



## WASHTENAW COUNTY BOARD OF COMMISSIONERS

### WORKING SESSION

October 6, 2011

The meeting was called to order by Chair Rabhi at 6:30 p.m. in the Board Room, Administration Building, 220 North Main Street, Ann Arbor, Michigan.

**MEMBERS PRESENT:** Comms. Bergman, Peterson, Prater, Rabhi, Conan Smith, Dan Smith, and Turner

**MEMBERS ABSENT:** Comms. Gunn, Judge, Ping, Sizemore,

**OTHERS PRESENT:** Verna McDaniel, County Administrator; Kelly Belknap, Interim Deputy County Administrator; Brian Mackie, Prosecuting Attorney; Tina Gavalier, Finance; Ken Schrader, ITS; Cheryl Perry, County Administration; Jason Brooks, Clerk's Office; various citizens; and members of the press.

#### Roll Call

#### Citizen Participation

None

#### Commissioner Follow-Up to Citizen Participation

None

#### Discussion Items:

#### ***Fiscal Score Card/County Bond Flexibility – Tina Gavalier, County Finance Analyst, Kelly Belknap, Interim Deputy County Administrator***

Tina Gavalier and Kelly Belknap gave the presentation (on file in County Clerk's office).

Comm. Bergman asked what Fiscal Score had the State determined was the point at which a Emergency Manager was required. Kelly Belknap responded that when an agency scores between a 5-7 they are placed under Fiscal Watch, which means that even though that agency is allowed to take independent action, their actions are being evaluated. Kelly Belknap went on to say that when an agency scores between 8-10, that is the point at which an Emergency Manager may be called in to run the agency. Comm. Bergman asked whether the County would receive an Emergency Manager if the average score of the cities and townships in Washtenaw County fell between that 5-7 range. Kelly Belknap answered Comm. Bergman, saying that it was her understanding that agencies were ranked independently and that as long as the County maintained a good fiscal score there would be no need for an emergency manager.

Comm. Dan Smith asked whether the County should just go ahead and calculate their own Fiscal Score, rather than waiting for the State's calculation. Kelly Belknap responded that it would be possible but that the State would be releasing the Fiscal Score within the month. Comm. Dan Smith asked if there are any Board policies that are based upon the Financial Score numbers. Kelly Belknap responded to his question by saying that there are no policies that are as specific as he detailed for a couple of reasons; there is a new focus on the Fiscal Indicator Scores because of Public Act Bill 44 of 5113 which addressed Emergency Financial Management, and secondly there has been no need for such exacting policies because the Board has traditionally made sound financial decisions.

Comm. Prater questioned why some of the figures that appeared on the County audit were not included on the County's fiscal score card. Kelly Belknap answered Comm. Prater's question saying, that the State Department Treasury had worked with Public Policy experts at the University of Michigan to come up with a simple criteria for judging an agency's fiscal state and they had made it simple enough to work at nearly all levels of government.

Comm. Prater stated a concern about the large amount of liabilities the County will eventually need to address. Kelly Belknap addressed his concern saying that a lot of people do not agree with the criteria used to judge financial soundness.

Comm. Turner confirmed with Kelly Belknap that the 2010 Fiscal Score would be out this month (October). Kelly Belknap confirmed that they would be and added that as soon as they arrived they would be put into the Commissioners' mailboxes.

***Bond Criteria Discussion – John Axe, Bond Counsel***

John Axe gave the presentation (on file in the County Clerk's office).

Comm. Conan Smith asked how the County's fund balance affected the County bond rating. John Axe responded by saying that the County has always had more than 10%, which is the standard. He went on to say that the amount of money was not as important as maintaining the balance. Comm. Conan Smith asked why the County has avoided issuing revenue bonds. John Axe replied that revenue bonds require more interest. He went on to say that many of the County's bonds have been paid for by various kinds of revenue, not just tax revenue and that banks were more willing to provide a low interest rate if they know that there is more than one way to pay back the money. Comm. Conan Smith asked whether there was a level of bond capacity that starts to raise rater eyebrows. John Axe responded by saying that the more important issue was whether or not a bond was self-liquidating. He went on to say that if the County had a new project that was going to raise enough money to retire the bond issue then that new project would not hurt the County's credit. John Axe stated that if the County had a new project that did not have enough revenue to retire the bond issue then that could hurt the County's credit. He went on to say that the important factor in bond and credit ratings was that there is a way to pay for a bond issue. Comm. Conan Smith summarized John Axe's words saying that if the County were to develop a program that had a revenue source and were bonding to capitalize the kick off of that program, then that would be looked upon more favorably than a program that did not have a revenue source.

Comm. Dan Smith asked what the different ratings cost and what are the percentage differences in interest rates? John Axe responded by saying that the difference between the County's current ranking and a single "A" might be an 1/8 of a percent, which he reported could be a huge amount of money on a large issue. Comm. Dan Smith asked whether bond ratings are examined in other County operations outside of borrowing money. John Axe reported that bond ratings are only relevant if the County is borrowing money.

Comm. Bergman asked if the County's credit would be negatively by issuing bonds for non-revenue generating projects like jails and using interest from the issue of the bond as a means to pay back the bond. John Axe replied that when the County decided to build a jail they would raise funds for that via a millage and not a bond issue.

Comm. Turner stated that the County had given its full faith in credit to agencies within the County. He then asked, does the County's bond rating depend upon the amount of money that the County lends its full faith in credit to? John Axe answered Comm. Turner's question, saying that as long as the project the County lent its full faith in credit to is self supported then it should not affect the County's rating. John Axe went on to say that there is an evaluation process that is done before the County's credit is put on the line. Comm. Turner asked who handled that evaluation process and John Axe replied that he believed it was done internally. John Axe added that the requests for full faith in credit were handled differently depending upon whether or not they came from the cities and townships or if they came from an agency like Water Resources.

Comm. Rabhi asked what the advantage was that cities or townships would receive when they asked the County for a full faith in credit. John Axe replied by saying that the advantage was the difference between the credit rankings. He provided an example; if a township with a "single A" rating asked the County for a full faith in credit and received it then the advantage they would receive would be an 1/8 of a percent. John Axe then added that the County could only extend their full faith in credit to anything except a government agency. Comm. Rabhi asked how it had been possible for the County to extend their full faith in credit to help fund the construction of the Humane Society building. John Axe responded that it was possible because Animal Control, which is a County function, was housed in that building so it was possible for the County to own the building. Comm. Prater stated, in reference to the Humane Society

Building, that if the County owns the building then the County can dispose of the building. John Axe put forth that he thought the County had a contract with the Humane Society. Comm. Prater responded that the County did not have a contract with the Humane Society. Verna McDaniel called upon Corporate Counsel, Curt Hedger, to clarify the matter. Curt Hedger reported that there was no operational agreement, but there is a contract. He went on to say that the Humane Society has ownership interest in the land while the County owns the building. Curt Hedger stated that in seven years the Humane Society will assume the deed of the building.

Comm. Dan Smith asked how long the process takes to improve the bond rating. John Axe responded that it was possible for an organization to improve their rating but he said there are a lot of factors used to determine the rating that simply cannot be controlled. He went on to say that he believed it would be difficult for Washtenaw County to improve their bond rating from "AA" to "AAA". John Axe stated that it was not likely that Washtenaw County would improve their bond rating because the factors that hold the County at "AA" are beyond the County's control. Comm. Turner asked what factors were holding back the County's bond rating. John Axe replied that one of the most important factors was the stagnant economy.

Comm. Conan Smith stated that the reason the County entered into the agreement with the Humane Society was that the County had received significantly lower interest rates for that project. John Axe affirmed that this was true and added that the reason for the lower interest rates was that as a non-profit the Humane Society was able to issue tax exempt bonds. Comm. Conan Smith asked what the value had been of using the County process on the Humane Society project. John Axe responded that he could calculate those numbers and provide the commissioners with that information.

Comm. Turner asked if it was possible for the County to lend their full faith in credit to a private institution. He provided as an example Brownfield Development which had received a \$1 million loan from the State and asked the County to extend their full faith in credit on the loan which would be used for environmental remediation on one of their sites. John Axe responded that it would not be possible for the County to extend their full faith in credit in that situation because the project was not a County project and the organization asking for the credit was a private entity.

**Road Commission Plan (P.A. 283 of 1909, MCLA 224.20), – Ken Schwartz, Road Commission Board Member, Roy Townsend, County Road Engineer** Ken Schwartz and Roy Townsend gave the presentation (on file in the County Clerk's office).

Comm. Prater asked if the Road Commission was trying to complete projects in the cities of; Saline, Chelsea, Milan, Ann Arbor and Barton. Roy Townsend responded by saying that the Road Commission was not trying to do a project in every city and township in the County. He went on to say that there were no proposed projects in the city of Dexter. Roy Townsend stated that the goal had been to identify roads that were used by the residents of more than one community. Comm. Prater stated that the initial cost of the project was estimated at \$8.7 million. He asked what the millage would have to be in order to cover that cost. Roy Townsend responded that the millage would be 6/10 of a mill, so the average person would pay \$60 per year. Comm. Prater asked whether the presenters had approached all of the local units of government. Roy Townsend affirmed that that was the case. Ken Schwartz added that the Road Commission had been concerned with making sure that the funding got back to all of the communities equitably. He stated that the 5 year plan makes it easier to spread the equity. Ken Schwartz added that the Road Commission had looked to identify road projects that would improve the county wide road system as a whole. He reported that the method the Road Commission had used to identify roads that would improve the county wide system was to find roads that were used by 2-3 different municipalities and the County as a whole. Comm. Prater stated that the taxable rate of Ann Arbor is 34% so a huge portion of the funding for this project would come from Ann Arbor. He spoke about a desire to be sure that the distribution of projects really was equitable. Roy Townsend stated that there would be \$3 million that would need to be put back in Ann Arbor. He stated that there were 3 roads in Ann Arbor that represented \$1.5 million and those roads were Ann Arbor-Saline, Huron River and Ellsworth. Roy Townsend reported that at the beginning of this process the city of Ann Arbor felt they needed to have the Stadium bridges replaced but eventually settled on repairing Dexter-Miller Rd. He stated that Dexter-Miller was currently a city project and that under the proposed plan from the Road Commission the work on Ann Arbor-Saline, Huron River and Ellsworth would be bid out to contractors. He continued by saying that 90% of the work in this plan would be bid out to contractors. Roy Townsend then detailed how the money would flow should the plan be adopted, the County would receive it,

then pass it along to the Road Commission who would dole it out to the cities and townships who would handle the bid process. Comm. Prater asked what projects would be happening in Milan. Roy Townsend reported that the closest project to Milan would be the repairs on Miller Rd.

Comm. Conan Smith stated that the County looked to see a \$90 thousand investment for every job created. He asked if the Road Commission was seeing similar numbers for this project. Roy Townsend responded that he thought the numbers should be very close to that figure. He stressed that this project would keep local money in the local economy. Comm. Conan Smith asked whether the Road Commission currently has a local hiring policy within their bid documents. Ken Schwartz responded that they did not and that one of the reasons for that is that there is a limited number of large contractors within the County who could provide services such as paving. Roy Townsend added that there is only one company within Washtenaw County that handles asphalt paving but there is another company that does it that happens to sit a ¼ mile past the County line. He stated that to limit contractors to only those within County lines would not be the best policy in this instance. Comm. Conan Smith asked whether the Road Commission would consider a requirement that a certain number of jobs be created within the County. Ken Schwartz responded that the purpose of the night from the Road Commission's perspective was really just to present the plan. Comm. Conan Smith stated that he felt the plan was a great opportunity to create jobs. He continued by saying he found it hard to believe that the County would be unable to find 80 workers. Ken Schwartz responded by saying that it would not be hard to find the 80 workers, the real issue was going to be finding suppliers. Comm. Conan Smith stated that he was worried about how the project would integrate with other economic development programs. He added that he viewed this project as a jobs project and not a construction project. Comm. Conan Smith stated that there has been some concern in Lansing with the State government about Act. 88 in Washtenaw County, he stated that he was not afraid to poke the government in the eye with this proposed millage, but he was not eager to do it either. Ken Schwartz reiterated that all of the projects on the proposed plan are major thoroughfares that handle high volumes of traffic. Comm. Conan Smith addressing Ken Schwartz stated that his last concern was one that Ken had addressed, how the money would be secured for this project.

Comm. Rabhi stated that he had a couple of concerns the first being that this plan hinged upon a very old law which he felt placed too much power in the commissioners hands to determine which roads got fixed. He added that he was not a road engineer and he did not trust his judgment to determine what roads got fixed and which ones did not. Ken Schwartz responded that the statute has a provision to accommodate those concerns. He stated that the highway engineer is really the one who develops the plan and that he is available to the Board as a resource so that they can make use of his expertise. Comm. Rabhi stated that the City of Ann Arbor voters are being asked to approve \$9.5 million for roads this November so he did not want to do anything to compromise this because this is a larger amount of money than will flow into Ann Arbor via the proposed plan from the Road Commission. He then asked about road jurisdictions regarding the Ann Arbor roads listed in the Road Commission plan. Roy Townsend responded by saying that Ann Arbor-Saline road is 40% city and 60% county and that Huron River drive is 50/50. Comm. Rabhi asked Roy Townsend to detail the process of choosing, with the cities, which roads needed to be worked on. Roy Townsend stated that first he had met with DPW and then with the representatives from the various cities and townships to determine what their priorities and needs were. Comm. Rabhi stated that the City of Ann Arbor has decided to fund their roads through a millage that was voted on by the people and that it has been effective for them. He added that he believed that this model could be effective for other areas that needed road repairs.

Comm. Dan Smith stated that he did not think the apportionment of funds based on taxable values made sense. Ken Schwartz responded that the Road Commission had set it up this way because of their reading of the law. Ken Schwartz stated that it was his understanding that the apportionment back of projects in an equitable way was an equalization measure. Comm. Dan Smith asked if there was both a bonding and a millage option. Ken Schwartz responded that that was the case and that meant there are a couple of different funding options for this project. Comm. Dan Smith asked why individual communities wouldn't just leverage an appropriate millage and work with the Road Commission to fix the roads they wanted fixed. He stated that several communities in Washtenaw County worked closely with the Road Commission to fix their roads. Ken Schwartz stated that that would be a decision that each of the individual townships and cities would have to make for themselves. Roy Townsend stated that townships do not have a responsibility for major roads only the lesser roads. He went on to say that it was not unusual for a county to have a millage for roads and that there are 18-20 counties in Michigan that already have such a millage. Comm. Dan Smith stated that 1909 was a long time ago and he was not sure this law was still relevant. Ken

Schwartz responded that Comm. Dan Smith would have to decide for himself whether this policy would work for Washtenaw County. Roy Townsend added that some of the roads in Washtenaw County probably needed to be torn out, but the plan that the Road Commission was putting forth was a good one.

Comm. Bergman stated that she agreed with her fellow commissioners who felt that the law being used to propose this road plan was anachronistic. She added that she was not sure how much of her interests were represented in the plan and that she did not want to ask her constituents to vote for the plan.

Comm. Prater asked Roy Townsend how Act 51 compelled local units of government to contribute funds to road projects. Roy Townsend stated that Act 51 required participation when reconstruction was done on a major subdivision road. He added that routine maintenance was the Road Commission's responsibility. Comm. Prater asked Roy Townsend if he could detail the cost of the 5 year preventative maintenance plan that the Road Commission has put together. Roy Townsend estimated that the plan would cost \$ 30-40 million, all of which was funded, over the next 5 years. He added that there was approximately \$90 million worth of unfunded projects that the Road Commission was examining.

Comm. Peterson asked if revenue would need to come from the County in the event that a bond was considered as a way to fund the Road Commission's proposed plan. Ken Schwartz responded that he was not bond counsel and was not qualified to answer questions related to bonds.

Comm. Dan Smith asked the presenters if it was the Road Commission's intent to make a similar presentation in the fall of 2012. Ken Schwartz affirmed that was the case and offered the opinion that it was good policy for the Road Commission to appear before the Board annually for a state of the roads presentation. Comm. Rabhi added that he felt the presence of the Road Commission at this meeting was a great opportunity for discussion about a very important issue.

#### **County Administrator's Report**

None

#### **Items for Current/Future Discussion**

Comm. Conan Smith stated that he had heard that Comm. Gunn was recovering from a cold and would be better soon.

#### **Pending**

None

#### **Citizen Participation**

None

#### **Commissioners Follow-up to Citizen Participation**

None

#### **Adjournment**

Comm. Peterson seconded by Comm. Prater moved that the meeting be adjourned until October 13<sup>th</sup>, 2011 at 6:30 p.m. Motion carried.

The meeting adjourned at 8:38 p.m.

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Yousef Rabhi, Chair

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Lawrence Kestenbaum, Clerk/Register

By: Peter Simms, Deputy Clerk

APPROVED: October 11, 2011