

Present: President Stearn; President Pro-Tem Koss; Members: Berndt, Briggs, Mooney, Oen and Peddie

Absent: None

Also Present: Manager, Wilson
Assistant Manager, Marshall
Finance Director, Wiszowaty
Public Safety Director, Woodard

President Stearn called the special Council meeting to order at 6:30 p.m. in the Village of Beverly Hills municipal building at 18500 W. Thirteen Mile Road. He welcomed everyone to a special session of Council for the purpose of reviewing Village finances and discussing the future operation of the Village. The Pledge of Allegiance was recited by those in attendance.

ADDITIONS TO AGENDA/APPROVE AGENDA

Motion by Oen, second by Koss, to approve the agenda as published.

Motion passed (7 – 0).

STUDY SESSION TO REVIEW VILLAGE FINANCES

Manager Chris Wilson presented information contained in a PowerPoint presentation consisting of charts and graphs to provide an overall picture of the Village's current and future financial situation. The presentation will address what would be required to tackle some of the problems Beverly Hills will be facing in the coming 6-12 months in terms of preparing next year's budget and providing service levels going forward.

Wilson highlighted the Village's three primary revenue sources: property taxes, state revenue sharing, and charges for services. About 88% of all Village revenue is attained from property taxes and state revenue sharing, sources that fluctuate yearly. On occasion, there can be a contribution to the general revenue fund from the fund balance, which is the Village's reserve fund. This is limited in order to retain the fund balance level set by Council at 20% of general fund expenditures.

Wilson explained that the effect of Proposal A, passed by the voters in 1994, was to limit the growth of homeowners' property taxes. Prior to Proposal A, tax bills would increase with property values. The intent of Proposal A was to protect long-time homeowners from rapidly escalating property taxes.

A graph was displayed that compared the growth of State Equalized Value to Taxable Value from 1994 forward to 2012/13. The upward moving line represents the SEV or growth in real estate values in the Village from 1994/95 to about 2006/07 at which time home prices leveled off and then fell. The bottom line on the graph represents the growth in taxable value over the same period of time; taxable value grew at a lesser rate. When the SEV fell, it approached the level of taxable value. It is estimated that by 2011, the SEV and taxable value will be equal in the Village of Beverly Hills.

People who have owned their homes for an extended period of time saw their property value drop but their tax bill increase for a period of years. That will end for the reason that taxable value losses will be severe. The graph shows how the gap in SEV and taxable value grew on an individual basis and what it meant to the village as a whole. That gap is starting to close.

The next graph looks at the last couple of years and projects forward to present a Village property tax revenue forecast. It demonstrates a precipitous decline in property tax revenue. Not all of the drop is due to the loss of taxable value. There are dedicated capital millages that will come off the tax bill, one next year and another in 2015. This will affect the Village's ability to undertake capital projects and will put pressure on general fund operating money.

Wilson displayed three graphs to show people what happens to their taxable value over time and how their tax bill changes on a home valued at \$300,000 in 1995 if that house was purchased in 1995, 2000, and 2005. The laws in the State of Michigan are set up so that tax bills vary among neighbors depending on when they bought their house. Wilson talked about how this works and what will be happening to property tax bills going forward.

The decrease in the property tax bills for the same house purchased in 1995, 2000, and 2005 will differ by the amount and year of the decrease for the reason that the same house is purchased at a higher cost in subsequent years. However, each of the homeowners will experience a sharp drop off in their tax bill between 2009-2011. A major reason for this decrease is due to the property value decline.

Property owners view lower property taxes as a good thing. However, that revenue goes towards funding the services provided by the Village. Lower taxable values and low millage rates will have an impact on the level of services received by residents. Municipalities have worked under Proposal A in terms of readjusting their budgets when tax revenues were not keeping pace with inflation. The financial climate has changed and has resulted in a sharp drop in tax revenue. Council and administration propose to hold meetings to communicate with citizens and receive their input relative to what service declines they would be willing to accept.

A graph depicting General Fund Revenues and Expenses from 2005/06 through 2014/15 reveals that revenue and expenditures were relatively equal until recent years. The gap between revenue and expenditures becomes wider beginning in 2009 due to declining revenue and will continue until the Village ceases to exist. This is what the future would look like if something is not done to close that gap through additional revenue, expenditure cuts, or a combination of these measures.

Another graph of Village Fund Balance Projections shows a nearly \$2 million reserve fund decreasing into the future. An abrupt drop in the fund balance is predicted next year if no changes are made; the fund balance would reach zero shortly after that.

Wilson gave an overview of State Revenue Sharing and how it has been decreasing since the year 2000. He talked about the future of constitutional and statutory revenue sharing in view of budget problems facing the State of Michigan.

Council and administration must address what level of funding will be needed to support the current level of service and determine what level of service the Village can afford in five years with available funding. Administration has updated the five year revenue and expense projections including OPEB (other post employment benefits) expense. This is a new accounting mandate that requires a municipality to report in its financial statements the liabilities it is incurring today for future pension and retiree health care benefits. The Village will do its best to prefund its post employment benefits.

Wilson discussed the five year revenue and expense projections: Assume a 12% taxable value reduction in 2010/2011 and an additional 5% taxable value reduction in 2011/2012; wage freeze for all employees (union and non-union); increase the public safety pension contribution; reduction in staffing levels in 2009/10 fiscal year; eliminating the contribution to Local Street Fund from general fund operating millage.

The following has been done this year to reduce expenditures:

- One Public Safety Officer retired and was not replaced
- One PSO was laid off
- Village office receptionist was laid off
- Village office employees did not receive a pay increase
- Village office employees transferred to HMO Health Plan
- Building Official was given early retirement and not replaced on a full-time basis
- Public Services Director is now a part-time employee
- Residents are charged a \$50 per household service fee for rubbish collection/disposal
- Contacted Baldwin Library regarding contract withdrawal
- Continue to investigate shared services with other communities

The Village contracts with Baldwin Public Library for library services. Quarterly payments are calculated based on a fiscal year formula and paid from the General Fund. Council made a difficult decision to give the Baldwin Library Board the required two-year notice of cancellation of the contract. The Library Board will give the Village until 2010 to rescind the cancellation letter with no penalty. If the Village can find a way to come up with the money, the contract for library service will continue.

Wilson concluded that the Fund Balance of the General Fund will have a deficit by the end of the 2011/2012 fiscal year. If nothing changes, the Village will be out of money by June 30, 2012. By 2013/14 the projected Fund Balance deficit will be \$5,542,300. Council and administration plan to ask the citizens of Beverly Hills to work with them to address this financial crisis. The outcome is likely to be a combination of employee concessions, service cuts, and revenue enhancements. The result will have an impact on what kind of community residents will have going forward. Wilson believed that the Village will need a combination of additional revenue and expenditure cuts to maintain services the residents receive today.

Stearn remarked that Manager Wilson and Council have been working to project what the Village's future will look like if changes are not made in the upcoming year. The community would lose library services and see a reduction in the public safety department by 35% or more, which would require restructuring in terms of delivering police and fire services. Council will be

reaching out to residents to figure out how to proceed. A solution will include a combination of continued cuts and additional millage. Stearn reiterated that a 2-mill dedicated millage for roads and sewers will come off the tax rolls next year. The one mill or less that was historically transferred from the General Fund to the Road Fund is no longer available. Stearn anticipated the need for a 3-4 mill increase to retain current services.

Oen reviewed that the electorate defeated a Headlee Override proposal last November that would have brought the millage back to the 11 mill level approved by the voters in 1995. He did not think that there was a general understanding of the millage restoration proposal at that time. Council will communicate with residents in future months and ask for public input on how to address the Village's financial problems.

Fred Selak of 18420 Bedford had a question on general fund revenue versus expenses and asked why forecasted expenses are rising more sharply than revenues beyond 2009. He questioned the yearly percentage increase driving expenses from 2009 to 2014 and the major components of those increases.

Wisowaty responded that the major components of increased expenditures are the public safety pension contribution, which was due to the sharp decline in the stock market and resulting losses to the Retirement System, and health care costs for retirees and current employees. Even though Council made serious cuts in the General Fund in the last year, expenditures increased due to these and other costs. It was noted that the Village has altered its health care plans to some extent; however, increases in health insurance costs have exceeded inflation as well as utility costs. A significant issue is OPEB funding levels and the state requirement for municipalities to account for their future liability and post employment benefits.

Stearn related that Public Safety Department costs, primarily salaries, account for about 70% of the Village's budget. There are three PSD unions; the Village is bound by legacy costs and union contracts that were negotiated as long as 50 years ago. The Village will engage in contract renegotiation at the end of the year when these contracts expire. If negotiations with the Public Safety Department are not successful, a State arbitrator is appointed who makes decisions for both parties.

Fred Selak asked how much a 3 or 4 mill tax increase would raise the average homeowner's tax bill. Stearn responded that, based on a \$300,000 home with a taxable value of \$150,000, a 3 mill increase would be \$450.00 per year.

Koss stated that the majority of residents' tax bills will not increase next year. If a homeowner's taxable value and SEV are equal, that person will see a substantial decrease in their tax bill. In addition, tax bills will drop by 2 mills due to the elimination of the dedicated millage for roads and sewers in 2010. Koss stated that her tax bill will drop over \$1,000 next year due to a 12% drop in taxable value and elimination of the dedicated millage. The Village needs \$450 per year per resident to maintain the current level of services. Information to the residents should compare tax savings to a millage increase.

Liz Ross of 17220 Kinross asked if 3 mills would be sufficient to provide the current level of services.

Stearn said that Council has not made a decision on how many mills it would propose on a ballot question. In future months, residents will be asked what they would be willing to pay and/or what services they would be willing to lose.

Berndt made comments putting cost versus benefit into perspective. He talked about what it would mean to cut services rather than invest in the community. If citizens do not fund services that will keep the community safe and maintain property values, people may be faced with other costs.

Carl Cutright of 19116 Hillcrest said that the presentation on taxes and expenses did not include the fact that the inflation rate can be added to the tax base. He thought that Council should consider bankruptcy in order to change the entire structure of the Village instead of proposing a tax increase. Stearn clarified that bankruptcy is not an option for a municipality in the State of Michigan.

Robert Deneweth of 32321 Arlington commented that the Headlee Override proposal would have restored the 11 mill cap approved by voters in 1995 and that Council never took advantage of levying the entire 11 mills. He did not think that Village residents understood the ballot proposal or its consequences. Deneweth maintained that it would devastate property values if the Village went into receivership. In order to maintain Beverly Hills as a desirable community in which to live, citizens will have to retain the public safety department at a good level, keep the library, and maintain current services. An organization has been established called Save Our Services. Residents can sign up to receive a newsletter or assist with the efforts of this community group.

Dick Maxwell of 18701 Walmer expressed the view that the Village's financial problems are worsened by contracts and legacy costs. He questioned the options available to address those two items.

Stearn responded the Village is bound by prior contracts. Council and administration are about to enter into contract negotiations with the Public Safety unions. If the Village cannot negotiate concessions or an amicable resolution, a state appointed arbitrator will be brought in to make decisions for both parties. If the Village went into receivership, prior contracts could become void. Property values would plummet if that occurred. Stearn stated neither he nor anyone sitting at the Council table would be willing to place the Village into receivership.

Larry Needham of 15588 Kirkshire proposed that Council consider other options before saying that the Village will be without library service if a revenue source is not found. He suggested that the Village consider contracting with other libraries in the area or adopt a "pay for use" policy for library service. Council also talked about the lack of future funding to retain the public safety department. Needham thought that the kind of public safety service may be an issue, but that public safety would remain in the community. He asked Council to refrain from gloom and doom remarks.

Needham was informed by Council that there have been conversations with representatives from the Troy, Bloomfield, and Southfield libraries. Contracts with all of these libraries would exceed what the Village is paying to use Baldwin Library. It was noted that this information has been made public.

Patrick Westerlund of 18540 Devonshire suggested that it would be helpful to speak about dollar values instead of mills and averages as Council tries to explain these issues to the community. People would be able to make a comparison of what portion of their tax dollar goes to what service and assess their options.

W. A. Zimmerman of 22191 Camelot Court suggested that Comcast franchise fees be used towards providing community services in Beverly Hills.

Donald O'Connell on 20900 Smallwood said that a union contract is a promise made to a good employee. The Village is fulfilling promises made to employees over the years.

Pam Rijnovean of 32420 Evergreen supported the idea to fund the library contract through a combination of tax money and usage fees. People who use the library would pay extra.

Vince Borowski of 31115 W. Chelton asked questions about the Village's post employment benefit obligations, which were addressed by Wiszowaty and Council members. The implication of not funding for future obligations was discussed. Not funding retiree health care costs would effect the Village's ability to borrow long term bond money, which would have an impact going forward in the ability to operate the Village. Beverly Hills would also fall further behind in its obligations. Borowski suggested that Council include this explanation in presentations at future informational meetings.

Ken Faber of 30319 Fox Run asked about future community meetings and was informed that there will be meetings scheduled in various neighborhoods beginning in January. He commented on the importance of keeping an account of the input from citizens so that Council will have an idea of how residents want to proceed and what amount of millage they will approve. There is a way for residents and Council to assure one another of the outcome of the next election through this process.

Stearn stated that Council will have to determine the millage rate that it will propose to the electorate. There will be monthly informational meetings starting in January at election precinct locations throughout the Village with the intent of explaining and promoting the millage proposal.

Koss said that the comprehensive plan will be to say this is what we need and this is what it will pay for. Council should inform residents what can be provided for the dollars available if the electorate does not pass a millage proposal.

Faber asked for a timeline in terms of the deadline for placing a proposal on the ballot for the November 2010 election.

Ed Pugh 31935 of Alden Court thanked Council for holding informational meetings on the financial problems of the Village. He believed that Council and residents would find solutions together. Pugh indicated his support to retain library services with Baldwin Library.

Rock Abboud 18207 Gould Court commented on state revenue sharing and the financial condition of the State of Michigan. He referred to funds made available to the State through the American Recovery and Reinvestment Act of 2009. The law states that the funds are intended to relieve fiscal stress to local governments. Abboud suggested that someone from the Village be appointed to be an advocate of Beverly Hills at the State level to demonstrate a need and request federal funds for the Village.

Chris Meso of 30119 Lincolnshire voiced his support of Council and its effort to communicate the Village's situation to the Village at large. Meso experienced a house fire years ago, and he called the Public Safety Department requesting emergency services for a child. He appreciated the services of the public safety department and thought it would be devastating to the Village to diminish this vital service. Meso would advocate higher taxes to retain the current services provided by Beverly Hills.

Don O'Connell commented that he came to Beverly Hills because it was a good community; he is willing to spend the extra money to assure continuation of services. O'Connell understood that Council is trying to build trust in the community.

Bunker Kelly disputed the statement that the dedicated millage that is ending in 2010 was for roads. A mill has been transferred from the general fund to the road fund for a number of years. He commented on millage rates levied by Council since the 11 mill Charter cap was approved by the voters in 1995. Kelly questioned whether it would affect insurance rates if police and fire services were provided by a source other than the current public safety department. It has been established that 70% of Village costs are labor and wage related. Kelly hoped that the Village is considering looking into a professional negotiator to assist with contract negotiations with the public safety unions.

Stearn responded that the Village's labor attorney is a negotiator. He observed that Mr. Kelly has pointed out what he views as discrepancies and problems. Stearn offered to sit down with Mr. Kelly if he had any constructive advice on how to lower costs or raise revenues.

Jean Ruth of 32264 Sheridan commented that she supported the library. She did not think that people can pick and choose their services; citizens should invest in the community. Ruth suggested that efforts to educate the populace should commence quickly. She proposed a "Frequently Asked Questions" section be posted on the Village website.

Wilson concurred that not all residents will attend and speak at a meeting or read a newsletter. He proposed that consideration be given obtaining input from citizens through a survey of Village residents. Briggs suggested setting up a Facebook page for the Village to communicate and announce events.

Mr. Deneweth mentioned the Council session held in August at Groves High School. A number of people who spoke said that they were willing to pay the cost of maintaining the community as it has been. He hopes that Beverly Hills will be able to come out of this financial crisis in a way that will keep all of our services in great condition and preserve our property values.

COUNCIL COMMENTS

Mooney thanked those present for their comments; citizens need to talk about what kind of community they want to have and at what price. Mooney referred to labor contracts with employees and public safety officers, noting that legacy costs go back to the early 1980s when the Village was taken to arbitration for the first time. He affirmed that the Village public safety benefit package is not much different than that of any other public safety department. He talked about what it would mean in terms of fire fighting to lose more public safety officers. If the electorate does not approve a millage increase, public safety staffing cuts will be necessary.

The voters approved an 11 mill Charter cap in 1995. The Village has never levied the full 11 mills because council members are conservative with how they spend the community's money. Mooney thought that Council and residents could work together to keep the community the way it is. Council and administration have made every possible cut. He supports a Charter amendment that would assure that residents have a public safety department for the next five years as well as library services. If the voters approve a 13 mill Charter limit, the Village could retain existing services and be able to put some money into road repairs.

Briggs commented that the fundamental problems the Village is experiencing are state-wide. Briggs talked about the state tax structure, the ability to fund local communities and readdress the allocation of funds, and the need to talk to legislators about what should be done. Beverly Hills requires additional operating millage; Council will have to build trust and explain why it is asking for a millage increase.

Briggs added that the Citizens Research Council is a nonpartisan statewide organization that has published good information on shared services. There is a need to understand what types of services make sense to share and provide benefits.

Berndt thanked residents for being a part of today's meeting and providing their interesting and beneficial comments. He asked that residents talk to their friends and neighbors and help Council get them involved in this process.

Peddie addressed the suggestion that individual residents be able to purchase a library card from Baldwin Library and explained why this is not an option. Beverly Hills has a good deal in terms of its contract with Baldwin Library. Paying for individual usage would erode the overall service the library is able to provide. The Library Board cannot plan and draft a budget if they do not know how many people will purchase a library card from one year to the next. The Baldwin Library has maintained that the library is a community driven effort.

Peddie stated that Beverly Hills is paying less to use the Baldwin Library than Birmingham residents since Birmingham City Commission lowered its library millage to 1 mill two years ago. Birmingham residents do not think Beverly Hills is paying its fair share. The library is facing

revenue constraints. Peddie said that the Village can rescind its withdrawal notice from the library contract by the end of 2010 without renegotiating its contract.

Oen thanked members of the public for coming out to voice their ideas. He is convinced that the community will come together and fix its problems.

Koss stated that Beverly Hills does not have the luxury of being on the end of stimulus money. The only ones who can provide the stimulus to retain our community are the residents. We will be the ones who benefit from those tax dollars. People have to decide what they want.

Stearn thanked everyone for coming and said that there will be more informational meetings.

Motion by Mooney, second by Oen, to adjourn the meeting at 9:05 p.m.

Motion passed (7 - 0).

Todd Stearn
Council President

Ellen E. Marshall
Village Clerk

Susan Bernard
Recording Secretary