

MEMORANDUM



TO: PETE AUGER, CITY MANAGER
FROM: CARL JOHNSON, CFO
SUBJECT: JUNE 30, 2017 AUDIT LETTER
DATE: NOVEMBER 20, 2017

The annual letter from the auditors for the fiscal year ended June 30, 2017 dated November 13, 2017 contains three items related to finance/treasury operations, two are repeat recommendations from prior years but there was one new item. The new item this year relates to an internal control weakness in the year-end preparation of entries in the fixed asset and pension liability area (which are strictly for audit report disclosure purposes only). The auditors state that the City did not have an appropriate process in place to detect the two errors made in preparation of those two audit schedules. The process the City used this year was the same process used for the past four years I have been the CFO however we had a probationary employee doing the work this year that did not follow the internal control procedures which resulted in the errors. The probationary employee is no longer with the City and I'm confident going forward that this will not be a recurring issue.

The two repeat items were the escrow reconciliation project and wire transfer dual approval. The treasury department still feels that adding the dual approval process to transfers is an unnecessary process that makes processing transfers more time consuming and adds little value but we did in fact implement the new procedure subsequent to year-end. We are very happy to report that the escrow cleanup project is in the final stage. The more than 1000 individual escrow accounts have been refunded or closed into BSA Building.Net and only a handful of accounts within BSA need to be reconciled to the general ledger to make this item go away.

Overall the report from the auditors is very good and continues to show that the outstanding work performed by both the finance and treasury teams complies with Generally Accepted Accounting Principles (GAAP) and follows the efficient and effective internal controls currently in place.

City of Novi, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2017

	General Fund	Nonmajor Governmental Funds	Total
Revenue			
Property taxes	\$ 21,395,809	\$ 11,691,410	\$ 33,087,219
Licenses and permits	4,005,981	-	4,005,981
Federal grants	61,025	256,178	317,203
State-shared revenue and grants	4,640,673	4,912,948	9,553,621
Charges for services	548,514	1,777,346	2,325,860
Fines and forfeitures	481,697	179,852	661,549
Interest and investment income	123,165	96,780	219,945
Rental income	-	104,000	104,000
Other revenue:			
Special assessments	-	25,336	25,336
Local donations	1,082	8,425	9,507
Cable franchise fees	-	369,702	369,702
Recreational programs	-	1,421,613	1,421,613
Miscellaneous income	758,315	770,166	1,528,481
Total revenue	<u>32,016,261</u>	<u>21,613,756</u>	<u>53,630,017</u>
Expenditures			
Current:			
General government	7,307,013	-	7,307,013
Public safety	17,072,525	4,272,407	21,344,932
Public services	3,714,028	16,272,702	19,986,730
Community and economic development	3,237,642	177,175	3,414,817
Recreation and culture	51,678	6,482,301	6,533,979
Debt service:			
Principal	-	2,340,000	2,340,000
Interest on long-term debt	-	455,020	455,020
Total expenditures	<u>31,382,886</u>	<u>29,999,605</u>	<u>61,382,491</u>
Excess of Revenue Over (Under) Expenditures	633,375	(8,385,849)	(7,752,474)
Other Financing Sources (Uses)			
Transfers in (Note 5)	-	7,561,984	7,561,984
Transfers out (Note 5)	(1,472,736)	(5,849,248)	(7,321,984)
Total other financing (uses) sources	<u>(1,472,736)</u>	<u>1,712,736</u>	<u>240,000</u>
Net Change in Fund Balances	(839,361)	(6,673,113)	(7,512,474)
Fund Balances - Beginning of year	13,745,202	38,389,349	52,134,551
Fund Balances - End of year	<u>\$ 12,905,841</u>	<u>\$ 31,716,236</u>	<u>\$ 44,622,077</u>

Original Budget was use of fund balance by \$1 million (transfer to CIP Fund) now 41% of expenditures

City of Novi, Michigan

Governmental Funds Balance Sheet June 30, 2017

	Nonmajor		Total
	General Fund	Governmental Funds	
Assets			
Cash and cash equivalents (Note 3)	\$ 3,345,253	\$ 2,401,653	\$ 5,746,906
Investments (Note 3)	10,110,830	31,797,173	41,908,003
Accounts receivable:			
Special assessments	-	24,589	24,589
Accrued interest	448,739	-	448,739
Other	441,863	325,664	767,527
Due from other governmental units	800,869	880,803	1,681,672
Due from other funds (Note 5)	4,950	-	4,950
Prepays and other assets	486,817	18,951	505,768
Total assets	\$ 15,639,321	\$ 35,448,833	\$ 51,088,154
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	\$ 1,319,579	\$ 2,937,274	\$ 4,256,853
Due to other funds (Note 5)	-	4,950	4,950
Refundable deposits	80,714	8,449	89,163
Accrued and other liabilities:			
Accrued salaries and wages	533,154	88,738	621,892
Payroll taxes and withholdings	216,678	28,502	245,180
Accrued other	546,407	636,408	1,182,815
Unearned revenue	24,761	-	24,761
Total liabilities	2,721,293	3,704,321	6,425,614
Deferred Inflows of Resources - Unavailable revenue			
Other	12,187	2,200	14,387
Special assessments	-	24,589	24,589
Grants	-	1,487	1,487
Total deferred inflows of resources	12,187	28,276	40,463
Fund Balances			
Nonspendable - Prepays	486,817	18,951	505,768
Restricted:			
Roads	-	8,364,659	8,364,659
Public safety	21,907	774,976	796,883
Community	2,282	-	2,282
Debt service	-	341,141	341,141
Infrastructure improvements	-	3,928,606	3,928,606
Parks, recreation, and cultural services	-	1,274,687	1,274,687
Library	-	3,519,458	3,519,458
Storm water systems	-	8,960,751	8,960,751
Tree replacement and maintenance	-	3,842,447	3,842,447
Street lighting improvements	-	46,920	46,920
PEG access support fees	-	642,634	642,634
Assigned	1,408,718	2,493	1,411,211
Unassigned	10,986,117	(1,487)	10,984,630
Total fund balances	12,905,841	31,716,236	44,622,077
Total liabilities, deferred inflows of resources, and fund balances	\$ 15,639,321	\$ 35,448,833	\$ 51,088,154

The Notes to Financial Statements are an
Integral Part of this Statement.

City of Novi, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) General Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes				
Current property taxes	\$ 16,292,153	\$ 21,131,286	\$ 21,210,275	\$ 78,989
Trailer fees	8,000	9,400	9,406	6
Penalty and interest	170,000	176,130	176,128	(2)
Total taxes	16,470,153	21,316,816	21,395,809	78,993
Licenses, Permits, and Charges for Services	4,617,476	4,391,676	4,554,495	162,819
Intergovernmental Revenue				
State-shared revenue	4,428,392	4,598,392	4,640,673	42,281
Federal grants	58,000	61,800	61,025	(775)
Total intergovernmental revenue	4,486,392	4,660,192	4,701,698	41,506
Fines and Forfeitures	570,000	495,000	481,697	(13,303)
Interest Income	573,418	323,418	123,165	(200,253)
Donations	1,500	1,500	1,082	(418)
Other Revenue	714,970	676,411	758,315	81,904
Transfers In	5,855,000	-	-	-
Total revenue	33,288,909	31,865,013	32,016,261	151,248
Expenditures				
City Council				
Personnel services	36,119	36,197	36,114	83
Supplies	550	280	116	164
Other services and charges	14,450	11,642	11,604	38
Total City Council	51,119	48,119	47,834	285
City Manager				
Personnel services	487,627	493,227	493,206	21
Supplies	1,500	2,500	2,315	185
Other services and charges	127,275	190,675	105,881	84,794
Total city manager	616,402	686,402	601,402	85,000

City of Novi, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) (Continued) General Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<u>Expenditures (Continued)</u>				
Community Development - Building Division				
Personnel services	\$ 1,524,499	\$ 1,490,411	\$ 1,489,857	\$ 554
Supplies	33,200	26,144	26,140	4
Other services and charges	145,893	385,533	362,013	23,520
Capital outlay	50,000	48,094	48,094	-
Allocated to other funds	(17,000)	-	-	-
Total community development - Building division	1,736,592	1,950,182	1,926,104	24,078
Community Development - Planning Division				
Personnel services	469,807	463,162	463,143	19
Supplies	7,450	5,430	3,311	2,119
Other services and charges	103,567	152,016	63,931	-
Capital outlay	80,000	80,000	-	80,000
Total community development - Planning division	660,824	700,608	530,385	82,138
Department of Public Services				
Personnel services	3,159,233	2,816,691	2,715,877	100,814
Supplies	128,700	170,207	152,876	17,331
Other services and charges	1,241,307	1,280,038	1,082,724	197,314
Capital outlay	1,123,230	2,073,775	1,597,816	475,959
Allocated to other funds	(1,997,784)	(2,008,944)	(1,857,045)	(151,899)
Maintenance	66,000	23,000	21,780	1,220
Total department of public works	3,720,686	4,354,767	3,714,028	640,739
Recreation and Culture				
Personnel services	46,689	46,828	46,655	173
Supplies	9,642	9,503	5,023	4,480
Total recreation and culture	56,331	56,331	51,678	4,653
Transfers Out				
	450,000	1,494,000	1,472,736	21,264
Total expenditures	33,288,909	34,578,918	32,855,622	1,635,211
Net Change in Fund Balance	-	(2,713,905)	(839,361)	1,874,544
Fund Balance - Beginning of year	13,745,202	13,745,202	13,745,202	-
Fund Balance - End of year	\$ 13,745,202	\$ 11,031,297	\$ 12,905,841	\$ 1,874,544

Rollover of \$1.4 million leave
favorable variance of \$465,826
or 1.4% of expenditures

City of Novi, Michigan

Required Supplemental Information Retiree Health Care System Schedule of Funding Progress and Employer Contributions Year Ended June 30, 2017

The schedule of funding progress as determined by an actuarial valuation for the purpose of determining the annual required contribution is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
7/1/11	\$ 14,924,821	\$ 24,313,035	\$ 9,388,214	61.4 %	\$ 13,511,225	69.5 %
6/30/13	19,291,291	23,188,007	3,896,716	83.2	11,995,155	32.5
6/30/15	24,374,995	25,811,118	1,436,123	94.4	12,101,246	11.9

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2015, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age
Amortization method	Level dollar, closed
Remaining amortization period	23 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.3% - 17.0%
*Includes inflation at	3.0%
Cost-of-living adjustments	None

City of Novi, Michigan

Fiduciary Funds

Statement of Changes in Fiduciary Net Position - Postemployment Benefits - Retiree Health Care Benefits Trust Fund Year Ended June 30, 2017

Additions	
Net investment gain	\$ 3,399,592
Contributions - Employer	<u>617,207</u>
Total additions	4,016,799
Deductions	
Healthcare insurance premiums	885,353
Administrative expenses	<u>245,934</u>
Total deductions	<u>1,131,287</u>
Net Increase in Net Position Held in Trust	2,885,512
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	<u>24,429,653</u>
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	\$ 27,315,165

Note 10 - Other Postemployment Benefits - GASB No. 45

Plan Description - Please refer to Note 11 for plan description detail.

Funding Policy - The collective bargaining units require a contribution by the participant for 20 percent of annual premiums. Retiree healthcare costs are recognized when paid by the City. For the fiscal year ended June 30, 2017, the City made payments for postemployment health benefit premiums of \$34,105 paid out of the General Fund for individuals that retired prior to June 30, 1994 and \$617,207 paid into the Retiree Health Care Benefits Trust Fund for individuals retiring after June 30, 1994 in accordance with the annual required contribution as determined by the City's actuary. The Retiree Health Care Benefits Trust Fund has a net position of \$27,315,165 as of June 30, 2017, which is 105.8 percent of the actuarial accrued liability of \$25,811,118 as of June 30, 2015.

Funding Progress - The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). For the year ended June 30, 2017, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2015. The valuation computes the ARC, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a closed period not to exceed 22 years. This following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the net OPEB obligation:

Annual required contribution (recommended)	\$ (617,207)
Interest on the prior year's net OPEB obligation	78,206
Less adjustment to the annual required contribution	<u>(88,785)</u>
Annual OPEB cost	(627,786)
Amounts contributed:	
Payments of current premiums	34,105
Advance funding	<u>617,207</u>
Increase in net OPEB asset	23,526
OPEB asset - Beginning of year	<u>977,574</u>
OPEB asset - End of year	<u>\$ 1,001,100</u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB asset for the current and two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Costs	Percentage Contributed	Net OPEB Asset
6/30/17	\$ 627,786	103.7 %	\$ 1,001,100
6/30/16	879,127	102.9	977,574
6/30/15	881,656	114.0	952,218

City of Novi, Michigan

Required Supplemental Information Schedule of Changes in the City's Net Pension Liability and Related Ratios (Schedule is built prospectively upon implementation of GASB Statement No. 68)

	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015
Total Pension Liability			
Service cost	\$ 1,279,328	\$ 1,402,754	\$ 1,495,687
Interest	7,325,066	6,983,009	6,687,807
Changes in benefit terms	-	23,615	-
Differences between expected and actual experience	248,579	301,433	-
Changes in assumptions	-	3,305,619	-
Benefit payments, including refunds	(5,335,884)	(4,731,967)	(4,385,711)
Net Change in Total Pension Liability	3,517,089	7,284,463	3,797,783
Total Pension Liability - Beginning of year	93,591,608	86,307,145	82,509,362
Total Pension Liability - End of year	\$ 97,108,697	\$ 93,591,608	\$ 86,307,145
Plan Fiduciary Net Position			
Contributions - Employer	\$ 3,115,902	\$ 3,024,626	\$ 3,648,998
Contributions - Employee	602,714	652,652	712,076
Net investment income (loss)	6,176,312	(898,140)	3,399,244
Administrative expenses	(122,174)	(124,928)	(126,196)
Benefit payments, including refunds	(5,335,884)	(4,731,967)	(4,385,711)
Other	-	-	-
Net Change in Plan Fiduciary Net Position	4,436,870	(2,077,757)	3,248,411
Plan Fiduciary Net Position - Beginning of year	54,990,980	57,068,737	53,820,326
Plan Fiduciary Net Position - End of year	\$ 59,427,850	\$ 54,990,980	\$ 57,068,737
City's Net Pension Liability - Ending	\$ 37,680,847	\$ 38,600,628	\$ 29,238,408
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	61.20 %	58.76 %	66.12 %
Covered Employee Payroll	\$ 10,614,530	\$ 11,371,927	\$ 12,101,246
City's Net Pension Liability as a Percentage of Covered Employee Payroll	355.0 %	339.4 %	241.6 %

Employer contribution was \$1.965 million in 2008, \$3.115 million in 2017 and estimated to be more than \$4 million in 2020 - majority of increase funded by General Fund annually

City of Novi, Michigan

Notes to Financial Statements June 30, 2017

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Governmental Activities	<u>Interest Rate Ranges</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation Bonds:							
2002 Street and Refunding Bonds - Amount of issue: \$24,720,000	5.25%	\$1,425,000	\$ 1,425,000	\$ -	\$ 1,425,000	\$ -	\$ -
2008 Unlimited Tax Library Bonds: Amount of issue: \$16,000,000 Maturing through 2027	3.75% - 5.00%	\$750,000 - \$765,000	3,765,000	-	750,000	3,015,000	750,000
2016 Unlimited Tax Library Refunding Bonds: Amount of issue: \$8,715,000 Maturing through 2027	2.00% - 4.00%	\$170,000 - \$1,390,000	8,715,000	-	165,000	8,550,000	170,000
Total bonds payable			13,905,000	-	2,340,000	11,565,000	920,000
Unamortized bond premium			1,280,301	-	128,030	1,152,271	-
Accumulated compensated absences			1,989,403	1,995,376	1,989,403	1,995,376	1,410,218
Total governmental activities			\$ 17,174,704	\$ 1,995,376	\$ 4,457,433	\$ 14,712,647	\$ 2,330,218
Business-type Activities							
Special Assessment Bonds - 2003 Special Assessment Limited Tax Bonds: Amount of issue: \$2,330,000 Maturing through 2017	4.00%	\$150,000	\$ 300,000	\$ -	\$ 150,000	\$ 150,000	\$ 150,000
General Obligation Bonds: 2015 Senior Complex Recreation Facility Refunding Bonds: Amount of issue: \$9,075,000 Maturing through 2026	2.29%	\$850,000 - \$1,020,000	9,075,000	-	855,000	8,220,000	875,000
2014 Ice Arena Refunding Bonds: Amount of issue: \$4,905,000 Maturing through 2024	2.40%	\$480,000 - \$520,000	3,955,000	-	490,000	3,465,000	480,000
Total bonds payable			13,330,000	-	1,495,000	11,835,000	1,505,000
Accumulated compensated absences			67,818	72,879	67,818	72,879	72,879
Total business-type activities			\$ 13,397,818	\$ 72,879	\$ 1,562,818	\$ 11,907,879	\$ 1,577,879

City of Novi, Michigan

	Special Revenue Funds					
	Major Street Fund	Local Street Fund	Municipal Streets Fund	Police and Fire Fund	Parks, Recreation, and Cultural Services Fund	Tree Fund
Revenue						
Property taxes	\$ -	\$ -	\$ 4,931,808	\$ -	\$ 1,267,594	\$ -
Federal grants	-	-	-	-	-	-
State-shared revenue and grants	3,225,703	1,129,243	294,855	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Interest and investment income (loss)	10,896	3,339	2,125	-	4,466	21,228
Rental income	-	-	-	-	-	-
Other revenue:						
Special assessments	-	-	14,507	-	-	-
Local donations	-	-	-	-	4,762	-
Cable franchise fees	-	-	-	-	-	-
Recreational programs	-	-	-	-	1,421,613	-
Miscellaneous	-	16,800	57,195	-	7,494	516,516
Total revenue	3,236,599	1,149,382	5,300,490	-	2,705,929	537,744
Expenditures						
Current:						
Public safety	-	-	-	1,238,982	-	-
Public services	2,055,163	3,516,478	1,763,351	-	-	411,961
Community and economic development	-	-	-	-	-	-
Recreation and culture	-	-	-	-	3,512,013	-
Debt service:						
Principal	-	-	-	-	-	-
Interest on long-term debt	-	-	-	-	-	-
Total expenditures	2,055,163	3,516,478	1,763,351	1,238,982	3,512,013	411,961
Excess of Revenue Over (Under) Expenditures	1,181,436	(2,367,096)	3,537,139	(1,238,982)	(806,084)	125,783
Other Financing Sources (Uses)						
Transfers in	-	2,324,106	-	-	450,000	-
Transfers out	(1,250,000)	-	(4,504,106)	-	-	-
Total other financing (uses) sources	(1,250,000)	2,324,106	(4,504,106)	-	450,000	-
Net Change in Fund Balances	(68,564)	(42,990)	(966,967)	(1,238,982)	(356,084)	125,783
Fund Balances - Beginning of year	695,321	685,454	4,007,405	1,238,982	1,631,244	3,716,664
Fund Balances - End of year	\$ 626,757	\$ 642,464	\$ 3,040,438	\$ -	\$ 1,275,160	\$ 3,842,447

City of Novi, Michigan

	Debt Service Funds		Capital Projects Fund		
	2002 Street and Refunding Debt Fund	2008 Library Construction Debt Fund	Special Assessment Revolving Fund	Capital Improvement Program	Street Improvement Fund
Revenue					
Property taxes	\$ 749,253	\$ 1,507,421	\$ -	\$ -	\$ -
Federal grants	-	-	-	-	-
State-shared revenue and grants	-	-	-	-	-
Charges for services	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-
Interest and investment income (loss)	156	263	17,246	(16,793)	-
Rental income	-	-	-	-	-
Other revenue:					
Special assessments	-	-	-	-	-
Local donations	-	-	-	-	-
Cable franchise fees	-	-	-	-	-
Recreational programs	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total revenue	749,409	1,507,684	17,246	(16,793)	-
Expenditures					
Current:					
Public safety	-	-	-	2,847,771	-
Public services	476	-	475	270,660	4,071,874
Community and economic development	-	-	-	-	-
Recreation and culture	-	475	-	202,283	-
Debt service:					
Principal	1,425,000	915,000	-	-	-
Interest on long-term debt	37,556	417,464	-	-	-
Total expenditures	1,463,032	1,332,939	475	3,320,714	4,071,874
Excess of Revenue Over (Under) Expenditures	(713,623)	174,745	16,771	(3,337,507)	(4,071,874)
Other Financing Sources (Uses)					
Transfers in	-	95,142	-	1,240,000	3,430,000
Transfers out	(95,142)	-	-	-	-
Total other financing (uses) sources	(95,142)	95,142	-	1,240,000	3,430,000
Net Change in Fund Balances	(808,765)	269,887	16,771	(2,097,507)	(641,874)
Fund Balances - Beginning of year	808,765	71,254	3,911,835	2,100,000	4,696,874
Fund Balances - End of year	\$ -	\$ 341,141	\$ 3,928,606	\$ 2,493	\$ 4,055,000

CIP Fund had \$3.1 million of General Fund transfers thru 6/30/17 - New levy begins 2018

**Note 11 - Other Postemployment Benefits (OPEB) Plan - GASB No. 74
(Continued)**

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the net OPEB liability, calculated using the discount rate of 7.5 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1 Percent Decrease (6.5%)	Current Discount Rate (7.5%)	1 Percent Increase (8.5%)
Net OPEB liability	\$ 5,524,058	\$ 1,480,463	\$ (1,862,307)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the net OPEB liability, calculated using the healthcare cost trend rate of 9.0 percent, decreasing to 4.0 percent, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (8.0 percent, decreasing to 3.0 percent) or 1 percentage point higher (10.0 percent, decreasing to 5.0 percent) than the current rate:

	1 Percent Decrease (8.0% Decreasing to 3.0%)	Current Healthcare Cost Trend Rate (9.0% Decreasing to 4.0%)	1 Percent Increase (10.0% Decreasing to 5.0%)
Net OPEB liability	\$ (2,264,889)	\$ 1,480,463	\$ 5,921,198

Note 12 - Tax Abatements

The City uses the **Industrial Facilities Tax exemption (PA 198 of 1974)** to enter into agreements with local businesses to construct new industrial facilities or rehabilitate historical facilities. Under the program, the City grants reductions of 50 percent of the property tax bill for new property (or it can freeze taxable values for rehabilitation properties) for up to 12 years.

For the fiscal year ended June 30, 2017, the **City abated \$104,703 of taxes** under this program. There are no provisions to recapture taxes; however, the abatement may be eliminated if taxes are not paid timely.

Note 12 - Tax Abatements (Continued)

The City uses the Tool and Die Renaissance Recovery Zone exemption (PA 376 of 1996) to promote economic activity and to maintain or increase the number of jobs available to residents of the area and to temporarily reduce the amount of taxes paid by certain industries in the state that are facing difficult times (the tool and die industry in particular) enabling it to use the opportunity of reduced operation costs to reposition itself to compete globally. Under the program, the City grants reductions of 100 percent of the property tax bill until year six when the exemption is phased out in 25 percent increments. For the fiscal year ended June 30, 2017 the City abated \$2,685 of taxes under this program. There are no provisions to recapture taxes.

The City uses the Commercial Rehabilitation Project exemption (PA 210 of 2005) to enter into agreements with local businesses to construct new facilities within the established Commercial Rehabilitation District. Under the program, the City grants reductions of 100 percent of the ad valorem property taxes. For the fiscal year ended June 30, 2017, the City abated \$38,298 of taxes under this program. There are no provisions to recapture taxes.

Additionally, the Brownfield Redevelopment Authority, a discretely presented component unit, uses Brownfield Redevelopment Agreements under PA 381 of 1996 to reimburse taxpayers that remediate environmental contamination on their properties. As a result of these agreements, the Brownfield's tax revenue is reduced. For the fiscal year ended June 30, 2017, the Authority abated \$2,620 of taxes under this program. There are no provisions to recapture taxes.

There are no significant abatements made by other governments that reduce the City's tax revenue.

Note 13 - Joint Venture

The City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County (the "Authority"). The Authority is incorporated by the cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, and Wixom and the Charter Township of South Lyon. The City appoints one member to the Authority's governing board, which then approves the annual budget. The Authority receives its operating revenue from member contributions and miscellaneous income. The financial information of the Authority as of June 30, 2017 can be obtained from the Authority's administrative offices at 20000 W. 8 Mile Road, Southfield, Michigan. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.