

**VILLAGE OF ELBERTA, MI**  
DEFICIT ELIMINATION PLAN  
PROJECTIONS AND RECOMMENDED ACTIONS  
January 8, 2014

Introduction

The Village of Elberta, Michigan has been required by the Michigan Department of Treasury to file a Deficit Elimination Plan (DEP) to correct deficits in its General Fund, Water Fund. Upon review and projection, it also appears that the Parks and Recreation Fund will be in a deficit condition following the 2013-14 fiscal year.

This report contains the action steps and financial projections necessary to correct these deficits. Additionally, each of the Village's operational funds was examined and five-year financial projections were produced for each of these funds.

Elberta's General Fund balance was in deficit condition commencing in FY 2002-03. This condition worsened with unanticipated project costs to meet historical criteria for the Life-Saving Station, and the downturn in Michigan's economy and housing market in the prior decade.

The Village took a significant step in FY 2010-11, utilizing \$253,068 in proceeds to decrease the deficit from its high point of \$808,119, down to \$555,051. The Village further reduced the deficit in the next fiscal year, but conditions worsened slightly, by \$6,421, at the conclusion of FY 2012-13. It appears that the General Fund deficit will also increase by approximately \$18,000 by the conclusion of FY 2013-14. This projection has been taken into account within the five-year projection and action steps from FY 2014-15 to FY 2018-19.

The Water Fund ended with a \$1,413 negative cash balance in FY 2011-12, and a \$14,610 total negative cash balance at the end of FY 2012-13 (the operational loss for that fiscal year was \$13,197). At this point, a further loss of \$9,318 is projected at the end of FY 2013-14. Correcting the total \$23,928 negative cash balance was also addressed within the five-year period applicable to the other funds.

Process

On December 27 2013, Chris Olson was contracted to assist the Elberta Village Council and Staff to provide a plan to correct the deficits identified by the Michigan Department of Treasury. This was preceded by a meeting with a Village Council committee on December 23, 2013.

A work-study meeting that focused on prioritization and consensus for the Village's direction and action steps was held on December 30, 2013. The Village Council and staff actively participated in a four-hour session that evening. It was followed up with results and further direction on January 2, 2014. These sessions focused primarily on cost reductions that the Village could achieve. The Village Council expressed a willingness, albeit informally, to address water rates and other service charges. Additionally, there was a willingness expressed to sell certain Village assets or to derive revenues from the development of said assets, on a rental/concession basis. However, property tax millage increases were seen as a last resort. The Village is at its maximum tax rate as allowed by law, and would have to receive voter authorization for any millage increases or for relief via Headlee rollback. The items and their respective prioritizations are shown on the attached.

Concerns with addressing the necessary work of the Village, as well as putting into place the policies and work necessary to address the deficiencies within the Treasury Department's request for a corrective action plan dated October 22, 2013 were also discussed by the Council. It is likely that the organizational capacity will need to be further examined addressed, as this Deficit Elimination Plan requires significant reductions in work hours for the staff responsible for financial reporting.

Contact and work updates have been maintained steadily with Village officials as well as Eric Cline and Harlan Goodrich of Treasury, as the plan of work has proceeded over the past two weeks.

#### Affected Funds

The most significant deficit condition is in the General Fund (fund 101). It was also noted by the Michigan Department of Treasury that there is also concern with Elberta's Water Fund (fund 591). During the course of the work, it was also projected that Elberta's Parks and Recreation Fund (fund 208) will go into a deficit condition at the conclusion of FY 2013-14. Subsequently, all of the Village's operating funds were examined in the course of addressing the deficits identified by the Department of Treasury. The Major and Local Street Funds and the Sewer Fund are in good financial condition at this point in time.

#### Elements

A number of considerations are within the financial projections, as follows for each fund:

#### GENERAL FUND (101)

**Overview:** An overall reformatting and simplification of the financial statements, as well as developing and clearly showing specific areas of responsibility, are recommended. It is recommended that the 101-850 activity area be eliminated and that each respective Village official (or, in the case of the Council, the governing body), have specific costs assigned. As an example, the Village Council is generally responsible for legal expenses. By utilizing an administrative service charge, all overhead costs of the municipality can be spread proportionally to each fund.

The other aspect of reporting in this type of format is to easily develop and show "administrative service fees" as a mechanism to show costs of the management and financial functions and to charge the respective funds for the services provided. Presently, the Village is utilizing a series of "payback" line items within several activity areas of the financial statement.

Conversely, directly charging DPW expenses to each fund in which the employees are performing those services is designed to prevent the General Fund from subsidizing activities in other fund areas. There will be a need to adjust some operating procedures to accomplish this, and the DPW will need specific assignments and to accurately account for work performed in non-general fund areas.

**Clerk:** Maintaining the 16-hour workweek with no benefits for the Village Clerk, which is the present circumstance, is maintained throughout the plan. The projections rely upon this amount of time at the current hourly rate of \$16.96.

**Treasurer:** After much consideration, the Village Council has approved that the Treasurer's hours be reduced from 32 hours per week to 24 hours per week, commencing in FY 2014-15 and to run through the current Treasurer's term of office ending November 2016. From December 2016 through the end of the plan, the position's hours would be reduced to 16 per week. The position would not be eligible for benefits, although the \$16.96 hourly rate would be maintained.

**Department of Public Works:** Both employees would be reduced 8 hours per week, from 40 to 32. Both employees would receive a reduced benefit for health insurance – a \$300/month allowance rather than the Village purchasing an insurance policy. It is necessary to reduce the DPW assistant’s hours from 32/week to 24/week commencing in FY 2015-16 and thereafter. This would provide the Village with 64 hours/week in FY 2014-15; and subsequently, 56 hours per week to cover the duties necessary to operate the Village’s infrastructure systems. This will allow for seven-day coverage of DPW duties, as may be necessary. Overtime would be minimized as much as possible over the next two fiscal years, and eliminated thereafter. As a premium expense, overtime would need to be authorized for emergencies only, per policies established by the Village.

A further examination of duties that are not critical or primary to the functions of each respective operation needs to be performed. Zoning administration is one example that bears further scrutiny, as this has been a general fund expense charged within the 441 “garage” activity area. Eliminating refuse bag sales is also recommended, as there are alternatives for residents to obtain refuse bags, and the proposed reduction of office hours for administrative staff will necessitate prioritization of duties.

**Sale of Village Property:** The sale of two assets is proposed: the Village Library and the Mini-Pond property. Appraised values for these properties currently stands at \$60,000 and \$170,000, respectively. The sale of the Mini-Pond property to a private entity or person, would also result in added tax revenues for the Village, particularly if it were developed. The Village would need to produce an RFP (request for proposal) to analyze how to maximize its return.

PARKS & RECREATION FUND (208)

- Fees/Charges for programs, the Solstice Festival and projects need to be set so that the costs are covered. These vary each year, depending upon participation and other factors beyond the control of the Village. The Solstice Festival will need to be self-supporting.
- Increased rental fees for park facilities – the Life-Saving Station, pavilion(s), etc., need to be established and reviewed each year to cover the costs of maintenance and upkeep.

WATER FUND (591)

- Water rates, in the form of meter size/flow capacity, ( in the form of “readiness-to-serve charges”) as well as the commodity rates (price per 1,000 gallons of measured consumption). The AWWA methodology, utilizing water flow (gallons per minute) is as follows, along with an example of a fee structure:

<u>Meter Size</u>	<u>AWWA GPM Flow</u>	<u>Ratio</u>	<u>Monthly Fee</u>
5/8” X 3/4” Meter:	20	1.0	\$6.00 (current base rate)
3/4” Meter:	30	1.5	\$9.00
1” Meter:	50	2.5	\$15.00
1-1/2” Meter:	100	5.0	\$30.00
2” Meter:	160	8.0	\$48.00
3” Meter:	300	15.0	\$90.00

- A closer examination of the charges needs to be conducted, along with commodity rate (consumption price per 1,000 gallons). The rates shown in the attached projections are targets that would need to be met annually by adjusting both of these charges to cover the costs to operate the system as well as to address the negative cash flow.

## OTHER FUNDS

It is recommended that special projects, particularly those that are grant-related, be placed in special funds apart from the Village's normal and customary operational funds. This will show the special and temporary nature of those types of projects. Additionally, the Village should adequately charge any administrative or processing costs for personnel to those grants, if allowable under the terms of those grants and/or contracts.

### Conclusion

Overall, the action steps and projections as provided in this plan will achieve the elimination of the fund deficits within the five-year time frame as specified. This will not come without some difficulty, as dramatic changes are required, both fiscally and operationally. There will be increased costs to residents along with some reduced services. Additionally, the Village will need to critically appraise any new proposals for services or projects, to assure that those will fit within the financial framework