



Michigan Department of
TREASURY

Engagement. Service. Improvement.

Chart Chat Webinar

Thursday, December 8, 2022

2:00pm

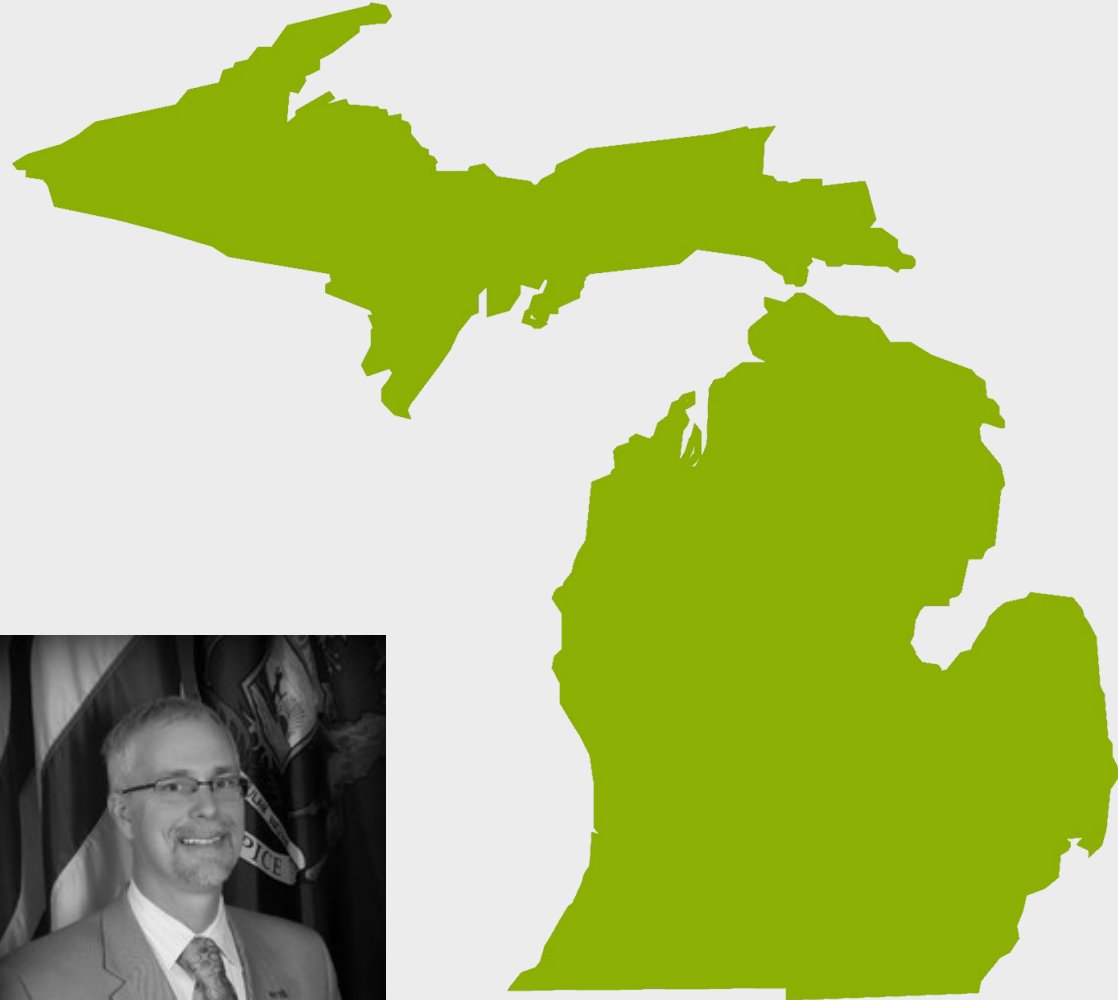
Welcome Greeting

Kathleen Harrison
Departmental Analyst
Community Engagement and Finance,
Department of Treasury



Welcome and Introductions

Rod Taylor
Administrator,
Community Engagement and
Finance,
Department of Treasury



AGENDA

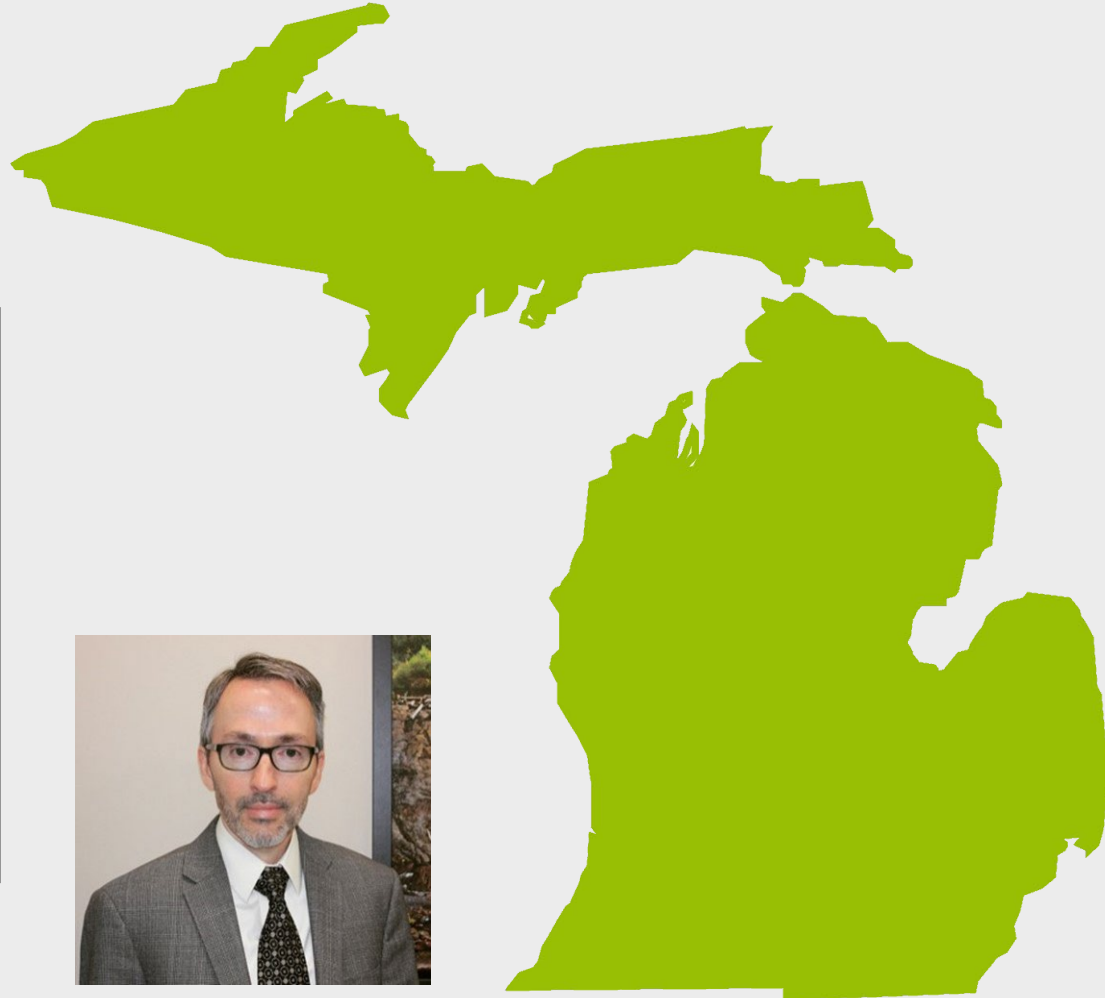
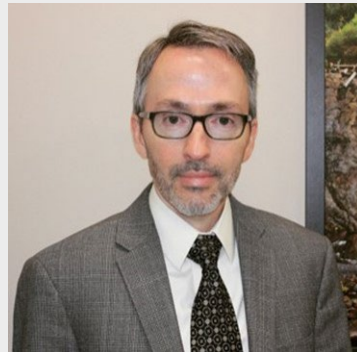
- I. Welcome & Introductions**
Rod Taylor, Administrator, Community Engagement and Finance Division, Michigan Department of Treasury
- II. Numbered Letter Revisions and Updates Project**
Cary Jay Vaughn, CPA, CGFM, Manager, Community Engagement and Finance Division, Michigan Department of Treasury
- III. Uniform Chart of Accounts Revision**
Cary Jay Vaughn, CPA, CGFM, Manager, Community Engagement and Finance Division, Michigan Department of Treasury
- IV. Preventable Accounting Issues in Small Local Governments Part 2**
Derek Hall, Senior Auditor, Audit Section, Community Engagement and Finance Division, Michigan Department of Treasury
- V. Capital Improvement Plans**
Jerry Nelson, Departmental Analyst, Community Engagement and Finance Division, Michigan Department of Treasury
- VI. How to Calculate Debt Limits**
Harlan Goodrich, Manager, Municipal Finance Section, Community Engagement and Finance Division, Michigan Department of Treasury
- VII. Questions & Answers**
- VIII. Closing Remarks**
Rod Taylor, Administrator, Community Engagement and Finance Division, Michigan Department of Treasury



Numbered Letter Revisions and Updates Project Uniform Chart of Accounts Revision

Cary Jay Vaughn, CPA

Audit Manager,
Community Engagement and Finance,
Department of Treasury



Numbered Letters



Updates

- Starting with 1993-1997

Future

80% over the next four years

Uniform Chart of Accounts



What to Expect

Three Documents:

1. **Clean Copy**
2. **Marked Up Copy**
3. **Short Memorandum of Changes**

2023

- **Exposure Draft**
- **Release by Year End**

Preventable Accounting Issues in Small Local Governments – Part 2

Derek Hall

Senior Auditor,
Community Engagement and Finance,
Department of Treasury



Agenda

- Legislative Body Oversight and Responsibilities
- Policies and Procedure

Famous Last Words

Reactions from those charged with governance to the discovery of fraud:

- **“We thought we could trust this person.”**
- **“We never saw this coming.”**
- **Who is the “We” in these quotes?**

The Legislative Body

- Elected officials and governmental employees are accountable for resources entrusted to them and for ensuring that programs and services are administered effectively and efficiently.
- Affects the reliability of the accounting records and financial statements.

Legislative Body Sets the Tone

- According to the Accounting Procedures Manual for Local Units of Government in Michigan available at <https://www.michigan.gov/treasury/local/cefd/info/bulletins-manuals-and-forms>
 - The control environment, as established by the elected officials and administration, sets the tone of the organization and influences how the employees within the organization go about their daily tasks. Control environment factors include:

Legislative Body Sets the Tone

- The integrity, ethical values, and competency of all elected officials and employees;
- Leadership philosophy and operating style;
- The way management assigns authority and responsibility;
- The way management organizes and develops its people.
- All the above factors combine to set an expected level of behavior for all your employees.

Legislative Body- Assessing Risk including Fraud

- Risk assessment is the identification and analysis of risks, both internal and external, that would prevent the government's objectives from being achieved.
- The risk analysis forms a basis for determining how risks can be managed effectively and efficiently.
- The risk assessment process is ongoing and evolving as employees, economic factors, elected officials, budgets, and technology changes.
- Mechanisms are needed to identify and respond to changing conditions

Legislative Body—Never Stop Providing Oversight

- Internal control systems should be monitored. Ongoing monitoring occurs in the ordinary course of business and includes regular management and supervisory activities and other actions personnel take in performing their duties.
- Internal control systems change over time and the way controls are applied may evolve.
- Procedures can become ineffective due to new personnel, the effectiveness of training and supervision, time and resource constraints, and other external pressures.
- Also, circumstances for which procedures were originally designed may change, making procedures obsolete.

The Legislative Body-Smaller Units

- Extensive separation of duties is not always possible for smaller units of local government.
- No matter the size, duties should be separated as much as possible and alternative controls used to compensate for lack of separation.
- Members of the governing board must be called upon to provide some of these controls; they are generally very familiar with operations and likely to spot unfamiliar vendors and transactions.
- In smaller units, active participation by the governing body in key functions is necessary for good internal controls.

Internal Control/Fraud Management

- The legislative body should
 - Promote a strong ethical culture across the organization-Be involved
 - Implement written policies (both statutorily required and those that strengthen internal controls) and review those already established
 - Establish proper Segregation of Duties
 - Provide training, not just for finance personnel, but also all elected/appointed officials
 - Organization-wide awareness activities
 - Establish appropriate channels for reporting issues
 - Hire professional advisors and implement their recommendations – There is nothing wrong with asking for help!

Internal Control/Fraud Management

- The legislative body should
 - Use all tools and financial reports at your disposal
 - Budget to Actual Reports
 - Financial Reports
 - Balance Sheets
 - Income Statements
 - Cash Balance Report
 - Check Registers
 - Payroll Reports

Statutorily Required Policies

- Do you have the following written policies? Do you actually follow your approved written policies? (Not an all-inclusive list)
 - Investment Policy
 - Credit Card Policy
 - Automated Clearing House Policy
 - Social Security Number Privacy Policy

Recommended Policies

- Do you have the following written policies? Do you actually follow your approved written policies? (Not an all-inclusive list)
 - Ethics/Code of Conduct/Conflict of Interest Policy
 - Fraud Policy
 - Debit Card Policy
 - Purchasing Policy
 - Personnel Policies/Job Descriptions
 - Capital Asset Determination Policy
 - Imprest Cash Policy
 - Revenue Recognition Policy
 - Fund Balance Policy
 - Travel Policy

Solutions

- Community Engagement and Finance Division
- We have issued an Accounting Procedures Manual
- <https://www.michigan.gov/treasury/local/cefd/info/bulletins-manuals-and-forms>
- Fiscally Ready Communities – Provided training webinars
- Talk to your auditors
- Auditors would rather address a situation now rather than 10 months after it happened
- Consider outside assistance - This can be complicated and difficult to stay up to date on everything
- Accounting Firms
- MGFOA/MTA/MML trainings
- Talk to other local units
- Use your listservs.

Capital Improvement Plans

Jerry Nelson

Departmental Analyst,
Community Engagement and Finance,
Department of Treasury



Capital Asset Management and Planning

- Planning and Enabling Act
- Illustrate the importance of capital asset planning
- Discuss the necessity of active capital asset management
- Implement policies and procedures to ensure your local government is proactive
- Next steps
- Resources

Capital Assets



What is a capital asset?

- It is a purchase over a specific monetary threshold that has a lifespan over more than one year that provides operational value to your local government
 - Any item above a certain monetary threshold (\$____) is a capital assets (e.g., fleet vehicles, buildings, heavy equipment, lift stations)
 - This threshold is set by the governing body of your local government
 - Any items below \$____ or that only have one-year life is not a capital asset for purposes of depreciation (e.g., pallet of paper)

Capital Assets

- Each local government **shall** have a written capital assets policy that addresses asset capitalization and retirement.
- The purchase, addition, disposal, and sale of an asset **must** have prior approval from the appropriate local officials.
- The local government **shall** adopt a policy to inventory and assess the condition of all major capital assets.

Capital Improvement Program (CIP)



Planning and Enabling Act

- The [Planning Enabling Act](#) MCL 125.3865 & 125.3867
 - Requires the planning commission annually prepare a capital improvements program.
 - In general order of priority
 - Shall be needed and undertaken within a 6-year period
 - Based on requirements for all types of structures and improvements
 - Agencies/departments submit request with plans, and estimates of time and cost
 - Recommend capital improvements program for structures and improvements and financing thereof

Capital Improvement Plan

- Blueprint for planning communities' expenditures
- Education tool for the public
- Can serve as a “Wish List”
 - Grant requirements may include inclusion on CIP
- Coordinates:
 - Planning
 - Financial capacity
 - Physical development
 - Management tool
- Statement Local Units Priorities
 - Timing
 - Location
 - Funding
- Best judgement at that point in time

Determining what projects to fund this year

- Do you have a consistent process to evaluate projects?
 - What criteria do you use? How do you weight them?
 - To help with decision making, use an objective process.
 - Maintain existing service or infrastructure
 - Public safety and health
 - Impact on operating cost or revenue
 - Timing/Location
 - Quality of life
 - Economic development, growth, and business retention
 - Useful life

How do you track long term purchases?

- Do you have a consistent process to track future projects?
 - Minimum requirements
 - Summary table
 - Project name
 - Year
 - Cost
 - Funding source
 - How does it tie to strategic plan
 - Minimum plan – 6 years
 - Long-term assets require longer
 - Allow for prefunding
 - Water/Sewer systems, Municipal Office (20-40 years)

Takeaways

- Develop a consistent model that establishes priorities by rankings
 - Coordinate your priorities among all plans
 - Review your inventory regularly
 - Maintain detailed records throughout the process
 - Have a funding plan
- Develop a plan/schedule to maintain, replace, or dispose of all purchases
- Coordinate with budget process

Next Steps

- Create an organizational habit to implement changes
- Create your policy, processes, and procedures
- Document and distribute policy, processes, and procedures
- Review and update policy, processes, and procedures
 - Consider a “Policy Review” Policy: have a timetable and follow it to review this (will review every X years)
- Train everyone
 - Have a training policy and consider allocating funds
- Follow your processes
 - Be proactive

Next steps - Continued

- Set community goals and priorities
- Review your asset thresholds, do they make sense for your local government?
- Are you tying in what you are adding and removing into your maintenance and replacement schedules
- Create an annual process to update your CIP
 - Include your planning commission
 - Incorporate as part of your budget
- Creating a funding plan that includes allocating money for new items and all the things that need maintenance

Resources



Michigan Infrastructure Council (MIC)

- MIC is a great resource for local governments
- They work with the whole state to integrate infrastructure asset management
- For more information go to their website: www.michigan.gov/mic/

Fiscally Ready Communities Best Practice Guide

- The Fiscally Ready Communities program was created to assist communities who want to establish, measure, and maintain policies to increase operational and financial effectiveness and safeguards.
- The Fiscally Ready Communities Best Practices guide was created as a tool to discuss the recommended process and provide examples.
- Every community is unique, so the process and documentation should reflect the different needs and capacities of the community.
- The [Fiscally Ready Communities Best Practice Guide](#)

Debt Limit Calculations

Harlan Goodrich

Municipal Finance Manager,
Community Engagement and Finance,
Department of Treasury



Debt Limit

The State of Michigan legislature has provided no inherent ability for any municipality within the State to issue debt without statutory authority.

Debt Limit is the total amount of money that a municipality is authorized to borrow.

A Municipality's debt limitation is determined by specific statutes, which provides explicit language in terms of how to calculate the debt limit and what types of debt is not included in the calculation.



Statutes

- Counties – Subject to the State Constitution, Article VIII, Section 11.
- Charter Counties – Public Act 293 of 1966, Section 14(1)(1)
- City – Home Rule City Act, Public Act 279 of 1909 Section 4a
- Village (General Law) – General Law Village Act, Public Act 3 of 1895, Chapter IX, Section 22
- Village (Home Rule) – The Home Rule Village Act, Public Act, Public Act 278 of 1909, Section 26
- Charter Township – The Charter Township Act, Public Act 359 of 1947, Section 14a
- General Law Townships and Authorities do not have a debt limit



Debt Limit Calculation

- Debt limit calculation can be started by finding the municipality's State Equalized Value (SEV), which is the foundation of the debt limit.
- Obtain most recent SEV
 - eequal.bsasoftware.com/login.aspx

Example: SEV of \$180,000,000



Assessed Value Equivalent Calculation

- The debt limit calculation in statute allows for an Assessed Value Equivalent (AVE) for certain revenues to be added to the SEV, thus increasing a municipality's debt limit. Those include the following:
- State Revenue Sharing Payments (PA 140 of 1971)
 - treas-secure.state.mi.us/apps/findrevshareinfo.asp
- Eligible reimbursement under the Local Community Stabilization Act (PA 86 of 2014)
 - www.michigan.gov/pptreimbursement
 - Numbered Letter 2018-4 Debt Limit Calculation
- Specific tax revenue from IFT (PA 198 of 1974) and CFT (PA 255 of 1978)



Assessed Value Equivalent Calculation

Think of it this way: If these revenue amounts were derived from property taxes, what would the TV/SEV be to generate that same amount of revenue?

Example: SEV of \$180,000,000, levies 20 operating mills
For AVE divide the revenue by the operating millage rate.
Add SEV + AVE, statute says debt limit is 10%

- Revenue Sharing = $\$2,800,000 / .020 =$
 $\$140,000,000$ AVE
- LCSEA Elg. Reimb. = $\$325,000 / .020 =$ $\$16,250,000$
AVE
- IFT & CFT = $\$75,000 / .020 =$ $\$3,750,000$ AVE

SEV + 3 AVEs = $\$340,000,000$

$\$340,000,000 * 10\% =$ $\$34,000,000$ Debt Limit



Excluded Debt

Certain debt types may be excluded from the debt limitation (EG – revenue bonds). Explicit statutory language is required for this excluded debt.

Example: \$34,000,000 Debt Limit

Municipality has \$25,000,000 in outstanding debt, but \$4,000,000 is attributed to revenue bonds, which are excluded from the debt limit.

Therefore, only \$21,000,000 is subject to the debt limit. The municipality may borrow an additional \$13,000,000.

	Debt Limit	\$34,000,000
	Less Debt Subject to Debt Limit	\$21,000,000
	Legal Debt Margin	\$13,000,000



In Depth Debt Limit Calculation

Legal Debt Margin

City 2022 Ad Valorem SEV	\$	180,000,000	
Plus Act 198 Property (4)	\$	3,750,000	<u>IFT/CFT Property</u>
Plus for Revenue Sharing (1)	\$	140,000,000	75,000
Plus LCSA/PPT (2)	\$	16,250,000	
Total 2022 SEV Value	\$	340,000,000	
Debt Limit (3)			\$ 34,000,000
Debt Outstanding	\$	25,000,000	
Less: Exempt Debt (5)	\$	4,000,000	\$ 21,000,000
Legal Debt Margin			<u>\$ 13,000,000</u>

June 30, 2021 AFS

(1) The constitutional and CVTRS State Revenue Sharing payments for the 12 months ended December 31, 2022 totaling \$2,800,000 divided by the Municipality's 2022 general operating millage rate of 20.0000.

(2) The Local Community Stabilization Authority ("LCSA") was established to administer distribution of the replacement of personal property tax revenues lost by local government. Eligible reimbursements for LCSA equals 2022 Total Reimbursement less Total 2022 Qualified Loss Distribution divided by the Municipality's operating millage.

(3) 10% of SEV.

(4) Public Act 198 of 1974 and Public Act 255 of 1978 taxes levied divided by the general operating millage.

(5) Debt excluded from calculation pursuant to statute.

	<u>Revenue Sharing</u>	<u>Operating Millage</u>	<u>(1)</u>
Revenue Sharing 12 Months Ended Dec 31, 2022	2,800,000.00	20.0000	140,000,000

	<u>CFT/IFT</u>	<u>Operating Millage</u>	<u>Assessed Equivalent</u>
CFT/IFT Property	75,000.00	20.0000	3,750,000

LCSA / PPT	<u>LESS</u>		Total EMPP Exemption and Qualified Loss in Excess of 100%	Total Distribution
	Total 2022 PPT Reimbursement	Total 2022 Qualified Loss Distribution		
	840,000	515,000	\$ 540,000.00	\$ 200,000.00
			\$ 300,000.00	\$ 315,000.00
			\$ -	
Operating Millage (L-4029)	20.0000	Eligible Reimbursement Divided by Millage	325,000	
		PPT	<u>16,250,000</u>	<u>840,000</u> <u>515,000</u>

	<u>Revenue Sharing (Estimated)</u>		
February (2022) (Actual)	500,000	August (2022) (Actual)	460,000
April (2022) (Actual)	470,000	October (2022) (Estimated)	460,000
June (2022) (Actual)	450,000	December (2022) (Estimated)	460,000
			<u>2,800,000</u>

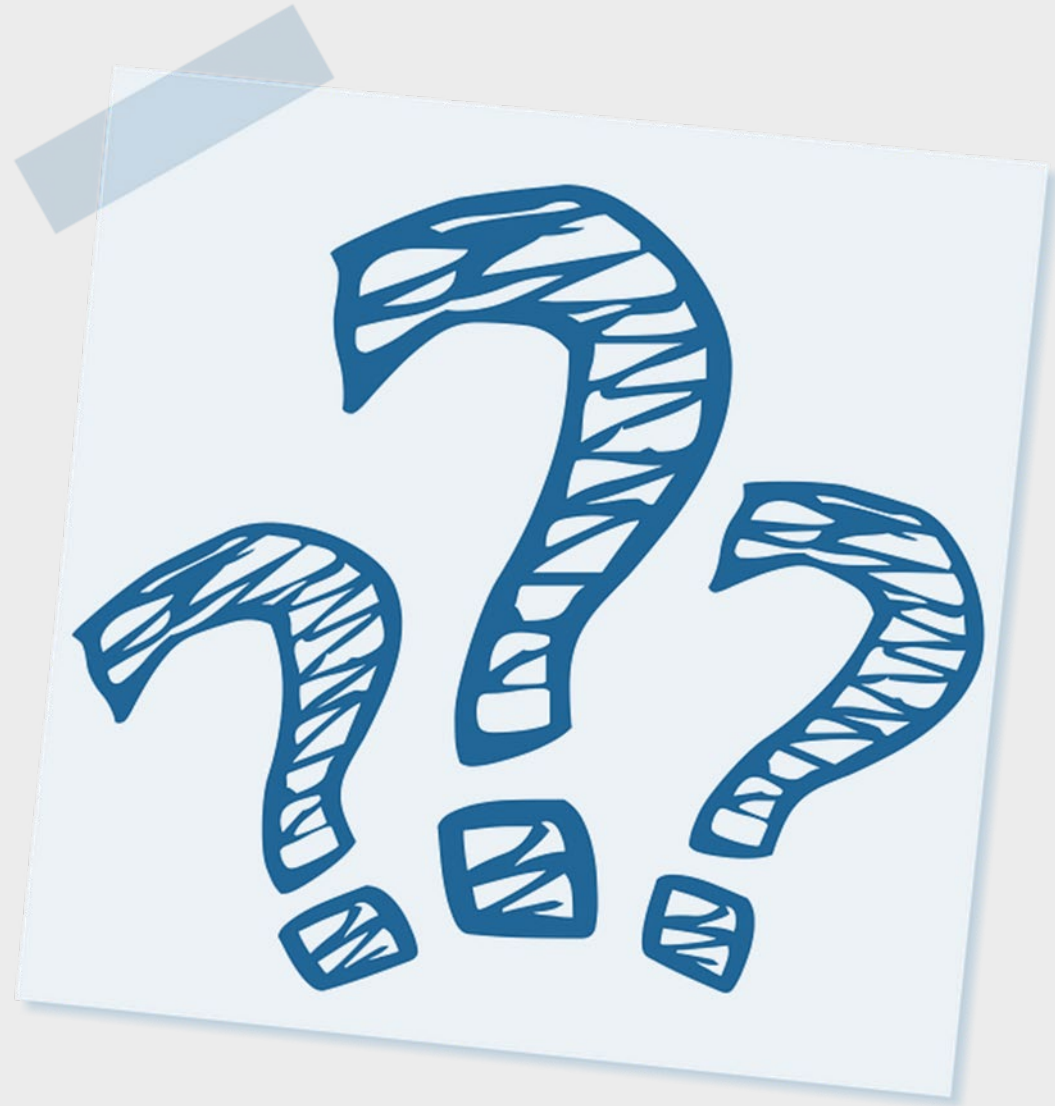


Available Assistance

- When thinking about issuing debt, Treasury highly recommends you contact a municipal advisor and bond counsel.
- Visit our online videos on the borrowing process (Qualifying Statements, Prior Approval Applications, Security Reports).
 - [Michigan.gov/CEFD](https://michigan.gov/CEFD)
 - Education and Training Resources
 - Video Library
- Questions on your debt limit?
Treas_MunicipalFinance@michigan.gov
- Treasury's Municipal Finance Team
 - Harlan Goodrich, Bill Sanders, Jeff Schwartz



Questions



Thank You!

www.michigan.gov/CEFD
www.michigan.gov/treasury

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