AGENDA REPORT

To: Mayor Pat Humphrey and the Clare City Commission
From: Steven J. Kingsbury, MBA, CPFA, MiCPT
Treasurer, Finance and Technology Director
Date: February 1, 2018
Regarding: Local Street Fund Deficit Elimination Plan

For the Agenda of February 5, 2018

Background: As the City Commission is aware, the City's Woodlawn Street Bridge was found to have significant structural deficiencies during the normal, routine structural inspection in late fall 2016. An immediate weight limit restriction was imposed upon the bridge and a solution was quickly developed. In the winter/spring months of 2017 the decking of the bridge was replaced and then the roadway over the bridge was repaved once the asphalt plants opened in the spring.

There were insufficient funds available within the Local Street Fund's reserves or in the 2016/17 Local Street operating budget to pay for the required replacement. Therefore, a short-term interfund loan was approved by the City Commission from the City's Fire Fund to the Local Street Fund to pay for the bridge replacement.

State Law requires that if a fund of a local unit of government ends the fiscal year in a deficit position that the governing body must by certified resolution adopt a resolution to approve a deficit elimination plan.

Issues & Questions Specified: Should the City Commission approve the deficit elimination plan for the City's Local Street Fund and also an interfund transfer from the City's General Fund to the Local Streets Fund?

Alternatives:

1. Approve the deficit elimination plan and the Interfund Transfer.
2. Don't approve the deficit elimination plan and/or the Interfund Transfer.
3. Defer the decision to a subsequent meeting.

Financial Impact: An increase in interfund transfers of $100,000 from the City's General Fund to the Local Streets Fund is required to eliminate the deficit condition.

Recommendation: It is the recommendation of management that Resolution 2018-011 be approved by the City Commission, certified and submitted to the Michigan Treasury. Failure to do so within the prescribed 30 days could result in the State withholding Revenue Sharing disbursements from the City.

Attachments:

1. Fund Deficit/Notice of Intent to Withhold State Payments Notification.
2. Treasury Numbered Letter 2016-1 - Deficit Elimination Plans
3. Resolution 2018-011

4425 (Rev. 04-15)

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

January 22, 2018

NOTICE OF INTENT TO
WITHHOLD STATE PAYMENTS
Municipality Code: 18-2-010
APR Form ID No: 47342

Chief Administrative Officer
City of Clare
202 West Fifth Street
Clare, Michigan 48617-1490

Dear Chief Administrative Officer:

The Glenn Steil State Revenue Sharing Act of 1971, Public Act 140 of 1971, Section 21(2) states that units of local government (local units) that end their fiscal year in a deficit condition shall formulate a deficit elimination plan. Any assessment of a local unit's deficit condition should be made using the guidelines provided in Numbered Letter 2016-1.

The Community Engagement and Finance Division received an audit report from your local unit for the fiscal year ending 2017, which indicates a deficit in one or more funds as follows:

FUND NAME	AMOUNT
Local Street Fund	-$44,776

If a deficit exists in the General Fund, the General Fund plan should include a monthly breakdown of revenues and expenditures for the first two years of the projection and annual detail for the remaining years. For example, a five-year plan would show monthly detail for 24 months, and annual detail for the remaining three years. When a revised plan is submitted in the subsequent year, it would include a monthly breakdown for two years and an annual breakdown for the remaining two years. The monthly breakdown shall be for actual revenue and expenditures expected that month. For example, property taxes should be included in the months the taxes are projected to be actually collected. It shall not be merely the annual revenue and expenditures divided by 12 months. This will allow for a more meaningful picture of how the municipality is progressing on a monthly basis.

Except where indicated "No Plan Necessary," please submit a deficit elimination plan for all funds listed above and a certified resolution to Treas_MunicipalFinance@Michigan.gov within 30 days from the date of this letter. Should a plan not be filed within 30 days, we may withhold 25% of the local unit's State Incentive Payments or payments issued under Public Act 140 of 1971, the Glenn Steil State Revenue Sharing Act of 1971. Once withheld, payments are not released when a plan has been *filed*, but when a plan has been *evaluated and certified* by Treasury.

After receiving your plan, we will notify you by email if additional information is needed or that your plan has been certified. If you have any questions or concerns, please do not hesitate to contact Jeff Schwartz at (517) 373-3227 or Treas_MunicipalFinance@Michigan.gov.

Sincerely,

Harlan Goodrich

Harlan Goodrich, Manager
Community Engagement and Finance Division

4425 (Rev. 04-15)

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

NUMBERED LETTER 2016-1

DEFICIT ELIMINATION PLANS

Issued By: Local Government Financial Services Division
Bureau of Local Government Services

Issue Date: July 11, 2016

2016-1 This numbered letter repeals numbered letter 2014-1. Significant changes since numbered letter 2014-1 include electronic filing requirements for deficits associated with audits filed on or after July 11, 2016.

The Glenn Steil State Revenue Sharing Act of 1971, 1971 Public Act (PA) 140, Section 21(2), states that units of local government (local units) who end their fiscal year in a deficit condition shall formulate a deficit elimination plan (plan). Any assessment of a local unit's deficit condition should be made at the fund level of reporting, not at the government-wide level. The plan and certified resolution shall be filed with the Department of Treasury (Treasury) for evaluation and certification. Primary local units are responsible for filing the plans of discretely presented component units.

Determining a Deficit for Governmental Funds (Modified Accrual)

For all governmental funds (not proprietary funds, fiduciary funds, or discretely presented component units), a plan is necessary to eliminate most "unrestricted fund balance" deficits. For governmental funds other than the General Fund, if the "deferred inflows of resources minus taxes and special assessments receivable" is great enough to cover the "unrestricted fund balance," no plan is necessary. Unrestricted fund balance is the sum of the Committed, Assigned, and Unassigned balances. An unrestricted fund balance deficit exists when the local unit does not have sufficient resources available to cover the deficit. This occurs when the sum of the Nonspendable and Restricted fund balances is greater than the total fund balance. Resources available to cover the deficit includes assets that are not restricted by federal, state, or local laws, regulatory authorities, bond covenants, contractual agreements, or other legal constraints. Therefore, when funds have a total fund balance surplus and an unrestricted fund balance deficit, sufficient unrestricted resources do not exist to eliminate the deficit.

<u>Determining a Deficit for Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units (Full Accrual)</u>

Various methods have been used to determine the amount of a deficit in a proprietary fund, fiduciary fund, or a discretely presented component unit. For purposes of uniformity among all units of local government, effective immediately, Treasury will define a deficit as stated below. Local units will be expected to apply the same test to determine if a deficit elimination plan is necessary.

<u>Proprietary Fund, Fiduciary Fund, and Discretely Presented Component Unit Deficit Test</u>

Step 1: Does the "unrestricted net position" or "total net position" have a deficit? If both are "<u>no</u>," no plan is necessary. If one is "<u>yes</u>," is the "deferred inflows of resources minus taxes and special assessments receivable" greater than the larger deficit? If "<u>yes</u>," no plan is necessary. If "<u>no</u>," proceed to Step 2.
Step 2: Calculate current assets minus current liabilities. For this calculation, current liabilities should not include the current portion of long-term obligations. If the answer is positive, no plan is necessary. If the answer is negative, proceed to Step 3.
Step 3: Compare A) the larger deficit between the "unrestricted net position" and the "total net position," and B) current assets minus current liabilities.
Step 4: Submit a plan to eliminate the smaller deficit between A and B.

<u>Example 1</u>
Unrestricted Net Position = (430,000), Total Net Position = 1,800,000
Deferred Inflows of Resources minus Taxes and Special Assessments Receivable = 150,000
Current Assets = 75,000, Current Liabilities = 60,000
Step 1: Unrestricted Net Position has a deficit > Deferred Inflows of Resources minus Taxes and Special Assessments Receivable. Proceed to Step 2.
Step 2: 75,000 - 60,000 = 15,000. Answer is positive. No plan is necessary.
Step 3: Not Applicable.
Step 4: Not Applicable.

<u>Example 2</u>
Unrestricted Net Position = (430,000), Total Net Position = 1,800,000
Deferred Inflows of Resources minus Taxes and Special Assessments Receivable = 150,000
Current Assets = 75,000, Current Liabilities = 510,000
Step 1: Unrestricted Net Position has a deficit > Deferred Inflows of Resources minus Taxes and Special Assessments Receivable. Proceed to Step 2.
Step 2: 75,000 - 510,000 = (435,000). Answer is negative. Proceed to Step 3.
Step 3: A **(430,000)** or 1,800,000, B (435,000).
Step 4: A is a smaller deficit than B. Submit a plan to eliminate the (430,000) unrestricted net position deficit.

<u>Example 3</u>
Unrestricted Net Position = (430,000), Total Net Position = 1,800,000
Deferred Inflows of Resources minus Taxes and Special Assessments Receivable = 150,000
Current Assets = 75,000, Current Liabilities = 200,000
Step 1: Unrestricted Net Position has a deficit > Deferred Inflows of Resources minus Taxes and Special Assessments Receivable. Proceed to Step 2.
Step 2: 75,000 - 200,000 = (125,000). Answer is negative. Proceed to Step 3.
Step 3: A **(430,000)** or 1,800,000, B (125,000).
Step 4: B is a smaller deficit than A. Submit a plan to eliminate the (125,000) difference between current assets and current liabilities.

<u>Example 4</u>
Unrestricted Net Position = (430,000), Total Net Position = (1,500,000)
Deferred Inflows of Resources minus Taxes and Special Assessments Receivable = 150,000
Current Assets = 75,000, Current Liabilities = 510,000
Step 1: Unrestricted Net Position and Total Net Position have a deficit > Deferred Inflows of Resources minus Taxes and Special Assessments Receivable. Proceed to Step 2.
Step 2: 75,000 - 510,000 = (435,000). Answer is negative. Proceed to Step 3.
Step 3: A (430,000) or **(1,500,000)**, B (435,000).
Step 4: B is a smaller deficit than A. Submit a plan to eliminate the (435,000) difference between current assets and current liabilities.

<u>Example 5</u>
Unrestricted Net Position = (430,000), Total Net Position = (450,000)
Deferred Inflows of Resources minus Taxes and Special Assessments Receivable = 150,000
Current Assets = 75,000, Current Liabilities = 610,000
Step 1: Unrestricted Net Position and Total Net Position have a deficit > Deferred Inflows of Resources minus Taxes and Special Assessments Receivable. Proceed to Step 2.
Step 2: 75,000 - 610,000 = (535,000). Answer is negative. Proceed to Step 3.
Step 3: A (430,000) or **(450,000)**, B (535,000).
Step 4: A is a smaller deficit than B. Submit a plan to eliminate the (450,000) total net position deficit.

<u>Example 6</u>
Unrestricted Net Position = (470,000), Total Net Position = (450,000)
Deferred Inflows of Resources minus Taxes and Special Assessments Receivable = 150,000
Current Assets = 75,000, Current Liabilities = 610,000
Step 1: Unrestricted Net Position and Total Net Position have a deficit > Deferred Inflows of Resources minus Taxes and Special Assessments Receivable. Proceed to Step 2.
Step 2: 75,000 - 610,000 = (535,000). Answer is negative. Proceed to Step 3.
Step 3: A **(470,000)** or (450,000), B (535,000).
Step 4: A is a smaller deficit than B. Submit a plan to eliminate the (470,000) unrestricted net position deficit.

Example 7
Unrestricted Net Position = (130,000), Total Net Position = 1,800,000
Deferred Inflows of Resources minus Taxes and Special Assessments Receivable = 150,000
Current Assets = 55,000, Current Liabilities = 60,000
Step 1: Unrestricted Net Position has a deficit < Deferred Inflows of Resources minus Taxes and Special Assessments Receivable. No plan is necessary.
Step 2: Not Applicable.
Step 3: Not Applicable.
Step 4: Not Applicable.

Electronic Filing Requirements

It is the position of Treasury that a reasonable plan to eliminate a deficit condition is vital to the fiscal well-being of a local unit as is early implementation of that plan. By providing better guidance on what constitutes a deficit, it is the expectation of Treasury that a local unit will submit a plan and certified resolution in a more expeditious manner. A plan and certified resolution may be filed as soon as 24 hours following the submission of the local unit's audit report and Auditing Procedures Report (Form 496) to Treasury.

A plan generally should be for one year, but in no case longer than five years. Local units with multiple year plans must submit a revised plan each subsequent year, even if they meet their projection, which adheres to the time frame that was originally certified, not to exceed five years. For example, a local unit has a deficit in 2016. They file a five-year plan covering 2017-2021. When they file a revised plan in 2017, the revised plan can only go through 2021, or the end of the original five-year period. Had the local unit filed a three-year plan in 2016, covering 2017-2019, when filing a revised plan in 2017, the revised plan could be extended through 2021. Revised plans also need legislative approval by means of a certified resolution. Treasury's continued certification of a plan may be contingent on the filing of monthly update reports with Treasury, as deemed necessary.

Plans and certified resolutions will no longer be accepted through the U.S. Postal Service, by email, or by hand delivery, effective for deficits associated with audit reports filed on or after July 11, 2016. Instead, the plans and certified resolutions are to be uploaded online at http://www.michigan.gov/MunicipalFinance. Click on the "Deficit Elimination Plan Upload" link.

If not already acquired, users must obtain a new User ID and Password by clicking on the "Request Access New User" link on the login page. Once clicking on "Request Access New User," there is an instruction link available should you require additional assistance. The plans and certified resolutions for all of a local unit's deficit funds must be uploaded as a single file in the .pdf format. Each upload would have at a minimum one plan and one certified resolution.

Once logged in, from the drop down lists select your County, Municipality Type, and Municipality. Under the Form drop down list, select "Deficit Elimination Plan Upload." In order for "Deficit Elimination Plan Upload" to be a selection on the Form drop down list, the Auditing Procedures Report must have been filed at least 24 hours prior. Last, select the Fiscal

Year and then select Create Form. On the next page, select Browse, select your file, select Continue, and if you agree with the Certifying Information, check the box and select Submit. A confirmation of receipt is available by selecting the "Deficit Elimination Plan Upload" associated with your recent submission.

Approval and denial letters will no longer be sent via the U.S. Postal Service. Notification will now be sent via email with the letter included as an attachment. The letters, plans, and certified resolutions will be posted on our Web site within 24 hours after receipt of the notification email.

Acceptable Evidence to Support a Plan

- Projected budget approved by the legislative body as evidenced by a certified resolution itemizing yearly revenues by source, expenditures/expenses by activity, and changes in the fund balance/net position through the year of the deficit's eventual elimination. A written explanation of how the deficit will be eliminated should accompany the plan. Furthermore, should itemized revenues increase or itemized expenditures/expenses decrease by 5% or more from the prior year, an explanation of the increase/decrease is required. There is a five-year limit for an approved plan; the plan must be revised and submitted each subsequent year.

- If a deficit exists in the General Fund, the General Fund plan should include a monthly breakdown of revenues and expenditures for the first two years of the projection and annual detail for the remaining years. For example, a five-year plan would show monthly detail for 24 months, and annual detail for the remaining three years. When a revised plan is submitted in the subsequent year, it would include a monthly breakdown for two years and an annual breakdown for the remaining two years. The monthly breakdown shall be for actual revenue and expenditures expected that month. For example, property taxes should be included in the months the taxes are projected to be actually collected. It shall not be merely the annual revenue and expenditures divided by 12 months. This will allow for a more meaningful picture of how the municipality is progressing on a monthly basis.

Failure to Submit an Acceptable Plan

Upon completion of the Auditing Procedures Report, within 24 hours the local unit will be emailed a Notice of Intent to Withhold State Payments. The local unit will have 30 days from the date of the notice to file a plan and certified resolution. Should a plan and certified resolution not be filed within 30 days, we may withhold 25% of the local unit's State Incentive Payments or payments issued under 1971 PA 140, the Glenn Steil State Revenue Sharing Act of 1971. Once withheld, payments are released not when a plan and certified resolution have been *filed*, but when a plan and certified resolution have been *evaluated and certified* by Treasury.

If you have any questions, please contact our office at Treas_MunicipalFinance@Michigan.gov or (517) 373-3227.

Sample Legislative Body Resolution and Multiple Year Deficit Elimination Plan

WHEREAS (Sample Unit)'s **Park Fund** has a $110,000 deficit fund balance on December 31, 2016; and

WHERAS, 1971 PA 140 requires that a Deficit Elimination Plan be formulated by the local unit of government and filed with the Michigan Department of Treasury;

NOW THEREFORE, IT IS RESOLVED that the (Sample Unit)'s legislative body adopts the following as the (Sample Unit) **Park Fund** Deficit Elimination Plan:

	2017	2018	2019	2020
Unrestricted Net Position (Deficit) Jan. 1	$(110,000)	$(95,000)	$(49,500)	$(3,000)
Revenue				
Property Taxes	60,000	62,000	64,000	66,000
Charges for Services	95,000	104,500	104,500	104,500
Other	1,000	1,000	1,000	1,000
General Fund	50,000	50,000	50,000	50,000
Total Revenue	**206,000**	**217,500**	**219,500**	**221,500**
Expenditures				
Salaries and Wages	167,000	148,000	149,000	150,000
Supplies	15,000	15,000	15,000	15,000
Equipment Repairs	4,000	4,000	4,000	4,000
Contractual Services	5,000	5,000	5,000	5,000
Depreciation	15,000	15,000	15,000	15,000
Total Expenditures	**206,000**	**187,000**	**188,000**	**189,000**
Add Back Depreciation (Net Investment in Capital Assets Net Position)	**15,000**	**15,000**	**15,000**	**15,000**
Unrestricted Net Position (Deficit) Dec. 31	**$(95,000)**	**$(49,500)**	**$(3,000)**	**$44,500**

	2017	2018	2019	2020
CA-CL (Deficit) Jan. 1	$(120,000)	$(105,000)	$(59,500)	$(13,000)
Revenues	206,000	217,500	219,500	221,500
Expenditures	(206,000)	(187,000)	(188,000)	(189,000)
Add Back Depreciation	15,000	15,000	15,000	15,000
CA-CL (Deficit) Dec. 31	**$(105,000)**	**$(59,500)**	**$(13,000)**	**$34,500**

Explanation: Increase charges for services 10% in 2018. Decrease park hours and work hours thereby decreasing salaries and wages by 11.3% in 2018.

BE IT FURTHER RESOLVED that the (Sample Unit)'s (Official's Title) submits the Deficit Elimination Plan to the Michigan Department of Treasury for certification.

ADD CLERK'S CERTIFICATION.

RESOLUTION 2018-011

A RESOLUTION OF THE CLARE CITY COMMISSION NOTIFYING THE MICHIGAN TREASURY OF ITS DEFICIET ELIMINATION PLAN FOR THE CITY'S LOCAL STREET FUND.

WHEREAS, the City of Clare's Woodlawn Street Bridge was found through its normal periodic structural review in late 2016 to be in need of immediate replacement; and

WHEREAS, the City's fund balance within our Local Street Fund was insufficient to pay the nearly $115,000 required to replace the bridge; and

WHEREAS, the City's Fire Fund had sufficient reserves to provide an interfund loan to the Local Street Fund in fiscal year 2016/17 to be repaid with interest in 2017/18; and

WHEREAS, the Clare City Commission approved the interfund loan which was repaid as required within the approved Fiscal Year 2017/18; and

WHEREAS, the Clare City Commission hereby approves a budget amendment of $100,000 from the City's General Fund to the Local Streets Fund and is incorporated into the FY2017/18 Local Street Budget as follows:

CITY OF CLARE
LOCAL STREET FUND
FISCAL YEAR 2017/18 APPROVED BUDGET

GL NUMBER	DESCRIPTION	BUDGET
Revenues		
Dept 000.000: GENERAL		
203-000.000-548.000	ACT 48 STATE OF MI METRO ACT	2,500.00
203-000.000-569.000	ACT 51	101,981.00
203-000.000-664.000	INTEREST AND DIVIDENDS	30.00
203-000.000-671.005	IN LIEU OF TAXES	325.00
203-000.000-672.000	SPECIAL ASSESSMENTS	2,566.28
Total - Dept 000.000		**107,402.28**
Dept 931.000: TRANSFERS IN AND OTHER SOURCES		
203-931.000-699.101	TRANSFER IN - GENERAL FUND	100,000.00
203-931.000-699.202	TRANSFER IN - MAJOR STREET FUND	100,000.00
Total - Dept 931.000		**200,000.00**
Total Revenues		**307,402.28**
Expenditures		
Dept 444.000: SIDEWALKS		**5,289.71**
Dept 449.001: CONSTRUCTION STREETS (INCL. ENG.& ROW)		**2,450.00**
Dept 449.002: PRESERVATION STREETS		**172,863.78**
Dept 449.003: WINTER MAINTENANCE		**10,200.00**
Dept 449.004: ADMIN, ENGINEERING & RECORD KEEPING		**14,922.42**
Dept 955.000: NON DEPARTMENTAL - INTERFUND LOAN REPAYMENT		61,694.38
Total Expenditures		**267,420.29**
NET OF REVENUES AND EXPENDITURES - FUND 203		**39,981.99**
	FUND BALANCE - BEGINNING OF THE FISCAL YEAR	**(31,362.89)**
	FUND BALANCE - FISCAL YEAR-END	**8,619.10**

NOW THEREFORE BE IT RESOLVED THAT the Clare City Commission appoints and directs Mr. Steven Kingsbury, City Treasurer and Finance Director, to submit the Deficit Elimination Plan to the Michigan Treasury for certification.

AND BE IT FURTHER RESOLVED THAT the Clare City Commission hereby directs its City Treasurer and Finance Director to amend the City's 2017/18 Fiscal Budget to include a $100,000 interfund transfer from the General Fund to the Local Streets Fund.

ALL RESOLUTIONS AND PARTS OF RESOLUTIONS INSOFAR AS THEY CONFLICT WITH THE PROVISIONS OF THIS RESOLUTION BE AND THE SAME ARE HEREBY RESCINDED.

The Resolution was introduced by Commissioner _____________and supported by Commissioner ___________. The Resolution declared adopted by the following roll call vote:

YEAS:

NAYS:

ABSENT:

Resolution approved for adoption on this 5th day of February 2018.

____

Diane Lyon, City Clerk