



Rochester Hills Minutes City Council Work Session

1000 Rochester Hills Drive
Rochester Hills, MI 48309
(248) 656-4660
Home Page:
www.rochesterhills.org

*Erik Ambrozaitis, Jim Duistermars, Barbara Holder, Greg Hooper,
Linda Raschke, James Rosen, Ravi Yalamanchi*

Wednesday, October 25, 2006

6:30 PM

1000 Rochester Hills Drive

DRAFT

CALL TO ORDER

President Rosen called the Regular Rochester Hills City Council Work Session Meeting to order at 6:32 p.m. Michigan Time.

ROLL CALL

Present: Erik Ambrozaitis, Jim Duistermars, Barbara Holder, Greg Hooper, Linda Raschke, James Rosen and Ravi Yalamanchi

Others Present:

Jane Leslie, City Clerk

PLEDGE OF ALLEGIANCE

PUBLIC COMMENTS

Mr. Lee Zendel, 1575 Dutton Road, suggested that the City host a local dog show. He criticized comparisons of the new DPS Facility to auto dealerships, noting there are many things a DPS Facility must do that an auto dealership cannot do. He suggested that rather than the City pursue the creation of a community center, that a committee be formed to investigate the use of the local high schools for community center-type uses.

PRESENTATION

2006-0774 Mini-Seminar on Governmental Finance - Joe Heffernan, CPA and Lisa C. Manetta, CPA, Plante Moran

Attachments: Agenda Summary.pdf; Heffernan Manetta Bios.pdf; Rochester Hills Mini-Seminar.pdf

President Rosen explained that representatives from the City's auditing firm Plante & Moran were present to provide a presentation on government financing.

Mr. Joe Heffernan, CPA, and Ms. Lisa Manetta, CPA, of Plante & Moran presented the following information to Council:

Introduction to Governmental Accounting

- *Assets: Represent the things we own*
- *Liabilities: Represent amounts we owe others*
- *Equity: The difference between what we own and what we owe*

- Revenue: Increases in equity over a period of time
- Expenses: Decreases in equity over a period of time

Governmental accounting rules are different than the private sector

- General Funds focus on only those assets and liabilities that are currently available to budget or spend.
- Assets include cash and receivables, but not capital assets.
- Liabilities include accounts payable and accrued payroll, not long term bonds.

Accounting for Governmental Units

- Accounting rules for states and local units of government are set by the Governmental Accounting Standards Board.
- There are two aspects of governmental accounting that significantly differentiate it from private sector accounting:
 - 1) Use of Funds
 - 2) Use of the modified accrual basis of accounting

Funds:

- Governmental Funds
 - * General fund
 - * Special revenue funds
 - * Debt service funds
 - * Capital project funds
 - * Permanent funds
- Proprietary Funds
 - * Enterprise funds
 - * Internal service funds
- Fiduciary Funds
 - * Pension and other employee benefit funds
 - * Investment trust funds
 - * Private purpose trust funds
 - * Agency funds

Modified Accrual Basis of Accounting

- Assets that are available to spend
- Liabilities that are a claim on current resources
- Revenues that are collected within 30 to 60 days of year end:
 - * Property taxes should be measured in the fiscal period for which they were levied
 - * Miscellaneous revenue is generally recognized when the cash is received

- * *Proceeds of long-term debt are recorded as "financing source," rather than as liabilities of the fund*
- * *Expenditures for goods that have been received or services rendered*
- * *Prepaid expenses for purchases that benefit more than one period may be prorated between periods*
- * *Inventory is typically counted as an expenditure at the time of purchase; or capitalized and counted as it is used up*
- * *Interest on long-term debt should be counted on the due date of the debt*
- * *Employee compensated absences should be counted when they come due for payment*
- * *Contingent liabilities should be recorded when they come due for payment*
- * *Capital assets should be counted as expenditures when purchased rather than capitalized and recognized over its useful life*

Full Accrual Basis of Accounting

- *Used for business-type funds.*
- *Used for financial reporting purposes when the governmental activities are reported in the government wide statements.*
- *Similar to the accounting we see in the private sector.*
- *Reports all assets and all liabilities.*
- *Revenue is recorded when earned and expenses are recorded when incurred resulting in the following:*
 - * *Receivables are recorded*
 - * *Expenses are allocated between years by recording prepaid expenses*
 - * *Inventory is capitalized and expensed as it is used up*
 - * *Interest on long-term debt is prorated and accrued*
 - * *Employee compensated absences are recorded when earned, not when paid*
- *Capital assets are capitalized and counted as depreciation over their useful lives.*
- *Long-term debt is recorded as a liability of the fund.*

Fund Balance

- *What is fund balance?*
 - * *The mathematical difference between assets and liabilities.*
 - * *The amount available to spend or budget next year.*
- *How much fund balance should we have?*
 - * *The most commonly quoted amount is 10% of annual expenditures.*
 - * *For communities whose tax year does not match their budget year, they may need more.*

- * For many communities, 10% is the minimum target; higher for smaller communities.
- * It may be appropriate to build more, when it is needed for capital acquisition.
- Fund balance reserves and designations:
 - * Reserved fund balance - legal restrictions on how the funds may be spent
 - * Designated fund balance - communicates management's intent for spending the funds.
- Fund Deficits:
 - * State law requires a deficit elimination plan for any fund that has a negative unreserved fund balance.

Budgeting

- An annual budget is required by Public Act 2 of 1968, as amended:
 - * Differentiates between the budget document and the General Appropriations Act.
 - * Is the informational package that is put together by the Chief Administrative Officer to approve spending for the upcoming year.
 - * The resolution approving that package is called the "General Appropriations Act."
- General Appropriations Act:
 - * The legal authority for local officials to provide the level of services anticipated by the budget document.
 - * Is not an approval for any specific purchase.
 - * Individual purchases are subject to the local unit's purchasing policies.
- Required steps in the budget process:
 - 1) Chief Administrative Officer shall submit a proposed budget to the legislative body:
 - a. Actual revenues, expenditures and ending fund balance of the most recently completed fiscal year
 - b. Estimated revenues, expenditures and ending fund balance of the current fiscal year
 - c. Proposed revenues, expenditures and ending fund balance for the budget year
 - 2) Legislative body must pass a General Appropriations Act
 - 3) The General Appropriations Act must include:
 - a. Total number of mills to be levied and purpose for that millage
 - b. Amounts appropriated for expenditures of the next fiscal year

c. *Estimated revenues, by source, for the next fiscal year*

4) *Legislative body cannot adopt a General Appropriations Act nor an amendment that causes a projected deficit.*

5) *Is strongly recommended that the General Appropriations Act clarify at what level the budget has been adopted.*

6) *The General Appropriations Act must be amended if actual revenues will be less than those estimated.*

7) *An administrative officer shall not incur expenditures in excess of the amount appropriated.*

Revenue Sources

- *Local units generate revenue from the following three general sources:*

1. *Property taxes*
2. *State shared revenue*
3. *Charges for services*

- *Property taxes are determined by the following equation:*

* *Taxable Value x Millage Rate = Tax Bill*

- *Taxable value is subject to:*

- * *The assessment process*
- * *Proposal A limits annual growth for individual properties to the lower of 5% or inflation*
- * *County and State Equalization process*
- * *Board of Review, Michigan Tax Tribunal*

- *Millage Rates are subject to:*

- * *Authority for millage:*
 - *15 mill/18 mill county allocation, or Charter limitation*
 - *Special elections, subject to the 50 mill overall limitation*
 - *Others (Pre-Headlee debt, Act 345 Pension, etc.)*

* *Headlee Rollback*

Assessment Process

- *Properties assessed as of December 31st*

- *Assess all property at the lower of:*

- a) *50% of true cash value; or*
- b) *prior year's taxable value increased by the lower of 5% or inflation.*

- *There are exceptions for newly constructed property.*

- *Personal property is subject to rather complex rules on valuation.*

- Property owners are allowed to appeal their assessments to the Local Board of Review.

Millage:

- All millages levied by local units may be done so only with specific legal authority.
- Townships, counties and school districts are given 15 mills to be allocated by a county allocation board (18 mills if fixed allocation).
- Cities, villages and charter townships are given millages by their charter.
- Additional mills may be levied for the following reasons:
 - * Additional operating millages voted in by residents.
 - * Debt millage, where the issuance of the debt was voted on by residents.
 - * Retirement millage where the residents have approved Act 345.
 - * Cities and villages may levy an extra millage for rubbish collection.
- The maximum authorized millage is reduced from year to year by the operation of the Headlee Amendment.

Headlee Amendment:

- Rolls back the maximum authorized millage in any year where the total taxable value increases by more than the rate of inflation.
- The formula for calculating the rollback factor is as follows:
 - * $\text{Prior Year Taxable Value minus Losses divided by the Current Year Taxable Value minus Additions times the Inflation Rate equals the Millage Rollback Factor}$
- The purpose of rolling back the millage rate is so the municipality collects the same amount of tax as in the prior year plus an additional amount for inflation.
- The municipality cannot benefit from the increase in taxable value over and above an inflationary increase.

Proposal A:

- Limits the growth in any one property's taxable value to the lesser of inflation or 5%.
- When a property sells, the taxable value is "uncapped" and re-set at 50% of true cash value (SEV).
- The uncapping of taxable values is not considered an addition, which causes the total increase to exceed inflation thus causing a Headlee Rollback.
- Tax bills are held down two ways:
 - 1) By limiting the taxable value growth
 - 2) By limiting the millage rate
- Rolling back the tax bills two different ways was not discussed with the electorate when Proposal A was adopted.

- Due to property transfers, the markup in taxable value is becoming more and more significant.

- The uncapping is resulting in total taxable value increasing faster than inflation, thus causing Headlee Rollbacks.

- The following examples show the reduction in maximum authorized millage rates:

* City of Alma

Headlee Maximum Allowable Millage

1998 - 14.4870

2003 - 14.4060

Incr/Decr - <0.56%>

Headlee Maximum as Percent of Charter Maximum

2003 - 96.04%

* City of Ferndale

Headlee Maximum Allowable Millage

1998 - 17.9261

2003 - 15.6006

Incr/Decr - <12.97%>

Headlee Maximum as Percent of Charter Maximum

2003 - 78.00%

- While many believe the uncapping when properties are sold makes up for the limits of Proposal A, in actuality millage rates are being reduced.

- While the impact of Proposal A on individuals is insignificant, the effect on Cities is substantial.

Other Challenges with Property Taxes

- Proposal A impacts commercial/industrial property more than residential because of fluctuations.

- Following is an example of how residential properties' taxable values have grown in the past decade:

Residential Taxable Value as a Percentage of Total Taxable Value

Alma: 1994 - 49% / 2003 - 54%

Canton: 1994 - 74% / 2003 - 78%

Ferndale: 1994 - 63% / 2003 - 67%

Livonia: 1994 - 60% / 2003 - 62%

Muskegon: 1994 - 41% / 2003 - 46%

Ypsilanti: 1994 - 54% / 2003 - 58%

- A self-correcting mechanism included in the Headlee Amendment was removed with the implementation of Proposal A.

The History of Revenue Sharing:

- Revenue Sharing through September 30, 1996:

* Michigan residents pay Sales Tax, Income Tax and Single Business Tax

* The State Constitution allocates a portion to be shared with local units.

* The State Legislature allocates a portion to be shared with local units.

* *Typical distribution rates:*

- 09/30/96 = \$54.50 per capita (Sales Tax)
- 09/30/96 = \$32.075 per capita multiplied by the community's RTE (Income Tax/SBT)

* *The State Legislature has enacted statutes to share Income Tax and Single Business Tax with local units.*

- *The "New" Revenue Sharing Formula:*

* *Michigan residents pay Sales Tax.*

* *The State Constitution allocates a portion to be shared by local units.*

* *The State Legislature allocates a portion to be shared by local units.*

* *Typical distribution rates:*

- 09/30/04 - State's Projection of \$67.243 per capita (Sales Tax)
- Override of formula:
 - * *Budget Appropriation/Executive Order reduced distribution in total to 90.8% of 09/30/03 total.*

* *Additional Changes:*

- *Sales tax is now the sole source of revenue sharing.*
- *The "inventory reimbursement" payment has been eliminated but same amount must still be shared with authorities.*
- *Relative tax effort is no longer a factor in calculating "statutory" revenue sharing.*
- *Total payment to any unit cannot increase by more than 8% annually.*

Description of the "New" Revenue Sharing Formula:

- *Three-Part Formula:*

- 1) *Taxable Value Per Capita*
- 2) *Unit Type/Population*
- 3) *Yield Equalization*

- *New formula phased in at 10% per year.*
- *Inventory Reimbursement formula eliminated.*
- *City of Detroit frozen at \$333.9 million through June of 2007.*
- *Increase in total payments capped at 8% per year.*
- *2000 Census affects distribution in RY2001.*
- *Special Census payment criteria changed - now 10% increase.*

- Components of the three-part formula:

* Taxable Value Per Capita:

- Weighs the population of local units based on the amount their taxable value per capita varies from the statewide average taxable value per capita.

- The factor is calculated as the statewide average taxable value per capita divided by a local unit's taxable value per capita.

- For the State's 09/30/2003 fiscal year, statewide average is \$26,675.02.

- For a community with exactly double this, their factor would be 0.50.

- TVPC factor x Population x Distribution Rate.

* Unit Type/Population:

Population < or = 5,000

Township = 1.0

City = 2.5

Village = 1.5

Population > 5,000, < 10,001

Township = 1.2

City = 3.0

Village = 1.8

Population > 10,000, < 20,001

Township = 1.44

City = 3.6

Village = 2.16

Population > 20,000, < 40,001

Township = 4.32

City = 4.32

Village = 0.00

Population > 40,000, < 80,001

Township = 5.18

City = 5.18

Village = 0.00

Population > 80,000, < 160,001

Township = 6.22

City = 6.22

Village = 0.00

Population > 160,000, < 320,001

Township = 0.00

City = 7.46

Village = 0.00

Population > 320,000, < 640,001

Township = 0.00

City = 8.96

Village = 0.00

Population > 640,000
 Township = 0.00
 City = 10.75
 Village = 0.00

- Yield Equalization:

* Formula intended to provide additional revenue to those communities with a lower taxable value per capita

* Formula uses a local unit's tax effort, which is limited to the equivalent of 20 mills

* For the State's 09/30/03 fiscal year, local units with a taxable value per capita of approximately \$24,269 or less may qualify

* For example, if taxable value per capita is \$18,000, the payment would be calculated as follows:

$(\$24,269 - \$18,000)$ times (Local Tax Effort) times (Population) divided by 3 times (Phase in Percentage)

Actual State Shared Revenue Distributions Compare to Statute:

- Fiscal Year 1997/1998

Law - \$1,366.7
 Actual - \$1,366.7
 Inflation - \$1,366.7

- Fiscal Year 1998/1999

Law - \$1,388.3
 Actual - \$1,388.3
 Inflation - \$1,388.6

- Fiscal Year 1999/2000

Law - \$1,470.1
 Actual - \$1,470.1
 Inflation - \$1,415.0

- Fiscal Year 2000/2001

Law - \$1,555.5
 Actual - \$1,555.5
 Inflation - \$1,460.2

- Fiscal Year 2001/2002

Law - \$1,571.3
 Actual - \$1,517.3
 Inflation - \$1,507.0

- Fiscal Year 2002/2003

Law - \$1,598.0
 Actual - \$1,451.4
 Inflation - \$1,529.6

- Fiscal Year 2003/2004

Law - \$1,611.9
 Actual - \$1,390.3
 Inflation - \$1,575.5

Presented

(Recess 8:19 p.m. - 8:31 p.m.)

2006-0774

Mini-Seminar on Governmental Finance - Joe Heffernan, CPA and Lisa C. Manetta, CPA, Plante Moran

Attachments: Agenda Summary.pdf; Heffernan Manetta Bios.pdf; Rochester Hills Mini-Seminar.pdf

Mr. Joe Heffernan, CPA, and Ms. Lisa Manetta, CPA, of Plante & Moran continued their presentation of the following information to Council:

Charges for Services

- *The Constitutional definition of a "fee" is as follows:*

- * *Proportional to the benefits received.*
- * *Voluntary.*
- * *Regulatory in nature.*

Debt Financing

- *Types of Financing Vehicles:*

- * *Long-Term Bonds*
- * *Tax Anticipation Notes*
- * *Installment Purchase Contracts*
- * *Building Authority Bonds*
- * *County Contractual Obligations*
- * *Act 175 bonds*

- *Level of Commitment:*

- * *General Obligation*
- * *Limited to specific revenue (i.e. revenue bond)*
- * *Secondary liability, after the primary bond payor*
- * *No commitment, as in most Industrial Development Revenue Bond and Economic Development Corporation issues*

Financial Report

- *Local units of government report on the following two basis of presentation:*

1) *Individual funds to show accountability for how the taxpayers' money has been spent.*

2) *Government wide level as to whether taxpayers have paid in sufficient amounts to cover total costs of services.*

State Requirements

- *Public Act 2 of 1968, as amended, provides the following key requirements for local units of government:*

- * *Requirement for an annual audit*
- * *Requirement for an annual budget of the General Fund and all Special Revenue Funds*
- * *Requirement for the budget to be balanced*

- * Requirement for a deficit elimination plan when there is a deficit
- * Time deadlines for filing the form F-65 and the audited financial statements

Throughout the presentation, **Mr. Heffernan** and **Ms. Manetta** responded to various specific questions posed by Council members and Resident Zendel regarding specific issues relating to Rochester Hills' finances.

Presented

COMMENTS & ANNOUNCEMENTS

Mr. Hooper addressed calls and emails he had received regarding the upcoming Pathway Millage proposal. He read the ballot language and explained that the millage would not increase taxes and would renew for 20 years.

Mr. Ambrozaitis, noting that the City is working on a comprehensive blight ordinance, assured residents it was not intended to increase bureaucracy or spending.

President Rosen noted that the blight ordinance issue and the status of Council's Communication Committees would appear on a Council agenda in the near future. He also indicated that there would be a Closed Session meeting on December 8th.

ANY OTHER BUSINESS

None.

NEXT MEETING DATE

Regular Meeting - Wednesday, November 1, 2006 at 7:30 p.m.

ADJOURNMENT

There being no further business before Council, President Rosen adjourned the meeting at 9:46 p.m.

JAMES ROSEN, President
Rochester Hills City Council

JANE LESLIE, Clerk
City of Rochester Hills

MARGARET A. CASEY
Administrative Secretary
City Clerk's Office

Approved as presented at the (insert date, or dates) Regular City Council Meeting.