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New Accounting Shows East Lansing In the Red; Council Discusses Finances, Audit ^[1]

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By:

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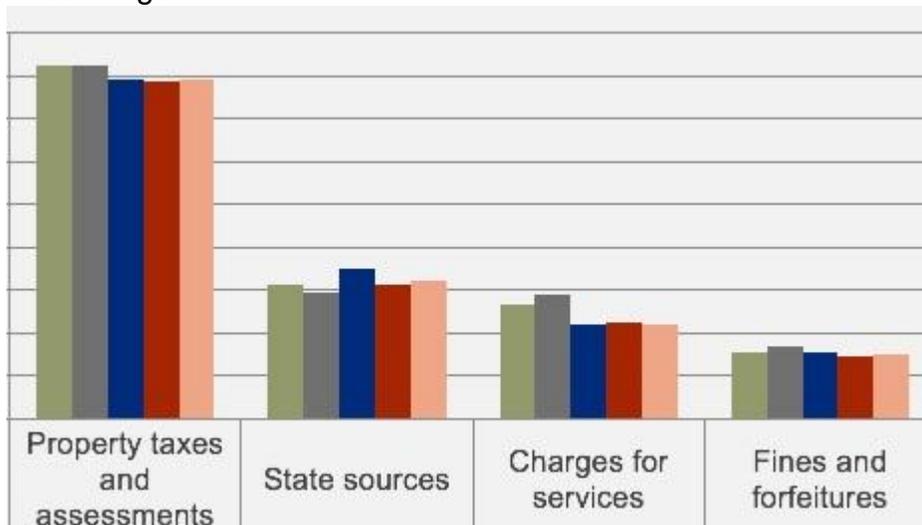


Image: A clip from the auditors' slide presentation last night

At last night's work session, external auditors presented to the East Lansing City Council their audit for our 2015 Fiscal Year. New accounting standards that require the City to show its pension obligations front and center have moved the City's bottom line from "the black" to "the red." Auditors told Council that, taking into account retiree-related debt, the City's net position financially as of June 30, 2015, was determined to officially be -\$37,699,529. Mayor Mark Meadows called the debt load "breathtaking."

The Governmental Accounting Standards Board (GASB) has recently changed the rules of how municipalities have to show their pension obligations, moving pension debt from a footnote to front-and-center, and this is why the City of East Lansing is now having to show our pension-related debt ^[2] in a way that significantly changes our presented bottom line.

Mayor Pro Tem Ruth Beier noted that it is not that the debt itself is new; it is just more visible than ever before. She said, "We are no more broke than we were last year." Councilmember Shanna Draheim noted the same, saying, "Only [difference is that] now you see it."

The audit was presented by Joe Heffernan and Dan Block of the consultancy firm Plante Moran with assistance from City Finance Director Mary Haskell. Heffernan said that GASB had changed the standards about pension reporting in part to nudge municipalities to start dealing more with their retirement-related debt. As we previously reported, East Lansing is in the lowest 15th percentile in terms of Michigan cities' preparedness to meet pension obligations.

Heffernan explained to Council that the external audit is not designed to answer the question "Are you being wise, financially speaking?" but rather "Are you being clear and accurate in your financial records?" On that latter score, Plante Moran rates the City very highly. Council nevertheless pressed the auditors about how to manage the large retiree-related debt.

This led to conversations about moving retirees from City-sponsored healthcare plans to Medicare, making larger payments into the system from City revenues, using bonds, and trying to negotiate with employees and retirees for less expensive benefits. Beier noted that the City is legally obligated to fulfill its pension promises, but the same is not true with regard to things like post-employment healthcare benefits, where there is a "moral obligation" but not a legal one.

The annual financial report shows that property taxes continue to be largest source of revenue for the City and public safety continues to be the largest expense. The auditors told Council that the City's managers have "done a great job in controlling costs" which means that our general fund balance has been steadily maintained. Heffernan said he credited the five-year financial forecasting done by the City for allowing management to do a good job dealing with a trend in declining tax revenues caused by declining property values.

The City's public parking system continues to cause financial concerns. Council asked staff to organize information about how much each major City parking lot or garage earns or loses annually. Beier noted that an analysis done last year by a group of University of Michigan students showed that the City could raise rates in certain lots (like Lot 1, the lot across from HopCat and behind Urban Outfitters) and still have just as many patrons.

Haskell was praised by the auditors, as she has been annually, for her diligence and precision, with the auditors noting that the City was found to be "deficient" by the audit in only one area, an area that cannot be blamed on City staff: The City is not precisely following the rules about grants as put out by HUD (the federal Department of Housing and Urban Development), but that's because HUD has not actually stated the rules cities are supposed to follow. Heffernan said all cities are in the same position in this regard.

Want to learn more? View:

- the auditors' slide presentation ^[3] from last night
- the City's Comprehensive Annual Financial Report ^[4] (CAFR) for the year ending June 30, 2015
- the auditors' 6-page summary letter ^[5] to the City about the annual audit

- the supplement information ^[6] on federal awards

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[2] <http://eastlansinginfo.org/content/explaining-east-lansings-retiree-related-debt>

[3] <https://drive.google.com/file/d/0B9NnlXbtDXTXcFFIQk5wSG5qUWs/view?pli=1>

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