



CITY OF NOVI CITY COUNCIL JANUARY 6, 2025

SUBJECT: Approval of the deficit elimination plans for the Capital Improvement Fund (CIP) and the Drain Operating Fund as of June 30, 2024.

SUBMITTING DEPARTMENT: Finance

KEY HIGHLIGHTS:

- This came before Council at their last meeting. However, City staff was informed by the State that a resolution is required.
- Capital Improvement Fund June 30, 2024 ending fund deficit \$9,051,104
- Drain Operating Fund June 30, 2024 ending unassigned fund deficit \$11,752

BACKGROUND INFORMATION:

The State of Michigan ("State") requires a formal deficit elimination plan ("DEP") be approved annually by the governing body for any funds reflecting a deficit in an annual audit. The proposed DEP is the annual update of the original plan filed for the June 30, 2019 fiscal year as the State requires it be updated for actual results and reapproved. The 2019 DEP acknowledged that the City would borrow internally to advance fund several significant projects and repay the borrowing plus interest from the voter approved millage over the ten-year duration of the millage. The Capital Improvement Fund for the year ended June 30, 2024, ended with a fund balance deficit of \$9,051,104 or an increase of \$5,356,036 from the June 30, 2023 deficit of \$3,695,068. The increase in the current year is primarily a result of the purchase of two parcels of vacant land for city use and potential park land totaling approximately \$7.6 million. The City anticipates collecting more than \$14.675 million in property tax and other revenues over the remaining three years of the levy to eliminate the deficit, pay interest owed on interfund borrowing and still has an estimated \$2.2 million available for future projects through June 30, 2027.

The Drain Operating Fund has an ending June 30, 2024 fund balance of \$0, however; accounting rules require prepaids be classified as nonspendable fund balance. The reclassification of \$11,752 prepaids into nonspendable fund balance caused a \$11,752 unassigned fund balance deficit.

Nonspendable for prepaids	\$11,752
Unassigned fund balance deficit	<u>(\$11,752)</u>
Total fund balance	\$0

The State of Michigan requires a DEP for any unassigned fund balance deficits. The City's Drain Perpetual Maintenance Fund supplements the Drain Operating Fund to the extent expenditures exceed the revenues in any given year. The Drain Perpetual Maintenance Fund has \$7,044,847 of available funds to supplement the Drain Operating Fund and will transfer the \$11,752 to eliminate the unassigned deficit.

RECOMMENDED ACTION: Approval of the deficit elimination plans for the Capital Improvement Fund (CIP) and the Drain Operating Fund as of June 30, 2024.