



**CITY OF NOVI CITY COUNCIL**  
**FEBRUARY 8, 2021**

**SUBJECT:** Approval of updated deficit elimination plan for the Capital Improvement Fund (CIP) as of June 30, 2020.

**SUBMITTING DEPARTMENT:** Finance

**BACKGROUND INFORMATION:** The State of Michigan requires a formal deficit elimination plan ("DEP") be approved annually by the governing body for any funds reflecting a deficit in an annual audit. City Council previously approved a DEP for the year that ended June 30, 2019 for the CIP Fund which was received by the State and approved. The State issued an email to the City on January 21, 2021 requiring an updated DEP be filed to reflect the most recent audited actual financial results.

The CIP Fund primary funding source is a ten-year property tax levy and is utilizing internal borrowings to advance fund several significant capital improvements. Since governmental accounting rules dictate that internal borrowings must be shown as a liability on the balance sheet rather than revenue, the fund ended fiscal year June 30, 2020 with a deficit of \$11,126,175. The City has opted to repay the internal borrowings over the life of the ten-year levy. Subsequent years will continue to show a deficit until the internal borrowings 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 CIP Fund to borrow internally using a portion of the long-term capital reserves from other City funds since it was determined to be the most beneficial way to handle the financing. The Mayor and City Council noted the overall citywide benefit from saving several hundred thousand dollars of bond issuance costs (CIP Fund) 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 Fund may repay the balance early without penalty if the resources are available as well.

**RECOMMENDED ACTION:** Approval of updated deficit elimination plan for the Capital Improvement Fund (CIP) as of June 30, 2020.

City of Novi  
CIP Fund DEP Updated as of June 30, 2020

	Actual 6/30/2016	Actual 6/30/2017	Actual 6/30/2018	Actual 6/30/2019	Actual 6/30/2020	Amended Budget 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	3,676,064	3,824,900	3,989,480	4,129,112	4,273,631	4,423,208	4,578,020	4,738,251	40,576,704
Transfer from General Fund	2,100,000	1,000,000	-	-	-	-	-	-	-	-	-	-	3,100,000
Transfer from Drain Fund (DPS Bldg.)	-	-	-	600,930	85,402	-	-	-	-	-	-	-	686,332
Transfer from (to) Water and Sewer Fund (DPS Bldg.)	-	240,000	-	2,421,260	(2,661,260)	-	-	-	-	-	-	-	-
Transfer from Gun Range Fund	-	-	-	245,915	-	-	-	-	-	-	-	-	245,915
Internal Loan (highlighted)	-	-	-	12,193,798	6,908,115	1,762,544	-	-	-	-	-	-	20,864,457
Interest	-	(16,793)	17,507	57,536	2	-	-	-	-	-	10,000	30,000	98,252
<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>8,008,323</b>	<b>5,587,444</b>	<b>3,989,480</b>	<b>4,129,112</b>	<b>4,273,631</b>	<b>4,423,208</b>	<b>4,588,020</b>	<b>4,768,251</b>	<b>65,571,660</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	2,107,708	1,642,567	-	-	-	-	-	-	4,424,775
DPS Expansion/Improvement	-	270,660	306,203	8,063,002	-	1,973	-	-	-	-	-	-	8,641,838
Gun Range Improvements	-	-	4,952	1,203,419	105,116	46,020	-	-	-	-	-	-	1,359,507
Fire Station #1	-	11,340	13,230	-	-	-	-	-	-	-	-	-	24,570
Greenway Development Phase 1B (ITC Trail)	-	-	158,550	1,717,001	1,099,394	33,605	-	-	-	-	-	-	3,008,550
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	55,194	72,427	-	-	-	-	-	-	935,367
Sidewalk Segments	-	-	-	-	40,570	1,321,309	-	-	-	-	-	-	1,361,879
Admin expenditures	-	-	1,000	1,748	810	1,000	1,000	1,000	1,000	1,000	1,000	1,000	10,558
Bosco Property Improvements	-	-	24,943	1,044,203	1,020,039	38,379	-	-	-	-	-	-	2,127,564
Bosco Property Purchase	-	-	-	759,783	-	-	-	-	-	-	-	-	759,783
Trans X Property Purchase	-	-	328,949	12,585	-	-	-	-	-	-	-	-	341,534
Lakeshore Park Shoreline	-	-	-	13,662	203,734	28,112	-	-	-	-	-	-	245,508
Pavilion Shore Park Shoreline	-	-	-	19,355	126,091	93,637	-	-	-	-	-	-	239,083
Internal Loan Repayment - Principal	-	-	-	2,150,500	2,573,969	2,280,746	2,349,909	2,420,406	2,493,018	2,567,809	2,644,844	1,383,256	20,864,457
Internal Loan Repayment - Interest (3%)	-	-	-	7,250	232,031	524,535	456,091	385,594	312,982	238,191	161,156	81,811	2,399,641
Ladder Truck Replacement	-	-	-	1,474,687	-	-	-	-	-	-	-	-	1,474,687
Water Tower Improvements	-	-	-	-	212,523	303,940	-	-	-	-	-	-	516,463
Jamco Property Purchase	-	-	-	-	321,408	-	-	-	-	-	-	-	321,408
ITC Sports Park Improvements	-	-	-	-	-	-	-	4,020,970	-	-	-	-	4,020,970
Fire Engine #342 Replacement	-	-	-	-	-	-	830,400	-	-	-	-	-	830,400
Fire Engine #313 Replacement	-	-	-	-	-	-	-	871,920	-	-	-	-	871,920
Fire Engine #322 Replacement	-	-	-	-	-	-	-	-	981,236	-	-	-	981,236
<b>Total expenditures</b>	<b>-</b>	<b>3,320,714</b>	<b>1,298,889</b>	<b>17,843,056</b>	<b>8,098,587</b>	<b>6,388,250</b>	<b>3,637,400</b>	<b>7,699,890</b>	<b>3,788,236</b>	<b>2,807,000</b>	<b>2,807,000</b>	<b>1,466,067</b>	<b>59,155,089</b>
Revenues over (under) expenditures	2,100,000	(2,097,507)	2,119,472	1,219,568	(90,264)	(800,806)	352,080	(3,570,778)	485,395	1,616,208	1,781,020	3,302,184	6,416,571
Estimated Beginning Fund Balance	-	2,100,000	2,493	2,121,965	3,341,533	3,251,269	2,450,463	2,802,543	(768,235)	(282,840)	1,333,367	3,114,387	-
Estimated Ending Fund Balance	2,100,000	2,493	2,121,965	3,341,533	3,251,269	2,450,463	2,802,543	(768,235)	(282,840)	1,333,367	3,114,387	6,416,571	6,416,571
<b>Actual Fund balance per audit (excludes loan proceeds and repayment principal)</b>				(6,701,765)	(11,126,175)	(9,646,235)	(6,944,246)	(8,094,618)	(5,116,205)	(932,189)	3,493,675	8,179,115	6,416,571
													Projects using interfund borrowing (net other funds reimbursement)
													Interfund Borrowing and repayment
													Amount available annually and cumulatively in CIP Fund Balance