



AGENDA
Committee of the Whole
City Council Chambers, 10th Floor, City Hall
Monday, February 7, 2011
8:00 p.m. (or directly after the City Council Session)

Council President A'Lynne Robinson
Council Vice President Kathie Dunbar

- I. Call To Order
- II. Roll Call
- III. Approval of Minutes: 1-20, 1-24, 1-31-2011
- IV. Public Comment
- V. Discussion/Action:
 1. City of Lansing 2010 Comprehensive Annual Financial Report
 2. City of Lansing Quarterly Financial Report
 3. Administration's Update
 4. Receipt of Letter from Ms. Mitchell
- VI. Other
- VII. Adjourn
- VIII. Pending

FY 2010 General Fund Year-End Results

	Adopted Budget	Carryfwd/Donations	Deficit Elimination Plan	Year-End Budget Amendment	Final Amended Budget	Year-End Results	Difference from Adopted	Difference from Amended
Revenues								
Property Taxes	\$ 41,273,556		\$ (200,000)		\$ 41,073,556	\$ 39,199,888	\$ (2,073,668)	\$ (1,873,668)
Income Taxes	30,300,000		(200,000)	(1,000,000)	29,100,000	27,408,442	(2,891,558)	(1,691,558)
Revenue Sharing	17,640,993		(1,800,000)	(300,000)	15,540,993	15,349,451	(2,291,542)	(191,542)
Licenses & Permits	1,598,500				1,598,500	1,423,348	(175,152)	(175,152)
Charges for Services	8,531,622				8,531,622	8,659,689	128,067	128,067
Fines & Forfeitures	3,897,050				3,897,050	3,284,982	(612,068)	(612,068)
Interest & Rentals	928,900			(400,000)	328,900	210,288	(718,612)	(118,612)
Return on Equity	11,850,000				11,250,000	10,785,037	(1,064,963)	(464,963)
Other Revenues	563,800		(600,000)		572,502	293,151	(270,649)	(279,351)
Transfers In	615,579	8,702			615,579	1,531,865	916,286	916,286
Total Revenues	\$ 117,200,000	\$ 8,702	\$ (3,000,000)	\$ (1,700,000)	\$ 112,508,702	\$ 108,146,141	\$ (9,053,859)	\$ (4,362,561)
Expenditures								
City Council	\$ 624,274		\$ (12,100)		\$ 612,174	\$ 569,936	\$ 54,338	\$ 42,238
City TV	195,805		(4,100)		191,705	190,440	5,365	1,265
Internal Auditor	150,720		(3,700)		147,020	140,605	10,115	6,415
City Clerk's Office	899,377		(18,250)	(73,300)	807,827	820,243	79,134	(12,416)
Mayor's Office	725,144		(11,200)		713,944	692,250	32,894	21,694
Courts	5,356,780		(81,750)		5,275,030	5,231,094	125,686	43,936
City Attorney's Office	1,351,000		(32,000)	20,000	1,339,000	1,338,553	12,447	447
Planning & Neigh. Dev.	3,651,370		(133,000)	(57,700)	3,460,670	3,372,360	279,010	88,310
Finance	10,483,840		(194,771)	(89,400)	10,199,669	10,113,456	370,384	86,213
Human Resources	1,816,320		(44,000)		1,772,320	1,699,185	117,135	73,135
Human Relations & Comm. Serv.	667,910		(16,500)		651,410	638,228	29,682	13,182
Police	34,319,970		(1,020,100)	530,000	33,763,494	33,843,505	476,465	(80,010)
Fire	30,050,300		(500,500)	(60,000)	29,527,678	29,598,682	451,618	(71,004)
Public Service	6,092,090		(35,000)		6,057,090	5,748,670	343,420	308,420
Parks & Recreation	8,790,130		(180,644)	(369,600)	8,242,732	8,030,916	759,214	211,816
Human Service Agencies	1,481,250	150,878			1,632,128	1,354,053	127,197	278,075
City-Supported Agencies	259,400				259,400	259,400		
Library	160,000				160,000	152,110	7,890	7,890
Debt Service	1,959,865				1,959,865	1,916,773	43,092	43,092
Transfers to Other Funds	9,164,455	136,705			9,388,775	7,020,127	2,144,328	2,368,648
Vacancy Factor	(1,000,000)		(200,000)					
Total Expenditures	\$ 117,200,000	\$ 261,931	\$ (3,000,000)	\$ 1,700,000	\$ 116,161,931	\$ 112,730,585	\$ 4,469,415	\$ 3,431,346
Use of Reserves	\$ -	\$ (253,229)	\$ -	\$ (340,000)	\$ (3,653,229)	\$ (4,584,444)	\$ (4,584,444)	\$ (931,215)

General Fund Revenues Received in or after Late June Every Year

<u>Revenue Category</u>	<u>Revenues in Each Category that are Received in or after Late June Every Year</u>
Property Taxes	GM & Auto Supplier Infrastructure Fee (Based on Personal Property Taxes; FY'10 Affected by State Multiplier Change)
Income Taxes	All of July and 15 days of August
Revenue Sharing	June 30th and August 30th Payments
Licenses & Permits	4th Quarter Cable Franchise Fees
Charges for Services	June Ambulance Revenue
Fines & Forfeitures	June District Court Revenues
Interest & Rents	June Interest Earnings
Return on Equity	Full Annual BWL Payment

December 27, 2010

To the City Council of the
City of Lansing
Lansing, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Lansing* (the "City") for the year ended June 30, 2010, and have issued our report thereon dated December 27, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated August 3, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on October 26, 2010.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of their leases receivable balances is based on past experience and future estimate of leases receivable.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- Management's estimate of the insurance claims incurred but not reported is based on information provided by the entity's third party administrators and subsequent claims activity.
- The assumptions used in the actuarial valuations of the City's pension and other postemployment benefit plans are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There was one passed adjustment for a proposed change in deferred revenue and current verses long term receivable. The amount was not considered material to the financial statements. As described in finding 2010-1 of the City's single audit, we proposed (and management approved) material audit adjustments to the City's financial statements. In our opinion, the adjustments had a material effect on the City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the attached management representation letter dated December 27, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the City of Lansing and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Rehmann Johnson

City of Lansing

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2010

In planning and performing our audit of the financial statements of the City of Lansing (the "City") as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. The deficiencies we noted that we consider to be material weaknesses are described in the Schedule of Findings and Questioned Costs in the City's Single Audit report.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the City's Single Audit report.

Other Matters

Bank Reconciliations (Repeat Comment)

As part of our audit, we examined the bank reconciliations of the City's various accounts throughout the fiscal year. We noted that while most bank reconciliations showed evidence of a formal review and approval process (as required by City policy), several did not. We recommend that the City carefully adhere to its policy that each bank reconciliation be reviewed and approved by an individual other than the preparer, and that such review be evidenced by initialing and dating the reconciliation. We understand that the City has already made changes to these procedures for FY 2011, which should serve to satisfy this recommendation.

City of Lansing

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2010

Stale Checks (Repeat Comment)

During our testing of the City's cash and bank reconciliations, it came to our attention that there is a significant number of checks that have been outstanding for more than one year. Michigan Compiled Law (MCL) 567.234 states: "Property held for the owner by a court, state, or other government, governmental subdivision or agency, public corporation, or public authority that remains unclaimed by the owner for more than 1 year after becoming payable or distributable is presumed abandoned." The law requires the person holding unclaimed property presumed abandoned and subject to the State's custody, to send written notification ("due diligence letter") to the owner at their last known address informing them that the property is subject to be turned over to the State of Michigan. The notice must be sent not less than 60 days before filing the report to the State of Michigan. MCL 567.238 requires the letter to the owner along with the unclaimed property to be filed with the State Treasurer on or before November 1 of each year for the twelve month period ending on the immediately preceding June 30. We recommend that the City examine old outstanding checks and follow the procedures detailed above.

Fraud Monitoring Program

The City has implemented a process to allow employees and others within the organization to report suspected fraud or abuse directly to senior management. However, based on our interactions with various City employees, it would appear that knowledge of this system is not widespread. We recommend that the City undertake to make all employees aware of this system, and consider adding mention of it to the City's employee handbook. Finally, the current system does not appear to support anonymous reporting of matters. We recommend that feature be added as an option for sensitive matters that may not otherwise be reported without appropriate whistle-blower protections in place.

Actuarial Data Preparation

The City obtains actuarial valuations for its various pension and other postemployment benefit plans each year. Ideally, these valuations should be obtained far enough in advance to be used in determining the annual required contribution for the fiscal year, and to be included in the audited financial statements. In recent years, the City has not provided its actuaries with the information necessary to complete these valuations until well after the end of the fiscal year, which significantly delays the availability of the actuarial information. We recommend that the City seek to accelerate its timeline for submitting data to its actuaries in future periods.

City of Lansing

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended June 30, 2010

Pension Report Review

The City outsources the administration of certain functions for its pension plans, including investing activities, to a third-party administrator. As part of exercising appropriate oversight over this function, the City should annually obtain a SAS 70 report on the third-party administrator's internal controls. While such a report was available for the most recent period, the City did not review it to ensure that no deficiencies requiring corrective action were noted. We recommend that a knowledgeable official review this report annually and follow-up on any areas of concern with the custodian of the City's pension assets or its auditors.

Multiple Vendor Identification Numbers

As part of our audit, we reviewed the City's vendor information file. We noted various instances in which a single vendor was listed multiple times and assigned multiple identification numbers. This appears to be a result of individual City departments requesting a new identification number to be assigned to a vendor without first checking with Purchasing to ensure the vendor hadn't already been setup. In order to facilitate more accurate reporting of the City's purchasing activities, we recommend that a procedure be put in place to check for existing vendor information before approving a new vendor identification number.

* * * * *



Virg Bernero, Mayor

FINANCE DEPARTMENT

124 W. Michigan Ave., 8th Floor
Lansing, Michigan 48933
(517) 483-4500

December 27, 2010

Rehmann Robson
2330 East Paris Avenue SE
Grand Rapids, MI 49546

We are providing this letter in connection with your audit of the financial statements of *City of Lansing* as of June 30, 2010 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Lansing and the respective changes in financial position and, where applicable, cash flows thereof in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of December 27, 2010, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all—
 - a. Financial records and related data.
 - b. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

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5. We believe the effect of the uncorrected financial statement misstatement summarized in the SAS 115 management letter is immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, you have proposed adjusting journal entries that have been posted. We are in agreement with those adjustments.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. We have a process to track the status of audit findings and recommendations.
10. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.
11. We have provided our views on reported findings, conclusions; and recommendations, as well as our planned corrective actions, for the report.
12. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
13. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
 - b. Guarantees, whether written or oral, under which the City is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
14. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial

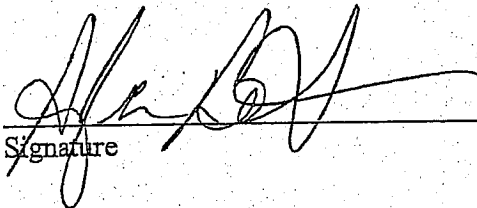
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statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

15. There are no—
 - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with *Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Reservations or designation of fund equity that were not properly authorized and approved.
16. As part of your audit, you prepared the draft financial statements and related notes. We have designated a competent management-level individual to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
17. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
18. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
19. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
20. The financial statements properly classify all funds and activities.
21. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
22. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
23. Provisions for uncollectible receivables have been properly identified and recorded.
24. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

- 25. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 26. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 27. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
- 28. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
- 29. Required supplementary information (RSI) is measured and presented within prescribed guidelines.

No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.


Signature

Signature

Budget Manager / Interim
Title

Title

Accounting Manager

PM @ Council Meeting



Virg Bernero
Mayor

OFFICE OF THE MAYOR

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Lansing, Michigan 48933-1694
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mayor@ci.lansing.mi.us

TO: Lansing City Council
FROM: Jerry Ambrose, Chief of Staff
DATE: December 20, 2010
RE: **City of Lansing Financial Update: FY10 – FY11 – FY12 and Beyond**

The historic "Great Recession" has significantly impacted municipal revenues, even though demand for city services remains strong and the cost of providing those services continues to increase. Over the past five budgets, city government has responded primarily by reducing expenses and making structural changes to its organization. The city's workforce is smaller by 15%, and our expenditure base is correspondingly much smaller than it would have been in the absence of significant budget cuts to bring expenses in line with revenues. To date, however, with the cooperation of the City Council and our employees, the City has been able to meet four key objectives of this administration:

- Providing essential and expected services to its residents, businesses, and visitors
- Protecting the welfare of its employees
- Remaining financially strong
- Investing in the future of the city by aggressively pursuing economic development

These objectives have been accomplished by developing spending plans that have not relied on general property tax increases and have not included the planned use of the city's reserves, including its \$5.8 million Budget Stabilization Fund.

Even though there are encouraging signs of economic recovery, city revenues have been impacted by continued weakness in the national and state economy. At the same time, while steps have been taken to reduce costs in permanent ways, the cost of city services has continued to increase.

The result has been a continuing challenge to match expected revenues with expenses in each of the past five budget years. This challenge is expected to continue for several years. Projections shared with the City Council during the past year's budget process show that it would be at least 2015 before the annual growth in revenues would come close to matching the annual growth in expenses.

(ATTACHMENT 1)

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Fiscal Year 2009-2010 Overview

Unfortunately, as we closed the books on FY10 (the fiscal year ending June 30, 2010), evaluated the status of the current year budget (FY11), and begun our planning for FY12 (the fiscal year beginning July 1, 2011), it is apparent that the impact of the recession will have longer-lasting impacts than we had forecast. In short, city revenues continue to be impacted by several factors:

- Decreasing property values
- Aggressive appeals of property assessments
- Unilateral changes in state requirements for assessing certain personal properties
- Declining state revenues
- Depressed income tax revenues
- Historically low interest rates

The final closing of the books for FY10 shows disappointing results. Even with two Deficit Elimination Plans approved by the City Council, and a concerted effort to reduce expenses in the General Fund, the year ended with expenses exceeding revenues by \$4.6 million. This shortfall was due to unexpected decreases in anticipated revenues, NOT in expenses exceeding budget.

The FY10 General Fund budget adopted by City Council totaled \$117 million. Year-end results show actual revenues of \$108.1 million and actual expenses of nearly \$112.7 million. Some of the unanticipated revenue losses were reflected in the two Deficit Elimination Plans approved by City Council. As the administration made clear at that time, it was projected that \$3.4 million in reserves would be used. Unfortunately, revenues still did not make even the revised projections, and in spite of aggressively reducing expenses by \$3.4 million, the actual use of reserves for FY10 totaled \$4.6 million, which is \$1.2 million higher than projected due to unanticipated revenue losses, including state revenue sharing reductions, state-imposed changes in personal property multipliers, plus weak income tax and investment revenues.

As a result, the current unreserved fund balance in the General Fund is minimal (less than \$150,000). However, the Budget Stabilization Fund remains untouched at \$5.8 million. This is the second year that year-end results ended with a drawdown of General Fund reserves, a fact not unnoticed by rating agencies.

(ATTACHMENT 2)

Fiscal Year 2010-2011 Overview

Our current General Fund Budget (FY10) totals \$109.4 million, compared to the \$108.1 million in General Fund revenues for the year ended June 30, 2010. As reported to Council in November, this year's budget appears at the end of the first quarter to be on track, although concerns remain about ongoing property tax appeals, flat income tax revenues (including the impact of the state's retirement incentive), and the possibility of future cuts in State Revenue Sharing.

(ATTACHMENT C)

Fiscal Year 2011-2012 Forecast and Beyond

As we begin our planning for the upcoming fiscal year (FY12, beginning July 1, 2011), it is clear that we will again face a significant challenge. Property values (and hence tax revenues) are projected to decrease by 8%, income tax revenues will remain flat, and some decrease in state revenue sharing is almost a certainty. At the same time, our expense bases will continue to increase as higher costs associated with contractual wage adjustments, health and pension costs, energy and materials occur. Our preliminary projection for FY12 General Fund revenues is \$103 million, and expenses are projected at \$118 million, a difference of \$15 million.

(ATTACHMENT D)

Based on the experience of the past fiscal year, it appears now that it will be at least 2016 before we can see revenue growth from current sources coming close to meeting historical increases in our expenditure base.

(ATTACHMENT E)

Over the next several months, the administration will develop a recommended budget for Council's consideration. It is clear that significant changes to our expenditure base will be necessary. We will continue to look at how we are organized to provide services, and to look at how to reduce the cost drivers that increase our expense base year after year. Of necessity we will be making difficult decisions regarding what city services we provide in the future and at what level. It will be impossible to develop a recommended budget that does not affect our workforce, because as you know, most of our expenses are related to costs associated with employees.

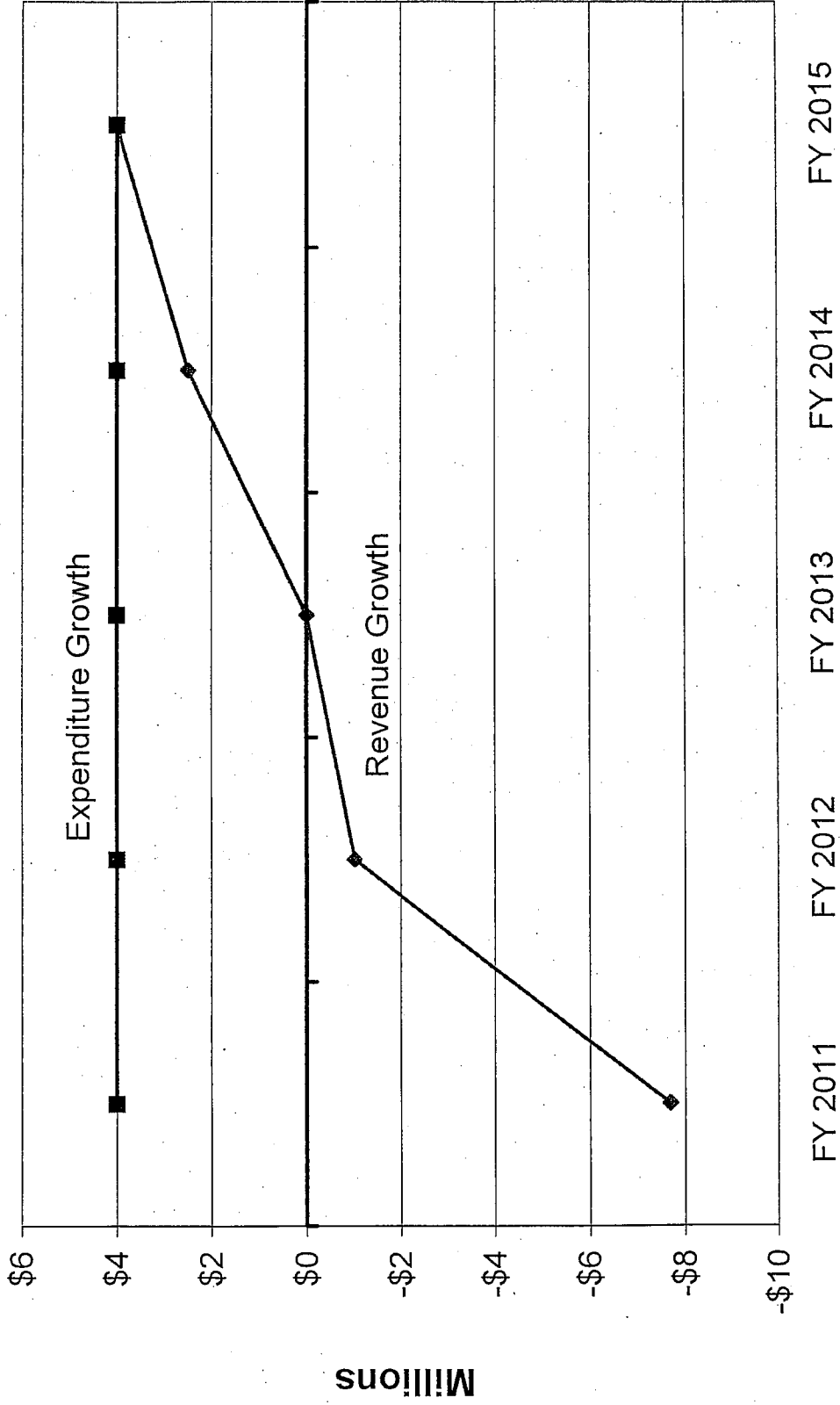
\$15 million is a significant challenge for a budget slightly over \$100 million and a workforce of around 1,000 employees:

- \$15 million equates to a 13% reduction across the board in all city services supported by General Fund dollars
- \$15 million equates to 214 employees, at an average cost of \$70,000 per employee for wages and benefits
- \$15 million equates to about half of what the city spends on health insurance for employees and retirees annually
- \$15 million equates to nearly half the cost of the police department
- \$15 million equates to half the cost of the fire department

- \$15 million is more than the total cost of the entire Parks Department
- \$15 million is nearly the entire cost of the combined total of the Finance Department; Human Resources, Council, Mayor, City Attorney, and City Clerk's budgets.

Over the past five years, the City of Lansing, with the cooperation of City Council, employees and the public, has made reductions of more than \$42 million to bring expenses in line with declining revenues. I am sure that with continued cooperation, we will meet the ongoing and unprecedented financial challenges we will face over the next few years, while still ensuring that our residents, businesses and visitors receive essential city services. We look forward to working with you to address these challenges in the New Year.

Projected General Fund Gap Trend



CITY OF LANSING
General Fund Budget Summaries
For the Years Ended June 30, 2010 & 2011

	2010 Amended <u>Budget</u>	2010 Year-End <u>Results</u>	2011 Adopted <u>Budget</u>
GENERAL FUND REVENUE			
Taxes and special assessments	41,073,556	39,199,888	37,038,845
Income taxes	29,000,000	27,408,442	29,700,000
Licenses and permits	1,598,500	1,423,348	1,601,840
Intergovernmental	15,540,993	15,349,451	15,114,127
Charges for services	8,531,622	8,659,689	8,819,788
Fines and forfeits	3,897,050	3,284,982	3,764,100
Interest and rents	328,900	210,288	583,000
Return on Equity	11,350,000	10,785,037	12,300,000
Other revenues	572,502	283,443	199,300
Transfers in	615,579	1,531,865	300,000
TOTAL GENERAL FUND REVENUE	<u>112,508,702</u>	<u>108,136,433</u>	<u>109,421,000</u>
EXPENDITURES			
General government	\$24,519,359	24,277,763	\$21,792,857
Public safety	63,291,172	63,442,187	62,108,400
Public Works	6,057,090	5,748,670	6,232,000
Parks and recreation	8,242,732	8,030,916	7,644,145
Human Services	2,542,938	2,251,681	2,148,170
Debt service	2,132,215	1,959,241	1,941,860
Transfers out	9,376,425	7,020,127	7,553,568
TOTAL GENERAL FUND EXPENDITURES	<u>116,161,931</u>	<u>112,730,585</u>	<u>109,421,000</u>
Revenues Over (Under) Expenditures	<u>(3,653,229)</u>	<u>(4,594,152)</u>	<u>0</u>
Total Unaudited Reserves	7,151,067	6,210,144	6,210,144
Anticipated Fund Balance Reservations and Designations	<u>(1,500,000)</u>	<u>(380,807)</u>	<u>(400,000)</u>
Total Unaudited Fund Balance, Ending	<u>\$ 5,651,061</u>	<u>\$ 5,829,337</u>	<u>\$ 5,810,144</u>

General Fund Status Report – FY 2011 September 30, 2010

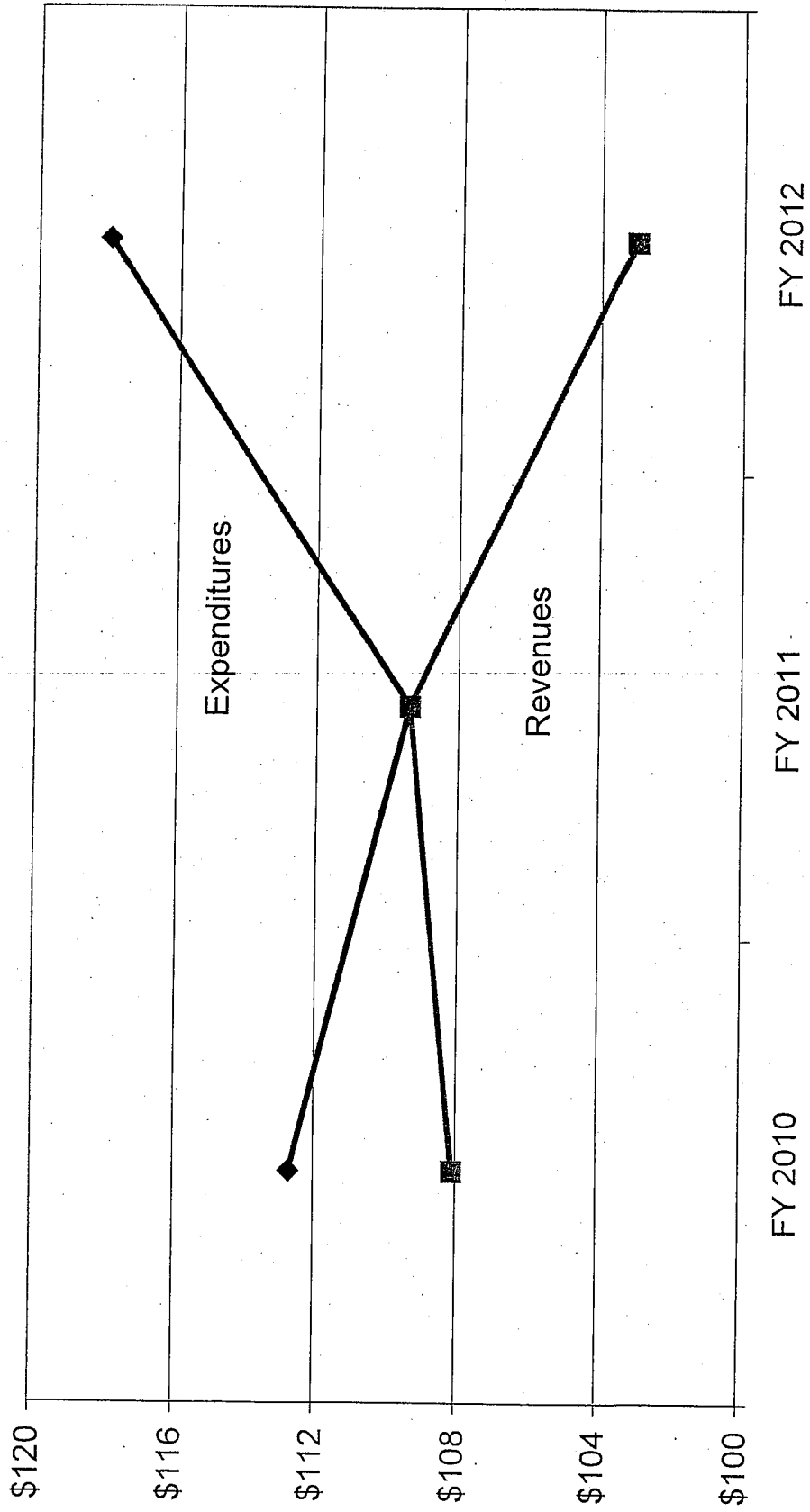
Revenues	Annual	Actual	Percent	Avg. Percent
	<u>Budget</u>	<u>as of 09/30/10</u>	<u>of Budget</u>	of Year-End Actuals as of September 30 FY 2007 - 2009
Property Taxes	\$ 37,034,845	\$ 36,977,773	99.8%	97.9%
Income Taxes	29,700,000	2,910,465	9.8%	11.4%
Revenue Sharing	15,114,127	427,141	2.8%	2.0%
Licenses & Permits	1,601,840	80,237	5.0%	3.4%
Charges for Services	8,819,788	1,741,769	19.7%	17.5%
Fines & Forfeitures	3,764,100	534,861	14.2%	18.0%
Interest & Rent	583,000	13,890	2.4%	6.7%
Return on Equity	12,300,000	300,000	2.4%	2.8%
Other Revenue	503,300	25,257	5.0%	6.7%
Total Revenues	\$ 109,421,000	\$ 43,011,392 ⁽¹⁾	39.3%	39.3%

Expenditures	Annual	Actual	Percent	Target, Including
	<u>Budget</u>	<u>as of 09/30/10</u>	<u>of Budget</u>	<u>Vacancy Factor</u>
Council	\$ 601,683	\$ 118,945	19.8%	
Internal Audit	145,710	31,274	21.5%	
Courts	5,065,427	1,007,194	19.9%	
Mayor's Office	705,042	142,541	20.2%	
Media Center	187,406	44,996	24.0%	
Clerk's Office	819,812	200,771	24.5%	
Planning & Neighborhood Development	3,112,383	872,305	28.0%	
Finance	9,698,704	1,903,682	19.6%	
Human Resources	1,687,770	291,640	17.3%	
Attorney's Office	1,268,920	250,849	19.8%	
Vacancy Factor	(1,500,000)	-	0.0%	
Police	33,112,100	6,546,324	19.8%	
Fire	28,996,301	6,057,855	20.9%	
Public Service	6,231,998	1,326,512	21.3%	
Human Relations & Community Service	664,770	147,931	22.3%	
Parks & Recreation	7,644,146	1,466,106	19.2%	
Human Services & City Supported Agencies	1,483,400	544,159	36.7%	
	\$ 99,925,572	\$ 20,953,082	21.0%	21.3%
Library Lease	\$ 160,000	\$ 49,449	30.9%	
Debt Service	1,765,260	556,005	31.5%	
Transfers	7,570,168	6,696,559	88.5%	
	\$ 109,421,000	\$ 28,255,095 ⁽¹⁾		

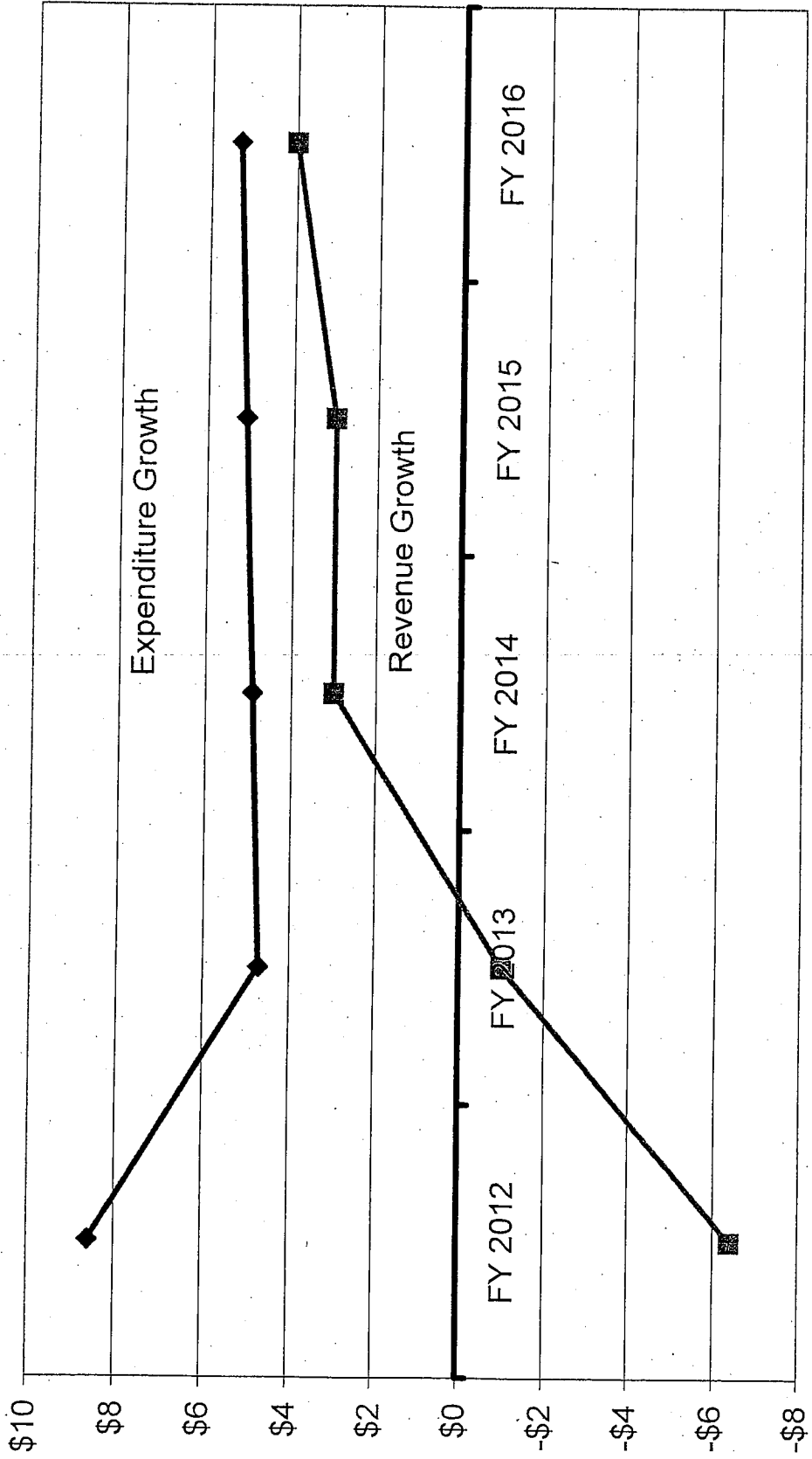
Please see Pages 1 and 2 for an explanation of revenues and expenditures.

⁽¹⁾ Note: Year-to-date revenue is always greater than expenditures at this time of year, as property taxes, accounting for 34% of General Fund revenues, are collected at the beginning of the year. Property taxes include delinquent amounts that will be reimbursement by the counties upon settlement.

Preliminary FY 2012 General Fund Gap Estimate (amounts in millions)



General Fund Five Year Projection (amounts in millions)



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LANSING CITY COUNCIL

I know some of you know me.
I am complaining about Bd of water & light. I have heard numerous complaints. It is time you act.

Once a year they add \$50 to the bill = 129.00. The head guy gets a nice salary - lot more than average. so many people hurting. Get off your high horse - put a stop to this.

Most people are not as fortunate as the - (husband & wife) both employed. Homeless - growing. 80% of people hurting - mayor & wife. are both employed -

Big problem is you people in city hall - council - etc. have people who make big salaries.

don't you see the poverty?

I do.

need my help? Call me

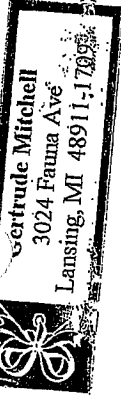
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Lansing City Council
City Hall

Garvey, Mich 48937

LANSING MI 48937

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General Fund Status Report – FY 2011 2nd Quarter

Please see accompanying summary detail (page 3)

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LANSING CITY CLERK

Revenues

In total, General Fund revenues collected in the first half of Fiscal Year 2011 (July – December) trended downward from the past three years' collection rates, as a percentage of year-end amounts (50.1% compared to 51.4%). Due to tax appeals, a lack-luster quarter of income tax revenues, and anemic interest earnings, there is concern over potential shortfalls.

- The vast majority of **Property Taxes** are collected in the first month of the fiscal year. As of the first half of this year, they were lower, as a percentage of budget, compared to the average of the past three year's collection rates, at 95.9% compared to 96.6% due to foreclosure and bankruptcy charges in the second quarter. The City has a number of pending property tax appeals which will likely continue to impact property tax revenues for the rest of this fiscal year.
- As a percentage of budget, **Income Tax** collections were lower than the average collection rate for the past three years, at 31.9% of budget, compared to 33.7%. Income tax receipts experienced late in the second quarter, combined with the State's retirement incentive, raise concerns that the budgetary target may not be met. However, income tax revenues for this year are expected to be greater than those collected last fiscal year.
- **Revenue Sharing**, Fire Protection, and Bad Driver revenues from the State were at 23.2% of budget, compared to an average collection rate of 22.9% for the past three years. Based on the latest projections provided by the State, these revenue sources have the potential of exceeding budgeted amounts by \$300,000.
- **Charges for Services** were higher as a percentage of year-end totals for the average of the same period for the last three years, at 46.0% compared to 40.3%, due largely to ambulance revenues.
- In total, **Licenses and Permits** revenues were also higher than the average collection rate of the same period for the last three years as a percentage of year-end totals, at 29.5% of budget, compared to 26.9%. It should be noted, however, that licenses and permits account for only 1.5% of General Fund revenues.
- Collection rates for **Fines and Forfeiture** were substantially lower as a percentage of year-end totals for the average of the last three years, at 31.3% of the budget compared to 42.6%, due to lower receipts in ordinance violation fines and costs.
- The City's payment from the Board of Water and Light (BWL), which accounts for 11% of General Fund revenues is not collected until after the year-end. At this point, the Board is projecting that the payment is on target with budgeted amounts.
- **Interest** revenue is posted as investments mature, the timing of which varies from year-to-year. Based on continued historic low interest rates, interest earnings are expected to be

General Fund Status Report – FY 2011 December 31, 2010

Revenues	Annual	Actual	Percent of Budget	Avg. Percent of Year-End Actuals as of September 30 FY 2008 - 2010
	Budget	as of 12/31/10		
Property Taxes	\$ 37,034,845	\$ 35,522,490	95.9%	96.6%
Income Taxes	29,700,000	9,465,354	31.9%	33.7%
Revenue Sharing	15,114,127	3,511,867	23.2%	22.9%
Licenses & Permits	1,601,840	471,966	29.5%	26.9%
Charges for Services	8,819,788	4,059,350	46.0%	40.3%
Fines & Forfeitures	3,764,100	1,178,988	31.3%	42.6%
Interest & Rent	583,000	16,808	2.9%	46.6%
Return on Equity	12,300,000	300,000	2.4%	1.8%
Other Revenue	503,300	251,870	50.0%	28.4%
Total Revenues	\$ 109,421,000	\$ 54,778,693 ⁽¹⁾	50.1%	51.4%

Expenditures	Annual	Actual	Percent of Budget	Target, Including Vacancy Factor
	Budget	as of 12/31/10		
Council	\$ 601,683	\$ 254,085	42.2%	
Internal Audit	145,710	69,583	47.8%	
Courts	5,065,427	2,307,950	45.6%	
Mayor's Office	705,042	317,566	45.0%	
Media Center	187,406	105,758	56.4%	
Clerk's Office	819,812	438,340	53.5%	
Planning & Neighborhood Development	3,112,383	1,581,006	50.8%	
Finance	9,698,704	4,687,961	48.3%	
Human Resources	1,687,770	720,445	42.7%	
Attorney's Office	1,268,920	569,271	44.9%	
Vacancy Factor	(1,500,000)	-	0.0%	
Police	33,112,100	16,206,377	48.9%	
Fire	28,996,301	14,742,292	50.8%	
Public Service	6,231,998	1,925,028	30.9%	
Human Relations & Community Service	664,770	331,104	49.8%	
Parks & Recreation	7,644,146	4,137,068	54.1%	
Human Services & City Supported Agencies	1,483,400	979,887	66.1%	
	\$ 99,925,572	\$ 49,373,723	49.4%	48.5%
Library Lease	\$ 160,000	\$ 74,159	46.3%	
Debt Service	1,765,260	818,785	46.4%	
Transfers	7,570,168	6,153,426	81.3%	
	\$ 109,421,000	\$ 56,420,092 ⁽¹⁾		

Please see Pages 1 and 2 for an explanation of revenues and expenditures.

⁽¹⁾ Note: Due to varying rates at which revenue sources are collected (for example property taxes are collected at the beginning of the year), revenues and expenditures are not expected to match at this time of year. Property taxes include delinquent amounts for real property that will be reimbursement by the counties upon settlement.