

April 20, 2005

Honorable Mayor and Members
of the City Council
City of Rochester Hills
1000 Rochester Hills Drive
Rochester Hills, MI 48309-3033

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Rochester Hills for the year ended December 31, 2004. As a result of our audit, and in addition to our financial report, we offer the following comments for the Council's review.

STATE SHARED REVENUE

State shared revenue accounts for approximately 25% of the City's General Fund revenue and 16% of government wide general revenues. These percentages have eroded over the past five years, due to the State's economic troubles. As can be seen in the following chart, the Constitutional portion of state shared revenue has increased modestly while the Statutory portion (the portion within the control of the legislature) has consistently been reduced:

	Actual				Estimated	
	2001	2002	2003	2004	2005	2006
Constitutional	\$4,466,205	\$4,511,699	\$4,588,082	\$4,538,244	\$4,671,185	\$4,879,524
Statutory	2,028,562	1,873,564	1,607,879	1,030,393	854,284	645,945
Total	6,494,767	6,385,263	6,195,961	5,568,637	5,525,469	5,525,469
Dollar change		(109,504)	(189,302)	(627,324)	(43,168)	-
Percentage change		-1.7%	-3.0%	-10.1%	-0.8%	0.0%

The good news is that the double digit decreases seem to have stopped. The long run health of state shared revenue may well be dependent on the State's current project to reform its business tax structure. We will continue to update the City as developments occur.

EMPLOYEE HEALTH CARE AND RETIREE HEALTH CARE BENEFITS

Local units of government are currently struggling with the rising cost of health care for its employees and retirees. Adding to the difficulties is a new accounting rule that will cause local units to recognize the cost of most retiree health care programs over the working life of the employees. You are sure to hear of this new rule over the coming months as communities begin receiving actuarial valuations of this "OPEB" obligation.

Fortunately for Rochester Hills, you have instituted a "defined contribution" type of retiree health care plan. In this type of plan, the costs are paid currently, and there is no hidden liability to be funded. It is important to recognize the benefits of creating the retiree health care program the way you have. We encourage you to maintain the program as is, and resist any movement to a "defined benefit" type program, in which the obligation is open-ended.

TREE FUND POLICY

The City has recently established a Special Revenue Tree Fund. According to the City Charter, the Tree Fund is to be used for maintaining and preserving wooded areas and planting and maintaining trees within the City. The City collected approximately 240,000 of additional tree fund fees this year, resulting in a fund balance of approximately \$1,350,000.

We believe the City should consider creating more specific guidelines regarding allowable expenditure of tree fund money. Given the accumulation of substantial fund balance, there may be an opportunity to benefit the City in less traditional ways. In other words, in addition to the obvious planting of trees, perhaps the fund could be used to preserve older tree areas that already exist, by purchasing land that would otherwise be developed. This would require some amount of study on the City's part, to ensure that the City Charter continues to be properly followed.

CLOSING

We would like to thank the City for the continued opportunity to serve as your auditors and for the assistance and cooperation that we received from the accounting staff, and the rest of the City personnel during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Joseph C. Heffernan