



**CITY OF NOVI CITY COUNCIL  
JANUARY 27, 2020**

**SUBJECT:** Approval of updated deficit elimination plan for the Capital Improvement Fund as of June 30, 2019.

**SUBMITTING DEPARTMENT:** Finance

**BACKGROUND INFORMATION:** The State of Michigan requires a formal deficit elimination plan ("DEP") to be approved annually by the governing body for any funds reflecting a deficit in an annual audit. City Council previously approved a DEP on June 17, 2019, for the CIP fund based on projected June 30, 2019 numbers. The State issued an email to the City on January 17, 2020, requiring an updated DEP to be filed reflecting the most recent audited actual financial results.

The CIP Fund primary funding source is a ten year property tax levy and utilizes internal borrowings to advance fund several significant capital improvements. Governmental accounting rules dictate that internal borrowings must be shown as a liability on the balance sheet rather than revenue, so the fund ended fiscal year June 30, 2019 with a deficit of \$6,701,765. The City has opted to repay the internal borrowings over the life of the ten year levy. Subsequent years will continue to show a DEP until the loans are paid off. Had the CIP Fund borrowed externally, the fund would have shown bond revenue and there would be no deficit to report.

The Mayor and City Council passed a resolution on June 19, 2017, for the fund to borrow internally using long-term capital reserves from other City funds because it was determined to be the most beneficial way to handle the financing to allow immediate 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 rather than 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 minimizing interest costs. The CIP Fund may repay the balance early without penalty if the resources are available.

**RECOMMENDED ACTION:** Approval of updated deficit elimination plan for the Capital Improvement Fund as of June 30, 2019.

City of Novi  
CIP Fund DEP Updated as of June 30, 2019

	Actual 6/30/2016	Actual 6/30/2017	Actual 6/30/2018	Actual 6/30/2019	Estimated 6/30/2020	Estimated 6/30/2021	Estimated 6/30/2022	Estimated 6/30/2023	Estimated 6/30/2024	Estimated 6/30/2025	Estimated 6/30/2026	Estimated 6/30/2027	Total
<b>Revenues</b>													
Property Tax Revenue (voted 1 mill, 10 year levy)	-	-	3,400,854	3,543,185	3,686,322	3,832,235	3,984,359	4,123,812	4,268,145	4,417,530	4,572,144	4,732,169	40,560,754
Transfer from General Fund	2,100,000	1,000,000	-	-	-	-	-	-	-	-	-	-	3,100,000
Transfer from Drain Fund (DPS Bldg.)	-	-	-	600,930	99,770	-	-	-	-	-	-	-	700,700
Transfer from Water and Sewer Fund (DPS Bldg.)	-	240,000	-	2,421,260	681,840	-	-	-	-	-	-	-	3,343,100
Transfer from Gun Range Fund	-	-	-	245,915	-	-	-	-	-	-	-	-	245,915
Internal Loan (highlighted)	-	-	-	12,193,798	9,228,079	-	-	-	-	-	-	-	21,421,877
Interest	-	(16,793)	17,507	57,536	7,922	5,145	5,121	10,000	15,000	20,000	25,000	30,000	176,438
<b>Total revenue</b>	<b>2,100,000</b>	<b>1,223,207</b>	<b>3,418,361</b>	<b>19,062,624</b>	<b>13,703,933</b>	<b>3,837,380</b>	<b>3,989,480</b>	<b>4,133,812</b>	<b>4,283,145</b>	<b>4,437,530</b>	<b>4,597,144</b>	<b>4,762,169</b>	<b>69,548,784</b>
<b>Expenditures</b>													
Anglin/Grand River Legacy Property Purchase	-	2,836,431	5,129	-	-	-	-	-	-	-	-	-	2,841,560
Lakeshore Park Facility and Reconfiguration	-	200,553	135,320	338,627	5,420,474	-	-	-	-	-	-	-	6,094,974
DPS Expansion/Improvement	-	270,660	306,203	8,063,002	1,394,688	-	-	-	-	-	-	-	10,034,553
Gun Range Improvements	-	-	4,952	1,203,419	153,110	-	-	-	-	-	-	-	1,361,481
Fire Station #1	-	11,340	13,230	-	-	-	-	-	-	-	-	-	24,570
Greenway Development Phase 1B (ITC Trail)	-	-	158,550	1,717,001	1,782,999	-	-	-	-	-	-	-	3,658,550
Villa Barr Property Improvements	-	-	25,135	232,488	-	-	-	-	-	-	-	-	257,623
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	-	-	3,000	804,746	127,620	-	-	-	-	-	-	-	935,366
Sidewalk Segments	-	-	-	-	1,186,879	-	-	-	-	-	-	-	1,186,879
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	1,044,203	1,258,418	-	-	-	-	-	-	-	2,327,564
Bosco Property Purchase	-	-	-	759,783	-	-	-	-	-	-	-	-	759,783
Trans X Property Purchase	-	-	328,949	12,585	-	-	-	-	-	-	-	-	341,534
Lakeshore Park Shoreline	-	-	-	13,662	231,847	-	-	-	-	-	-	-	245,509
Pavilion Shore Park Shoreline	-	-	-	19,355	219,727	-	-	-	-	-	-	-	239,082
Internal Loan Repayment - Principal	-	-	-	2,150,500	2,215,015	2,281,465	2,349,909	2,420,406	2,493,018	2,567,809	2,644,844	2,298,911	21,421,877
Internal Loan Repayment - Interest (3%)	-	-	-	7,250	590,985	524,535	456,091	385,594	312,982	238,191	161,156	81,811	2,758,595
Ladder Truck Replacement	-	-	-	1,474,687	-	-	-	-	-	-	-	-	1,474,687
Water Tower Improvements	-	-	-	-	177,963	-	-	-	-	-	-	-	177,963
Jamco Property Purchase	-	-	-	-	321,409	-	-	-	-	-	-	-	321,409
Fire Engine #342 Replacement	-	-	-	-	-	770,000	-	-	-	-	-	-	770,000
Fire Engine #313 Replacement	-	-	-	-	-	-	848,900	-	-	-	-	-	848,900
<b>Total expenditures</b>	<b>-</b>	<b>3,320,714</b>	<b>1,298,889</b>	<b>17,843,056</b>	<b>15,082,134</b>	<b>3,577,000</b>	<b>3,655,900</b>	<b>2,807,000</b>	<b>2,807,000</b>	<b>2,807,000</b>	<b>2,807,000</b>	<b>2,381,722</b>	<b>58,387,415</b>
Revenues over (under) expenditures	2,100,000	(2,097,507)	2,119,472	1,219,568	(1,378,201)	260,380	333,580	1,326,812	1,476,145	1,630,530	1,790,144	2,380,447	11,161,369
Estimated Beginning Fund Balance	-	2,100,000	2,493	2,121,965	3,341,533	1,963,332	2,223,712	2,557,292	3,884,104	5,360,249	6,990,779	8,780,922	-
Estimated Ending Fund Balance	2,100,000	2,493	2,121,965	3,341,533	1,963,332	2,223,712	2,557,292	3,884,104	5,360,249	6,990,779	8,780,922	11,161,369	11,161,369
<b>Actual Fund balance per audit (excludes loan proceeds and repayment principal)</b>				(6,701,765)	(15,093,030)	(12,551,185)	(9,867,696)	(6,120,478)	(2,151,315)	2,047,024	6,482,011	11,161,369	11,161,369
													Projects using interfund borrowing (net other funds reimbursement)
													Interfund Borrowing and repayment
													Amount available annually and cumulatively in CIP Fund Balance