## FENTON TOWNSHIP CIVIC COMMUNITY CENTER 12060 MANTAWAUKA DRIVE, FENTON, MICHIGAN

Supervisor Mathis called the meeting to order at 7:30 p.m.

Present: Mathis, Krug, Carmody, Brown, Goupil, Zimmer and Office Manager

Broecker

Absent: None

#### PLEDGE OF ALLEGIANCE:

Supervisor Mathis led the pledge of allegiance to the flag.

#### **UNFINISHED BUSINESS:**

### Review of Financial Status of the Fenton Township Sewer Fund

Supervisor Mathis stated that the purpose of this meeting is to provide information to the public regarding the sanitary sewer system and the proposed plan to address the financial situation in the Sewer Fund. In addition to the members of the Township Board, Supervisor Mathis also introduced Tom Traciak, President of ACI Finance, Inc., the Township's financial consultant, John O'Brien, Genesee County WWS Director, Allen Lawrence of Lawrence Engineering, the Township's engineer and Penny Sharich, Sewer Department Coordinator.

Supervisor Mathis presented background information regarding the Township's sanitary sewer system:

- Pollution in the lakes caused by septic systems prompted the Fenton Township Board to begin constructing sanitary sewers in the mid-1960's.
- Most of the Township's sewer system was installed in the 1960's and 70's, using clay pipe, which is not as flexible or durable as the plastic pipe used today.
- Fenton Township has many lakes, which also means that we have a very high water table and soil types that are less than ideal for sewer lines. The sewer lines are subjected to a great deal of underground movement and shifting, which causes the pipes to sag, crack and break.
- For many years we could only fix problems inside the sewer pipe that became apparent due to a spill or an overflow.
- With the introduction of newer technology, we have the ability to use special cameras to inspect the inside of sewer lines and identify problems before they become too large.
- This video inspection process has allowed us to identify 30-40 years worth of accumulated problems in a relatively short time. This lets the Township be proactive rather than reactive when it comes to sewer system improvements.

Clerk Krug provided information regarding the Township's Administrative Consent Order and the ongoing project to rehabilitate the sewer system:

• Fenton Township had a history of sewer spills and backups in the 1980's and 90's. This history led to the Township being one of the first municipalities in the

state to be required to enter into an Administrative Consent Order (ACO) with the Michigan Department of Environmental Quality (MDEQ) in 2002.

- The ACO mandated that the Township improve its sanitary sewer system in order to reduce the risk of sewage spills and overflows; the Township then began a comprehensive project to:
  - a. Conduct a video inspection of the Township's entire sanitary sewer system.
  - b. Identify system deficiencies.
  - c. Determine the most cost-effective rehabilitation methods.
  - d. Complete the necessary improvements to restore the system to an adequate level of operation.
- The Township has made significant progress in improving the sewer system in the past four years, but there is still a great deal of work to be done.
- These system improvements are costly, however not completing the needed system improvements can also be very costly.
  - a. Cracks or breaks in the pipes can lead to sewer lines becoming blocked, which can then result in a backup of sewage into one or more homes.
  - b. Most communities, including Fenton Township, are unable to obtain insurance coverage for sewage backups. The cost to clean up a sewage backup and replace damaged property, and the payment of any damages awarded due to lawsuits, would be expenses to the Township's Sewer Fund.
  - c. Identifying and repairing problems before they create a catastrophe is much more cost effective and protects the health safety and welfare of our residents.

Clerk Krug also referenced a recent newspaper article reporting that up to 80 homes experience sewage backups in the City of Pontiac. The City is looking at a class-action lawsuit and potentially millions of dollars in damages.

Treasurer Carmody explained the current financial status of the Sewer Fund:

- The need for continued rehabilitation of the Township's sewer system due to its age and condition, combined with several economic factors, have created a situation where the Fenton Township Sewer Fund is not currently able to meet the financial needs of the sewer system.
- There are three primary factors that have created the need for the Township to generate additional revenues:
  - a. The Sewer Fund is currently experiencing a cash flow deficiency due primarily to slower than anticipated development, which means fewer new connections to the sewer system and a decrease in connection fee revenue.
  - b. The funds from the bonds previously issued to finance sewer rehabilitation have been spent, however it is estimated that an additional \$20 million is needed to complete the necessary sewer system improvements over the next several years.
  - c. Genesee County will increase their charge to Fenton Township by \$33.00 per quarter per unit beginning August 1, 2006. The Township's Sewer Fund cannot absorb this increase without passing it on to the sewer system users.

- There are four different ways for the Township to generate revenues for the Sewer Fund:
  - a. Connection fees
  - b. User fees
  - c. Special assessments
  - d. Voted millage
- Since the volume of new connections determines the connection fee revenue, increasing that fee would not result in a significant revenue increase.
- That leaves user fees, special assessments and a tax millage as realistic options to increase revenues.
- To develop the best possible approach to this financial situation, the Township
  has retained the services of financial consultant ACI Finance, Inc. and a bond
  attorney from the law firm of Miller-Canfield. Both firms are highly experienced
  in the area of municipal finance. With their assistance, a proposed plan has been
  developed.

Clerk Krug reviewed the components of the proposed financial plan:

### 1. Increase quarterly user rates to \$168.00 per unit, effective August 1, 2006.

- This would offset the rate increase being implemented by Genesee County without placing any additional financial burden on the Sewer Fund.
- This increase could be temporary, which we will explain a little later.

# 2. Establish a separate Special Assessment District for each region of the sewer system.

- Special assessment districts are a way for the Township to spread a portion of the costs for the needed improvements upon all properties that currently have sewer available, (including properties that are not yet connected to the sewer system).
- Each property would be included in one of five assessment districts based on location.
- Properties would be assessed an equitable share of the total cost of the projects to be completed within their respective districts.
- Current estimates result in a "per share" assessment between \$1,800 and \$2,600, depending on which district a property is located in.
- Some properties, such as large acreage parcels and businesses, will be assessed more than one share. The assessment amount for these properties will be determined by factors such as total acreage or current use of the property.
- These assessments, which would appear on the property tax bill, would be spread over a 20-year period (including interest), with the option of paying off the assessment at any time.
- Special assessments would allow the Township to issue bonds that would fund approximately \$14 million of the estimated \$20 million needed for system improvements.

#### 3. Place a millage proposal on the August 8, 2006 Primary Election ballot.

- The board is also considering approving a ballot proposal for the August 8, 2006 election.
- The millage proposal would ask for a levy of 2 mills on all properties in Fenton Township for 20 years to pay for sewer system operation & maintenance, debt service and capital improvements. If approved, a millage levy would spread some costs across the entire Township, rather than placing the entire burden on existing sewer system users. Additionally, a millage levy is a property tax, which is tax-deductible for income tax purposes.
- If approved, the millage levy would generate the revenue to:
  - 1. Make up the difference between the \$14 million generated by special assessments and the estimated \$20 million needed for system improvements.
  - 2. Offset the August 1, 2006 Genesee County fee increase of \$33.00 per unit per quarter.
  - 3. Counterbalance the negative cash flows already being experienced by the Sewer Fund.
- If the millage is approved by the voters, (based on current cash flow projections), additional user rate increases would not be necessary and the August 1, 2006 rate increase would be rescinded, bringing the quarterly user rate back to \$135.00 per unit as of January 1, 2007.
- If the millage proposal is not approved by the voters, (again based on current cash flow projections), user rates would have to be increased to \$201.00 per unit per quarter, effective September 1, 2006.

Financial consultant Tom Traciak confirmed that the Township has spent a great deal of time and effort analyzing this situation and carefully considering all possible alternatives to increase revenues. The Township Board has done an excellent job in coming up with a plan that is a balanced and equitable approach to the situation.

Mr. Traciak also clarified that the special assessments are for projects yet to be completed. Special assessments cannot be used for projects already completed.

Supervisor Mathis summarized the two possible approaches that have been developed to remedy the current financial situation in the Fenton Township Sewer Fund.

#### Option 1

- Special assessments for all properties that currently have access to sanitary sewer.
  - 1. Assessment amounts would range between \$1,800 and \$2,600, based on current estimates.
  - 2. 1/20<sup>th</sup> of the total assessment amount plus interest would be placed on the property tax bill for a 20-year period.
  - 3. Assessments may be paid off at any time.
- 2-mill tax levy.
- User rates lowered back to \$135.00 per quarter per unit, effective 1/1/07.

#### Option 2

- Special assessments for all properties that currently have access to sanitary sewer, (same as Option 1).
- No tax levy.
- User rates increased to \$201.00 per quarter per unit, effective 9/1/06.

Supervisor Mathis pointed out that it is also important to understand that if cash flows improve significantly due to an increase in new connections to the sewer system, the millage rate (if approved) and/or user rates may be reduced at some point. The Township will only collect the revenues necessary to operate & maintain the sewer system, service the related debt and maintain adequate fund reserves. Sewer Fund dollars cannot be spent for any other purpose and the Township is not permitted to accumulate excessive amounts of cash reserves

#### Public Comment:

#### Ray Dillard, 13331 Crane Ridge Drive

Mr. Dillard recalled that the 2005 sewer rate increase was supposed to be temporary. Supervisor Mathis clarified that the Township stated that the increase could be temporary if the volume of new connections increased. Since new connections have actually decreased, more funds are needed.

#### Charles Mueller, 6036 Lobdell Road

Mr. Mueller suggested forcing the approximately 200 homes that are not connected to the sewer system, but have access to it, to connect. While this would not generate a large revenue increase, it would help.

Mr. Mueller asked how mobile home parks would be assessed under the special assessment process. Office Manager Broecker stated that the assessment methodology has not been finalized but in the initial draft, apartments and mobile home parks are assessed at one "share" per dwelling unit.

Mr. Mueller pointed out that higher value homes would not experience the same cost savings as the example using a home with a taxable value of \$100,000.00.

#### Marjorie Baird, 13373 Lake Shore Drive

Ms. Baird asked if a connection fee is charged for a new home that is built after demolishing an old home. Supervisor Mathis confirmed that if the demolished home is already connected to the sewer, the property owner will not be charged an additional connection fee for a new home.

Ms. Baird also feels that the flat rate sewer use fee is unfair to smaller families. She feels the use fee should be based on volume, using the number of bathrooms or plumbing fixtures as a determining factor. Supervisor Mathis pointed out that the number of people in the household is more of a determining factor than the number of bathrooms. Since we don't use water meters, the flat rate user fee is the only equitable way to charge this fee.

### Rookie Risinger, 12043 Jennings Road

Mr. Risinger asked if Jennings Road properties would be included in the proposed special assessment districts. It was clarified that properties within 300 feet of an existing sewer line would be included in one of the special assessment districts. Mr. Risinger also stated that there are still several drainage problems along Jennings Road. John O'Brien will have the appropriate department at the Drain Commissioner's office contact Mr. Risinger.

### Dave Franz, 3435 Breezepointe Court

Mr. Franz asked if properties that don't currently have sewer available, but will at some point in the future, will be included in the special assessment districts. Mr. Traciak confirmed that only properties that have sewer available at the time of the creation of the assessment district will benefit from the proposed improvements, (per statute), and can therefore be included in the special assessment districts.

#### Keith McKenna, 13463 Lake Shore Drive

Mr. McKenna suggested that the Township provide more information to support the assertion that \$20 million is needed to complete the needed sewer system improvements. Clerk Krug briefly responded that the needed improvements includes more than 600 separate segments of sewer line, with nearly 3,000 identified defects, (broken pipe, leaks, cracks, etc.). This information will be added to the summary information available to the public. Mr. McKenna also feels that fees should be structured so that future users have to pay for what has happened in the past. Mr. McKenna also stated that he is opposed to using a tax millage to reduce user rates. Mr. McKenna inquired about the recent transfer of funds from the General Fund to the Sewer Fund. Office Manager Broecker responded that these transfers were needed to help the Sewer Fund meet its debt payment obligations. It is the intent of the Township to return these funds, with interest, by the end of the year.

#### Lee Osborn, 3444 Breezepointe Court

Mr. Osborn asked if bids had been solicited for the \$20 million in projects. Supervisor Mathis clarified that the \$20 million is based on engineer's estimates. Parts of the needed improvements will be bid out as a construction contract, while others, because of their "piece-meal" nature, will not be competitively bid, but contractor pricing proposals will be obtained before contracting for the work.

Mr. Osborn also supported the earlier comment that new homes built on sites where a home has been demolished should be charged a connection fee. Mr. Traciak clarified that charging a connection fee in this situation would not be legal.

#### Charles Mueller, 6036 Lobdell Road

As an alternative to specially assessing properties that do not currently have access to sewer, Mr. Mueller suggested increasing the connection fee by \$2,000-2,500, then refunding or rebating an amount equal to the amount of the special assessment for those properties that were specially assessed.

#### Tom Atwell, 4030 Bennett Lake Road

Mr. Atwell is not in favor of special assessments or a millage. He feels that the increased costs should be borne by the current system users. He sees the connection fee, which is among the highest in the county, as an equitable way to spread these costs to new users.

#### Nicole Allen, 15266 Restwood Drive

Ms. Allen asked why the transfer of money between funds would be done with interest when the Township is not a for-profit entity. Treasurer Carmody explained that the board has a fiduciary responsibility to reimburse the lending fund, (General Fund), for lost interest revenue on the amounts temporarily transferred. Ms. Allen also asked if the Township has excess funds, is the Township "over-recovering" for these sewer improvements. Mr. Traciak explained that the Township does not have "extra funds" available to help pay for the needed system improvements. The inter-fund transfers are a stop-gap measure and intended to be temporary. The Township's General Fund does not have sufficient reserves to permanently transfer or lend funds over a long term to any other fund. Mr. Traciak also pointed out that, even without the \$20 million in system improvements, the Township still has a need to generate revenues to address existing cash flow problems.

Mr. Traciak stated that tonight's meeting is the first step in the overall plan to address the financial needs of the Sewer Fund. The issues raised regarding special assessments will be reviewed before a final methodology is determined. He also emphasized that, having worked with more than 200 governmental units in Michigan over the past 20 years, he has yet to see a situation where the entire community didn't benefit from infrastructure improvements. All properties, regardless of whether or not they are connected to the sewer, benefit from the existence of a sanitary sewer system. Property values, lakes and ground water are protected by a properly operating system, therefore a township-wide millage is reasonable and fair. Mr. Traciak also emphasized that the connection fee should not be looked at as a solution to the financial situation. The connection fee was calculated on industry standards to address the "equity buy-in" issue raised earlier by Mr. McKenna

Mr. Traciak emphasized that the Township Board does not have any choice but to address these issues, regardless of what options are ultimately chosen. He again stated that the approach using a mix of special assessments, millage and user fees is balanced and equitable.

### Proposed Ballot Proposal Language for 8/8/06 Primary Election – Sewer Millage

Supervisor Mathis reviewed the issue of placing a sewer millage proposal on the August ballot, which was discussed at the 5/15/06 meeting. Clerk Krug presented the following ballot language for board consideration:

Shall the tax limitation on general ad valorem taxes within the Charter Township of Fenton, County of Genesee, Michigan, (the "Township") imposed under Article IX, Section 6 of the Michigan Constitution be increased for the Township by 2 mills

(\$2.00 per \$1,000 of taxable value) for a period of twenty (20) years, the years 2006 through 2025, inclusive, for purposes of paying for a portion of operation and maintenance, debt service, and capital improvements relating to the sanitary sewer system in the Township? If approved and levied in 2006, the millage would raise an estimated \$1,487,000.00 for the Township in the first year.

Yes		No
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Board comment:

Trustee Goupil stated that he doesn't want to increase costs to the residents but the Township does not have a choice in this situation. A millage proposal at least gives the voters the opportunity to choose between a tax increase and a fee increase.

Trustee Brown feels that the millage proposal gives an unfair voting advantage to the 85% of the residents currently on sewer.

Trustee Zimmer agreed with Trustee Brown's comments. She has previously lived in a home with a septic system and currently is a sewer user. She believes the users of the system should bear the increased costs. She also doesn't believe the proposal has been researched enough to determine if 2 mills is the appropriate levy.

Trustee Goupil disagreed, pointing out that the financial consultant has reviewed the cash flows and the 2-mill proposal has been determined to be appropriate. While the millage proposal may seem unfair for the 15% of the residents not on sewer, forcing a rate increase on the other 85% without providing any options may not be fair either. He also agreed with Mr. Traciak's comments that all residents benefit from the sewer system, even if they are not connected to it.

Treasurer Carmody stated that he does not like the fact that the board must look at increasing costs to our residents, but what choice do we have? He believes that giving the voters the option is the most equitable approach.

Supervisor Mathis agreed, adding that the fact that the tax levy would be tax-deductible for most residents is another positive aspect of the millage proposal option. She added that the board doesn't want to have to make decisions that will increase costs to our residents, but we truly have no choice in this situation. Putting the millage proposal on the ballot gives the residents an option and if it is turned down, user rates will have to be raised.

Trustee Zimmer suggested delaying the proposal until the November election so the numbers can be reviewed further. Supervisor Mathis stated that she believes that the numbers have been sufficiently reviewed and there is no reason to delay the millage proposal.

Motion to approve the sewer millage ballot proposal language for the August 8, 2006 Primary Election, as presented.

Motion by: Carmody Seconded: Mathis

Ayes: Mathis, Krug, Carmody, Goupil

Nays: Brown, Zimmer

Motion carried.

<b>ADJOURN</b>	:
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Meeting adjourned at 10:10 p.m.	
Bonnie Mathis, Supervisor	Robert Krug, Clerk

**Minutes Posted 5/25/06**