



# Rochester Hills

## Minutes

### Financial Services Committee

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

*Donald Atkinson, Bryan Barnett, John Dalton, Kurt Dawson, Rajeev Gudipati, Melinda Hill, Julie Jenuwine, Lang Liu, Lee Zendel*

---

Thursday, April 29, 2004

5:00 PM

1000 Rochester Hills Drive

---

**DRAFT**

## CALL TO ORDER

*Chairperson Hill called the Financial Services Committee meeting to order at 5:05 p.m.*

## ROLL CALL

**Present:** Melinda Hill, Bryan Barnett, John Dalton and Lee Zendel

**Absent:** Donald Atkinson

*Committee Member Atkinson provided previous notice he would be unable to attend and asked to be excused.*

*Non-Voting Members Present: Kurt Dawson, Julie Jenuwine, Rajeev Gudipati and Lang Lui  
Non-Voting Members Absent: None*

*Others Present: Pam Lee, City Accountant  
Diane Keller  
Gerianne Reimann  
Joe Hefferman, City Auditor, Plante Moran  
Michelle Watterworth, City Auditor, Plante Moran*

## APPROVAL OF MINUTES

**2004-0399** Regular Meeting - January 15, 2004

**Attachments:** 011504 FS Draft Minutes.pdf

**A motion was made by Zendel, seconded by Barnett, that this matter be Approved.**

**Resolved that the Financial Services Committee hereby approves the Minutes of the Regular Meeting of January 15, 2004 as presented.**

**The motion carried by the following vote:**

**Aye:** Hill, Barnett, Dalton and Zendel

**Absent:** Atkinson

## COMMUNICATIONS

**2004-0403** Adoption of Resolution accepting FY2003 CAFR (Comprehensive Annual Financial Report) prepared by Plante & Moran, City Auditors

**Attachments:** 20040619 Agenda Summary.pdf; 20040602 Agenda Summary.pdf; 0403 Audit Presentation.pdf; Ltr Plante Moran 041504.pdf; Resolution.pdf

*Pam Lee, City Accountant, introduced Gerianne Reimann, commending her work and effort on the 2003 Comprehensive Annual Financial Report (CAFR) and noting the year had been spent gathering information on capital assets.*

*Gerianne Reimann, Accountant, briefly reviewed the new financial report and major changes including the following:*

- \* *Financial Statements have been changed so they comply with new GASB 34.*
  - \* *Introductory section remained the same as last year.*
  - \* *Financial section changes:*

- \* *Introductory Statement includes:*
  - \* *Transmittal letter*
  - \* *Organizational chart*
  - \* *Listing of the City Administration*
  - \* *Certificate of Achievement*

- \* *Financial Sections:*
  - \* *Independent Auditor's Report - essentially the same as in the past.*
  - \* *Management Discussion and Analysis Report which is an explanation of the Cities financial performance for 2003.*
  - \* *Charts and graphs reflect summarized financial information.*
  - \* *Governmental Activities are now activities with the City other than Water and Sewer Fund.*
  - \* *Combined funds consist of general, special revenue, capital project, debt service and internal service.*

- \* *Net Assets instead of Fund Balance will show a comparative analysis from one year to the next.*

*Ms. Reimann continued to review the changes to the CAFR, noting the following regarding new documents:*

*Statement of Net Assets:*

- \* *Is a combination of all of the City's activities combined in three columns:*
  - \* *Component Units: contains all of the information for the four (4) component units including OPC, RARA, LDFA, EDC.*
  - \* *Column 2: contains the total financial activity of the year.*
  - \* *Business Activity: represent only the water/sewer activity for the year.*

- \* *Two biggest changes are:*
  - \* *Assets are now disclosed which include assets that were previously recorded as building, furniture and equipment; and incorporates roads, sidewalks, right of way and similar infrastructure items.*

- \* *Liabilities on the City's debt is now disclosed on this statement.*

*Statement of Activities:*

- \* *Helps with understanding financing of programs through user fees.*

- \* Incorporates program revenues.
- \* Finishes with net expense.

*Fund Type:*

- \* Focuses on City's major or significant funds:
  - \* General Fund
  - \* Major Roads
  - \* Local Roads
  - \* Special Police
  - \* Fire Fund
  - \* OPC Building Construction Fund
  - \* Municipal Building Construction Fund

- \* Details of other funds can be found on the back of the financial statements.

*Statement of Revenue and Expenditures for major funds are similar to the past except now the City is disclosing its major funds as opposed to all of the funds.*

*Ms. Lee reviewed the prepared graphs that highlight key financial information including:*

- \* Change in terminology from "Fund Balance" to "Net Assets".
- \* Net Assets are broken into two (2) components.
- \* Restricted Net Assets - Assets available to be spent for a specific purpose.

*Example: Fire Millage; any accumulation you can spend but only for specific fire purposes.*

- \* Unrestricted Net Assets - Resources available to be spent for any purpose.

- \* Two important changes to note:

- \* Assets are now disclosed.
- \* Debt is now disclosed.

- \* Document can now be viewed and compared with other municipalities.
- \* Statement of Activities helps with understanding financing of programs through user fees.
- \* Statement of revenue and expenditures for major funds remains similar.
- \* Management Discussion Analysis helps the reader understand the information.
- \* Graphs highlight key financial information and gives a basis for comparison.

*Julie Jenuwine, Interim Finance Director reviewed the graph on page two (2) including the following:*

- \* Revenues are broken down into two (2) large and distinct pieces.
  - \* GASB 34 calls general revenue
    - \* Includes all property taxes levied.
  - \* GASB 34 calls program revenue.
    - \* Revenue derived specifically from user charges or charges for services.

*Discussed graph on page three (3) - Cost of the City's expenses:*

- \* *GASB 34 compares cost of different functional expenses, subtracts the program revenues or revenues derived from specific programs, comes up with the Net Expense.*
- \* *Rochester Hill's long-range financial plan is viable.*
- \* *Proposal A and the Headlee Amendment have negatively impacted municipalities.*
- \* *Changes to the Singular Audit Act requires separate compliance audit on Federal Funding.*
- \* *Threshold has increase starting in 2004 from \$300,000 to \$500,000.*
- \* *Cities that spend less than \$500,000 in federal expenditures will no longer have to have this separate compliance audit.*
- \* *Qualifying Statement must be filed with State by June 30th.*

*Discussed chart on page four (4) - Water and Sewer Fund Activity*

*+ 2002 - 2003 Activity includes:*

- \* *Operating revenue - increased due to rate increases in water and sewer.*
- \* *Operating expenses - increased due to increase in what the City paid for water and sewer.*
- \* *Unrestricted Net Assets.*
- \* *Fund Balance - Key Funds:*
  - \* *General Fund - remains healthy.*
  - \* *Fire Fund - City has been spending down the resources.*
  - \* *Police Fund - has remained constant.*
  - \* *Major Roads Fund - City has been spending down those resources on different projects.*
  - \* *Local Roads Fund - gone up between 2001-02 and then slightly down this past year.*

*Ms. Jenuwine discussed the Letter of Comments and Recommendations page one (1) including the following points:*

- \* *Informational item regarding the new format.*
- \* *Revenue sharing has decreased over last several years.*
- \* *State expects to hold revenue sharing at a constant next year.*
- \* *Rochester Hills should remain cautious and budget for a decrease in State Revenue Sharing.*
- \* *Rochester Hill's budget is dependent upon two specifics:*
  - \* *Increase in tobacco tax.*
  - \* *Elimination of State Share Revenue to Counties.*

*Committee members discussed Retiree Health Care Funding.*

- \* GASB 34 requires the City to have an actuarial evaluation on the liability.
  - \* Expense figure will increase.
  - \* Actuary to look at benefits paid in the future.
  - \* Actuary will compute an annual contribution.
  - \* Rochester Hills pays an annual contribution into pension plan; which is an expense.
  - \* Rochester Hills does not pay an annual contribution into pension plan; which is a liability.
- Committee members discussed internal control.
- \* Implement limited ability for departments and staff to add vendors into the system.
  - \* Require formal approval policy when adding new vendors to system.
  - \* Implement ability for other staff to review bank reconciliation's other than the preparer.
  - \* Require formal approval policy to limit access to JDE.
  - \* JDE is an integrated system where there are shared common areas.
  - \* JDE keys held by two (2) different departments.
- Discussed**

## UNFINISHED BUSINESS

2004-0409

2004/2005 Water and Sewer Rate Recommendation to Mayor and City Council Committee

**Attachments:** Water & Sewer Rates without resevoirs.pdf; Water & Sewer Rate Schedulespdf; Reservoir info.pdf

Committee members introduced the Water and Sewer Board Richard Rowe, George Karas and Gerald Verschuren and Roger Rousse from the DPS.

Committee members discussed water and sewer rates including the following.

- \* GASB 34 picked up two (2) major assets:
  - \* Infrastructure developed by the builder is given to the City.
  - \* Infrastructure is considered a contribution equivalent of the cost.

Ms. Jenuwine reviewed the two (2) methods of calculation, traditional and modified, noting the City has used the modified approach to collect information.

Ms. Jenuwine provided a review of the information including the following points:

- \* Oakland County has not provided updated information for this year.
- \* Last meeting memo from Bob Spaman indicated a five (5%) percent increase was proposed to the water and sewer rates.
- \* DWSD is increasing the City's water rate by 3.8 percent and sewer rate 4.6 percent.

\* If City increases rates by the same amount as DWSD rather than the 5%, then the new rates would increase to \$2.08 as opposed to \$2.18 for water and \$2.09 as opposed to \$2.10 for sewer.

Committee members discussed how a reservoir affects the rates.

\* Would not see benefit until 2006-2007 if reservoir is built in 2005.

\* Reservoir must be up and running by summer 2005 for DWSD to establish water rate for 2006.

\* Reservoir plan is to become a maximum day customer rather than a peak hour customer.

\* There are controls set in the system because the proposal calls for valves to be installed at the inlets of the City. Those valves have an orifice in them, which allows the City's maximum day amount to come through there. Ideally the City would watch the levels in the reservoir and buy at off peak hours and then use the water from the reservoir at peak times.

\* Key is to have enough storage so the City does not have to draw more than the maximum day demand.

\* Proposed savings is \$1.2 million dollars, however, construction of reservoir and interest on bonds to fund construction must be taken into consideration.

\* Highest estimated cost is \$8 million, which includes two (2) reservoirs and (2) pump stations.

\* Analysis indicates that the cost of constructing the reservoirs and pump stations would be paid for in approximately six (6) years.

Committee members discussed separating Replacement Fund and Capital Improvement Fund.

\* Currently Capital Improvements come out of the annual rates.

\* Replacement Funds grow from contributions from new developments or from a portion of rate fees.

\* Rates are based on expenses annually.

\* Capital Improvements come out of the Capital Improvement Fund.

\* Currently Capital Improvement and Replacement funds are combined.

\* GASB 34 requires we estimate assets, determine replacement costs and calls for a separate Capital Replacement Fund.

\* Utilizing the GASB 34 recommendations, the ordinance and implementing a separate Capital Replacement Fund will insure:

\* Possibility of low increases in rate structure.

\* Possibility that fund will stabilize rates.

\* Communities with high rates deferred maintenance.

\* Current life cycle of sewer/water system is 50 to 100 years. The City's system is thirty

*(30) years old. There is a twenty (20) year window of opportunity to start saving, which will stabilize rates, and the only increases that will be seen are labor costs, material costs and possibly some DWSD costs.*

- \* Guarantees that rates will not increase ten (10) percent annually with a Capital Replacement Fund.*
- \* Rates will be stabilized long-term.*
- \* Potential benefits from a Capital Replacement Fund will come subsequently.*

*Committee members discussed how to separate funds.*

- \* Ordinance already states City should have a Capital Replacement Fund.*
- \* City cash reserves total \$16 million.*
- \* Committee recommends to the Council that the funds be separated.*
- \* City adheres to its ordinance.*
- \* Separate monies that are available.*
- \* Council needs to recommend how fund to be used.*
- \* Possible policy issues need to be reviewed.*

*Committee members discussed what a "Target Balance" is.*

- \* Target Balance is what capital revenue is on hand in Operating Fund.*
- \* Target Balance is also the annual depreciation of the sewer/water system.*
- \* Analysis calls for a Target Balance of 90 days of operating expenses.*
  
- \* Capturing capital revenue during a community development phase reduces bonding 100 percent ultimately.*
  
- \* In 1998 capital improvement/replacement fund was at \$16 million.*
- \* Subsidizing rates depleted fund to its current value \$6 million.*
  
- \* GASB 34, Ordinance, Black and Veach in agreement to separate Operating and Capital Funds.*
  
- \* Ninety (90) days of operating costs or fifteen (15) percent of operating costs on hand.*
  
- \* Annual depreciation emergency repair expenses on hand.*
  
- \* Depleting Fund because it is a combined Fund.*

*Committee members discussed Engineering study.*

*\* Engineering Department currently evaluating age of in-ground infrastructure to develop a replacement time-line and estimate life span of system. Things to consider:*

- \* Size of pipe.*
- \* Material used (transit pipe, ducktail iron pipe, trust pipe for sewers).*
- \* Location of pipe (high impact vs. low impact).*
- \* Proposed 2005 Asset Management Software Program will provide predictive maintenance and replacement schedules.*

*Committee members discussed funding for sewer/water replacement.*

- \* New fund to be used for replacement of existing water/sewer and extension of water/sewer into areas that do not have it.*
  
- \* Extension Policy needs to be defined by Council.*

- \* *Past practice costs fell on developer or homeowner.*
  - \* *Fund must be designated specifically i.e. "replacement".*
  - \* *Sewer lines require homeowner mandatory hook-up but water lines are not mandatory.*
- Committee members discussed possibility of increasing all rates to five (5) percent.*
- \* *Currently capital and lateral revenue goes into Operating Fund.*
  - \* *Currently subsidizing rates using capital and lateral revenue.*
  - \* *Establishing a new fund would cause capital revenue to be diverted into that new fund.*
  - \* *For revenues to meet expenditures would require further rate increase.*
  - \* *Currently City can lump sum one-half of what is needed into Capital Improvement Fund.*
  - \* *By continuing to deposit capital and lateral charges into the Operating Fund, would eliminate a rate increase above five (5) percent.*
  - \* *Currently lateral charges contribute approximately \$1 million per year to operate.*

*Committee members discussed acquisition of land for reservoirs.*

- \* *Possibility of property located on Letica owned by Sewer and Water Fund.*
- \* *Possibility of property located on John R owned by Drain Fund.*
- \* *Possibility of 10 (ten) acre site located on Tienken Road (West of High school).*

*Consensus of the Committee was to request the Administration to provide additional information regarding rates and possible recommendation for increase to be discussed at the next Financial Services.*

**Discussed**

## **NEW BUSINESS**

**2004-0407**

Second Quarter FY2004 Budget Amendments Presentation/Discussion

**Attachments:** May budget amendment Adobe.pdf

*Budget Amendments*

- \* *Second quarter amendment is brief considering it is the first part of year.*
- \* *Fund 631 - contractual services for outside custodial help - advantageous for City to hire a third party custodial contractor.*
- \* *Currently the City employees Custodian I level to do cleaning and Custodian II level to do maintenance Custodial Level II advantageous for City to hire an employee. City hired employees are more vested and take more ownership in their job.*

**Discussed**

## **ANY OTHER BUSINESS**



**NEXT MEETING DATE**

*Joint Meeting with Community Development & Viability Committee - Thursday, May 20, 2004 at 5:00 p.m.*

**ADJOURNMENT**

*There being no further business to discuss, Chairperson Hill adjourned the meeting at 7:00 p.m.*

*Minutes prepared by Sue Busam.*

**Note:**

Anyone planning to attend the meeting who has need of special assistance under the Americans with Disabilities Act (ADA) is asked to contact the Clerk's Office at 248-841-2460 at least 48 hours prior to the meeting.