

City of Wayne

6/30/2022 Audit Report and Financial update

January 17, 2023



Auditor's Opinion

1. Financial Statements – Unmodified Opinion – the highest level of assurance an auditor can provide

- Statements are materially correct and can be relied upon

2. Single Audit – Federal Expenditures – no findings

- Report was not finalized with financial statement audit – NOT LATE
- Alternative approach was done this year – only an opinion letter

3. Internal Controls

- No Material Weaknesses identified
- No Significant Deficiencies identified

Reminder: This positive report is on the presentation of the City's finances, not on the economic or financial well-being of the City.

Major and Local Street Funds

1. In FY 2022, the Major Street fund had a surplus of \$460k. Fund Balance is \$2.0M in this fund.
2. In FY 2022, the Local Street fund had a surplus of \$369k. Fund Balance is \$3.5M in this fund.

The City is executing a 5-year plan to address some of the City's street issues and utilize this fund balance; however, the amount available is nowhere near enough to perform the necessary work on all city streets.

Water and Sewer Fund

1. Short-term indicators continue to be strong

- System has \$10.5M of working capital (current assets minus current liabilities) at 6/30/22

2. Long-term indicators are improving, but legacy costs and infrastructure needs continue to be a concern

- W&S also shares in pension and OPEB liabilities, totaling \$4.2M
- While historically well maintained, the City's Water and Sewer system is aging

3. Net Position increased by \$1.8M

To Do list:

1. DO NOT use W&S resources anywhere else but in W&S
2. Evaluate short-term and long-term needs of system. City has the financial ability to undertake new projects, including Lead Line Replacement
3. Continue updating W&S financial model and update rates as necessary

General Fund – FY 2022

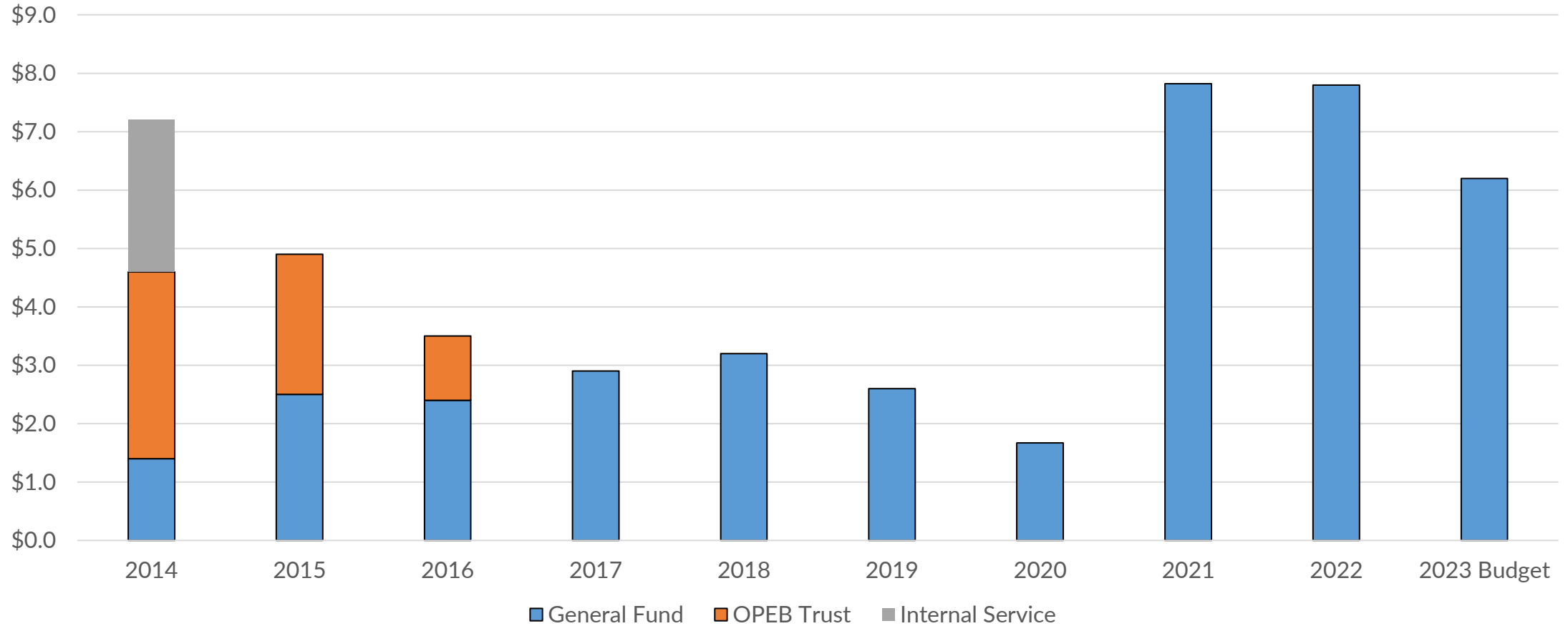
- **Expenditures exceeded revenues by approximately \$42k**
 - Fund Balance decreased by a corresponding amount
 - Better than the final amended budget by \$1.8M
- **How does this compare to prior year?**
 - **\$3.9M less revenue than FY 2021**
 - Judgment Levy - \$4.8M in 2021
 - LCSA - \$285k more than PY
 - State Shared Revenue - \$178k more than PY
 - Risk insurance reimbursement - \$200k less than PY
 - Administrative transfers - \$105k less than PY
 - Sale of recreation center - \$800k more than PY
 - **\$2.3M more expenditures than FY 2021**
 - Public safety – fire truck and personnel costs \$1.3M more than PY
 - Recreation debt payoff - \$700k more than PY
 - MERS Retiree - \$300k more than PY

Unfunded Legacy Costs

Legacy Costs	2018	2019	2020	2021	2022
Net Pension Liability	43,682,132	50,495,815	51,594,452	50,926,472	50,714,029
Other Postemployment Benefits	5,863,865	5,281,545	4,836,702	5,124,365	3,663,119
Total unfunded legacy costs	49,545,997	55,777,360	56,431,154	56,050,837	54,377,148
Divide by Wayne population (2010 census)	17,593	17,593	17,593	17,593	17,395
Unfunded Legacy Costs per Capita	2,816	3,170	3,208	3,186	3,126

- Actuarially calculated OPEB liability decreased dramatically in 2018 with changes to retiree healthcare – an \$80M reduction!
- Pension system funding remained consistent at 60% funded in FY 2022 (minimum acceptable funding per PA202 is 60%)

General Fund Fund Balance - “How much is left?” Year Ended June 30 (in millions)

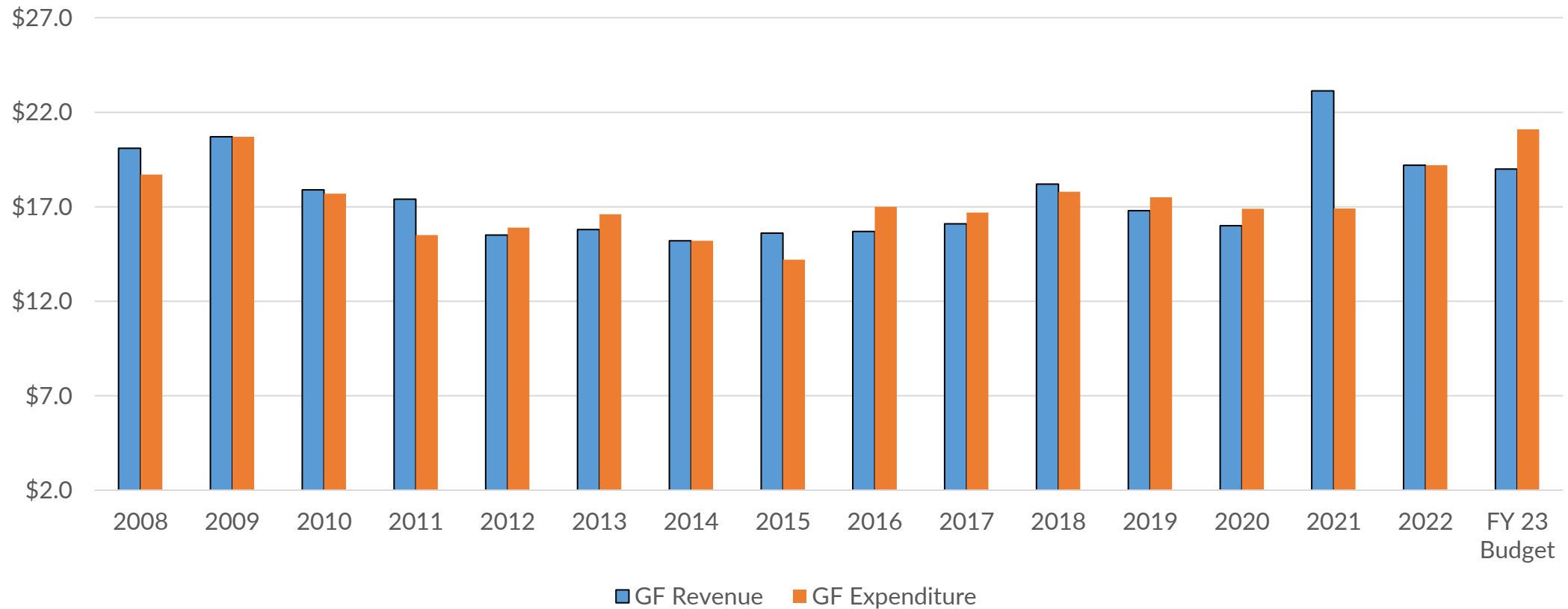


General Fund – “Do we have enough fund balance?”

- Government Finance Officers Association (GFOA) recommends General Fund has a MINIMUM of 2 months of expenditures in fund balance ($2/12 = 16.67\%$).
 - Fund Balance is your “savings account” or “rainy day fund” – A City needs to have fund balance in order to pay for unexpected, unbudgeted expenditures or to weather temporary revenue shortfalls.
- As of June 30, 2022, City of Wayne has 37.3%, but FY 23 budget reduces that to 29.7%
- **Today, Yes. How long will it take to use it up?**

General Fund Revenue and Expenditures

Fiscal Year ended June 30 (in millions)

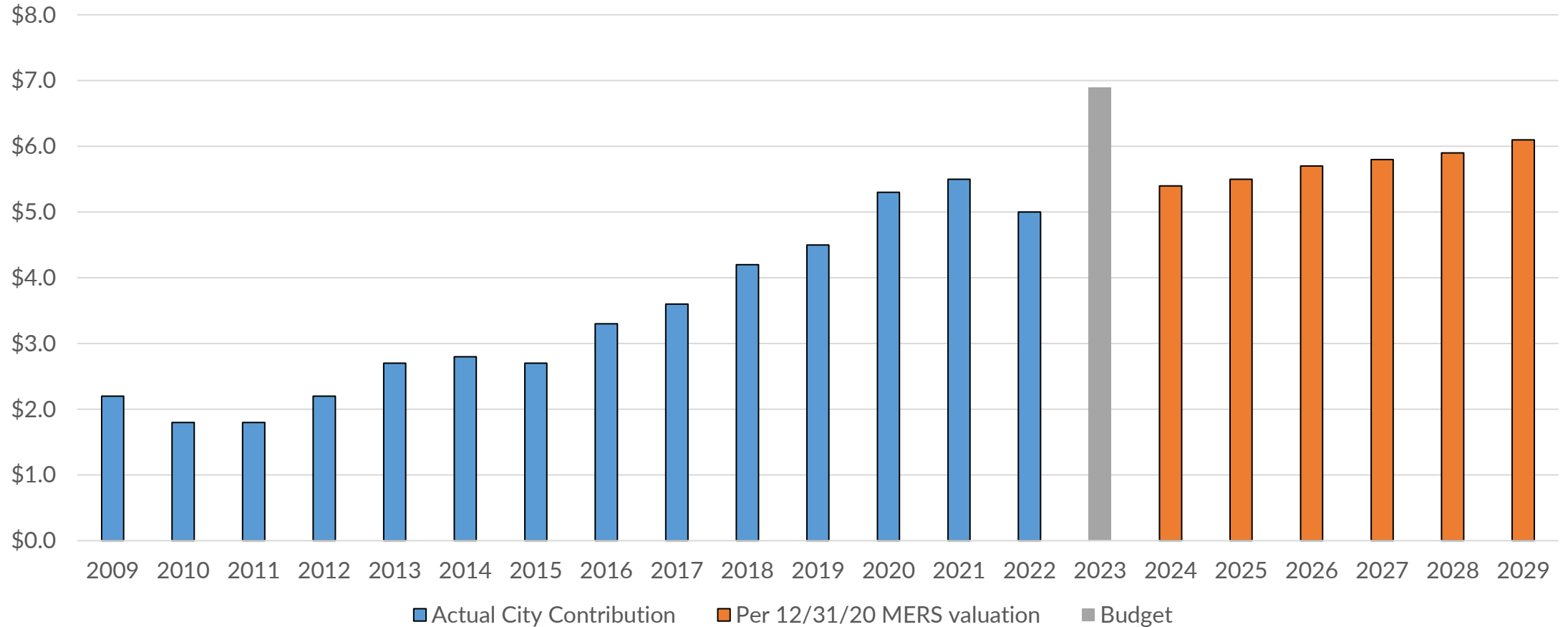


Including FY 23, expenditures exceed revenue in 8 of 12 most recent years.

Pension Contribution

Calendar Year (in millions)

Note: FY24 and beyond taken from 12/31/21 valuation.
These forecasted contributions were calculated before
the economic downturn in calendar 2022.



American Rescue Plan Act

City has received approx. \$1.76M

- City has used \$672k for purchase of new fire truck, PD gate repair and camera/ key card for City Hall.
- Remaining funds are earmarked for HVAC replacement and other capital needs



Public Act 345 of 1937

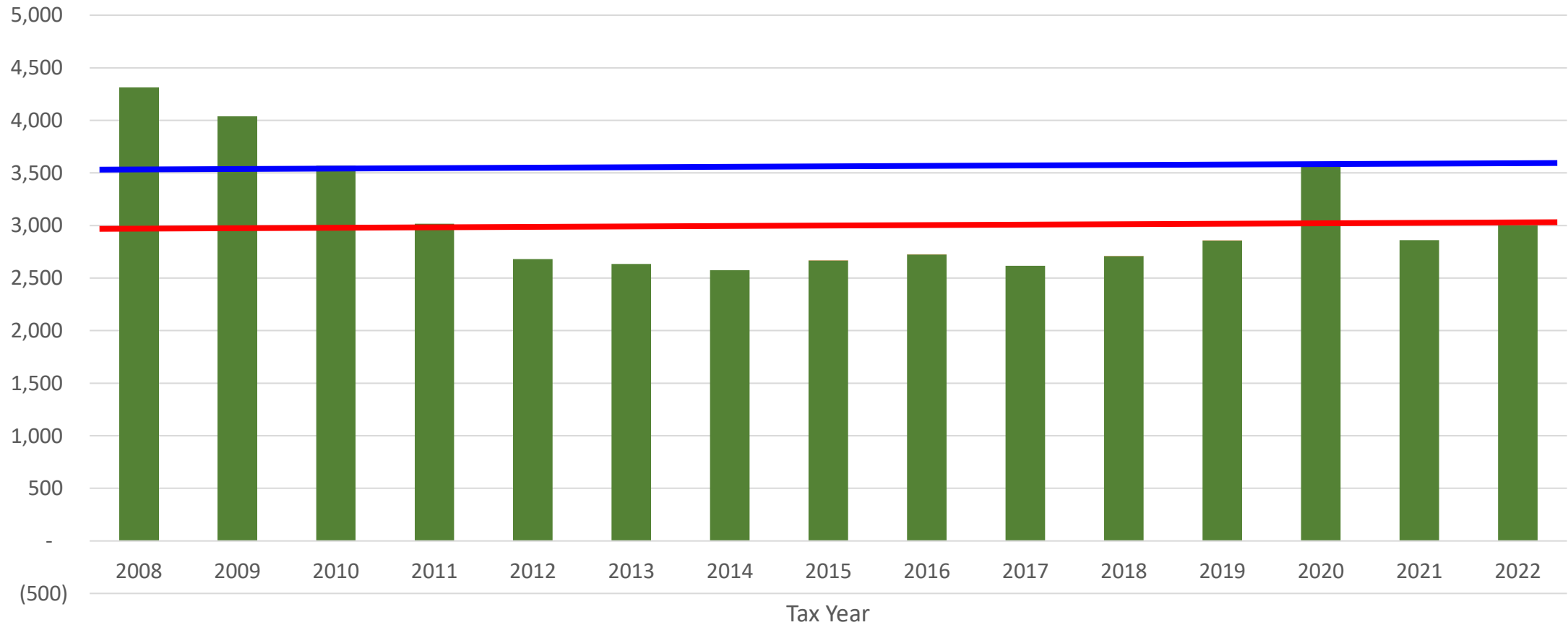
- Property tax to pay for public safety retirement (pension and opeb)
- 37 municipalities in MI are levying a PA345 millage, including Westland, Dearborn Heights, Redford Twp, Taylor, Southgate, and Ypsilanti
- Millage must be approved by the voters
- Millage can be unlimited or voters may impose a limit
- Wayne voters previously rejected a 345 millage on three separate occasions

NEW - Public Act 228 of 2022

- An amendment to PA 33 of 1951
- Cities larger than pop. 15,500 can now create a special assessment district (SAD) and generate revenue for public safety
- Unlike smaller cities, all villages, and all townships, the City's voters would have to approve the creation of the SAD
- Assessment is unlimited for operations, but capped at 10 mills for equipment. Ballot question may include a cap.
- While not ideal for City of Wayne, it is an additional new revenue option.

City of Wayne Residential Property Tax Example

- The judgment levy in 2020 raised taxes by over 13 mills, but the homeowner only paid as much in taxes as they did in 2010.
- Current taxes paid commensurate with 2011.



General Fund – Significant Events since 2014

1. **Redesigned budget** – City now knows what revenue is coming in and what expenditures are going out.
2. **Recreation Center** – closed, then outsourced to Hype, now sold
3. **Healthcare** – self insured, employee contributions, plan design changes, retiree stipend, return to fully ensured for active employees
4. **Delayed capital outlay**
5. **SAFER, FDCVT, and many other grants**
6. **Staffing vacancies**
7. **Pension system changes**
8. **Judgment levy**
9. **Pandemic grant funding – CARES, ARPA**
10. **MANY other sacrifices from employees, retirees, and citizens**

Summary



- The City's financial decline started in 2007 with changes to the pension system and the beginning of the great recession. The City has fought to prevent State intervention and maintain control of its own destiny.
- Operationally, things that have been delayed for years - capital outlay, facilities, and compensation - need to be addressed.
- City financial efforts have primarily focused on cost containment. At this point, further containment or reduction will require reduction in service levels. Permanent revenue enhancement is still the key to creating financial stability.
- Due to a confluence of unlikely events, the City has temporarily regained its financial footing, but slide has started again due to the structural imbalance in the City budget. How long will the remaining fund balance last?

Link to video presentation:

https://www.youtube.com/live/2JQ6BVyf_Jo?feature=share&t=848