

Capital Asset Management and Planning

MICHIGAN STATE
UNIVERSITY | Extension



Michigan Department of
TREASURY

Today's Presenters

- Eric Walcott, Tyler Augst, Terry Gibb
 - MSU Extension
- Kayla Rosen, Roxanne Foster, Eric Cline
 - Michigan Department of Treasury

MSU Extension's Mission

Michigan State University Extension helps people improve their lives by bringing the vast knowledge resources of MSU directly to individuals, communities and businesses.



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Community, Food, and Environment	Agriculture/ Ag Business	Children & Youth	Health & Nutrition
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Government and Community Vitality

- Good Governance
- Leadership and Community Engagement
- Land Use
- Tourism
- Entrepreneurship
- www.canr.msu.edu/community



Michigan Department of
TREASURY

Engagement. Service. Improvement.

Fiscally Ready Communities:
Capital Asset Management and Planning

Eric Cline, Community Services Division

Kayla Rosen, Community Engagement and Finance Division

Roxanne Foster, Community Engagement and Finance Division



Roadmap for Today

The Basics

What does the law require?

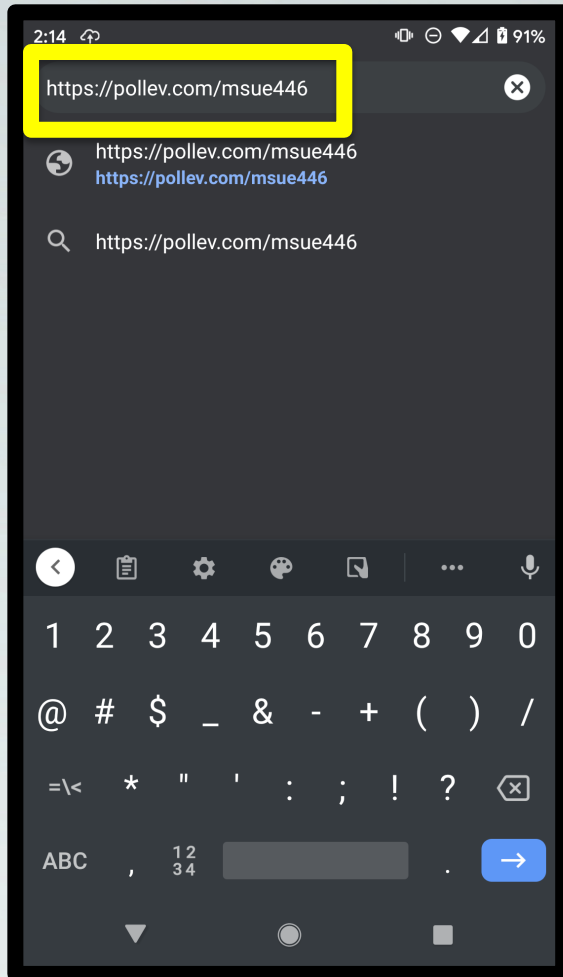
Process

Best Practices

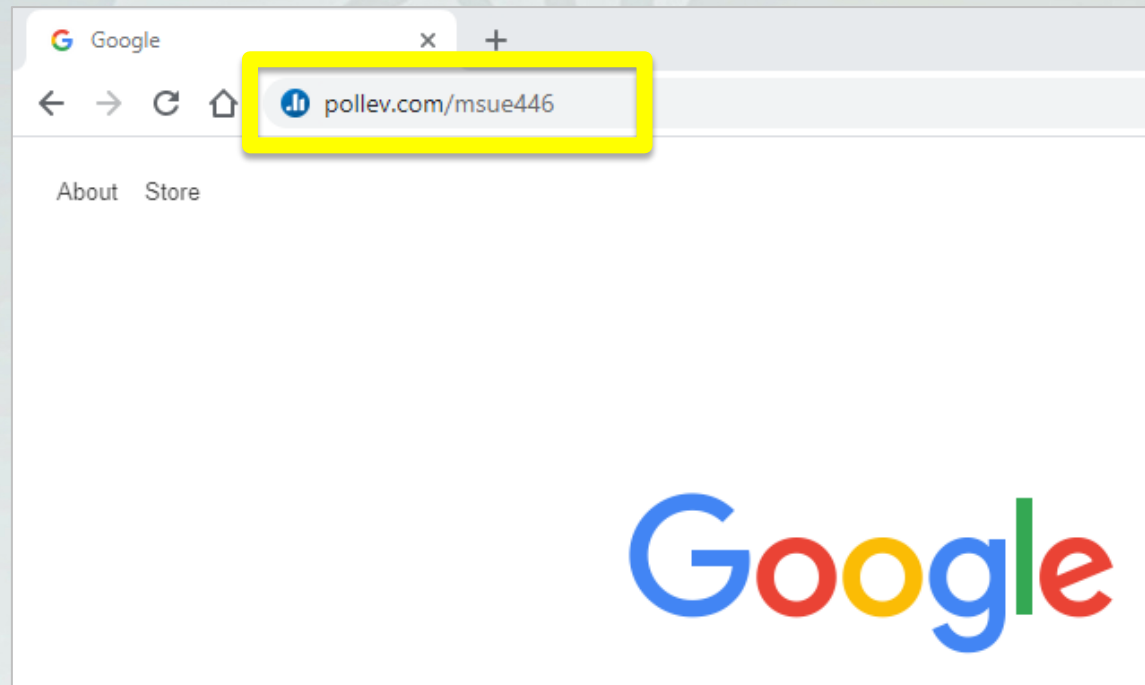
Summary

CONNECT TO POLL EVERYWHERE

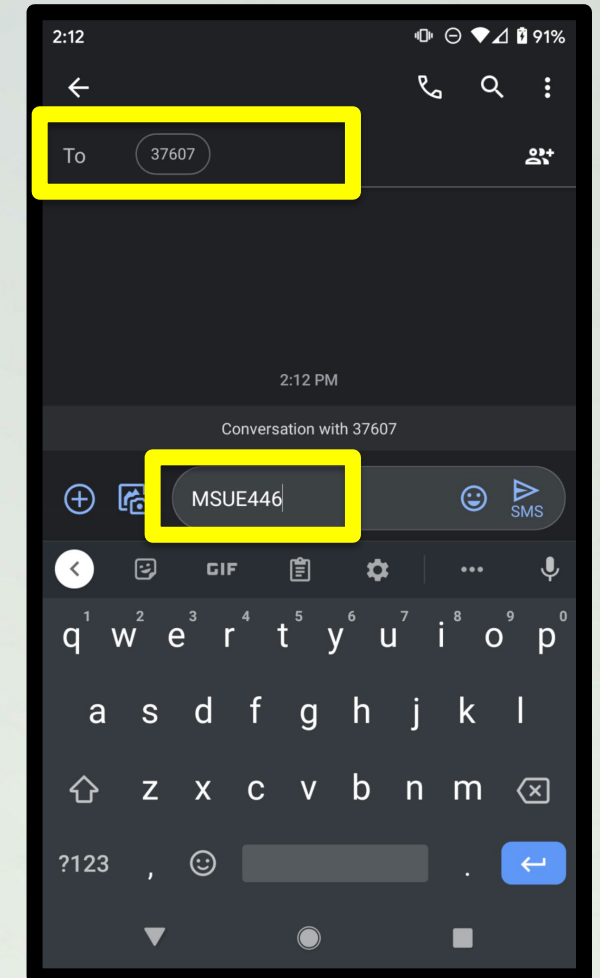
Web browser on phone



OR web browser on computer



OR text message



pollev.com/msue446

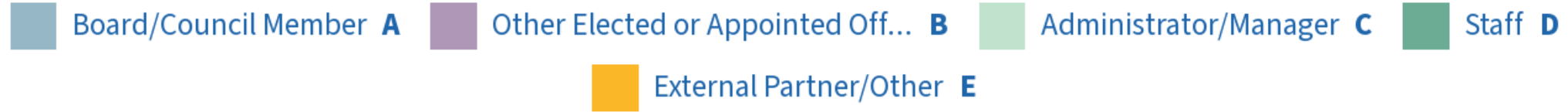
Where are you joining from today? (Touch the county where you live and serve)



Where are you joining from today? (Touch the county where you live and serve)



Which role best describes you?



External Partner/Other

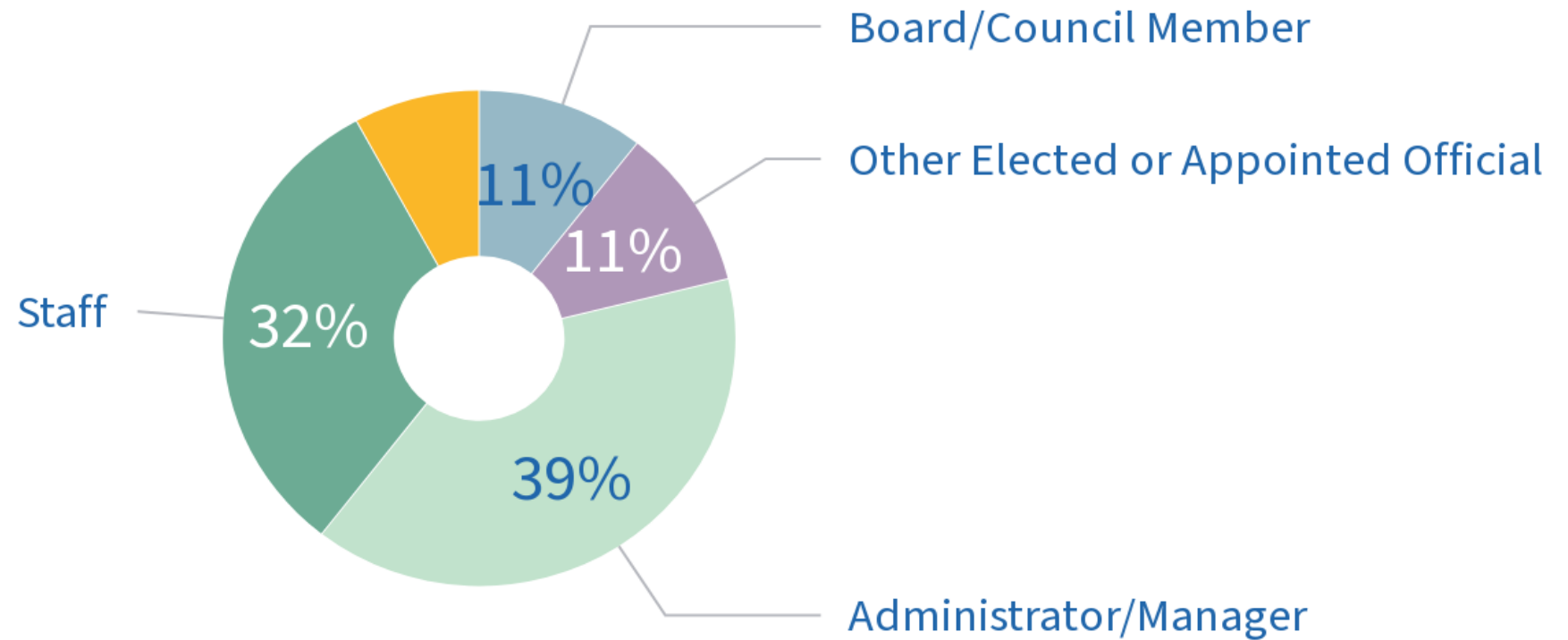
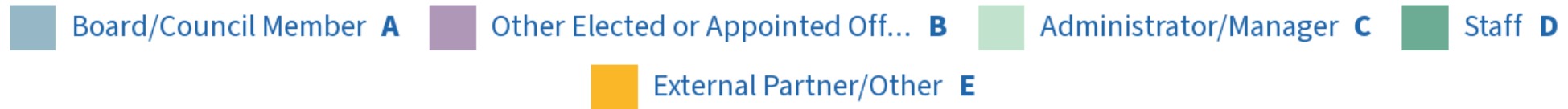
Board/Council Member

Staff

Other Elected or Appointed Official

Administrator/Manager

Which role best describes you?



What comes to mind when you hear "capital expense"?

(Single word or hyphenated answer)



Why write a plan for capital expenditures?

Projects are large and expensive

Debt financing is often used and extends for years

Spending varies from year to year

Decisions have impact for years

Implementation takes time and happens in stages

The Basics

- Question often arises when budgets are tight (or when there is extra money):
- ... *spend on capital improvements or operations?*

Capital Improvements

- Roads
- Parks
- Sewer
- Water
- Buildings
- Vehicles
- And other such things

What do you prioritize when budgeting?



General Operations **A**

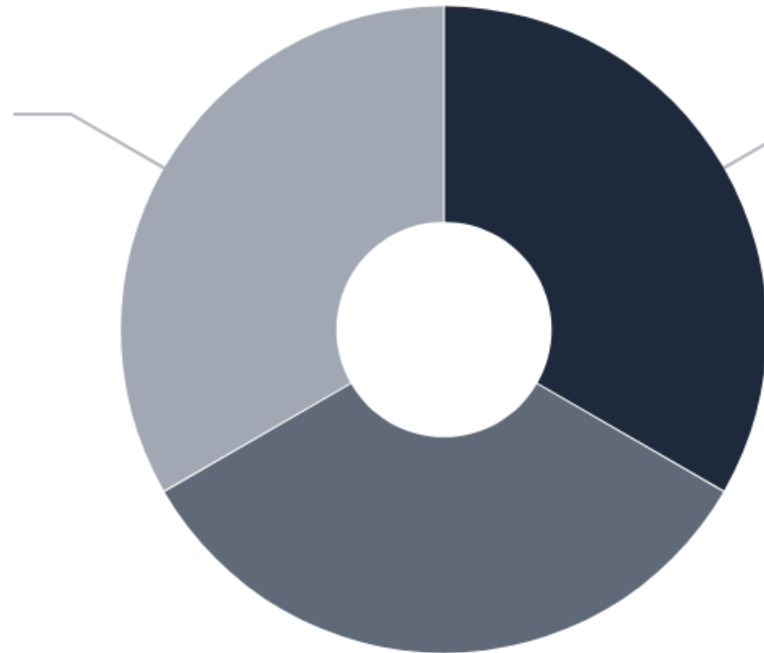


Capital Improvements **B**



Need More Information **C**

Need More Information



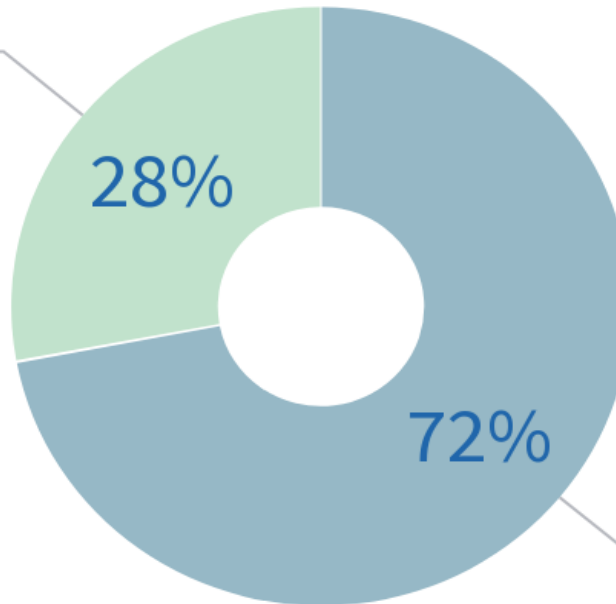
General Operations

Capital Improvements

What do you prioritize when budgeting?

General Operations **A** Capital Improvements **B** Need More Information **C**

Need More Information



General Operations

The Basics

Goal should be Long Term Fiscal Stability

Find appropriate balance between operational expenses
And purchase, repair, and replacement of necessary things

The Basics

Annual budget pays for the day-to-day operation

- Employee salaries
- Benefits
- Office supplies
- Phone
- Internet
- Other operation costs

Basics of a Capital Improvements Program

CIP focus on expenditures that are:

- Major one-time expense (large cost)
- Many year life expectancy
- To buy things (not operations)
- Construction, replacement, major repair
- Large in size
- Fixed in nature

The Basics

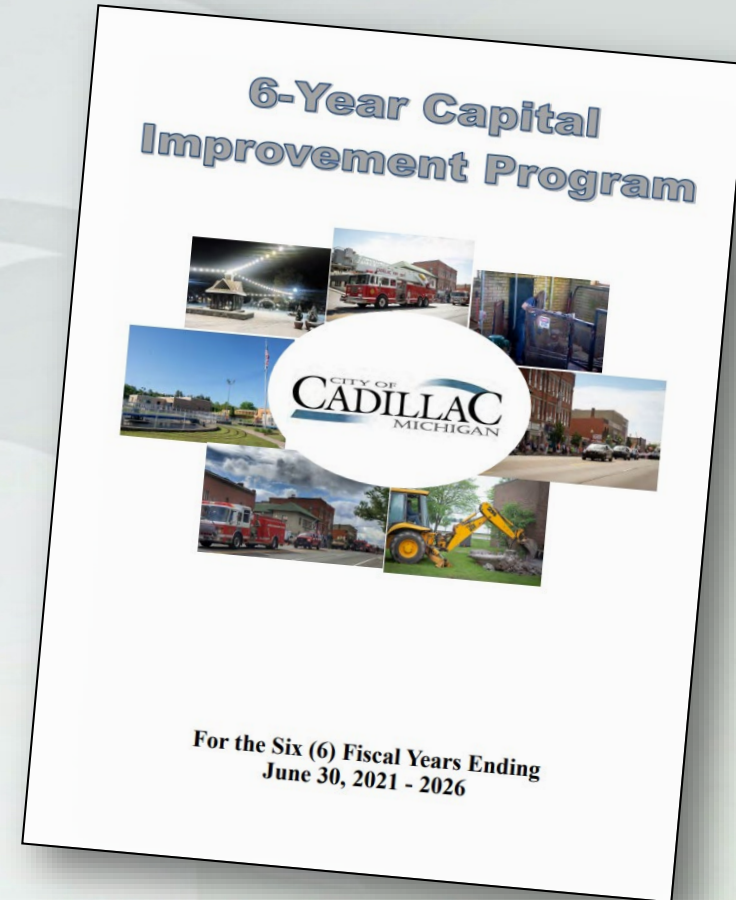
Capital assets (buildings, equipment, vehicles) come with anticipated breakdowns and lifespan, and unanticipated problems.

- Often can't afford the latest and greatest
- But don't want the fiscal crisis of unanticipated repair with no funds set aside to handle it.

The Basics

Prudent: plan for these expenses

- ✓ Set aside funds
- ✓ Bonding
- ✓ Lease-Purchase



Capital Improvements Program (CIP)

The Basics

- Create long term fiscal stability
- Actions, Investments
 - Build growing tax base - source of income for future years*
- This means we should target CIP to stimulate and create growth

What does the law require?

- Michigan Planning Enabling Act

www.legislature.mi.gov

MCL 125.3865

MCL 125.3867

- GASB 34

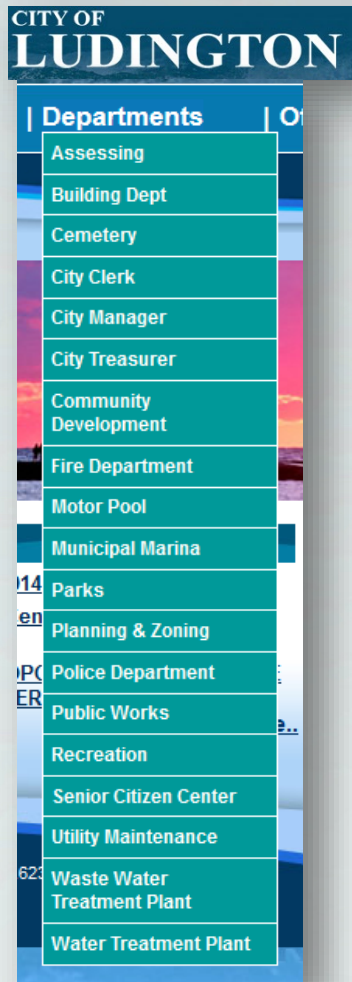
Michigan Planning Enabling Act

- City, village, and county: **shall have Capital Improvements Program (CIP)**
- Township: **CIP is optional**
- Township, alone/jointly with another government, own/operate water supply or sewage disposal system: **shall have CIP**

Michigan Planning Enabling Act

- Planning Commission is responsible for the CIP process
 - Memberships shall represent important segments of the community
- If the planning commission is exempted from this requirement, the legislative body shall prepare and adopt a CIP
- Responsibility can be assigned to another department, agency, or office

Law: What to include?



The image shows the official logo of the City of Ludington, which includes the text "CITY OF LUDINGTON" in a serif font. Below the logo is a vertical list of city departments, each in a teal-colored box with white text. The departments listed are: Assessing, Building Dept, Cemetery, City Clerk, City Manager, City Treasurer, Community Development, Fire Department, Motor Pool, Municipal Marina, Parks, Planning & Zoning, Police Department, Public Works, Recreation, Senior Citizen Center, Utility Maintenance, Waste Water Treatment Plant, and Water Treatment Plant.

Departments
Assessing
Building Dept
Cemetery
City Clerk
City Manager
City Treasurer
Community Development
Fire Department
Motor Pool
Municipal Marina
Parks
Planning & Zoning
Police Department
Public Works
Recreation
Senior Citizen Center
Utility Maintenance
Waste Water Treatment Plant
Water Treatment Plant

- CIP based on requirements of local government
 - *All public structures, improvements*
- Each agency/department shall:
 - *Furnish lists, plans, estimates for public structures and improvements*

Law: CIP Additional Details

- ✓ CIP completed and reviewed annually
- ✓ Do CIP after adopted master plan
- ✓ CIP shows projects in priority order
- ✓ CIP can be separate from, or part of annual budget
- ✓ CIP outlook: minimum of six-years

GASB 34 Requirements



- Must inventory government owned assets for accounting and audit statements
 - Report all capital assets, including infrastructure assets in the statement of net assets
 - Report depreciation expense in the statement of activities
 - Inventory meets GASB requirement, AND becomes the basis for CIP work

Do requirements of law go far enough?

- Michigan Planning Enabling Act
- GASB 34

What are some benefits of a Capital Improvements Program?

Additional Benefits of a CIP

- More effective evaluation of alternatives and solutions than a crisis decision-process.

Additional Benefits of a CIP

- Creates orderly and systematic planning for the acquisition, financing, and use of capital assets
- Sharing CIP with neighboring governments can improve planning, coordination and financing
 - Shared costs, reduced duplication

Additional Benefits of a CIP

- Allows for more in-depth consideration of hidden or ongoing costs which affect operating budgets
- Provides funding for projects on a priority basis and keeps governments within financial bounds
- Encourages stability if expenses are equalized year-to-year

Additional Benefits of a CIP

- Transparency and public engagement
- Having a plan that you can show the public eases pressure on existing demands and builds trust in government

Benefits Do Not Come Automatically

Requires:

- Strong council/board commitment
- Executive leadership in carrying it out

Best chance of success if CIP is a mandatory part of the budget process (or done prior to the budget)

“If it is not in the CIP, there is no way it gets funded.”

Adopting a CIP: Process and Best Practices



Process: Advisory Committee

- Create a CIP advisory committee
 - Chief executive
 - All departments
 - Finance officer
 - Planning Commission or department staff
 - General public

Best Practices: Inventory

Includes:

- ✓ Number
- ✓ Size
- ✓ Capacity
- ✓ Current condition
- ✓ Repair schedule
- ✓ Replacement schedule

CITY OF CADILLAC
Capital Improvement Program
For the fiscal years ending June 30, 2021-2026

Projects by Fiscal Year
The following tables identify specific projects that have been requested in each of the six fiscal years included in the current program. The summary lists the department that is making the request, the name of the project, the estimated cost, and the page number that the project details can be found on within this document. The first year of the program will be used in the development of the Annual Operating Budget, a process which will begin shortly after final approval and adoption of the program.

Year 1 - FY2021			
	Project	Cost	Page
Municipal Complex and Administration	Backup Generator	50,000	10
Police Department	Staff Car	27,000	11
	Police Patrol Vehicle	40,000	18
Parks	Patrol Rifles	15,000	19
	Riding Lawn Mower	7,500	29
	Shoreline Stabilization	7,500	30
Major Street	Lakefront Lighting	10,000	31
Local Street	Chestnut Street (Linden to Leeson)	700,000	40
	Ewart Street (Cedar to Lester)	179,000	48
	Stimson Street	109,000	49
Maple Hill Cemetery	Street Sign Replacement	7,500	50
	Cemetery Road Paving	40,000	69
Water and Wastewater	Riding Lawn Mower	7,500	70
	Water Supply Improvements	9,000,000	79
	Ewart Street (Cedar to Lester)	180,000	80
	Stimson Street	53,500	81
	Chestnut Street	160,000	82
	LIMS/WIMS Software	75,000	83
	BOD Incubators	7,500	84
	3/4 Ton, 4X4 Service Truck	28,000	85
	Aqua Disk Cloth	30,000	86
	Autoclave Replacement	8,000	87
	Revolution Blower	200,000	89
	Rotary Screw Compressor	12,500	90
	Spectrophotometer	7,500	91
	Storage Barn	35,000	92
	Ultraviolet Bulbs	40,000	93
	Manhole Rehabilitation	25,000	88
	Water Well Inspection	25,000	94
	Inductively Coupled Plasma - Mass Spectrometer	150,000	95
Department of Public Works	1-Ton Dump Truck	50,000	151
	Four Post Column Lift	35,000	152
	Riding Lawn Mower	7,500	153
	Single Axle Blade Truck w/Reversing Plow	160,000	154

Best Practices: Inventory

City of Cadillac, Michigan
Relatively sophisticated
Done well, attractive
Easy to read and understand

<http://www.cadillac-mi.net/ArchiveCenter/ViewFile/Item/1233>

6-Year Capital Improvement Program



For the Six (6) Fiscal Years Ending
June 30, 2021 - 2026

Best Practices: Inventory

- ✓ Entire page for each project
- ✓ Repeating the table information
- ✓ Anticipated year to be done
- ✓ Detailed description
- ✓ Impact and benefit for community
- ✓ Project impact on operation and maintenance costs

CITY OF CADILLAC
Capital Improvement Program
For the fiscal years ending June 30, 2021-2026

Program Fiscal Year: **YEAR 2 – FY2022**
Project Title: **MUNICIPAL COMPLEX ENTRY DOORS**

First Year in CIP: 2018
Project Category: Building Construction
Department: Municipal Complex

Total Project Cost: \$15,000

Project Description: Replace entry doors in three (3) locations. Install electronic access at two main complex entrances on North and East side of building.

Project Justification and/or Need: Current doors are aging and are not insulated well. Additionally, installing electronic access devices will enhance security by reducing the number of keys that will be issued for building access.

Project Impact/Benefit: Enhanced heating and cooling efficiency; enhanced security access control.

Operating Fund Impact: Reduce utility costs by approximately \$500 per year.

Funding Source(s) for this Project:

<u>Funding Source</u>	<u>Amount</u>
General Governmental Revenues	\$15,000
Total	\$15,000



Best Practices: Inventory *continued*

*Page example from
City of Cadillac CIP*

Process: Project Scoring and Ranking

- Once inventory of projects is complete, rank projects in order of priority.

Ranking projects in CLP is important & essential

There is a tendency to avoid



Best Practice: Project Scoring and Ranking

- Develop formal criteria to rank projects.
- Consider:
 - Description, location, and purpose
 - Justification and relationship to other projects
 - Cost
 - Estimation of annual income and operation costs
 - Timing
 - Importance within the department
 - Environmental, health, and safety impacts

Best Practice: Financing a CIP

- CIP is part of the budget process or done prior to the budget.
- Think of CIP like it is a “department”
- CIP is a mandatory task for everyone
 - If a project is not in the CIP, it is not funded
 - No circumventing CIP process

Best Practice: Financing a CIP

- Predictable, scheduled repairs
 - Built into annual process of CIP
 - Set funds aside to pay for them
 - Set user fees to generate funds to set aside
 - Do not count on grants
 - *Strings attached*
 - *Generally not a consistent funding source*

Adopting a CIP

Assigned to Planning Commission or legislative body

1. Create CIP advisory committee
2. Inventory projects
3. Score and rank projects
4. Review projects to determine conformance with comprehensive plan, development policies, and objectives and goals of the community.

Adopting a CIP

5. Provide opportunities for departmental and public feedback
6. Planning Commission adopts CIP and forwards to legislative body
7. Legislative body reviews and adopts, amends, or rejects CIP
8. Planning commission reviews and updates CIP annually (repeat process)

Summary

Best Practices

- Schedule expenditures
- Sequence projects
- Prioritize/rank
- Look at different finance methods
- Legislative body adopts as part of the budget

Contact Information

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Fiscally Ready Communities: *Capital Asset Management and Planning*

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Topics and Goals of Today's Training

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

Preplanning



What is Preplanning?

- Preplanning is the process of thinking and documenting the activities required to achieve a desired goal. This includes the creation and implementation of a plan, prior to any actions being taken
- A process that you should do annually
- It is proactive!
 - Helps local governments make decisions before there are financial and public pressures
 - Assists with operational stability and consistency

The Importance of Preplanning

- Documented policies and procedures are a management tool, but you must actively use them!
- Having policies and procedures help to reduce the risk of inefficiencies and fraud. They provide local governments with:
 - Documentation of how to use resources and why
 - Helps each department act uniformly, permitting evaluation

How does preplanning connect?

- Goals...You Need Them!
 - Everything is based off your goals
- Goals should align with your responsibilities
- Goals need to be implemented and reviewed regularly

How does everything connect?



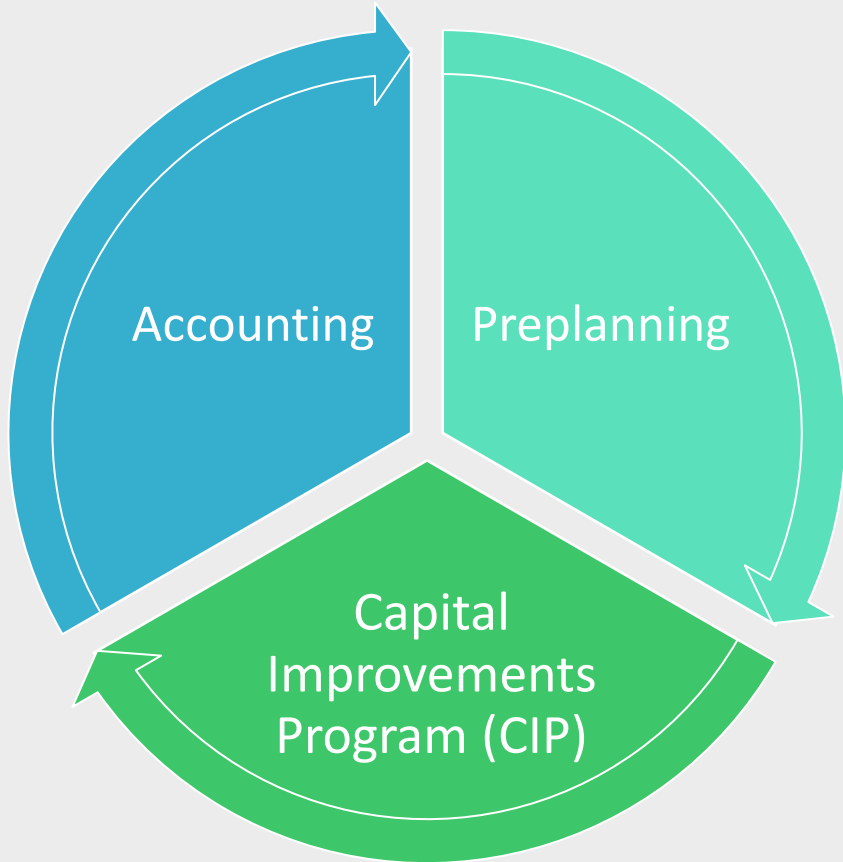
The Umbrella of Internal Controls



Accounting Fun!



Accounting and Real Life



- How does financial/fiscal preplanning, CIP, and accounting tie together?
 - Work in tandem because the finances, accounting and CIP are intertwined
 - You need costs and knowledge to preplan
 - Accounting influences preplanning because it helps you identify what to focus on
 - Revenue generation, maintenance, purchasing, etc.
 - Preplanning helps dictate what you implement which influences your accounting, your processes, purchases, and maintenance

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)

When poll is active, respond at pollev.com/msue446

Text **MSUE446** to **37607** once to join

Does your local unit of government have a capital asset policy?

No

I have no idea

Yes, but I don't know the threshold

Yes, with a threshold under \$1,000

Yes, with a threshold between \$1,001-\$5,000

Yes, with a threshold of \$5,000 or more

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 Assets Policy

- The policy needs to include the following:
 - **The purpose:** You need to establish the goals, the threshold that will be used, and where you will document/track your assets
 - **Capital Asset definition:** You need to define a “Capital Asset”
 - For example: property that: has an economic useful life that extends beyond 12 months; and was acquired or produced for a cost of \$_____ or more
 - **Capitalization thresholds:** establishes a threshold amount for minimum capitalization.
 - Purchases costing below the threshold amount or with a useful life of under 12 months are recorded as an expense in your annual financial statements
 - **Capitalization method and procedure:** All Capital Assets are recorded at historical cost as of the date acquired
 - **Recordkeeping:** Invoices shall be kept for a minimum of four years

Capital Assets Accounting Categories

How to classify your capital assets:

- Land and Improvements
- Construction in Progress
- Buildings and Improvements
- Machinery and Equipment
- Infrastructure

Capital Assets Accounting Categories in an Audit

Primary Government

	Beginning Balance	Additions	Transfers (net) and Adjustments	Disposals	Ending Balance
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 539,410,084	\$ 995,000	\$ -	\$ (9,153,486)	\$ 531,251,598
Construction in progress	55,699,896	63,858,685	(25,867,617)	(20,000,000)	73,690,964
	<u>595,109,980</u>	<u>64,853,685</u>	<u>(25,867,617)</u>	<u>(29,153,486)</u>	<u>604,942,562</u>
Capital assets, being depreciated:					
Land improvements	17,164,012	-	2,532,402	(1,098,456)	18,597,958
Buildings and improvements	386,244,737	12,030	285,000	(81,917,740)	304,624,027
Machinery and equipment	156,835,764	6,128,640	958,381	-	163,922,785
Vehicles	20,122,156	2,283,383	(1,386,633)	(960,408)	20,058,498
Office furniture and equipment	32,288,056	370,176	89,660	(5,299)	32,742,593
Infrastructure	1,701,169,750	109,863	23,619,484	-	1,724,899,097
	<u>2,313,824,475</u>	<u>8,904,092</u>	<u>26,098,294</u>	<u>(83,981,903)</u>	<u>2,264,844,958</u>

continued...

Capital Asset Schedule Example

Capital Asset Schedule								
Fiscal Year End								
12/31/2026								
Depreciation Type - Straight-line								
				Entered		Current Year		
Asset	Asset	Gov-Wide	Useful	Service	Purchase	Depreciation	Accumulated	Net
Description	Category	Designation	Life	Date	Price	Expense	Depreciation	Book Value
Car	Vehicles	PS	7	10/12/2021	\$ 35,000.00	\$ 5,000.00	\$ 26,109.59	\$ 8,890.41
Truck	Vehicles	PW	7	1/15/2021	45,000.00	6,428.57	38,324.85	6,675.15
Car	Vehicles	GG	7	9/29/2021	25,000.00	3,571.43	18,776.91	6,223.09
Vehicles Subtotal					105,000.00	15,000.00	83,211.35	21,788.65
Township Hall	Buildings	GG	40	5/23/1991	600,000.00	15,000.00	534,493.15	65,506.85
DPW Barn	Buildings	PW	40	7/31/2003	150,000.00	3,750.00	87,883.56	62,116.44
Buildings Subtotal					750,000.00	18,750.00	622,376.71	127,623.29
Total Assets					\$855,000.00	\$ 33,750.00	\$705,588.06	\$149,411.94

What is capital outlay?

- It is an expenditure for governmental funds
 - It documents what capital assets you bought in that specific year
 - You are expensing it all at once
- Format to match the Uniform Chart of Accounts:
 - For general fund expenditures, the activity for capital outlay is 901-904
 - For all governmental funds, the account detail is 970-989



Capital outlay in Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended September 30, 2018

	General	Roads	Health	Juvenile Justice and Abuse / Neglect
Revenues				
Taxes:				
Property	\$ 296,904,321	\$ -	\$ -	\$ 3,436,228
State sales	55,569,884	-	-	-
Excise	-	-	-	-
Licenses and permits	919,001	-	-	-
Federal grants	26,829,830	1,098,733	10,394,523	447,497
State grants and contracts	25,538,147	115,226,220	3,858,857	62,017,611
Local grants and contracts	4,416,342	1,427,873	8,933,000	4,010,182
State sources	9,873,376	-	-	-
Charges for services	136,813,009	4,232,309	2,776,494	2,999,299
Interest revenue (loss) and rents	4,144,618	2,683,921	-	-
Other	16,401,649	22,014	-	-
Total revenues	577,410,177	124,691,070	25,962,874	72,910,817
Expenditures				
Current operations:				
Legislative	7,473,961	-	-	-
Judicial	142,010,577	-	-	-
General government	153,265,147	-	-	-
Public safety	137,701,507	-	-	-
Public works	387,663	-	-	-
Highways, streets and bridges	-	90,732,250	-	-
Health and welfare	21,721,502	-	37,017,851	125,593,170
Recreational and cultural	-	-	-	-
Community and economic development	-	-	-	-
Capital outlay	921,333	17,643,141	-	-
Debt service:				
Principal	-	-	-	-
Interest	100	-	-	-
Total expenditures	463,481,790	108,375,391	37,017,851	125,593,170
Revenues over (under) expenditures	113,928,387	16,315,679	(11,054,977)	(52,682,353)

What about capital purchases in proprietary funds?

- For your proprietary funds this is an addition to your balance sheet
 - This is for your enterprise funds and internal service funds
- The expense will be recorded through future depreciation using the useful life

Capital Assets in Proprietary Funds

	Enterprise Funds					
	Sewage Disposal Systems		Delinquent	Nonmajor	Total	Internal
	Downriver	Rouge Valley	Tax Revolving	Enterprise Funds		Service Funds
Assets						
Current assets:						
Equity in pooled cash and investments	\$ 2,428,452	\$ -	\$ 27,333,314	\$ 2,599,263	\$ 32,361,029	\$ 30,409,868
Other cash and investments	-	-	-	45,439	45,439	3,050
Due from other funds	-	-	-	-	-	-
Receivables:						
Accounts	-	13,134	-	2,913,927	2,927,061	-
Due from other governments	-	11,412,224	-	-	11,412,224	95,455
Less allowance for uncollectible accounts	-	-	-	-	-	-
Prepayments and deposits	-	-	-	74,477	74,477	1,517,410
Restricted assets:						
Equity in pooled cash and investments	-	-	36,789,920	-	36,789,920	-
Delinquent property taxes receivable	-	-	13,075,040	-	13,075,040	-
Accounts receivable	-	-	-	-	-	-
Total current assets	2,428,452	11,425,358	77,198,274	5,633,106	96,685,190	32,025,783
Noncurrent assets:						
Restricted assets:						
Equity in pooled cash and investments	-	186	20,662,777	2,796,088	23,459,051	-
Other cash and investments	-	-	45,374,704	-	45,374,704	-
Delinquent property taxes receivable	-	-	158,781,292	-	158,781,292	-
Accounts receivable	-	-	1,145,991	-	1,145,991	-
Due from other governments	-	-	148,589	-	148,589	-
Bond principal due from municipalities	-	25,000	-	1,946,289	1,971,289	-
Capital assets not being depreciated	-	5,377,376	-	2,195,372	7,572,748	23,678
Capital assets being depreciated, net	-	79,750,026	102,135	-	79,852,161	1,116,576
Total noncurrent assets	-	85,152,588	226,215,488	6,937,749	318,305,825	1,140,254
Total assets	2,428,452	96,577,946	303,413,762	12,570,855	414,991,015	33,166,037
Deferred outflows of resources						
Deferred pension amounts	-	-	102,941	-	102,941	1,137,989
Deferred OPEB amounts	-	-	43,000	-	43,000	2,000
Total deferred outflows of resources	-	-	145,941	-	145,941	1,139,989

continued...

What is depreciation?

- Depreciation
 - Each year your asset loses value, so this is the way to track the current value that your asset is losing
 - The useful life of an asset needs to be established before you calculate depreciation
 - Does not occur on land or construction in progress
 - There is no depreciation expensed on governmental funds, it is only when it is converted to the governmentwide statements it shown
 - Different methods but the most common is straight line
 - This involves take the purchase price and subtract the same amount of depreciation each year/month/day

Statements of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended September 30, 2018

	Enterprise Funds					
	Sewage Disposal Systems		Delinquent	Nonmajor		Internal
	Downriver	Rouge Valley	Tax Revolving	Enterprise	Total	Service Funds
				Funds		
Operating revenues						
Sewage disposal charges	\$ 15,296,897	\$ 51,005,339	\$ -	\$ 26,095,797	\$ 92,398,033	\$ -
Industrial surcharges	390,165	-	-	-	390,165	-
Other charges for services	6,070,148	33,000	-	4,050,166	10,153,314	89,332,895
Fines and forfeitures	-	-	77,349,959	-	77,349,959	-
Rentals and expense recoveries	-	-	-	-	-	11,674
Other revenue	-	-	325	-	325	-
Total operating revenues	21,757,210	51,038,339	77,350,284	30,145,963	180,291,796	89,344,569
Operating expenses						
Personnel	2,296,240	-	1,649,750	598,364	4,544,354	7,347,839
Fringe benefits	573,700	-	394,363	211,377	1,179,440	2,655,133
Pension and retirement benefits	49,832,022	-	428,763	6,801,551	57,062,336	4,736,021
Materials and supplies	2,533,321	5,600	1,440,770	112,750	4,092,441	1,224,995
Contractual services	5,509,039	55,996,242	14,108,209	24,611,576	100,225,066	9,993,357
Insurance benefits	-	-	-	-	-	59,297,752
Travel	3,402	-	8,842	125	12,369	55,610
Miscellaneous operating	4,095,958	87,929	1,850,890	621,499	6,656,276	4,043,645
Rentals	60,847	2,996	229,532	112,213	405,588	1,494,671
Other charges	-	-	336,757	684,526	1,021,283	685,967
Depreciation and amortization	13,937,584	2,821,449	37,419	355,050	17,151,502	185,422
Total operating expenses	78,842,113	58,914,216	20,485,295	34,109,031	192,350,655	91,720,412
Operating income (loss)	(57,084,903)	(7,875,877)	56,864,989	(3,963,068)	(12,058,859)	(2,375,843)
Nonoperating revenues (expenses)						
Investment earnings (loss)	521,718	116,448	1,024,759	189,828	1,852,753	(83,578)
State grant revenue	52,884	-	-	-	52,884	-
Collections from participating units	1,952,211	844	-	85,169	2,038,224	-
Gain (loss) from disposal of capital assets	-	-	-	(155,467)	(155,467)	-
Interest expense	(2,358,279)	(274,808)	(5,754,330)	(113,672)	(8,501,089)	-
Total nonoperating revenues (expenses)	168,534	(157,516)	(4,729,571)	5,858	(4,712,695)	(83,578)
Income (loss) before transfers	(56,916,369)	(8,033,393)	52,135,418	(3,957,210)	(16,771,554)	(2,459,421)

Depreciation

Depreciation

- What if you take an item out of use prior to its useful life?
 - You need to account for the difference
 - $(\text{Cost of asset} - (\text{years of uses} \times \text{yearly depreciation}) - \text{salvage amount}) = \text{your gain or loss}$
 - Per the Uniform Chart of Accounts: you would use 673 for Gain/Loss of Sale of Assets (Proprietary funds) and 693 Sale of Capital Assets (Governmental funds)
 - **For example:** a 3-year-old vehicle is totaled in an accident. If the vehicle cost is \$40,000 and has an estimated useful life of five years, there would have been \$8,000 of depreciation expense each year. If, in year three, it has to be scrapped for, say, \$5,000, there would be a loss of \$11,000 $(40,000 \text{ cost} - (3 \text{ years} \times 8,000 \text{ of depreciation}) - 5,000 \text{ salvage amount})$

Areas of Confusion

- What happens if you borrow money to purchase a capital asset? (debt and budgeting)
 - Purchase Example Answer: If you want to buy a new firetruck you need to budget in that year for the capital outlay (expenditure) and the loan proceeds (revenue) coming in if you borrow money. You also need to track your future debt payments – this is included in the notes section of your audit
- Who is responsible for maintaining the asset listing? Who should double check/review the list?
 - It can be decided by your local government, but we recommend giving it to the person who is the keeper of the records (this could be your clerk or finance director depending on your size)
 - You should follow your segregation of duties; you need at least two people – one maintaining the listing and one reviewing it

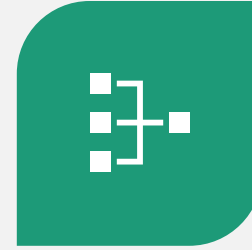
Areas of Confusion

- What useful lives are allowed? What if I believe my asset should be depreciated over a shorter or longer period than your “recommended” useful lives?
 - A reasonable schedule based on past experience with similar assets
 - You can update this as circumstances change
- Are there any statutory requirements for maintaining the asset list?
 - No, this is an internal controls procedure and should follow general accounting principles
 - You need this list for your audit to be completed

Decision Making



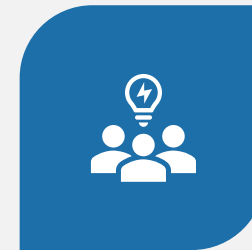
Decision Making Process



WHAT IS YOUR
CURRENT
PROCESS?

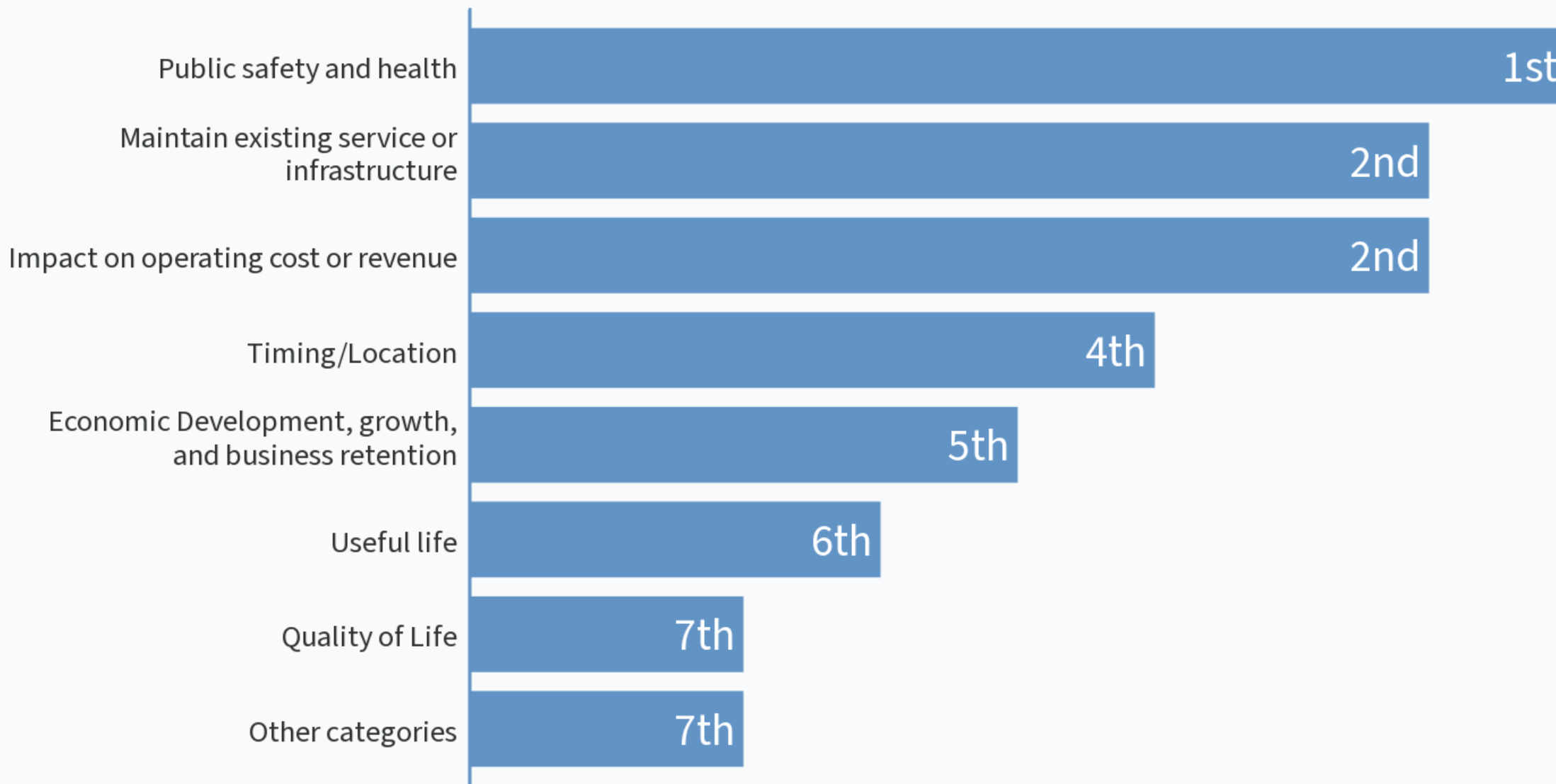


WHO MAKES
THE
DECISIONS?



HOW ARE
THEY MADE?

Please rank the following criteria



How do you determine what projects you are funding this year?

- While there is no right or wrong answer, your ranking should reflect the strategic goals of your community
- Are you using a consistent process to make these decisions?
- What criteria is missing?

Capital Improvements Program (CIP)



When poll is active, respond at pollev.com/msue446

Text **MSUE446** to **37607** once to join

Does your local unit of government have a capital improvements program?

Yes

No

Unsure

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?
 - 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?
 - How do you track projects that are 40 years out?

Takeaways

- Commit to the preplanning processes
- 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 timeline for preplanning activities
- Develop a plan/schedule to maintain, replace, or dispose of all purchases

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

But wait, there are
more next steps!

- 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
- Creating a funding plan that includes allocating money for new items and all of the things that need maintenance

Resources



Treasury's website: www.michigan.gov/CEFD



Michigan Department of Treasury

Search



TAXES

UNCLAIMED PROPERTY

LOCAL GOVERNMENT

STATE AND AUTHORITY FINANCE

REPORTS & LEGAL

LOCAL GOVERNMENT

Community
Engagement and
Finance

Local Retirement
Reporting

Revenue Sharing

State Tax
Commission

School Review and
Fiscal Accountability

Local Fiscal Health

TREASURY / LOCAL GOVERNMENT / COMMUNITY ENGAGEMENT AND FINANCE



Community Engagement and Finance

File and Search Reports

Local Retirement
Reporting

Financial Emergency
Information

MI Community Financial
Dashboard

Mission Statement

The Community Engagement and Finance Division (CEFD) is a division within the Bureau of Local Government, at the Michigan Department of Treasury. Our mission is to partner with Michigan municipalities, helping them to be fiscally resilient through financial, operational, and regulatory support services.

Stay Informed:  Follow us @MiTreasury



Sign-Up for Email Alerts

Contact Information

Email: TreasLocalGov@michigan.gov

Phone: 517-335-7469

[More Contact Information](#)

News, Notices and Resources

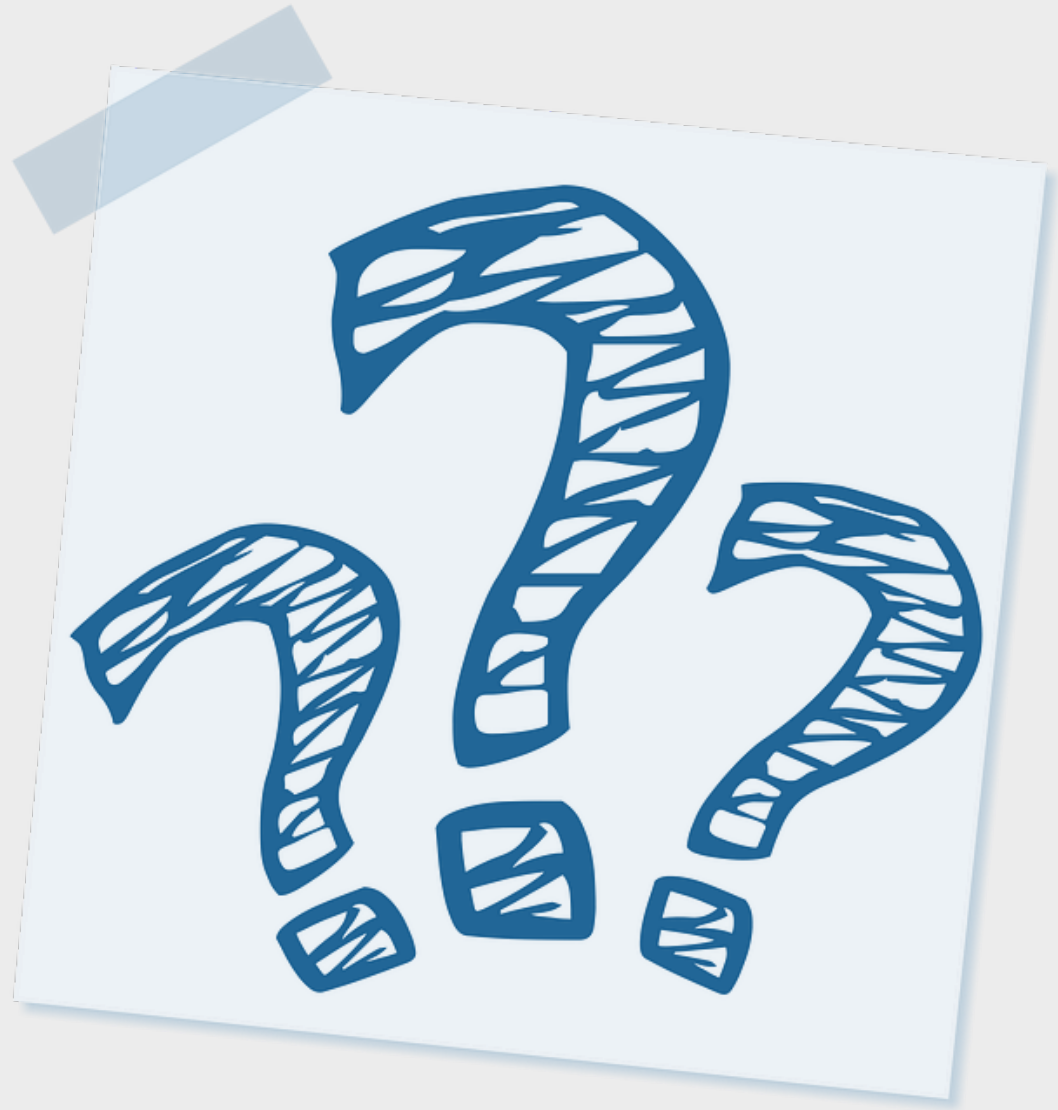
Michigan Infrastructure Council (MIC)

- 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](#)

Questions





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United States Department of Agriculture




AND JUSTICE FOR ALL

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To file a program discrimination complaint, a complainant should complete a Form AD-3027, USDA Program Discrimination Complaint Form, which can be obtained online, from any USDA office, by calling (866) 632-9992, or by writing a letter addressed to USDA. The letter must contain the complainant's name, address, telephone number, and a written description of the alleged discriminatory action in sufficient detail to inform the Assistant Secretary for Civil Rights (ASCR) about the nature and date of an alleged civil rights violation. The completed AD-3027 form or letter must be submitted to USDA by:

mail:
U.S. Department of Agriculture
Office of the Assistant Secretary for Civil Rights
1400 Independence Avenue, SW
Washington, D.C. 20250-9410; or

fax:
(833) 256-1665 or (202) 690-7442;

email:
program.intake@usda.gov.

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correo postal:
U.S. Department of Agriculture
Office of the Assistant Secretary for Civil Rights
1400 Independence Avenue, SW
Washington, D.C. 20250-9410; o

fax:
(833) 256-1665 o (202) 690-7442;

correo electrónico:
program.intake@usda.gov.

Esta institución ofrece igualdad de oportunidades.

Form AD-475-A—Revised/Pastor/Revised July 2019

Archivo complementario al Formulario AD-475-A/Revisado Julio 2019