

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

Absent: Merritt

Also Present: Finance Director, Wiszowaty
Council members, Koss and Peddie

Vice-Chair Mooney called the meeting to order at 7:10 p.m. in the Village municipal building at 18500 W. Thirteen Mile Road.

APPROVE/AMEND AGENDA

Motion by Fassett, second by Hitz, to approve the agenda as published.
Motion passed.

PUBLIC COMMENTS

None

CONSIDER APPROVAL OF FINANCE COMMITTEE MEETING MINUTES HELD JANUARY 8, 2008

Motion by Hitz, second by Westerlund, that the minutes of Finance Committee meeting held on January 8, 2008 be approved as submitted.
Motion passed.

Chairperson MacDonald entered the meeting.

REVIEW THE PROPERTY TAX PRESENTATION

Committee member Westerlund distributed a handout prepared to explain the impact of lower property values on property taxes. The first two pages consisted of reference material highlighting the technical aspects of his report; the remaining pages were a copy of the slide presentation he will give at an upcoming Council meeting. The intent of the presentation is to address two questions: 1) Why are homeowners' taxes still increasing while home values are declining, and 2) If taxes are increasing, why does Village revenue continue to shrink. Westerlund will attempt to explain the effect of the Headlee Amendment and Proposal A on taxpayers and on the Village of Beverly Hills in view of the declining market value of homes.

Westerlund referred to a sheet displaying sample assessment notices that indicate the Taxable Value, Assessed Value of property, and the State Equalized Value for a long-time residence (prior to 1994) and for a newer residence. He described the effect of Proposal A on computing property taxes during a declining real estate market. A chart was displayed indicating the total assessed value of all properties in the Village compared to the taxable value of all Village properties from 1994 to the present.

Prior to 1994, taxable value and State Equalized Value (SEV) were the same. As property values increased community-wide there was a large gap between SEV and taxable value. If the market continues to decline, the home values will line up with the taxable value. The taxable value

cannot be greater than the assessed value; therefore, the Village could experience a decline in overall taxable value on all properties. The millage rate is applied to taxable value. If taxable value decreases, so will tax revenue.

In answer to why Village revenue continues to decline while taxes are increasing, Westerlund displayed a graph that depicted the potential millage capacity without the Headlee Amendment and the millage capacity under the Headlee Amendment since 1995. The intent of the Headlee Amendment was to keep communities from collecting more taxes or revenue as compared to the previous year. Annual tax increases are limited to the rate of inflation. Over years of Headlee roll backs, the Village's approved 11.0 mills is currently 9.3801 mills. The problem facing communities is trying to maintain existing services with less millage being applied to home values and, therefore, decreasing revenue.

The complexity of the topic and the difficulty of conveying the information was a concern. The Council and the Finance Committee want to answer questions from residents as to why their taxes are going up when their property values are coming down. There followed questions and comments on the presentation from those present. Several ideas suggested to clarify the message will be incorporated into the language. There was agreement to invite someone from the Oakland County Assessor's Department to attend the Council meeting to assist with answering questions from the public.

In summary, the suggested modifications will be included in the presentation and conveyed by Westerlund at a Council meeting in March. Finance Committee members were asked be there. A representative from the Oakland County Assessor's Office will be asked to attend.

REVIEW AND DISCUSS STATUS OF THE FINANCIAL IMPLICATIONS OF BECOMING A CITY

Fassett reported that he and Jim Merritt have completed an analysis of the financial implications of Beverly Hills becoming a city and forwarded it to the Village Ad Hoc City Study committee. That committee is in the process of compiling its final report to Council. They met on February 7 to review the study materials and will meet again on Monday, February 25 at 7 p.m. to work through the details of the final draft and PowerPoint presentation.

There was some discussion on this topic by committee members. MacDonald proposed that Fassett distribute the City v. Village Financial Report to Finance Committee members electronically following its review by the Ad Hoc group on February 25. This will be agenda item for the next Finance Committee meeting.

COUNCIL'S NEW REQUESTS

Five Year Financial Forecast based on the assumption that existing conditions remain the same and recommendations on cutting costs or increasing revenues

Council held a study session on January 22, 2008 to update its priorities and review budget assumptions for the 2008/09 budget. Action was taken at that meeting to direct two assignments to the Finance Committee. The Committee was requested to prepare a Five Year Financial Forecast based on the assumption that existing conditions remain the same and provide recommendations on cutting costs or increasing revenues.

Belaustegui clarified the meaning of ‘existing conditions remain the same’. Council was asking the Finance Committee to prepare a financial forecast of costs based on the assumption that the operation of the Village would continue as it is without changing services or increasing the millage rate. The essential element is to determine the forecast if the Village continues to do things the way it is doing them without further planning or adjustments. Council members Koss and Peddie concurred with this representation of Council’s charge to the Finance Committee.

Belaustegui explained that the second part of the assignment was to make suggestions on what Council should consider incorporating into a financial plan. It would be up to Council and administration to deliberate and prepare a financial plan.

MacDonald commented that Council has asked this body to look at the existing plan based on revenue and expenditure assumptions for 2008/09. He asked Wiszowaty to provide Committee members with those assumptions. The second part of the assignment to the Finance Committee is to develop recommendations on expense savings or additional areas of revenue and show how that would impact the financial forecast.

Wiszowaty distributed two versions of a draft 2008/09 General Fund Budget prior to incorporating it into a five-year forecast. One worksheet fully funds retiree health care and one does not. Both reports contain information received to date and include adjustments based on revenue and expense assumptions for the next year. Wiszowaty highlighted those assumptions.

In one version of the 2008/09 budget, expenses exceed revenue by \$391,000. This budget includes no OPEB (Other Post Employment Benefit) funding; it continues to fund retiree health care on a pay-as-you-go basis. The 2008/09 contribution on a pay-as-you-go basis would be \$581,951. Wiszowaty prepared a second version of the budget that attempts to calculate the unfunded liability at 100% in accordance with GASB 43 and 45. The contribution goes from \$581,000 to \$1,299,269. The second worksheet represents a budget for 2008/09 that includes funding OPEB to its entirety, which means that expenditures would exceed revenue by over \$1.1 million, fully funding retiree health care.

Wiszowaty stated that he and Belaustegui have spent time working on a formula provided by Village auditing firm Plante & Moran, whereby a community with under 100 participants can calculate its Other Post Employment Benefit costs for health care. They have arrived at approximate numbers.

MacDonald remarked that the Committee will be reviewing how Wiszowaty has laid out the revenue and expense sheets for next year’s budget. He asked that Committee members be provided with additional information including new labor contracts as well as current contracts with health care providers, trash hauler, and rubbish disposal company.

Hitz recapped that the Finance Committee will be reviewing a five year forecast prepared by Wiszowaty. The report will reflect the current situation and any known changes that will occur over those five years. Assumptions will be made for unknown changes (health care). The Finance Committee will review the assumptions, facts, and changes and consider how to

proceed. Wiszowaty will submit additional information to Finance Committee members prior to the next meeting.

b) Analyze water and sewer rates and conduct fund risk assessments starting with the Water & Sewer Fund

Council directed the Finance Committee to analyze the basis for water and sewer rates and the appropriate amount for the Water & Sewer Fund Balance and to provide recommendations. To reach a recommendation, the Committee will have to determine operational and infrastructure needs on an ongoing basis. The Finance Committee was asked to do an analysis of how much money is needed in any fund for cash flow, risk avoidance, and short-term issues, beginning with the Water & Sewer Fund.

Wiszowaty distributed a handout to assist with analyzing water and sewer rates. He provided members with the following: 1) summary of water and sewer rates on an annual basis from 1986 to the present, including percentage increases; 2) copy of a Resolution establishing water & sewer rates; and 3) rate calculation worksheet.

MacDonald asked that the Committee receive an update on the Water & Sewer Fund balance and a five year projection as to what the Village needs to invest in the Water & Sewer Fund. The cost of keeping water and sewer infrastructure in tact over the next 15 years and how much to set aside for that expense will be a consideration. The Committee will review the monthly operating expenses which factor into how much the Village needs to carry in the fund balance. It was questioned whether a written report on the status of Village infrastructure is available.

Council member Koss informed the Committee that Manager Spallasso has been meeting with a representative of the Village consulting engineering firm Hubbell, Roth & Clark for the purpose of preparing a document that details the condition of the Village infrastructure. This report will be submitted to Council upon its completion and provided to the Finance Committee. Wiszowaty will provide information on how much was spent on water and sewer projects in past years.

Belaustegui commented that this assignment will provide information that will determine how much of the General Fund balance the Village can actually spend to cover future revenue shortfalls before readjustments can be made.

Mooney, second by Hitz, that the Finance Committee postpone its analysis of risk assessment of the Water & Sewer Fund until such time as it receives an infrastructure status report from Council.

Motion passed.

PUBLIC COMMENTS

None

COMMITTEE COMMENTS

Mooney thanked Fassett for his work on the village versus city financial impact report and Westerlund for his presentation on property taxes.

MacDonald listed topics for next month's agenda: 1) Review status of financial implications of becoming a city; and 2) Review five year financial forecast based on assumptions. The Committee anticipates receiving a report from Hubbell, Roth & Clark on the status of the Village infrastructure.

Motion by Mooney, second by Belaustegui, to adjourn the meeting at 8:45 p.m.

Motion passed.