Present: Chairperson Belaustegui; Vice-Chair Fassett; Members: Hitz, Merritt, Mooney, Piotrowicz and Westerlund

Absent: None

Also Present: Council Members, Pfeifer and Walsh

Belaustegui called the meeting to order at 7:05 p.m. in the Village municipal building at 18500 W. Thirteen Mile Road. Belaustegui welcomed newly appointed Board members Neil Hitz and Patrick Westerlund.

REVIEW AND CONSIDER MINUTES OF AUGUST 8, 2006 FINANCE COMMITTEE MEETING

Not all of the Board members received a copy of the August meeting minutes in their packets.

> Motion by Mooney, second by Merritt, to postpone approval of the August 8, 2006 Finance Committee meeting minutes until the next meeting.
>
> Motion passed.

REVIEW AND DISCUSS COMMENTARY ON PUBLIC SAFETY DEPARTMENT

Belaustegui presented a review of the Public Safety Department, which is the largest entity in the Village accounting for about 75% of Village employees and about 70+% of Village property tax collections. He distributed a written commentary to the Board and others in attendance.

Belaustegui outlined data included in charts focusing on revenue, expenses, wages & salaries, employee benefits, employee expenses, retiree expenses, service expenses, building & grounds, supplies, and capital purchases. Columns in the charts track numbers from fiscal year 2000/01 through 2004/05 and a column for compound annual growth rate (smoothing over the five years).

Comments and questions on the status of the fire truck reserve fund and plans for financing replacement apparatus in the future (2012-2015) were addressed by Finance Director Wiszowaty. There was a consensus that funding of fire truck replacement should be a topic of further study.

Mooney commented that commentaries on each operating entity represent preliminary data collection that will lead to more detail. Committee members have been gaining an understanding of how things work in order to prepare a financial master plan for the Village.

Belaustegui added that the numbers and commentary provided in the reports give a quick overview of each category. The intent will be to reach the point where we have a good picture of all of the operational entities of the Village, costs, where the money goes, whether they are increasing or decreasing, and why. Then the group can start to look at who does what and whether the operation can be improved as we move forward.

Belaustegui emphasized that documents cover the operational nature of each element. The committee will begin to look at various funds next in order to review and record figures. It will gain a fairly complete view of the Village's operation, where the money is, and how it gets spent.

Pfeifer referred to the discussion on the fire truck reserve fund, noting that the Finance Committee is making the assumption that Beverly Hills is going to sustain its own fire department. Belaustegui replied that the committee has to assume that what the Village does now is what it is going to do in the future unless that changes. This could be a topic of discussion.

REVIEW AND DISCUSS COMMENTARY ON WATER & SEWAGE

Water and sewer are the second largest operational entities in the Village; water and sewer are operated as a separate government "enterprise" similar to a stand-alone business. Belaustegui stated that Water and Sewer operating funds have been separated in this review to reveal how each performs financially. The report does not include a review of the water and sewer major asset/liability funds, which will be covered later.

Belaustegui highlighted revenue and expenses for both water and sewer operations over the last five years. The data shows that the water enterprise has an deficit averaging $150,000 a year over the last five years. Sewer enterprise has a surplus averaging $275,000 a year over the last five years. Combined water & sewer enterprise has a average operating surplus of about $125,000 a year over the last five years. This accumulates as an operating reserve fund, which totaled $3.7 million at the end of the 2004/05 fiscal year. The money is used for Village infrastructure needs.

Wiszowaty addressed questions from members on how depreciation functions in fund accounting and regarding the status and restrictions on the use of money in the Water & Sewer reserve.

Belaustegui commented that the goal is to establish a long-term financial plan for the benefit of a council person or member of the public that describes what is going on in terms of all Village operating entities. The next part of the review will be to determine the Village's liability, its asset base, and how it will cover those liabilities going forward. It is important to become educated on this subject.

REVIEW AND DISCUSS COUNCIL ASSIGNMENT – UNFUNDED FUTURE RETIREE HEALTH CARE

At its last meeting, Council assigned the Finance Committee the task of researching the issue of unfunded retiree health care facing the Village. The Committee was directed to report its findings and the options available to the Village so that Council can proceed in a responsible manner. Belaustegui stated that the Village's future health care obligation is not as dire as some may think. Wiszowaty has been monitoring and investigating retiree health care issues for a number of years, and the Village has taken action to address the future health care obligations. Some things have already been done, and more needs to be done.

Finance Committee members are in receipt of the last Beverly Hills Retiree Health Care Actuarial Valuation for the year ended December 31, 2003. Board members have also received a report from Plante & Moran that explains in a power point presentation format some of the underlying facts relative to accounting for retiree health care.

Belaustegui led the committee through several important elements of the actuarial study. The study indicates that there are only two financing arrangements for retiree health plans approved for use by the Village for calculating expense under the proposed GASB (Governmental Accounting Standards Board) standards. The first method is pay-as-you-go. This means continuing to pay whatever our premiums are when they occur. This is an acceptable method, but it burdens future residents with liabilities that are being accrued now for people who will retire. Another acceptable arrangement is called Entry Age Normal Cost plus amortization of the Unfunded Actuarial Accrued Liability, a method used by about 60% of municipal groups. This method has a benefit in that it taxes the existing user of service for future benefits.

It was mentioned that a member of Council suggested that the Finance Committee look into the Michigan Municipal Employees' Retirement System (MERS) as well. Belaustegui explained that MERS is not health care fund. It is a pension fund that is reviewed annually by MERS with an actuarial study, which the Village is required to follow. It is underfunded by $273,000 over the next 30 years, which is a non-event. Belaustegui believes that the MERS fund as well as the Public Safety Officers' Retirement System is well handled with appropriate oversight.

Mooney understands that the Village will need to pay an amount of $9-$10 million for retirees' health care into the future. The premise is that the Village should be making increased contributions to the fund now since those future retirees are working for the Village now. He is aware that it has been calculated that the cost of $9 million over the next 30 years would require an approximate $92,000 per year contribution to the fund. Mooney added that this figure presumes that health care costs will increase substantially over the next 30 years, that the Village will contract for private health care, and that the current employee contracts will remain in effect. The worst case scenario is that the Village will have to increase its contribution to approximately $90,000 per year for retiree health care.

Belaustegui related that an actuarial study of the Retiree Health Care Fund is done every five years. The question is whether there should be more oversight of the fund and an actuarial study conducted on a regular basis. Belaustegui affirmed that the Village needs to establish a plan that would require oversight of the fund. The task of the Finance Committee is to clarify the issues and present options to Council so it can determine how to proceed.

Wiszowaty referred to a section of the Plante & Moran handout that addresses "Overall Impact". It states that actuarial determination of the liability is required, a step that the Village has gone through three times. The Plante & Moran report states that accounting and financial reporting for retiree health care is an accounting requirement, not a funding requirement. Plans can still operate on a "pay-as-you-go" basis. Financial reporting must measure and disclose the funding status. Wiszowaty remarked that it is good business practice to come up with a dollar amount and continue to fund the plan so that it reaches the point that it is self-supporting.

Belaustegui referred to the section of the actuarial report that determines that the unfunded accrued liability as of December 31, 2003 is $9,098,257. There are a number of ways of addressing this issue. He related that Oakland County arrived at a proposition for funding its retiree health care by bonding their unfunded liability. The County plans to borrow money at 5.5% and, using government bonding, invest it at 7.5 percent. Current law does not allow the County to bond health care liability, so the County would have to get the law changed to make this work. The Village is not considering this approach.

The actuaries came up with a employer contribution number of $717,800 to meet the financial objective of the Village's retiree health care plan. The actuaries made recommendations as follows: 1) Continue the pre-funding program already begun by the Village but add a higher percent of payroll contribution; 2) They also recommend monitoring funding progress by means of annual valuations. Belaustegui stated that GASB will probably require regular valuations, and the Village will be moving towards an annual valuation that will determine what its contribution should be.

Belaustegui distributed a graph entitled Annual Funding to Achieve $9 Million. The handout shows what it would cost the plan without changes at 5%, 6% and 7% interest rates over 20, 25 or 30 years. It is a realistic assumption that, at 7% over 30 years, it would cost the Village $92,000 a year. The amount is sensitive to the number of years and the investments.

Another question is whether it is appropriate for the Village to change its health care plans. Some modifications have already been made. Employees have been making a contribution towards their future retirement health care benefit at 1% of the current wages. Administration has made changes to how the drug benefit is provided, which saved the Village $70,000 last year. Contributions above the current health care premiums for both active and retired employees continue to be made, and the Village's future health care fund has increased from $942,000 in 2003 to $1.2 million.

Belaustegui remarked that the Village is attempting to negotiate with its unions changes in the health care plan that would have a substantial effect on reducing the Village's future health care obligation. There followed a discussion relative to strategies used by businesses for negotiating benefit packages.

The meeting was adjourned at 8:52 p.m.