



City of Ishpeming

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Deficit Elimination Resolution for Water Fund

Moved, seconded that;

WHEREAS, the City of Ishpeming Water Fund has a **\$(1,078,057) deficit on December 31, 2016**; and

WHEREAS, Act 275 of the Public Acts of 1980 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 City of Ishpeming Water Fund Deficit Elimination Plan:

	Note	Deficit Year	Year 1		Year 2	Year 3	Year 4	Year 5
		2015	2016		2017	2018	2019	2020
		Actual	Approved Plan	Actual	Estimated	Estimated	Estimated	Estimated
Unrestricted Net Position (Deficit) Jan. 1	1	\$ (1,532,950)	\$ (1,764,071)	\$ (1,764,071)	\$ (2,829,098)	\$ (1,834,694)	\$ (1,608,570)	\$ (1,232,116)
Revenue								
License & permits		200	100	100	-	100	100	100
Charges for services:								
Turn on/off fees		12,055	8,000	3,890	3,800	3,800	3,800	3,800
Public notice of disconnect		-	-	9,500	2,000	-	-	-
Meter repair		-	500	-	-	-	-	-
Metered water sales	2	1,446,488	1,390,000	1,550,281	1,876,500	2,101,680	2,206,764	2,317,102
Rebates & other credits	2	\$ (36,465)	\$ (8,000)	\$ (52,217)	\$ (44,000)	\$ (44,000)	\$ (44,000)	\$ (44,000)

	Note	Deficit Year	Year 1		Year 2	Year 3	Year 4	Year 5
		2015	2016		2017	2018	2019	2020
		Actual	Approved Plan	Actual	Estimated	Estimated	Estimated	Estimated
Other sales		\$ 3,155	\$ 1,500	\$ 225	\$ -	\$ -	\$ -	\$ -
Connection fees		600	300	-	-	-	-	-
Penalties		38,905	39,000	32,757	33,000	33,000	33,000	33,000
Interest income		64	500	-	-	100	100	100
Miscellaneous income		3,542	3,200	7,530	3,500	3,500	3,600	3,600
Loan proceeds - USDA Rural Development	3	-	-	-	5,400,000	3,580,000	-	-
Grant proceeds - USDA Rural Development	3	-	-	-	-	3,020,000	-	-
Total Revenue		1,470,559	1,437,116	1,552,066	7,276,817	8,700,198	2,205,383	2,315,722
Expenditures								
Personnel services	4	697,528	522,040	586,500	592,050	603,891	615,969	628,288
Contractual services	4	573,756	564,300	499,292	627,500	550,000	525,000	525,000
Supplies	4	92,113	84,000	78,131	84,000	88,000	85,000	85,000
Utilities	5	13,134	18,500	15,031	18,500	19,380	19,770	20,165
Equipment rentals	6	146,744	211,000	162,160	181,000	200,000	170,000	170,000
Other expenses	6	45,014	72,705	96,604	74,950	76,500	77,000	77,000
Depreciation	7	73,853	76,000	73,525	76,000	300,076	300,076	300,076
MDOT Water Main Project - will capitalize	8	-	578,500	517,734	-	-	-	-
USDA Water System Replacement Project will capitalize	3	131,376	450,000	661,641	4,606,983	6,600,000	-	-
USDA Water System Replacement Loan Interest Payment	3	\$ -	\$ -	\$ -	\$ 95,413	\$ 189,285	\$ 186,171	\$ 182,994

	Note	Deficit Year	Year 1		Year 2	Year 3	Year 4	Year 5
		2015	2016		2017	2018	2019	2020
		Actual	Approved Plan	Actual	Estimated	Estimated	Estimated	Estimated
USDA Water System Replacement Loan Principal Payment	3	\$ -	\$ -	\$ -	\$ -	\$ 145,000	\$ 148,000	\$ 151,000
Total Expenditures		1,775,533	2,579,061	2,690,618	6,358,413	8,774,150	2,129,005	2,141,544
Add back depreciation (Net Investment in Capital Assets Net Position)	7	73,853	76,000	73,525	76,000	300,076	300,076	300,076
Unrestricted Net Position (Deficit) Dec. 31		(1,764,071)	(2,830,016)	(2,829,098)	(1,834,694)	(1,608,570)	(1,232,116)	(757,861)

CA-CL (Deficit) Jan. 1		110,142	(51,242)	(51,242)	(1,078,057)	(562,074)	(451,787)	(191,492)
Revenues		1,470,559	1,437,116	1,552,066	7,276,817	8,700,198	2,205,383	2,315,722
Expenditures		(1,775,533)	(2,579,061)	(2,690,618)	(6,358,413)	(8,774,150)	(2,129,005)	(2,141,544)
Add back depreciation		73,853	76,000	73,525	76,000	300,076	300,076	300,076
Net change in deferred outflows - pension	9	(143,953)	-	(19,378)	(20,000)	(20,000)	(20,000)	(20,000)
Net change in compensated absences	9	(10,332)	-	(13,022)	(15,000)	(15,000)	(15,000)	(15,000)
Net change in pension liability	9	224,022	-	70,612	-	-	-	-
USDA required reserves:								
Net change in O&M	10	-	-	-	(373,988)	(11,219)	(11,546)	(11,882)
Net change in Bond & Interest Redemption	10	-	-	-	(52,152)	(493)	(488)	(527)
Net change in Bond Reserve	10	-	-	-	(8,400)	(33,600)	(33,600)	(33,600)
Net change in Repair, Replacement, & Imp	10	-	-	-	(8,881)	(35,525)	(35,525)	(35,525)
CA-CL (Deficit) Dec. 31		\$ (51,242)	\$ (1,117,187)	\$ (1,078,057)	\$ (562,074)	\$ (451,787)	\$ (191,492)	\$ 166,228

Notes to the Deficit Elimination Plan

Note 1: As enumerated in Note AA in the 2015 audit report, the net position in the Water Fund was restated as of December 31, 2014 resulting from the adoption of GASB No. 68 and GASB No. 71.

Note 2: 2015 -While not as bad as the 2013/2014 winter, the 2014/2015 winter continued with freezing temperatures resulting in water main breaks and credits to customers for "let-runs" to prevent pipes from freezing. The City of Ishpeming began the let-runs for customers early in the winter to try to head off an issue. While the staff tried to appropriately account for and credit all accounts, these were just estimates which may have resulted in higher than normal metered water sale revenues. Management lowered the budget for metered water sales revenue for e2016, and , as of August 15, 2016, the City has recorded \$801,630 of the \$1,390,000 budget, which is 58%; the City is approximately 62% through the budget year. The winter 2015/2016 was more of a normal winter which did not necessitate the extensive let-runs for the City's utility customers or the extensive water main repairs required in the previous two winters.

2016 -Management has recommended increasing the water rates 35% in 2017, 15% in 2018, and 5% in 2019. The rate increase is two-fold: (1) to meet the water sales revenue required by the USDA to repay the debt issued to improve the water system in 2017 and 2018, and (2) to satisfy the elimination of deficit in the Water Fund within the required five-year timeframe. However, these are estimates at this time. Management has commissioned GEI Consultants to perform a rate study to assist the City of Ishpeming in setting the appropriate rates to meet the aforementioned goals.

2017 -City Council approved the 35% rate increase, which took effect January 1, 2017. Management recommends a 12% rate increase for fiscal year 2018, 5% in 2019, and 5% in 2020. The rate increase is two-fold: (1) to meet the water sales revenue required by the USDA to repay the debt issued to improve the water system in 2017 and 2018, and (2) to satisfy the elimination of deficit in the Water Fund within the required five-year timeframe. While the water system improvement project costs are beginning to solidify, the expenses for future years continue to be largely based on estimates and projections.

Note 3: The City of Ishpeming is working with the USDA to replace up to 40% of the aged water system. Management expects this to be a two year project beginning in 2017 and ending in 2018. The USDA has committed \$8,980,000 in low-interest loans with another \$3,020,000 in grant funding. The loan funds must be exhausted prior to utilizing the grant funds, so management is anticipating the grant funds will not be available until 2018. The City of Ishpeming will close on the USDA bond in July 2017 with groundbreaking commencing soon after.

Note 4: 2015-As enumerated in Note 2 above, the 2014/2015 winter was unseasonably cold resulting in a large number of water main breaks, which led to increased personnel services in 2015 to repair the breaks. As the 2015/2016 winter was closer to an average winter, there were not as many water main breaks leading to reduced personnel costs.

2016- As of August 15, 2016, the City of Ishpeming has \$302,881 in personnel costs in the Water Fund, which is 58% of the budget. The City of Ishpeming is approximately 62% through the budget year. Management assumed a 2% increase to personnel costs in each of the following years.

2017- As of June 30, , the City of Ishpeming has \$238,500 in personnel costs in the Water Fund, which is 40% of the budget. The City of Ishpeming is approximately 50% through the budget year. Management assumed a 2% increase to personnel costs in each of the following years.

Note 5: The City of Ishpeming conservatively budgeted in 2016 a higher than 2015 utility usage with a 3% increase in each of the following years.

Note 6: The City of Ishpeming anticipates an increase to Equipment Rentals and Other Expenses in 2017 and 2018 as the preparation and work begins on the USDA funded water system improvement project progresses. Management expects Equipment Rentals to decrease in 2019 while Other Expenses remains relatively flat. Note that Equipment Rentals are combined with Other Expenses line item in the audit report.

Note 7: The City of Ishpeming anticipates an increase to depreciation expense in 2018 when the capitalized improvements to the water system are put into service.

Note 8: The City of Ishpeming has contracted with the Michigan Department of Transportation to replace the water liens beneath the US Hwy 41 round-about and connector round-a-bout MDOT is constructing in the City of Ishpeming during 2016. The MDOT project was completed as of the end 2016, and all project costs were capitalized.

Note 9: For fiscal year 2015, the City of Ishpeming implemented GASB 68, which required the City of Ishpeming to report the net pension liability for the unfunded portion of its pension plan, in addition to the employee compensated absences already being reported. The unfunded portion of the net pension liability will be calculated by MERS whereby MERS presents an actuarial report on an annual basis and the net change will impact Current Assets minus Current Liabilities. It is not possible to determine at this time the future impact of these changes will have on the deficit.

Note 10: As required by the bond ordinance approved by City Council on June 28, 2017, the City of Ishpeming established four bank accounts in the Water Fund required by the USDA Rural Development to provide for repayment of the bond and for operation and maintenance of the system. These accounts will be listed as non-current assets and the net annual change in balances will impact Current Assets minus Current Liabilities.

Operation and Maintenance Account (O&M) - Revenues shall be transferred each quarter of the Fiscal Year, commencing upon the effective date of this Ordinance, from the Receiving Account to the Operation and Maintenance Account to pay the reasonable and necessary current expenses of administration and operating and maintaining the System for the ensuing quarter.

Bond and Interest Redemption - Revenues shall be transferred each quarter of the Fiscal Year from the Receiving Account, before any other expenditures or transfer therefrom, and deposited in the Bond and Interest Redemption Account for payment of principal of and interest on the Series 2017 Bond and to fund the Bond Reserve Account, in the amounts and at the times specified.

Bond Reserve - Commencing with the Fiscal Year quarter beginning on October 1, 2017, there shall be withdrawn from the Receiving Account on the first day of each Fiscal Year quarter and set aside in and transferred to the Bond Reserve Account, after provision has been made for the Operation and Maintenance Account, the sum of at least \$8,400 per quarter (\$33,600 annually) until there is accumulated in such account the lesser of the sum of \$336,000 or the Reserve Amount for the Series 2017 Bond. Except as hereinafter provided, no further deposits shall be made into the Bond Reserve Account pursuant to the requirements of this Ordinance once the lesser of the sum of \$336,000 or the Reserve Amount for the Series 2017 Bond has been deposited therein.

BE IT FURTHER RESOLVED that the City of Ispeming Finance Director, James R. Lampman, CPA, submits the Deficit Elimination Plan to the Michigan Department of Treasury for certification.