26,655.94	27,732.84	388,316.54
				Estimated capture revenue	98,377	302,560	562,674	820,013	981,830	1,102,503	1,228,052	1,358,672	1,494,570	1,635,958	1,783,058	1,936,100	2,055,224	2,120,538	2,084,621	1,998,620	1,922,692	1,951,734	2,030,584	2,112,620	29,580,998.98

Totals

City of Novi
Deficit Elimination Plan
Capital Improvement Fund (CIP)
June 17, 2019

In August of 2016 the residents of the City of Novi voted to levy a 1.0 mill tax levy for a ten year period to fund capital projects. The new millage was first levied on July 1, 2017 and is anticipated to collect approximately \$40.5 million over the ten year period (see attached projections). Many of the capital projects approved in the annual capital improvement plan to be funded by this new levy are significant and would be difficult to construct over a multi-year period. The Mayor and Council identified six projects they wanted to begin immediately which had an estimated cost of \$21 million. After reviewing funding options (internal borrowings vs. bond issuance), it was determined that the most beneficial way to handle the financing was to borrow internally using long-term capital reserves from other City Funds. Internal borrowing will save the City several hundred thousand dollars of bond issuance costs and the millions in interest costs incurred would stay within the City. On June 19, 2017 the Mayor and Council passed a resolution approving the internal borrowing (attached) noting the overall citywide benefit and how the market rate of interest charged on the borrowing would be a better rate of interest than what the long-term Water and Sewer Reserves were currently earning. Internal borrowings also allows the City to make monthly loan payments to minimize interest costs and the CIP Fund may repay the balance early without penalty if the resources become available. The borrowings will be repaid annually over the ten year period of the levy (see attached repayment schedule). Construction on the six projects began during fiscal year ending June 30, 2019.

While using internal borrowings is the most beneficial way to fund the capital projects, governmental accounting rules are significantly different on how to record the two borrowing transactions in the financial statements. If the City were to have formally issued bonds, the proceeds of the bonds would have been recorded as revenue in the CIP Fund and there would have been positive fund balance in the fund during the entire ten year period of the levy. Internal borrowings are **NOT** shown as revenue in the financial statements and are instead shown as a liability on the balance sheet. As a result, the CIP Fund will be showing all of the costs of the \$21 million in capital projects but will not be showing any revenue. The CIP Fund, therefore; will show a deficit at June 30, 2019 and in each year over the next nine years until the borrowing is repaid. Overall the borrowing of \$21 million of the anticipated \$40.5 million of total collections leaves a comfortable cushion in case of any significant loss in taxable value (which is not anticipated).

The State of Michigan requires a formal deficit elimination plan be prepared and approved by the governing body for any fund with a deficit in the annual audit. The City is being proactive in having the deficit elimination plan approved before the annual audit is even performed.

City of Novi
CIP Fund Fiscal Year June 30, 2020 and Projections Through Fiscal Year June 30, 2027

	<u>6/30/2016</u>	<u>6/30/2017</u>	<u>6/30/2018</u>	<u>6/30/2019</u>	<u>6/30/2020</u>	<u>6/30/2021</u>	<u>6/30/2022</u>	<u>6/30/2023</u>	<u>6/30/2024</u>	<u>6/30/2025</u>	<u>6/30/2026</u>	<u>6/30/2027</u>	<u>Total</u>
Revenues													
Property Tax Revenue	-	-	3,400,854	3,539,156	3,686,322	3,832,235	3,984,359	4,123,812	4,268,145	4,417,530	4,572,144	4,732,169	40,556,725
Transfer from General Fund	2,100,000	1,000,000											3,100,000
Transfer from Drains (DPS Bldg.)	-	-	-	700,700									700,700
Transfer from Water and Sewer (DPS Bldg.)	-	240,000	-	3,103,100									3,343,100
Transfer from Gun Range	-	-	-	245,915									245,915
Internal Loan (highlighted yellow, net of other funds contrib)	-	-	-	21,839,261	-								21,839,261
Interest	-	(16,793)	17,507	52,492	7,922	5,145	5,121	10,000	15,000	20,000	25,000	30,000	171,394
Total revenue	<u>2,100,000</u>	<u>1,223,207</u>	<u>3,418,361</u>	<u>29,480,624</u>	<u>3,694,244</u>	<u>3,837,380</u>	<u>3,989,480</u>	<u>4,133,812</u>	<u>4,283,145</u>	<u>4,437,530</u>	<u>4,597,144</u>	<u>4,762,169</u>	<u>69,957,095</u>
Expenditures													
Anglin/Grand River Legacy Property Purchase	-	2,836,431	5,129										2,841,560
Jamco Property Purchase (10 mile and Novi Road)				300,000									300,000
Lakeshore Park Facility and Reconfiguration	-	200,553	135,320	5,841,242									6,177,115
DPS Expansion/Improvement	-	270,660	306,203	9,457,690									10,034,553
Gun Range Improvements	-	-	4,952	1,356,529									1,361,481
Fire Station #1	-	11,340	13,230										24,570
Greenway Development Phase 1B (ITC Trail)	-	-	158,550	3,500,000									3,658,550
Villa Barr Property Improvements			25,135	295,567									320,702
Ella Mae Power Park Spectator Bleacher Upgrade			87,274										87,274
Pavilion Shore Parking Lot Addition		1,730	205,204										206,934
Boardwalk extensions/repair			-	932,366									932,366
Sidewalk Segments				1,281,163									1,281,163
Admin expenditures			1,000	1,748	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	10,748
Bosco Property Improvements			24,943	3,062,404									3,087,347
Trans X Property Purchase			328,949	15,000									343,949
Lakeshore Park Shoreline				192,509									192,509
Pavilion Shore Park Shoreline				292,082									292,082
Internal Loan Repayment - Principal	-	-	-	2,149,822	2,214,317	2,280,746	2,349,169	2,419,644	2,492,233	2,567,000	2,644,010	2,722,320	21,839,261
Internal Loan Repayment - Interest (3%)	-	-	-	655,178	590,683	524,254	455,831	385,356	312,767	238,000	160,990	81,670	3,404,729
Ladder Truck Replacement	-	-	-	1,809,930	-	-	-	-	-	-	-	-	1,809,930
Fire Engine #342 Replacement	-	-	-	-	-	770,000	-	-	-	-	-	-	770,000
Fire Engine #313 Replacement	-	-	-	-	-	-	848,900	-	-	-	-	-	848,900
Total expenditures	<u>-</u>	<u>3,320,714</u>	<u>1,295,889</u>	<u>31,143,230</u>	<u>2,806,000</u>	<u>3,576,000</u>	<u>3,654,900</u>	<u>2,806,000</u>	<u>2,806,000</u>	<u>2,806,000</u>	<u>2,806,000</u>	<u>2,804,990</u>	<u>59,825,723</u>
Revenues over (under) expenditures	2,100,000	(2,097,507)	2,122,472	(1,662,606)	888,244	261,380	334,580	1,327,812	1,477,145	1,631,530	1,791,144	1,957,179	10,131,372
Estimated Beginning Fund Balance	-	2,100,000	2,493	2,124,965	462,359	1,350,603	1,611,983	1,946,563	3,274,375	4,751,520	6,383,050	8,174,193	-
Estimated Ending Fund Balance	2,100,000	2,493	2,124,965	462,359	1,350,603	1,611,983	1,946,563	3,274,375	4,751,520	6,383,050	8,174,193	10,131,372	10,131,372
Estimated Financial Statement Fund balance (deficit)	<u>2,100,000</u>	<u>2,493</u>	<u>2,124,965</u>	<u>(19,227,080)</u>	<u>(16,124,519)</u>	<u>(13,582,393)</u>	<u>(10,898,644)</u>	<u>(7,151,188)</u>	<u>(3,181,810)</u>	<u>1,016,720</u>	<u>5,451,873</u>	<u>10,131,372</u>	<u>10,131,372</u>

CITY OF NOVI

COUNTY OF OAKLAND, MICHIGAN

**RESOLUTION APPROVING ADVANCEMENT OF FUNDS FROM THE WATER AND SEWER
TO THE CAPITAL IMPROVEMENT FUND SUBJECT TO REIMBURSEMENT**

Minutes of a Meeting of the City Council of the City of Novi, County of Oakland, Michigan, held in the City Hall of said City on June 19, 2017, at 7:00 o'clock P.M. Prevailing Eastern Time.

PRESENT: Councilmembers Gatt, Staudt, Burke, Casey, Markham, Mutch

ABSENT: Councilmember Wrobel

The following preamble and Resolution were offered by Councilmember Burke and supported by Councilmember Mutch.

WHEREAS, the City Council passed its annual budget for the 2017-2018 fiscal year, which included \$25 million in capital improvement expenditures in the Capital Improvement Fund (CIP) and borrowing of \$17 million to fund those projects; and

WHEREAS, the City seeks to minimize the overall cost of securing funds to maximize the amount of capital projects that can be completed using the CIP millage; and

WHEREAS, the City has identified long-term capital reserves in the Water and Sewer Fund that would be available for advancement to the Capital Improvement Fund without impacting the operations or rates charged to customers; and

WHEREAS, the advancement would favorably impact both funds by allowing the Water and Sewer fund to realize likely increased interest earnings on their long-term investment reserves and allowing the CIP Fund to save on the significant closing costs associated with an external borrowing and the lower interest costs to be realized by the monthly repayment structure of the reimbursement obligation; and

NOW THEREFORE, IT IS THEREFORE RESOLVED that:

1. The advancement of an amount not to exceed \$17 million dollars from the Water and Sewer Fund to the Capital Improvement Fund is hereby authorized, subject to the following:
 - a. The amount will be disbursed on an "as needed" basis to fund budgeted capital projects within the CIP Fund beginning June 19, 2017.

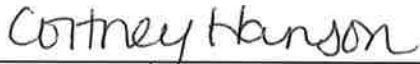
- b. The advancement will bear a fixed interest rate of 3%, which represents the approximate market rate of interest the City would pay if it bonded independently to fund the CIP projects as of the date of this agreement.
- c. The reimbursement period will be not more than 10 years, with amounts to be repaid using the proceeds from the voter-approved CIP millage, which begins July 2017 and is approved annually for 10 years through July 2026.
- d. Repayments will be made on a monthly basis and will be made via internal transfers recorded by the Finance Department between the two funds.
- e. Principal payments on the outstanding loan will be straight line over the 10-year period beginning in July 2017 through June 2027.
- f. Early payoff of all or part of the advancement amount is allowable at any time.
- g. Payments will have first preference from the annual CIP millage before any other expenditures of the CIP Fund.

BE IT FURTHER RESOLVED, that to the extent the Water and Sewer Fund requires repayment of the outstanding principal at any time during this agreement for operations, capital, or any other need, the CIP shall repay the balance due within 90 days..

AYES: Gatt, Staudt, Burke, Casey, Markham, Mutch (6)

NAYS: None (0)

RESOLUTION DECLARED ADOPTED.



Cortney Hanson, City Clerk

CERTIFICATION

I hereby certify that the foregoing is a true and complete copy of a resolution adopted by the City Council of the City of Novi, County of Oakland, and State of Michigan, at a regular meeting held this 19th day of June, 2017, and that public notice of said meeting was given pursuant to

and in full compliance with Act No. 267, Public Acts of Michigan, 1976, and that the minutes of said meeting have been kept and made available to the public as required by said Act.

Cortney Hanson

Cortney Hanson, City Clerk
City of Novi