



February 17, 2011

Mr. Andy Dillon
Treasurer, State of Michigan
Austin Building
430 W. Allegan Street
Lansing, MI 48922

CITY COUNCIL

Mayor
David B. Landry

Mayor Pro Tem
Bob Gatt

Terry K. Margolis

Andrew Mutch

Dave Staudt

Justin Fischer

Wayne M. Wrobel

City Manager
Clay J. Pearson

City Clerk
Maryanne Cornelius

Dear Treasurer Dillon:

The purpose of this correspondence is to request a correction to the State's recently released Fiscal Indicator Score for the City of Novi. The State recently updated its scores for 2009 and posted them to its web site. We believe the system is an important, useful tool in keeping Michigan's citizens informed about their local units of government, which is why we feel we need to bring this inappropriate rating for the City of Novi to your attention and request that it be corrected so that it serves as truly a useful reflection from a reliable source.

The City of Novi has given a scoring of 5 (see attached Exhibit A), and under the scoring system then goes a "Fiscal Watch" list. We believe that two of the points allocated to us are both inappropriate and inconsistent with the intentions of the original study upon which the State's indicator scores are based.

The two points in question, item #6 on the State's indicator scores, deal with prior year General Fund operating deficits. The concept is explained on page 23 of the original study (refer to attached exhibit B). The discussion refers to expenditures being in excess of revenues; to the casual reader, it is perfectly clear that the concept is attempting to identify instances where a community is spending more than it is currently taking in. However, the discussion on page 23, as well as its further definition on page 29-30, refers to revenues and expenditures, and fails to make specific reference to whether to include or exclude interfund transfers. The State's implementation of this model made the decision to exclude interfund transfers.

The City of Novi has a special voted tax levy that funds approximately 25%-30% of its police and fire expenditures. *In accordance with Treasury department directives* (refer to Exhibit C, page 23 of the State Chart of Accounts), the City has accounted for the proceeds of the tax levy in a separate fund. For all practical purposes, this accounting requires the proceeds that are used to fund police and fire to be reported as an interfund transfer into the General Fund, and therefore are currently being excluded from the State's calculations in items 5 and 6 of the fiscal indicator scores. We have recalculated items 5 and 6 in the attached Exhibit D; this shows that the City clearly has not been spending in excess of its current year resources for either 2007 or

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2008 (it should be noted that in 2009 the City did in fact spend in excess of its current resources, and therefore we are in agreement with item #5 as reported by the State, even though we would have calculated the shortfall differently).

The original study upon which the State's fiscal indicator scores is based cautioned against "false positives" that could occur in the scoring system. We believe that scoring Novi a "5" is a clear instance of this occurring. Far from being ready for a "Fiscal Watch" list, the City of Novi has a General Fund balance equal to 40% of its annual activity. Attached is a listing of every community in Wayne, Oakland and Macomb County – 128 communities. When sorted by General Fund unreserved fund balance as a % of annual revenue, Novi comes in 39th, which equates to the 30th percentile. On this measure, Novi's General Fund is in a stronger financial position than 70% of the communities in the tri-county area. To place us on a fiscal watch list does not advance the credibility of the State's fiscal indicator system. Further, it may cause inappropriate concern that the city is spending beyond its means, which our analysis demonstrates it is not.

The City respectfully requests the State to modify its rating down to a "3," which is where we believe the fiscal indicator scores should place it.

Sincerely,



Clay J. Pearson
City Manager

Attachments

C: Mayor Landry and City Council members
State Senator Mike Kowall
State Representative Hugh Crawford
Kathy Smith-Roy, Finance Director
Dan Gilmarlin, Executive Director, Michigan Municipal League
Colleen Coogan, Executive Director, Michigan Finance Officers Association
Dave Boerger, SEMCOG
Paul Tait, SEMCOG

Michigan Department of Treasury

Local Unit: NOVI

City

Municode: 63-2-130

Fiscal Score Year: 2009

Indicator	Description	Year	Data	Points
#1 Population Growth	A Decrease in Population=1 Growth or No Change=0	2009 2000	Population: 54583 Population: 47386	0
#2 Real Taxable Value Decline	Current Taxable Value Deflated to Real Dollars Decline in Real Taxable Value=1 Real Growth or No Change=0	2009 2007	Taxable Value: \$3,554,943,630.00 Real Taxable Value: \$3,324,863,103.25 Taxable Value: \$3,532,730,280.00	1
#3 Large Real Taxable Value Decline	Current Taxable Value Deflated to Real Dollars Decline in Real Taxable Value >4%=1 Real Growth or No Change=0	2009 2007	Taxable Value: \$3,554,943,630.00 Real Taxable Value: \$3,324,863,103.25 Taxable Value: \$3,532,730,280.00	1
#4 General Fund Expenditures as a % of Taxable Value	Cities & Villages >5%=1 Townships & Counties >1%=1 Below the Respective Standards=0	2009	General Fund Expenditures: \$30,757,703.00 Taxable Value: \$3,554,943,630.00	0
#5 General Fund Operating Deficit For Current Year	General Fund Expenditures >1% of General Fund Revenues=1 General Fund Expenditures <1% of General Fund Revenues=0	2009	General Fund Revenues: \$25,483,359.00 General Fund Expenditures: \$30,757,703.00	1
#6 Prior Year General Fund Operating Deficit	General Fund Expenditures >1% of General Fund Revenues=1 (for each year applicable) General Fund Expenditures <1% of General Fund Revenues=0 (for each year applicable)	2008 2007	General Fund Revenues: \$26,957,112.00 General Fund Expenditures: \$28,331,769.00 General Fund Revenues: \$26,826,431.00 General Fund Expenditures: \$28,022,651.00	1 1
#7 Size of General Fund Balance	General Fund Balance <13% of General Fund Revenues=1 General Fund Balance >13% of General Fund Revenues=0	2009	General Fund Revenues: \$25,483,359.00 General Fund Balance: \$10,314,220.00	0
#8 Major Fund Deficits in Current or Prior Year	A Deficit in One or More Major Fund in One or Both Years=1 No Major Fund Deficits=0	2009 2008	Major Fund Deficit(s): \$0.00 Major Fund Deficit(s): \$0.00	0
#9 General Long-Term Debt as a % of Taxable Value	General Long-Term Debt > 6% of Taxable Value=1 General Long-Term Debt < 6% of Taxable Value=0	2009	General Long-Term Debt: \$56,509,044.00 Taxable Value: \$3,554,943,630.00	0

TOTAL SCORE

5

Exhibit A

Fiscal Distress Indicators: An assessment of current Michigan law and development of a new “early-warning” scale for Michigan localities

Submitted to the Michigan Department of Treasury
September 30, 2002

**Institute for Public Policy and Social Research
at Michigan State University**

Robert Kleine
Philip Kloha
Carol S. Weissert

A unit that scores relatively high on this variable indicates a unit that has a large public sector relative to the size of its tax base. Units with high scores on this indicator may wish to decrease this ratio through cutting expenditures, providing more efficient delivery of services, and/or attracting new residents or businesses that will increase the tax base.

Tables 5 and 6 of Appendix 2 list the average value for units on this measure. Once again, troubled units are bolded. Taxable value data can be obtained from the MDT, and general fund expenditures are readily available from audits and annual financial reports. Nearly all distressed units score above average for this indicator.

Indicators of Operating Position

- *General Fund Operating Deficit:* A general fund operating deficit is detected when expenditures exceed revenues for a given year. An operating deficit in one year is considered a minor signal of fiscal distress. When a unit maintains operating deficits over several years, this is considered a sign of more serious distress, particularly if the size of the deficit is large for a single year or frequent and increasing in size. Distressed units are about two times more likely than non-distressed units to have a general fund operating deficit.
- *Fund Balances:* A nontrivial negative balance in any fund is considered a sign of fiscal distress. Obviously a large negative fund balance would more define rather than predict fiscal distress. Local government units will typically want to maintain a positive fund balance so that unanticipated expenditures or lower than anticipated

Indicator #5: General Fund Operating Deficit

The first four indicators generally fit the category of “community needs and resources.” The next three assess operating position, beginning with general fund operating deficit. This variable is computed by subtracting general fund revenues from general fund expenditures for a **given year**. This figure is then divided by general fund revenue. If the number that results is less than -0.01 , this indicates a unit has a nontrivial operating deficit, and this unit receives a score of 1. If the unit does not have a general fund operating deficit, or if this deficit is trivial (less than 1 percent of general fund revenue) then the unit is given a 0 for this indicator.

NEED:

[LocalUnit]

[Year]

[GeneralFundRevenues]

[GeneralFundExpenditures]

DRAFT CODE:

```
IF ([GeneralFundRevenues]-[GeneralFundExpenditures]/[GeneralFundRevenues] < -0.01 THEN
    [Score5] = 1
Else: EndIF
IF ([GeneralFundRevenues]-[GeneralFundExpenditures]/[GeneralFundRevenues] > 1.0 THEN
    [Score5] = 0
Else: EndIF
```

Indicator #6: Prior General Fund Operating Deficits

An operating deficit for a single year is considered a minor sign of fiscal distress.

Operating deficits are a much more serious concern when they begin to accumulate over time, or are becoming larger. This indicator captures this type of concern by measuring

whether the unit had an operating deficit in the past **two years**. A score of 1 is assigned for each prior year in which an operating deficit had occurred. So if a unit had no operating deficit the prior year, but did have one two years ago, it would score a 1 on this indicator. If the unit had general fund operating deficits for both previous years, then it would receive a score of 2 for this indicator. Please note that 3 total points may be scored on the 10-point scale due to operating deficits. If a unit has a current operating deficit and had one the previous two years as well, then one point is scored for Indicator #5 and two points are scored for Indicator #6.

NEED:

Same as #5 above

DRAFT CODE:

```
If [GenFundDifference]/[GeneralFundRevenues] < 0.01 then
    [Score6] = 1
Else: End If
If [GenFundDifference]/[GeneralFundRevenues] > 0.01 then
    [Score6] = 0
```

EndIF

Indicator #7: Size of General Fund Balance

Most units maintain a positive fund balance, and it is a sign of fiscal distress if the fund balance is negative. Units typically find it beneficial to keep the fund balance from declining too greatly as this inhibits their ability to cope with unexpected circumstances in either the revenue or expenditure stream. There is some debate as to how large a balance should be maintained and whether this level should only focus on the unreserved portion or include reserved funds as well. Our data reports combined reserved and

MICHIGAN DEPARTMENT OF TREASURY
UNIFORM CHART OF ACCOUNTS FOR COUNTIES AND LOCAL UNITS OF GOVERNMENT

FUND DESCRIPTIONS

GENERAL FUND TYPE

The General Fund is used to account for all financial resources of the local unit of government except those required to be accounted for in another fund (GASB Codification Section 1300.104a [1]). The General Fund is established at the inception of the local unit of government and continues throughout its existence.

GASB Codification Section S40.114 states: "The transactions of a service type special assessment should be reported in the fund type that best reflects the nature of the transactions, usually the general fund, a special revenue fund, or an enterprise fund . . ."

A legally created service type special assessment district, including a district that is the entire unit, is a separate fiscal and accounting entity. Inclusion of the transactions of a service type special assessment district in the General Fund of a local unit in Michigan is prohibited.

Several special revenue funds have been established to account for service type special assessment districts and are described in this Chart of Accounts. When one type of special assessment includes a number of districts, each district must be accounted for separately. This may be accomplished through the use of a separate fund for each district or the use of one fund with subsidiary accounts for each district.

Service type special assessments which are directly related to an enterprise fund may be accounted for in the related enterprise fund. When an enterprise fund includes multiple special assessment districts, subsidiary records of each special assessment district must be maintained.

The same requirements relating to special assessments apply when a tax is levied for a specific purpose. Refer to Special Revenue Funds for the various funds necessary.

101--GENERAL FUND

The General Fund's primary revenue sources are the general tax levy (not to include special tax levies or assessments), local income taxes, certain state and federal aid, and fees and charges of the general fund departments. Most of the current activities of the local unit of government are accounted for through the General Fund that covers a wider range of activities than other funds. In some statutes it is referred to as the "contingency" fund. Its use is mandatory.

The cash and investments of the General Fund are subject to the requirements of Act 20 PA 1943, as amended, (MCL 129.91) and may be included in a pooled cash and investment.

The General Fund must operate only with an adopted budget by the governing body of the local unit as required by Act 2 PA 1968, as amended, (MCL 141.421 et al.).

All claims (expenditures) must be approved by the governing body of the local unit of government pursuant to statutory requirements as follows. Cities--MCL 87.7 and 88.20; Villages--MCL 65.7; Townships--MCL 41.75; Counties--MCL 46.11(q), 46.71, 46.53, and 46.63.

City of Novi
General Fund Operating Surplus (Shortfall)

Exhibit D

	<u>2009</u>	<u>2008</u>	<u>2007</u>
General Fund			
Revenue	25,483,359	26,957,112	26,826,431
Transfers In	4,501,000	5,188,900	4,972,000
total	<u>29,984,359</u>	<u>32,146,012</u>	<u>31,798,431</u>
Expenditures	30,757,703	28,331,769	28,022,651
Transfers out	1,325,475	3,015,981	2,674,373
Total	<u>32,083,178</u>	<u>31,347,750</u>	<u>30,697,024</u>
Surplus (shortfall)	<u><u>(2,098,819)</u></u>	<u><u>798,262</u></u>	<u><u>1,101,407</u></u>

**Unreserved Fund Balance as % of General Fund Revenue
(all communities in Wayne, Oakland & Macomb Counties)**

Name of City/Twp.	FYE Ending	General Fund Unreserved Fund Balance *	General Fund Annual Revenues & Transfers	%
1 Macomb Twp	2010	24,356,358	8,807,779	277%
2 Lenox Twp	2010	2,065,691	840,159	246%
3 Oakland Twp	2010	5,298,309	2,345,916	226%
4 Armada Twp	2010	895,510	441,948	203%
5 Lake Twp	2009	26,250	15,153	173%
6 Addison Twp	2010	1,330,412	927,043	144%
7 Groveland Twp	2010	1,420,034	1,096,282	130%
8 Washington Twp	2010	3,008,875	2,402,480	125%
9 Harrison Twp	2009	3,245,263	2,615,966	124%
10 Lake Angelus	2010	902,959	767,180	118%
11 Orion Twp	2009	5,526,538	4,711,963	117%
12 Lyon Twp	2009	2,747,358	2,497,727	110%
13 Southfield Twp	2009	687,820	625,541	110%
14 Rose Twp	2010	864,691	807,805	107%
15 Chesterfield Twp	2009	6,274,934	6,326,116	99%
16 Oxford Twp	2009	1,802,457	1,822,118	99%
17 Holly Twp	2009	808,932	835,117	97%
18 Bingham Farms	2010	1,680,370	1,750,972	96%
19 Ortonville	2010	521,275	551,614	94%
20 Leonard	2010	136,830	146,752	93%
21 Springfield	2009	1,728,501	1,891,848	91%
22 Rochester	2010	7,790,725	10,528,496	74%
23 Bruce Twp	2010	737,019	997,583	74%
24 Eastpointe	2010	11,150,609	16,598,296	67%
25 White Lake Twp	2009	2,522,954	3,829,334	66%
26 Memphis	2010	573,140	889,936	64%
27 South Lyon	2010	3,235,671	5,089,579	64%
28 Clinton Twp	2010	8,530,218	13,633,194	63%
29 Lathrup Village	2010	2,379,871	3,869,001	62%
30 Highland Twp	2009	1,396,212	2,318,574	60%
31 Woodhaven	2010	7,434,867	12,998,023	57%
32 Shelby Twp	2009	8,582,791	15,170,439	57%
33 Wolverine Lake	2010	1,285,000	2,303,024	56%
34 Rochester Hills	2009	14,153,056	26,052,589	54%
35 Ray Twp	2010	316,282	590,370	54%
36 Auburn Hills	2009	6,600,695	12,891,031	51%
37 Bloomfield Twp	2010	5,047,228	10,207,028	49%
38 Warren	2010	42,206,177	92,217,775	46%
39 Novi	2010	9,710,403	24,154,393	40%
40 Bloomfield Hills	2010	3,487,719	8,738,735	40%
41 Birmingham	2010	10,615,768	26,631,334	40%
42 Troy	2010	23,294,166	61,012,582	38%
43 Grosse Pointe Farms	2009	4,907,071	13,043,320	38%
44 Commerce Twp	2009	3,124,631	8,389,419	37%

**Unreserved Fund Balance as % of General Fund Revenue
(all communities in Wayne, Oakland & Macomb Counties)**

Name of City/Twp.	FYE Ending	General Fund Unreserved Fund Balance *	General Fund Annual Revenues & Transfers	%	
45	Sylvan Lake	2010	446,602	1,210,790	37%
46	Mt. Clemens	2010	3,437,196	9,506,369	36%
47	Northville	2010	2,144,307	6,030,617	36%
48	St. Clair Shores	2010	14,700,919	43,178,301	34%
49	Oxford Village	2009	882,028	2,636,432	33%
50	Milford Twp	2009	1,817,088	5,557,092	33%
51	Richmond Twp	2010	285,820	901,855	32%
52	Independence Twp	2009	1,970,181	6,264,808	31%
53	Rockwood	2010	854,842	2,769,472	31%
54	Plymouth	2010	2,135,734	7,096,831	30%
55	Huron Twp	2009	963,881	3,239,731	30%
56	Utica	2010	1,767,168	6,182,824	29%
57	Trenton	2010	4,843,515	18,466,416	26%
58	Orchard Lake Village	2010	588,649	2,257,268	26%
59	Farm. Hills	2010	12,307,283	47,953,523	26%
60	Clawson	2010	1,839,276	7,196,341	26%
61	Grosse Pointe Twp	2009	84,511	332,237	25%
62	Milford Village	2010	566,744	2,298,061	25%
63	Farmington	2010	1,897,838	7,726,186	25%
64	New Baltimore	2010	1,427,341	5,869,405	24%
65	Grosse Pointe Woods	2010	3,205,975	13,234,442	24%
66	Ferndale	2010	4,487,079	18,526,164	24%
67	Lake Orion	2010	365,763	1,524,355	24%
68	Northville Twp	2009	977,430	4,098,580	24%
69	Pleasant Ridge	2010	601,588	2,572,253	23%
70	Canton Twp	2009	5,850,990	25,144,969	23%
71	Brownstown Twp	2009	1,658,700	7,199,936	23%
72	Dearborn	2010	21,253,987	92,411,849	23%
73	Huntington Woods	2010	1,143,934	5,010,917	23%
74	Gibraltar	2010	751,887	3,317,610	23%
75	West Bloomfield Twp	2009	5,828,185	25,821,486	23%
76	Walled Lake	2009	1,293,961	5,748,683	23%
77	Roseville	2010	8,643,180	38,910,805	22%
78	Van Buren Twp	2009	2,858,118	12,991,390	22%
79	Richmond	2010	881,968	4,053,868	22%
80	Southfield city	2010	14,218,642	65,718,345	22%
81	Franklin	2010	447,087	2,091,813	21%
82	Berkley	2010	1,934,516	9,098,888	21%
83	Beverly Hills	2010	1,493,335	7,097,568	21%
84	Keego Harbor	2010	434,601	2,152,472	20%
85	Holly Village	2010	634,054	3,212,456	20%
86	Royal Oak city	2010	6,721,096	34,273,348	20%
87	Clarkston	2010	147,646	816,062	18%
88	Grosse Pointe	2010	1,165,209	6,722,919	17%
89	Lincoln Park	2010	4,077,668	23,689,097	17%

**Unreserved Fund Balance as % of General Fund Revenue
(all communities in Wayne, Oakland & Macomb Counties)**

Name of City/Twp.	FYE Ending	General Fund Unreserved Fund Balance *	General Fund Annual Revenues & Transfers	%
90 Wixom	2010	1,408,153	8,226,352	17%
91 Fraser	2010	2,365,157	13,922,124	17%
92 Plymouth Twp	2009	2,060,432	13,233,948	16%
93 Center Line	2010	1,189,518	8,114,089	15%
94 Inkster	2009	2,718,755	19,072,269	14%
95 Harper Woods	2009	1,667,506	11,873,168	14%
96 Sterling Heights	2010	11,522,975	83,659,705	14%
97 Madison Hts	2010	3,916,590	31,186,091	13%
98 Livonia	2009	6,141,076	50,060,306	12%
99 Garden City	2010	2,245,473	19,082,522	12%
100 Romulus	2010	2,043,087	18,939,513	11%
101 Waterford Twp	2009	2,254,966	21,875,494	10%
102 Wyandotte	2009	1,904,125	19,168,776	10%
103 Southgate	2010	1,949,299	19,693,983	10%
104 Oak Park	2010	1,970,324	20,814,703	9%
105 Flat Rock	2010	743,030	9,081,802	8%
106 Wayne	2010	1,461,846	18,300,520	8%
107 Taylor	2010	4,134,724	54,942,684	8%
108 Hamtramck	2010	959,486	15,950,187	6%
109 Brandon Twp	2009	103,938	1,913,823	5%
110 Allen Park	2010	1,009,324	22,433,529	4%
111 Belleville	2010	100,354	2,262,759	4%
112 Grosse Pointe Park	2010	417,917	9,980,334	4%
113 Riverview	2010	403,463	10,605,864	4%
Grosse Pointe Shores				
114 Village	2009	180,910	5,283,262	3%
115 Sumpter Twp	2010	110,999	4,089,420	3%
116 Westland	2010	1,347,176	51,896,569	3%
117 Romeo Village	2010	73,085	3,490,918	2%
118 Royal Oak Twp	2009	28,506	1,612,531	2%
119 Dearborn Heights	2010	347,306	32,255,692	1%
120 Hazel Park	2010	22,457	14,258,504	0%
121 Grosse Ile Twp	2010	(99,468)	4,878,550	-2%
122 Melvindale	2009	(315,786)	10,385,629	-3%
123 Redford Twp	2010	(2,480,173)	27,229,599	-9%
124 Pontiac	2010	(4,089,199)	37,806,348	-11%
125 Detroit	2010	(155,692,159)	1,205,567,800	-13%
126 River Rouge	2010	(2,650,719)	15,199,220	-17%
127 Highland Park	2010	(4,819,051)	10,788,634	-45%
128 Ecorse	2010	(14,685,410)	11,787,698	-125%

* The General Fund Unreserved Fund Balance has been adjusted for those communities with a fiscal year that does not match its tax calendar (March Y/E townships that collect Dec. 1 are reduced by 75% of property taxes, and June Y/E townships that collect Dec. 1 are reduced by 50% of preproperty taxes).