

**PROCEEDINGS OF VILLAGE OF FRANKLIN
VILLAGE COUNCIL BUDGET PUBLIC HEARING
MONDAY, May 23, 2005, 8:00 P.M.
FRANKLIN VILLAGE HALL – BROUGHTON HOUSE
32325 FRANKLIN ROAD, FRANKLIN, MICHIGAN**

I. CALL TO ORDER

The meeting was called to order by President Jahnke at 8:02 p.m. at the Franklin Village Hall, Franklin, Michigan.

II. ROLL CALL

Motion by Coyer supported by Gallasch to excuse Trustees Harnisch and Schiano in their absence from this meeting.

Ayes: McElroy, Gallasch, Coyer, Lamott

Abstain: Jahnke

Nays: None

Absent: Harnisch, Schiano

Motion carried

Present: Mark W. Jahnke, Fred Gallasch, Randy McElroy, Brian Coyer, Bill Lamott

Absent: Alan Harnisch (excused), Dominick Schiano (excused)

Also present: Jon Stoppels, Administrator
Eileen Pulker, Clerk

III. ADOPTION OF AGENDA

Motion by Gallasch supported by Lamott to approve the agenda as presented.

Ayes: McElroy, Gallasch, Coyer, Lamott, Jahnke

Nays: None

Absent: Harnisch, Schiano

Motion carried.

IV. ADMINSTRATOR'S BUDGET PRESENTATION

Stoppels presented a number of slides demonstrating the proposed budget numbers including fund balances for both the General Fund and the Fire Fund and explained the need for reserve funds to allay the decreased millage rates caused by the implementation of Headlee and Proposal 1 State tax reduction programs. Several members of Council requested that specific budgets (with expenditures clearly defined) be obtained from the Library Board, Historic District Commission, Planning Commission and Zoning Board of Appeals.

Stoppels introduced the several different plans previously discussed regarding the fund balance in the Pressure Sewer Fund. Questions were raised by Council members regarding the anticipated additions to the sewer system, noting that currently approximately one-half of the homes in the Village are on the system while the other half remain on their own septic systems. Lamott stated that the Historic District Consultant Jennifer Wendler had determined that there were 450 houses in the Village that are currently 50 or more years old. Stoppels opined that the rate of additions to the sewer

system would continue for the next several years (the same as the last several years), due to the frequent number of additions, renovations and rebuilds of the homes in the Village. Stoppels also reported on the rates of interest being paid in the various bonds obtained by the Village for Sewer construction and pointed out the interest being earned on the fund balance in the pressure sewer account, and the opportunity to pay off the 1996 bonds without penalty in November of 2005. Jahnke noted that the remaining balance in the Pressure Sewer fund could be used in the Fiscal Year 2006-2007 to continue the proposed reduction in the debt service millage rate. Stoppels added that a Quorum article would be produced to outline the reasons for the tax rate reduction and that the Village's bonding attorney would be contacted to ascertain the specific costs that would be incurred if the bonds were to be paid off at this accelerated rate.

V. FISCAL YEAR 2005-2006 BUDGET PUBLIC HEARING

A. Open Public Hearing

Jahnke opened the Public Hearing.

B. Public Comments on Budget

Jahnke, noting that no public was present, stated that no comments were received from the public.

C. Council Comments

Jahnke began the discussion by stating that the proposed budget before the Council contained an amount of \$54,097.00 as revenue exceeding expenditures in General Fund. Lamott requested that an additional \$8,500.00 be added to the budget for the Historic District Commission citing the need to fund the following items in the coming year: the publication of the Historic District Guide Book currently being written by Ms. Wendler, to pay Ms. Wendler for consulting work to be performed for the commission, training costs for new member Judy Ernst and the two additional new members to be appointed in July, and public education materials.

Lamott also questioned the amount being expended for Tree replacements in Village Right of Ways, and discussion ensued regarding the use of monies from both the Local and Major Road funds as well as the applications for grant monies currently being pursued. Jahnke added that the Franklin Community Association (Mike Seltzer) was in conversation with the Franklin Foundation (Diane Lake) to aid in funding trees to be planted on FCA property. Jahnke opined that the Planning Commission should be utilized in shepherding the tree plan for the Village in implementing their work on the Master Plan.

Discussion of the City Works contract costs and the distribution of the expenses throughout the budget ensued. Stoppels stated that snow removal issues would be dealt with on an event to event basis in a committee to be comprised of himself, Administrative Clerk Kelda London, and a representative from City Works; adding that a Council member would also be welcome on that committee.

The Revenue Accounts of Police Fines and Interest Income were discussed as well as the amounts in expenditures for the Accounting and Auditing services which had been based on last year's numbers, but discounting the amounts required for the GASB 34 reporting, new this current fiscal year.

Stoppels stated that he was comfortable with current staffing in the Village office and added that he had factored in 3% in payroll increases in the budget presented. Jahnke added that the Building Official (as had been true for a long time) was paid from revenues derived from current building projects in the Village and not any tax funds. Discussion ensued regarding the previous examination of building department fees and their competitiveness, and the future possibilities of a downturn in building projects in the Village.

Stoppels reported on contributions to the Michigan Employee Retirement System (MERS) that the Village employees and the Village participate in for the retirement plan for employees, stating that the new rate for the upcoming year would be 13.78% as confirmed by MERS in the last few days. Post retirement health care for retirees was discussed, and Stoppels added that he would be conferring with actuary firms to determine the amount necessary to be set aside each year to meet the expected need in the years to come.

The Debt Service Fund was discussed, outlining the specifics in the various plans proposed to utilize the current fund balance in the Pressure Sewer Fund, citing the increase in payoffs received over the last several years, due to many Villagers refinancing their homes, as well home purchases and new home construction. Discussion continued regarding the subsequent savings and the advantage of using lower interest earning savings to pay off higher interest rate loans. Also noted was the interest savings of \$386,074.00 for the remaining years of the loan (the 1996 Sewer Bonds).

D. Public Hearing Closed

Jahnke noted that with the discussion completed, the public hearing was now closed.

VI. CONSIDER ADOPTION OF FISCAL YEAR 2005-2006 BUDGET

#2005 -39 Motion by McElroy supported by Coyer to adopt the Proposed 2005-2006 Fiscal Year budget with the changes noted of:

- **addition of \$8,500.00 in the General Fund expenditures for the Historic District Commission, to fund valuable projects to be taken out of unallocated funding, and**
- **the reduction of the millage rate for Debt Service in the Pressure Sewer Account to allow for the use of the prior year fund balance in the amount of \$1,075,000 to pay off the 1996 Pressure Sewer Bond on November 1, 2005 and to pay the debt service payments for the pressure sewer fund.**

We can now do this as, for the first time since they were issued, the Bond Covenants allow the Village to do so with no penalty. This would be an incremental increase of \$1,005,000 from the existing published Budget, as \$70,000 was already included as normal scheduled payments. This action will permanently reduce debt millage presently being paid by the taxpayer by .4555 mils. It should be noted that these are the highest interest Bonds-ranging between 5.0% to 5.75%. The remaining Bonds have very favorable rates ranging from 2.0% to 4.7%. This will also allow for additional principal and interest payments of approximately \$455,000 from the Pressure Sewer Reserve Fund to service the three remaining outstanding Pressure Sewer Bonds. This will allow for an additional one-year only reduction in taxable millage to the taxpayer of 1.5869 mils.

McElroy's comments continued (see attachment #1)

Jahnke stated that the facts would speak for themselves and that he was in support of the budget presented, and that the proposals presented for the use of the pressure sewer funds makes sense at this time (see inserts #2 & #3, memos from Jahnke and Stoppels respectfully).

Coyer added that Stoppels had done an excellent job on the budget, to which Stoppels responded that the budget had been a team effort. Several Council members added their favorable comments in agreement with Coyer.

Ayes: McElroy, Gallasch, Coyer, Lamott, Jahnke

Nays: None

Absent: Harnisch, Schiano

Motion Carried.

VII. CONSIDER PROPOSALS RECEIVED FOR AUDITING AND ACCOUNTING SERVICES

Jahnke began the discussion by explaining that the Village had received four proposals for five year agreements and one three year agreement for auditing and accounting work for the Village, adding that proposals had not been requested for more than ten (10) years. The different proposals were discussed and Stoppels added his observations based on meetings and conversations with each of those firms responding. Discussion ensued regarding future needs for auditing services and additional support that may be needed for statistical and comprehensive reviews for retirement plans and other financial needs, adding that these proposals had also been reviewed by the Finance Committee members.

#2005 40 Motion by McElroy supported by Gallasch that the Council, after a thorough review of the five (5) proposals received, accept the Plante Moran Proposal based upon the documents provided for a five (5) year term, subject to an annual review.

Jahnke stated that Stoppels should communicate the Council's need for timelines with an October date for the possible completion date of the current year audit. Stoppels stated that he would invite Les Pulver of Plante Moran to attend the June 13, 2005 Village Council meeting.

Ayes: McElroy, Gallasch, Coyer, Lamott, Jahnke

Nays: None

Absent: Harnisch, Schiano

Motion Carried.

VIII. ADJOURNMENT

Motion by McElroy supported by Gallasch to adjourn the meeting.

There being no further business, the meeting was adjourned at 9:57p.m.

Respectfully submitted,

Eileen H. Pulker, Clerk

Mark W. Jahnke, President

Attachment #1

In summary, the total tax relief for all Village taxpayers in the 2005/2006 Fiscal year will be 2.0839 mils. This will reduce the present Published budget total millage from 8.6832 mils to 6.5993 mils. In addition, the permanent tax relief for all future years will be .4555 mils, as a result of this first Council action.

The proposed tax savings on a Villager's home in Franklin in the ongoing fiscal years will be as follows:

<u>Taxable Value</u>	<u>Tax Savings 2005/2006</u>	<u>All Future</u>
<u>Years</u>		
\$100,000	\$ 204	\$ 46
\$200,000	\$ 408	\$ 91
\$500,000	\$1,021	\$228

I would also urge that the Council note, recognize, and plan to further reduce taxpayer millage for Pressure Sewer Bond obligations in 2008, when the 1999 Bond Covenants first allow for the early payoff of this Issue without penalty. Although we presently do not have the funds in the account to provide such relief, we believe that the account will have increased sufficiently by that time to allow for this action as a result of required incremental Bond millage, continuing connection fees, tax payer-financing prepayments, and interest which is continually earned for the benefit of the Village on the account.

All of these actions can now be taken with the reasonable assurance that this is clearly in the best interest of the Taxpayers. For the first time in the history of this contentious project, we have the opportunity to pre-pay some of our outstanding Pressure Sewer Bond obligations without penalty and with assurances from the County, whom we employ as our manager for this project, that there are no outstanding prior-year billings which would resolution the Village having to ask for additional millage in future years.

It is very important that the following observations be included in their entirety, to answer some obvious question that taxpayers will be asking in the future. They have the right to fully understand why these actions are taking place now, rather than during some previous administration or time.

One; this is the first time that the Council has been able to prepay any of the Pressure Sewer Bond Issues without penalty. For those taxpayers that are not familiar with municipal Bonds, virtually all of them contain pre-payment provisions, which protect the Bondholder from an early payment, which is usually not in their best interest. The previous administrations fully realized that such actions might be desirable in the future, given the variations in interest rates and the future financial uncertainties that are inevitable with underground projects of this scope and size. We were able

to negotiate the earliest possible call dates and the lowest possible interest rates available at that time. It should be noted that our outstanding credit rating which resulted from prudent conservative financial management was part of the reason we were able to negotiate the best of terms available for these Bond Issues. We would not be able to take these actions tonight without the foresight of the previous administrations.

Two; this Council, and all previous Councils for the past five years or so, have been aware of large surpluses which have built up in the account, and have examined a number of potential scenarios which would be in the best interest of the taxpayer. This is not a new issue, which has just recently been discovered.

Three; Oakland County, which the Village employs as it's Engineering and Accounting Agent for the project, has had a multi-year history of being unable to fully manage the accounting-end of the project, although the physical engineering and construction they provided were very good. This has resulted in more than one immediate demand for payment as high as almost \$600,000 for prior year work which could not be anticipated in the full by the Staff or the elected administration as the county had all of the expense and inventory data. We were therefore required by conservative financial management, and just plain common sense, to keep large reserves to be able to answer this immediate demand for funds to protect the Villagers from a virtual cessation of this vital project. New construction and those experiencing failed septic systems would have been left without service had the Council not retained at least a substantial portion of these funds. Since the County was unable to give the Village the data required because of these new computer-related accounting software problems, we were forced to hold these funds in reserve.

Four; despite numerous phone calls from staff, council man McElroy, and President Pikulas the County could not provide required vital information. The then President Pikulas and this Council Trustee met with numerous County officials at their offices in a further appeal to get the required action. No stone or avenue of approach was ignored in trying to protect the Village. Unfortunately, despite the best efforts of the County Officials, a combination of numerous County-wide serious Accounting computer-related conversion problems prevented them from responding with the level of detail and assurance we needed to take any other action other than the defensive posture which we assumed.

Five; prior to the disastrous events of September 11, 2001, the interest that we were earning of the reserves was a substantial partial offset to the already very low interest rates which were accruing on the Bonds. The financial cost of retaining the reserves to protect the Village from uncertainties was not substantial and was well worth the peace of mind that this form of "insurance" provided the Village.

Attachment 2

Village of Franklin

Memo

To: Council
From: Mark W. Jahnke
CC: Jon Stoppels; Eileen Pulker
Date: 5/20/2005
Re: 2005/06 Budget

A year so so ago, I raised the question of why the village was holding a large balance(over \$2,000,000) of monies in the pressure sewer fund. Previously, the village had committed to pay the pressure sewer debt from a combination of two sources, millage and connection charges.

Based on my recommendation, the council retained municipal finance specialist Tom Traciak to evaluate this situation. Basically, he advised that village had 3 options: (1)lower the millage and use the accumulated monies to pay off the debt as it became due, (2)continue to accumulate the monies and pay off the debt at the back end, or (3)use some of the accumulated monies each year and slightly reduce the millage.

The budget as prepared for our May 23 public hearing assumes that debt will be retired according to stated debt service schedules.

I recommend that we change the presented budget for the following, consistent with option (1) above:

-Pay off the 1996 Sewer Bonds as of November 1, 2005, total of \$1,075,000. These bonds contain a call provision that allows the village to do this, with no penalty. This would slightly reduce this year and subsequent millages.

-Pay all 2005/06 debt service from accumulated monies and reduce the current year millage.


Then, commit to pay off the 1999 Sewer Bonds as of November 1, 2008. This would use up the rest of the village accumulated monies in the pressure sewer fund.

Based on discussions with Tom Traciak, only the 1996 bonds contain a call provision that would allow the village to pay off more than the scheduled debt service during this next fiscal year. The next call provision appears to take effect as of November 1, 2008 for the 1999 Sewer Bonds!

Attachment 3

Village of Franklin

Memo

To: President and Village Council
From: Jon Stoppels 
Date: 05/18/05
Re: Pressure Sewer Debt Millage

As Council is aware, there has been discussion in recent years about how to use the reserve dollars in the Pressure Sewer Debt Fund. The reserve funds have grown to more than \$2.3 million so early payoffs are now possible whereby significant reductions in debt millage will result in lower taxes for our residents. Prior to this time, the reserve was not so significant and the Village would periodically need to make large payments to the County for the costs associated with numerous new installations. This is why the early payoff opportunities are now being considered. Tom Traciak of ACI Finance has handled the Village's bond issues for several years and was asked to opine on the reserve funds and their use for early debt retirement. Tom has met with staff and the finance committee on several occasions to discuss options and to understand the way the Village views those opportunities. I discussed our options at length today with Tom. He suggests that we could pay off the entire 1994 bond issue in the amount of \$1,075,000. This is possible because the bond is "callable" in November of this year. Paying off this debt eliminates the scheduled principal and interest payment of \$127,718.00 and would therefore permanently reduce the debt millage by .4555 mils.

A second recommendation would be to use some of the reserve funds to pay the 2005-06 fiscal year principal and interest payments on the remaining three bond issues. Those payments total \$445,023. This would further reduce the debt millage by an additional 1.5869 mils, although it would only be for the upcoming fiscal year.

An additional opportunity will be in 2008 when the 1999 bond issue can be paid off early. The cost at that time will be \$ 1,190,000. The reserve balance after the above referenced payments will only be \$ 845,000. However, it is anticipated that the reserve will continue to grow in the next four years with projected annual connection revenues totaling \$ 450,000. Therefore, there will be enough reserve to payoff the entire 1999 bond debt. The pay off of the 1999 bond will further permanently reduce the annual millage rate by an additional .45 mils.

Attachment 3

In summary, the Council has the opportunity to make certain advance payments and pay current principal and interest payments to reduce the overall millage from 8.6832 to 6.6408. Again, part of that reduction will only be temporary. Council can expect that next year's total millage rate would go back to approximately 8.2 ± mils.