



Rochester Hills

Minutes

Financial Services Committee

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

Thursday, May 20, 2004

5:00 PM

1000 Rochester Hills Drive

DRAFT

CALL TO ORDER

Chairperson Hill called the Financial Services meeting to order at 5:10 p.m.

ROLL CALL

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

Non-Voting Members Present: Kurt Dawson, Julie Jenuwine

Non-Voting Members Absent: Rajeev Gudipati and Lang Lui

Water and Sewer Board Members Present: Richard Rowe, Gerard Verschueren

Others Present: Ed Anzek, Bud Leafdale, Bill Costick, Roger Rousse, Mayor Somerville

APPROVAL OF MINUTES

No minutes were presented for approval.

COMMUNICATIONS

None presented.

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

Discussion commenced on 2004/2005 Water and Sewer Rate recommendation to Mayor and City Council.

Ms. Julie Jenuwine, Interim Finance Director, reviewed the information discussed at previous meetings including:

** Where the City's water rates are going*

** Depleting the Fund Balance to support the organization*

** Identified that the City did not want to encounter the same problems in fifteen (15) years that it is currently having with road funding, noting that many of the water and sewer lines will need to be replaced at that time*

- * *Taking lateral charge revenues in the Water and Sewer Funds and shifting them over to a replacement fund as directed by the City's Ordinance*
- * *The water and sewer rate needs to truly fund the City's operations*

Ms. Jenuwine indicated that new data to be forthcoming and distributed at the next meeting.

Discussion commenced including:

- * *Possible funding for future replacement program.*
- * *City Ordinance calls for water and sewer lateral charge revenues to be deposited into a replacement fund.*
 - * *\$400,000 lateral charges for sewer (2004-2005).*
 - * *\$350,000 lateral charges for water (2004-2005).*
- * *Forecast for lateral revenue charges will decline as City becomes built out within the next ten (10) years.*
- * *Projected revenues for the next ten (10) years:*
 - * *\$2.9 million for water.*
 - * *\$3 million for sewer.*
- * *Problem: Currently these charges are used to offset operating expenditures.*
- * *Possible Solution: Raise water/sewer rates appropriately.*
- * *It was suggested that the City increase the capacity and customer charge by five (5) percent which would minimally generate approximately \$30,000 in revenue for capacity and \$20,000 in revenue for customer charges.*
 - * *Capacity charge will go from \$1.41 to \$1.48 at five (5) percent increase.*
 - * *Customer charge will go from \$1.44 to \$1.51 at five (5) percent increase.*

* *City receives greater part of revenue from commodity charges.*

* *City must determine all sources of revenue before deciding on commodity charge.*

* *Discussed "Break-Even Analysis" for 2004-2005 to generate operating revenue to cover operating expenditures as follows:*

- * *Increase water rates 18 percent.*
- * *Increase sewer rates 20.5 percent.*

* *Engineering Department currently working on a present value/future replacement project.*

Ms. Jenuwine discussed Black and Veach Study and how government accounting handles water and sewer funds including the following points.

* *Operating Fund should have 90 days operating supply plus fifteen (15%) percent of annual depreciation.*

* *Water and Sewer system may require emergency repair of fifteen (15%) percent.*

* *Black and Veach* requires a Capital Replacement Fund for capital revenue charges.

* *The City's capital revenue charges are currently deposited in Operating Fund to subsidize operations*

A motion was made by Dalton, seconded by Zendel, that this matter be Recommended for Approval to the City Council.

RESOLVED: That the Financial Services Committee recommends to City Council that the City increase the Water rate by five (5) percent, y increase the Sewer rate by five (5) percent, increase the lateral charges by five (5) percent, increase the customer rate by ten (10) percent and increase the capacity rate by ten (10) percent.

BE IT FURTHER RESOLVED: That the revenues generated from the capacity and customer charges be used to offset the lateral charges.

The motion carried by the following vote:

Aye: Hill, Barnett, Dalton, Atkinson and Zendel

ANY OTHER BUSINESS

None presented.

NEXT MEETING DATE

Thursday, July 17, 2004 at 5:00 pm

ADJOURNMENT

There being no further business to discuss, Chairperson Hill adjourned the Financial Services meeting at 6:00 pm.

JOINT MEETING BETWEEN FINANCIAL SERVICES COMMITTEE AND COMMUNITY DEVELOPMENT & VIABILITY COMMITTEE

**Ed Anzek, Bryan Barnett, Scott Cope, Frank Cosenza, Barbara Holder, Jim Duistermars
Sahar Emambakhsh, Michael Kaszubski, Roger Rousse, Ann Ruggiero, Kathryn Tignanelli**

6:00 PM

CALL TO ORDER

Chairperson Hill called the Financial Services and Community Development and Viability Committee meeting to order at 6:10 pm.

ROLL CALL

Present: Melinda Hill, Bryan Barnett, John Dalton, Donald Atkinson, Lee Zendel, Jim Duistermars, Barbara Holder and Frank Cosenza

Absent: Michael Kaszubski

Non-Voting Members Present: Ed Anzek, Scott Cope, Roger Rouse, Sahar Emambakhsh, and Kathryn Tignanelli

Non-Voting Members Absent: Ann Ruggiero

Youth Representative Member Ruggiero provided previous notice she would be unable to attend and asked to be excused.

UNFINISHED BUSINESS

2004-0117 Funding Strategy for Local Road Reconstruction

No resolution - discussion only.

Attachments: Funding Strategies 012204.pdf; PQI Ride Qual.pdf; PQI Road SAI.pdf; Presentation Rehmann Robson 022604.pdf; Funding Study Tasks 042204.pdf

Chairperson Hill stated the two committees have been meeting to discuss local road funding strategies and how to move forward with these strategies. She noted that additional information regarding the conclusion their report was to be available at tonight's meeting is not ready. Chairperson Hill stated that the main reason for tonight's meeting is to be sure that everyone is on the same page regarding this issue, noting the big question is whether the City will be placing this item on the ballot and if yes, what will be the context of the question.

Roger Rouse, Director of Public Service, concurred that the Rehman Robson consultant's report is not ready for presentation tonight. As an alternative the Finance Director has developed financial data regarding the amount of money the City needs now for local roads and for ten (10) years into the future.

Committee members reviewed and discussed financial data including the following points:

** Currently DPS develops the local road budget based on fifty (50) percent of the current needs*

** The rationale for the millage proposal in November is two-fold*

- 1. A plan that would propose an ideal program of capital road replacement and maintenance, rather than reduce the services and then ask for a millage at future date*
- 2. The expected voter turnout at Presidential Election is eighty (80%) percent, creating a greater opportunity for a millage to be passed.*

** Plan of action includes:*

- * Articles in the Hills Herald.*
- * Channel 55 advertisement*
- * Public education program targeting service clubs, churches, homeowner associations and other groups.*

Committee members discussed determination on the necessary millage rate needed to provide funding for operating and capital expenditures for local street program.

** Construction program places emphasis on front-loading overlay work to extend the life of superior rated streets which will keep program costs down*

- * *Through the use of the PMS rating system it was determined that intervention for some roads will extend the life cycle and prevent further deterioration.*
 - * *When a road becomes deteriorated to a certain degree, it becomes ineligible for overlay.*
 - * *Determined millage rate calculated on Taxable Value with growth rates:*
 - * *2006 - 5.00 percent*
 - * *2007 - 4.75 percent*
 - * *2008 - 4.50 percent*
 - * *2009 - 4.50 percent*
 - * *2010+ - 4.25 percent*
 - * *Estimated Headlee Rollback is ninety-nine (99%) percent in years following 2005*
 - * *Estimated construction costs increase four and one-half (4.5%) percent annually.*
 - * *Estimated operating expenditures increase two and one-half (2.5%) percent annually with the exception of wages and benefits.*
 - * *Estimated wages and benefits expenditures increase seven (7%) percent in 2005 and six (6%) percent thereafter.*
 - * *Estimated City staff time dedicated to local construction function will be at a comparable level to previous years.*
 - * *Act 51 revenue will remain at a constant.*
 - * *Transfer in from Major Road Fund (Act 51) will remain at a constant.*
 - * *Estimated City revenue charges increase four (4%) to five (5%) percent annually.*
 - * *Evaluation assumes operating and capital expenditures for local street program are supported by dedicated millage.*
 - * *Operating expenditure fund balance is to remain at twenty-five (25%) percent.*
 - * *Estimated interest earnings on fund balance will be two and one-half (2.5%) percent.*
- Committee reviewed analysis for ten (10) year programs, seven (7) year programs and five (5) year programs including the following points:*
- * *Report focuses on analysis for both ten (10) year plans:*
 - * *One program with a transfer from Major Road Fund with a proposed 2.87 mil.*
 - * *One program without a transfer from the Major Road Fund and with a proposed 3.08 mil.*
 - * *Report analysis reflects the proposed millage rate without revenue transfer from General Fund.*
 - * *Report analysis takes into consideration a four (4%) to five (5%) percent increase in revenues.*
- Committee discussed fifty (50%) percent funding under the assumption of a failed millage.*
- * *Assumption that 2005 budget will have a reduced level of service due to reduced*

funding of local road fund.

** Targeted a fifty (50%) percent program of planned local road needs to maintain road safety for motoring public based on expected revenues.*

** Develop a road program that is fifty (50%) percent of ideal road maintenance.*

** Taking money from the Fund Balance in 2005 would create another reduction in level of service for 2006.*

** Should the City continue the major road transfer because it is putting a strain on the Major Road Fund*

** Ideally, the fund should be a stand alone program that has dedicated funding sources to support all of the operation and construction costs*

** Current Major Road Fund projects:*

- * Crooks Road*
- * Hamlin Road*
- * M-59 extension*

Discussion commenced regarding combining the five road budgets into one local road budget including the following:

** Combining Five Funds:*

** The five budgets that should be combined are construction, traffic, winter maintenance, routine maintenance and administration*

** Removes funding restrictions and allows employees in the field to maintain safety for the motoring public.*

** Offers flexibility to re-prioritize as we progress throughout the budget year.*

** Allows the Department to make adjustments on an as need basis*

** Allows the Department to re-prioritize functions*

** Finance Department is in support of combining budgets because:*

** Budgets can be tracked through a line item as opposed to being separate.*

** GFOA requires a mission statement without narrowly defined goals and objectives.*

** Separate budget mission statements are too narrowly defined.*

** JD Edwards program provides capability of capturing detail.*

** The departments are basically functions that have been turned into departments for accounting and tracking purposes*

** Functions can be tracked through a line item as opposed to having separate departments*

- * *Separated budgets provide a carefulness of how money is spent.*
- * *Budget Amendments are currently used to shift funds from one fund to another*
- * *Using multiple funds gives Council a quick picture of how the money is being spent*

Discussion commenced on wording for the ballot including the following options:

- * *Should residents have a choice of ten (10) years or twenty (20) years.*
- * *Using multiple options on the ballot such as*
 - * *Yes vote means approval of millage at (4) mils*
 - * *No vote means approval of millage at (3) mils*
 - * *Left blank means failed millage.*
- * *One option could be to levy for ten (10) years with*
 - * *2.87 for the first five (5) years*
 - * *3.2 for the last five (5) years*
- * *Consideration of the Headlee Roll Back must be included when determining the millage rate to be sure that sufficient funding is obtained*

Committee members continued discussion on strategies for successful millage.

- * *History of public support of millages has not been positive*
- * *Bill Costich from OHM provided successful millage input from other communities.*
 - * *Ypsilanti went for a successful \$18 million bond issue.*
 - * *Livonia formed a citizens committee for a successful one (1) mil.*
 - * *Citizens distributed a newsletter and any updates.*
 - * *Farmington requested a successful 3 mils with the guarantee no more SAD's.*
 - * *Homeowner's Association distributed written material.*
 - * *Cities achieved success within a three-month time span to plan.*
 - * *Some communities structure millage question in parts such as an amount for maintenance and separate mil construction.*
 - * *Residents can petition to specially assess the cost of their reconstruction.*
 - * *Some communities are asking for substantial millages.*
 - * *Example: 2.8 mils for maintenance and 3.2 mils for a bond issue.*
 - * *Downside is residents may approve the bond issue only.*

Committee members continued to discuss road millage issues including the following points:

- * *Public perception on rounded millage number is not an actual.*
- * *It is important to educate the public so they understand exactly for what the millage will be used, such as snow plowing, maintenance*

- * *There is a need to consider that a longer period of time for the millage would result in a lesser amount versus a shorter period of time that generate a higher amount of funds and determine what is the best strategy*
- * *The goal is to have all local roads rated fair or above within ten (10) years.*
- * *A 3.2 mil would be a break even point for the City's roads to remain in fair condition with a continuing program.*
- * *At expiration of the millage in ten (10) years, the City loses construction, operation and maintenance costs.*
- * *Historically residents will not vote for a long-term millages*

Consensus of the Committees was to recommend a 3.2 millage proposal for roads

Discussion commenced regarding placement of the millage proposal on the ballot including the following:

- * *Submit language in August and distribute millage literature in October.*
- * *Members expressed concern with informing the absentee voters*
- * *Members discussed the use of a citizens committee and/or homeowners groups throughout the community to actively participate in getting information out to the residents*
- * *Mayor Somerville's contact to provide financial support for written material.*
- * *The biggest hurdle is getting the correct and consistent information out to the voters*
- * *Venues to get information to the voters include*
 - * *Newspaper articles*
 - * *Flyers/pamphlets - estimated cost for three (3) mailings \$75,000.*
 - * *Citizen groups*
 - * *Channel 55 and 10*
- * *It was suggested that the proposal should be marketed in dollars rather than mils*
- * *Committee members believe that at election time residents will acknowledge that Rochester Hills:*
 - * *Remains the second lowest tax rate.*
 - * *Taxes have not been raised.*
 - * *Continues to provide subsidized water rates.*
- * *It is important to inform residents that:*
 - * *Good roads increase property value.*
 - * *Millage guarantees investment in home.*

Committee members discussed the importance of putting a plan of action in place immediately if the committee sees placing this on the November Election ballot

- * *CDV will hold their regular meeting on March 25 to discuss specifically a plan of action including funding, someone to champion the program, and resources available*
- * *Council Members agreed with Mayor's request to go door-to-door*
- * *Council Members expressed the need for written materials to be distributed to residents.*

* Mayor Somerville will make written material request known to financial supporter.

* Committee members suggested possible help from RARA. and students to help distribute information and hanging a banner at "Tons of Trucks" event.

Ms. Jenuwine reminded the Committee that the City can only use City funds to educate the public, and funds cannot be used to campaign for approval of the millage.

It was noted that Report from Rehman Robson is due on May 7, 2004.

* Rochester Hills is withholding payment to Rehman Robson.

* Consultant withdrew offer to facilitate the marketing process.

ANY OTHER BUSINESS

ADJOURNMENT

There being no further business to discuss, Chairperson Barnett adjourned the Joint Financial Services Committee and Community Development Committee meeting at 7:40 PM

Minutes prepared by Sue Busam.

Minutes were approved as presented/amended at the DRAFT 2004 Regular (Administration & Information Services/Community Development & Viability/Financial Services/Leisure Activities/Public Safety) Committee Meeting.

Note: