Present: Council: President Woodrow; President Pro-Tem Koss; Members: Berndt, Oen, Peddie, Pfeifer
Finance Committee: Chairperson Belaustegui; Vice-Chair Fassett; Members: Hitz, Merritt, Mooney and Westerlund

Absent: Council - Stearn
Finance Committee – MacDonald

Also Present: Village Manager Spallasso
Finance Director Wiszowaty

The meeting was called to order at 9:05 a.m. in the Village municipal building at 18500 W. Thirteen Mile Road.

SEMINAR ON GOVERNMENTAL FINANCE
Joe Heffernan and Blake Roe from Plante Moran distributed a handout entitled, "Mini-Seminar on Governmental Finance" (copy available for public review at Village office). The auditors were present to talk about some of the basic philosophies of municipal finance. They examined accounting theories throughout the presentation and related them to specific examples pertaining to the Village of Beverly Hills. Members were encouraged to ask questions throughout the discussion.

Heffernan presented an introduction to governmental accounting outlining basic accounting concepts including assets, liabilities, equity, revenue and expenses. He explained the modified and the full accrual basis of accounting.

Roe talked about the fund balance in Village accounts, focusing on the General Fund balance. The Village has set a standard for a minimum fund balance of 20% of cash outflow. One of the reasons for maintaining a fund balance is to provide a buffer in order to pay bills while waiting for receivables. Cash is received in a cyclical nature with most of the revenue coming from collection of property taxes. Another reason for maintaining a fund balance is for use as a "rainy day" fund, a resource to draw on during tough economic times. Roe related that many communities in Southeast Michigan are well below their established minimum fund balance.

Heffernan informed those present that the State of Michigan is in the process of doing a fiscal distress scoring for every community in Michigan starting with counties, cities, and extending to townships and villages. The State is using ten different measures, one being fund balance. They arrived at an average minimum fund balance of 13% for the entire State. Heffernan thought that 20% was a more appropriate range for Beverly Hills.

Belaustegui commented that one reason for a fund balance is to provide a working capital buffer, and the other reason is to have a rainy day fund. The Village does not have a cash flow problem because most of its revenue is collected in the first part of the fiscal year. There is no process for establishing the cash flow minimum and what triggers the use of a contingency fund. He thought that a 20% fund balance was too high and the average level should be examined.

Heffernan responded that there would be a loss of flexibility if the Village separated the fund balance into working capital and a contingency fund. The Village could look at the cash flow and bank account activity over a three-year period to determine the low points. Reasons for use of the contingency fund and the size of that fund are policy decisions of Council.

Comments from Council on the topic included available fund balances in other funds such as the Water and Sewer Fund and the need for a healthy fund balance when there is a decline in Village revenue. Heffernan mentioned that the fund balance can provide revenue on a temporary basis and get a municipality through a transition if there is a permanent loss of revenue.

Norman Rubin questioned the Village's risk and whether it is covered by its various fund balances. Bunker Kelly commented that other communities are addressing their budgets and mandating changes based on the economy.

Heffernan concluded that the consensus is that there needs to be a minimum level of fund balance for a "savings account". It is impossible to know with certainty how much will be needed over the next three to five years. He thought it would be worthwhile to analyze cash flow for the last three years. The contingency fund portion of the fund balance is based on the Village's best guess and its risk aversiveness.

Hitz asked if Plante Moran thought it would be a worthwhile exercise for the Finance Committee to look at the contingency fund. Heffernan responded that, while he is not in favor of separating the "pots", there might be value in analyzing the contingencies in terms of what could happen and the Village's aversion to risk. The Village should establish a range and try not to get to the minimum of that range. Going through the exercise would provide the Village with good information.

Heffernan highlighted important concepts of the government budgeting process. He emphasized that, in Michigan, the budget is the legal authority that the Village Council is giving administration to provide a particular level of service. Administration cannot incur expenditures that are not allowed in the budget without amending the budget. Generally, department heads need to ask for what they think it would cost to run their department and try to spend less than that amount.

Belaustegui referred to an inquiry made by Todd Stearn at a recent Council meeting. If a budgeted amount ($164,000) was not spent, could it be allocated to the fire truck reserve fund and to the retiree health care fund.

Roe responded that the Village spent less money at the end of the last fiscal year than it planned on spending. The resulting money goes into the fund balance. If Council felt it was acceptable to reduce the fund balance by $164,000, that money could be spent as proposed by Stearn. If the Village had a five year financial plan indicating that X amount of money would be spent over five years, the overage could be allocated for those purposes. Roe added that the Village could also amend the budget if it was known in advance that there would be an overage.

The auditors addressed inquiries on the concept of zero budgeting. It was stated that one of the biggest criticisms of government is the inefficiency of basing a budget on the previous year plus 2% because some items should be going up and others should be going down. Zero based budgeting involves starting from zero in each department and anticipating how much that department needs and why. Theoretically, the municipality would end up with a better budget. The auditors stated that it is a good idea, but they have never seen a government do zero budgeting because of its complexity.

Another approach to budgeting involves determining the cost of government: 1) What do your residents want and need government to do; 2) Prioritize those items; 3) Cost out the services government provides and determine what the Village can afford. This technique is driven by the end result and not by departments. Heffernan commented that some governments try to connect the cost of the department to the end result of what is provided. Each department provides Council with a one-page write-up of the main things it hopes to accomplish with its budget.

Revenue sources were the next topic of discussion. Roe stated that 74% of the money the Village receives to provide services will come from property taxes. The Village needs to have an idea of where this figure is going. Property tax bills are determined by the taxable value multiplied by the millage rate. Property owners were taxed on their State Equalized Valuation (SEV) before Proposal A.

Proposal A limits taxable value for individual properties to the lower of 5% or inflation unless the property is sold or “transferred” as defined by law, regardless of how rapidly existing property values may be increasing. The difference between assessed value and taxable value when a property is sold is commonly referred to as the “uncapped value”. The SEV goes up or down by market values; the taxable value goes up by the lesser of 5% or inflation. The disparity has become significant.

Roe talked about the Headlee Reduction factor, which rolls back the maximum authorized millage in any year where the total taxable value increases by more than the rate of inflation. The Village Charter allows Beverly Hills to levy 11 mils for the operation of the Village. However, the Village is only allowed to levy 9.38 mils due to the Headlee millage reduction fraction, and it will never be allowed to go higher without a vote of the people. The Village has experienced a 15% reduction in what it is allowed to levy.

The concern has been whether the Village is going to receive even less property tax revenue with housing values going down. In terms of the impact on the government and its taxing ability, there has been a growing gap between assessed value (50% of market value) and taxable value, which has been limited. When assessed value of homes come down due to the poor economy this year, the taxable value will still go up by 2.3 percent. This will impact the Village, but not as much as it would if market values went down. The bad news is that residents will not understand why their market value went down by 5-10% and their taxable value went up. Heffernan anticipated a couple of years of decline in market values.

Heffernan remarked that Oakland County has projected a reduction in property tax revenue due to a 7% decline in property value county-wide. Wiszowaty interjected that he received a communication from the Assessor's office indicating that the taxable value for Southfield Township will decrease by 0.39% and Oakland County's taxable value will decrease by 0.38% next year. The taxable value will be flat or reduced in the next year but not as significantly as anticipated.

Heffernan referred to the section of the handout that outlines a study conducted jointly with the Michigan Municipal League. Graphs and statistics demonstrate that Proposal A has had a significant impact on local units of governments. He commented on Proposal A and the way in which the Headlee amendment has been applied.

Belaustegui commented that the intent of Proposal A was to stop the automatic inflationary increases in property taxes. If municipalities want more money, they have to ask the voters. The way to get around Headlee and Proposal A is to ask the voters for a realistic increase in millage. Heffernan added that the intent was to have property tax increases equal to inflation; the dual rollback caused governments to receive property tax dollar increases that were less than inflation.

Heffernan and Roe referred to the charts in the handout to address the topic of state shared revenue. State shared revenue was a complex formula looking at taxable value per capita, unit type/population, and yield equalization. The revenue sharing formula was initiated in 1997 and abandoned by the State four years later because it did not have enough money to pay everybody. The State started reducing statutory revenue sharing by a percentage.

The current state shared revenue formula sunset on September, 2007. The Legislature intended to renew it for a ten year period, but instead extended it for one year ending September 30, 2008. Between now and then the Legislature will have to come to a conclusion on how to return to a formula basis.

With regard to the Charges for Services section of the handout, the auditors made the point that the Village has the right to charge for various services, but must be careful not to charge more than the cost of those services. The chapters on debt financing and financial reporting are included as a reference tool.

Belaustegui asked if Plante Moran had access to the alternative measurement methodology for computing contributions toward retiree health care costs. Heffernan responded that he will make the updated version of the alternative methodology available to the Village.

A recess was called at 10:45 a.m. The meeting reconvened at 10:55 a.m.

Woodrow opened a round table discussion on what the Finance Committee should be undertaking and how that body can be better utilized.

Belaustegui expressed frustration at the lack of Council consensus on the role of the Finance Committee. He emphasized that a project directed to the Finance Committee by Council should have structure and a buy-in from administration. Committee members do not think it would be productive to spend time second guessing administration or Council during budget deliberations. There are members who suggested that the Finance Committee operate on an assignment basis.

Other members thought that the Finance Committee could become a structural part of the finance system and have a role in terms of assisting Council in its goals. Another alternative is to dissolve the Finance Committee if there is no reason for it to exist.

Committee members and Council commented on this topic. Mooney provided background on the history of the previous Finance Committee. He thought that the Committee could take the role as a public relations mechanism.

Koss expressed the view that the Finance Committee would be valuable in providing advice to Council on how to maintain the current level of services. She is looking for the group to advise Council as to where the Village will run into financial trouble and to offer suggestions or alternatives.

Belaustegui maintained that Council does not spend enough time on the finances of the Village. He talked about challenges facing local governments including the cumulative effect of Proposal A and Headlee and employee health care costs. These are long term issues that need to be communicated to the public. It is the obligation of Council to put a plan in place so people will know what to expect. Council can draw on the Finance Committee to analyze financial issues and assist with communication of their message to the public. Future financial hurdles facing municipalities have to be approached in a strategic way.

Mooney concurred that there needs to be a serious long-term view of Village finances and problems. The fact that this particular Council was elected demonstrates that there appears to be overwhelming support from the electorate for guaranteeing that the operation of this Village goes forward long term.

Members of Council understood that the Village is facing financial challenges. There was agreement that the Finance Committee should be asked to identify problems and suggest solutions or alternatives. Woodrow stated that Council needs to communicate to residents the reasons why their taxes will increase while the value of their homes are decreasing. He proposed that the Finance Committee prepare a PowerPoint presentation on this topic for an upcoming Council meeting. Woodrow suggested that the Finance Committee prepare presentations related to Village finances and offer a 15-20 minute presentations at Council meetings on a regular basis to educate the Council and public.

Belaustegui responded that the Finance Committee will work on a presentation explaining the increase in taxes based upon the Headlee amendment and the inflationary process. He added that a reasonable structural role for the Finance Committee was to be responsible for the five year financial forecast. The Committee could lead the process in the first quarter of the year with a review of the five year financial forecast and an analysis of pertinent issues and how to address them. Council would debate the issues and possibly direct the Finance Committee to provide further analysis. Council would set policy and give direction to administration, who would then develop a financial plan for Council consideration and prepare a budget based on that document.

Jim Calder observed that some of the information circulating among residents with regard to Village finances is inaccurate. He agreed that there should be a body that identifies and explains financial issues to the public.

Pam Rijnovean expressed the view that the Village continues to operate on a status quo basis while other communities have been changing the way they do business.

Bob Walsh commented on the importance of addressing health care funding issues.

The meeting was adjourned at 11:58 a.m.