

City of Ecorse

Receivership Transition Advisory Board Meeting Minutes

Tuesday, August 8th, 2017

Ecorse City Hall

Council Chambers

Albert B. Buday Civic Center

3869 West Jefferson

Ecorse, Michigan 48229

RTAB MEMBERS PRESENT:

JEFF SYKES

ROBERT BOVITZ

JOAN BROPHY

Also Present:

ERIC CLINE

Michigan Department of Treasury

Reported by:

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Called to order at 9:06 a.m.

Tuesday, August 8, 2017

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MR. SYKES: All right, Eric, you want to do roll call, please?

MR. CLINE: Yes. Jeff Sykes?

MR. SYKES: Here.

MR. CLINE: Rob Bovitz?

MR. BOVITZ: Here.

MR. CLINE: Joan Brophy.

MS. BROPHY: Here.

MR. CLINE: Quorum is present.

MR. SYKES: All right, thank you.

First is the approval of the agenda, and I would like to make an amendment to the agenda, to pull the DUWA amendments from the July 5th resolution. This is just so that we can get, have an extra discussion. Little, extra discussion about the DUWA, and then that item can be voted on separately. So with that amendment, I'd entertain a motion to approve the agenda.

MR. BOVITZ: So moved.

MS. BROPHY: Support.

MR. SYKES: All those in favor, say aye. Aye.

MR. BOVITZ: Aye.

MS. BROPHY: Aye.

1 MR. SYKES: The agenda has been approved. At
2 this point, I'd like to remind the audience, if you intend
3 to speak during the public comment portion of the meeting,
4 it'll be necessary for you to sign the sheet located at
5 the podium. So next, we have approval of the RTAB minutes
6 of July 18th, 2017. I'll entertain a motion to approve
7 the July 18th RTAB minutes.

8 MS. BROPHY: I'll move approval.

9 MR. BOVITZ: Support.

10 MR. SYKES: All those in favor, say aye. Aye.

11 MR. BOVITZ: Aye.

12 MS. BROPHY: Aye.

13 MR. SYKES: Those opposed the same.

14 (No response)

15 MR. SYKES: The minutes have been approved.

16 Next, we'll move on to old business, which there
17 is none.

18 So now, we'll move on to new business. First,
19 we have the approval of resolutions and ordinances for
20 city council meetings. And the first one is resolutions
21 from the regular city council meeting of June 20th, 2017.

22 MS. BROPHY: I move approval.

23 MR. BOVITZ: Support.

24 MR. SYKES: All those in favor, say aye. Aye.

25 MR. BOVITZ: Aye.

1 MS. BROPHY: Aye.

2 MR. SYKES: All right, next, we're going to move
3 on to the resolutions from the regular city council
4 meeting of July 5th, but at this time, I'd like to ask if
5 Mr. Sadowski could talk a little bit about the DUWA
6 amendment?

7 MR. SADOWSKI: Under the transfer from Wayne
8 County to DUWA -- this is the judgment levy for the EPA
9 lawsuit. The U.S. government sued Wayne County for
10 illegal discharge into the system. And then a judgment
11 levy was issued by district court. So every municipality
12 in the district can levy a judgment levy, to pay for its
13 bonds that were issued to correct the sewage overflow.

14 The city no longer collects that millage; we
15 have collected enough since the millage, and the lawsuit,
16 and we have put enough in escrow to pay off those bonds.
17 So we're just sitting on those financial reserves. So for
18 us, it was just a paperwork transfer, to allow the other
19 communities that do levy the tax, because all communities
20 would have to agree to the assessment change, from Wayne
21 County to DUWA.

22 And like I said, due to Ecorse already
23 collecting our tax, off that levy, it has some implication
24 for us. It was just a paperwork change, primarily for the
25 other communities, to keep levying that tax.

1 MR. SYKES: Okay.

2 Any further questions, or discussion?

3 MR. BOVITZ: I'm just curious. I only see about
4 ten downriver communities listed. Are there other
5 communities, like Trenton and Wyandotte, opted out of the
6 system? Oh, I see Wyandotte's part of it, but I don't see
7 Trenton, or --

8 MR. SADOWSKI: Those are just the DUWA
9 communities.

10 MR. BOVITZ: Like Grosse Ile, okay, so it's not
11 all of downriver? It's just the --

12 MR. SADOWSKI: It's just the DUWA communities
13 downriver.

14 MR. BOVITZ: Okay.

15 MR. SADOWSKI: So it's 13 member communities.
16 Lincoln Park, Taylor, Allen Park.

17 MR. BOVITZ: And Belleville, Romulus, and Van
18 Buren are not part of downriver, but it's part of the
19 authority?

20 Okay.

21 MR. SADOWSKI: Those 13 member communities make
22 up DUWA. We're the smallest voting portion, at three
23 percent. I do attend those meetings. They are quite
24 challenging.

25 MR. SYKES: I can imagine.

1 Okay, any other questions, or comments?

2 (No response)

3 MR. SYKES: All right, thank you.

4 Okay, so with that, I'll entertain a motion to
5 approve the Resolution 548, the DUWA amendments to the
6 financial plan.

7 MR. BOVITZ: So moved.

8 MS. BROPHY: Support.

9 MR. SYKES: All those in favor, say aye. Aye.

10 MR. BOVITZ: Aye.

11 MS. BROPHY: Aye.

12 MR. SYKES: This resolution has been approved.

13 Next is the remaining resolutions from regular
14 city council meeting of July 5th, 2017. I'll entertain a
15 motion to approve the resolutions from the regular city
16 council meeting of July 5th.

17 MS. BROPHY: So moved.

18 MR. BOVITZ: Support.

19 MR. SYKES: All those in favor, say aye. Aye.

20 MR. BOVITZ: Aye.

21 MS. BROPHY: Aye.

22 MR. SYKES: These resolutions have been
23 approved, as well.

24 Next, we have the claims and accounts from
25 regular city council meeting draft minutes of July 18th.

1 I'll entertain a motion to approve the claims and accounts
2 from regular city council meeting drafts -- draft minutes
3 of July 18th.

4 MR. BOVITZ: So moved.

5 MS. BROPHY: Support.

6 MR. SYKES: All those in favor, say aye. Aye.

7 MR. BOVITZ: Aye.

8 MS. BROPHY: Aye.

9 MR. SYKES: Those opposed, the same.

10 (No response)

11 MR. SYKES: This motion has been approved.

12 So next, we move on to city administrator items.
13 First is approval of city council minutes, this was
14 addressed in new business.

15 Next, we have approval of budget to actual, June
16 2017. Do we have any questions, or issues related to the
17 budget to actual for June?

18 MR. BOVITZ: Well, the key is, the bottom line
19 shows a preliminary surplus of one and a half million
20 dollars, but I know that's before the depreciation
21 adjustment, and the MERS liability.

22 Any idea what those liability adjustments are
23 going to be?

24 MR. SADOWSKI: Well, we're still doing accruals
25 as we speak. Obviously, we're still receiving money for

1 the last fiscal year. We're still receiving invoices and
2 accounts payable for the last fiscal year.

3 Actually, historically, Ecorse has gone all the
4 way to November, receiving accounts payables, and it's
5 just the way small accounting, you know, businesses don't
6 necessarily do their invoicing right after a service is
7 performed. So, we continually get those invoices, and
8 post back, and do the accruals until we close our
9 financial records.

10 And those are not -- they don't amount to a
11 financial -- where it requires a note or anything, to our
12 financial statement. So we do as much as we can until we
13 close our books, and then we close them.

14 That's why it says July 24th, 2017, the general
15 fund had a profit, if you will, of \$631,391. We are still
16 booking revenues and expenditures. It looks like it's
17 going to end up around \$550,000. Which is about five
18 percent. Which isn't horrible for a community that's
19 financially distressed.

20 So basically that money comes up from, as
21 operating within our departmental budgets, not exceeding
22 those expenditures that were in the budget. So we -- a
23 lot of the money came from public safety salaries. We had
24 a lot of employees that were off and weren't able to fill
25 a lot of positions. And public works was also under

1 budget, significantly, and then we made up some revenues,
2 extra revenues, on the district court fines, from our
3 traffic detail.

4 And I had increased charge backs, net charge
5 backs, so \$600,000, when the net charge backs were
6 actually \$504,000. So between those cuts, and the -- or,
7 not using the full expenditures in the department line
8 items, and a few overages on the revenue items, we'll see
9 about a net \$550,000 surplus in the general fund. Which
10 is pretty good.

11 MR. BOVITZ: So the final budget was amended to
12 show a \$405,000 surplus, so you think we're going to be
13 above that, at 550, when it's all --

14 MR. SADOWSKI: So right now -- I should have
15 numbered the pages.

16 MR. BOVITZ: My observation is, on the revenue
17 side, we're going to exceed the amended budget, and for
18 those reasons you mentioned, the one that concerned me was
19 the DTE Energy rebate, was budgeted for \$184,000 and only
20 came in at \$57,000. Is there another accrual, or we going
21 to show more receivable on that, or --?

22 MR. SADOWSKI: Right, so what happened is, the
23 restroom, ideally, was supposed to be done before June
24 30th. This project has been going on for a long time. So
25 the \$184,000 is the total amount DTE Energy paid the City

1 of Ecorse, to rebuild that restroom. And we only used
2 \$57,000 of that escrow. So I only recorded --

3 MR. BOVITZ: So you still have to spend it.

4 MR. SADOWSKI: I only recorded \$57,000, and the
5 rest is sitting in an escrow account. And so then, if you
6 look at the correlating expense, which is Department 704,
7 Recreation, you'll see the correlating -- the budget,
8 \$184,000, but we only spent \$57,000.

9 MR. BOVITZ: So the revenues are definitely
10 going in over budget, those that you mentioned, plus, the
11 charge back being \$100,000 less than you were thinking.
12 You were a little conservative on the original budget.
13 And also the positive note, the permits for U.S. Steel is
14 more than double. So that means that U.S. Steel is more
15 of a community partner now?

16 MR. SADOWSKI: They -- what happened was, they
17 did not pay us for the prior fiscal year. And so I was
18 finally able to collect the prior fiscal and this fiscal
19 year. And the building department's on a cash basis, for
20 some reason. But it is. It does not do accrual. And so
21 it was reported in both fiscal years, or recorded in this
22 fiscal year, just because of the way that the building
23 system's set up.

24 It does not post, it's just a flat cash
25 receiving system. That's how it was set up when it was

1 installed. When it could be transferred to an accrual
2 system. But that would change the accounting in that
3 department. But that's why it shows up as more, because
4 it's actually two fiscal year revenues in one year. Just
5 because I'm not making that payment, last year.

6 MR. BOVITZ: So the news keeps getting better.
7 That's all I have.

8 MR. SADOWSKI: Yeah, the news just keeps getting
9 better. I'm collecting more money. That's what
10 treasurers are supposed to do, the finance officers are
11 supposed to be doing, right?

12 MR. SYKES: Nice work.

13 MR. SADOWSKI: So yeah, I mean, we did net
14 income throughout the budget. You can see we were within
15 our budget, mostly throughout. The water and sewer fund,
16 as I had mentioned before, the revenues were under where
17 we had hoped. If you -- they fall within the amended
18 budget, however, the original budget was much higher,
19 expectations were much higher. Due to the loss from U.S.
20 Steel, it's just --

21 MR. BOVITZ: But that was on the settlement
22 fund, the \$1 million settlement fund, right? That was --

23 MR. SADOWSKI: The settlement fund?

24 MR. BOVITZ: The million dollars that was part
25 of the budget the last few years, that was because of

1 settlement -- the agreement that ran out.

2 MR. SADOWSKI: Yes, that agreement ran out, and
3 we paid off the stabilization bonds with that money from
4 U.S. Steel, and the last payment will now be made in
5 November. At that point, 2002 is finally gone. So the
6 anticipation is we will get another local community
7 stabilization share check in November, hopefully it's not
8 close to December like it was last. And then the city
9 will again, I think, the city's kind of balancing three
10 options. Doing capital, in the buildings, finishing some
11 of the needed HVAC improvements, basically, was never
12 done. And that was budgeted when Joyce Parker was here,
13 in 2012. It was just stripped out to budget the balance.
14 To balance the budget, when she was here.

15 So, adjusting the heating and cooling in this
16 building is, manually, pretty much. So capital
17 improvements. MERS, making another additional payment to
18 MERS, that was on the agenda. Informational. I was
19 hoping that the city council was going to increase our
20 monthly funding; they chose to leave it at the same,
21 because they didn't want to come up with the additional
22 monies for the expenditures. Which is understandable.

23 They said we would deal with that as we have in
24 the past. As we get extra LCSA money, we'll make an
25 additional one time payment. We're not committing to an

1 additional payment every month.

2 And then option three was paying down our
3 emergency loans, if we get another large check, so, they
4 were going to try to balance the three out. Maybe do a
5 little of each. So that's the plan for November.

6 MR. BOVITZ: Okay.

7 MR. SYKES: Any additional questions or
8 comments?

9 (No response.)

10 MR. SYKES: All right, thank you very much.

11 With that, I'll entertain a motion to approve
12 the budget to actual report for June, 2017.

13 MR. BOVITZ: So moved.

14 MS. BROPHY: Support.

15 MR. SYKES: All those in favor, say aye. Aye.

16 MR. BOVITZ: Aye.

17 MS. BROPHY: Aye.

18 MR. SYKES: This motion has been approved.

19 Next, we have the approval of Resolution 556;
20 this was addressed in new business.

21 Next, we have the approval of Resolution 547,
22 also addressed in new business.

23 The next item, number five, is the approval of
24 Resolution 548. This was old, or, agenda was modified to
25 discuss this, and it was approved, so it was addressed in

1 new business.

2 Next, we have the MERS of Michigan annual
3 actuarial evaluation -- or evaluations. This is
4 informational only.

5 Anybody have any comments, or?

6 MS. BROPHY: Well, it sounds like Tim started to
7 address it, but could you go through those options, again.

8 MR. SYKES: Sure, absolutely.

9 MR. SADOWSKI: So, when we received our
10 evaluation, it's always -- I've addressed this board
11 numerous times on MERS. Obviously between MERS and our
12 retiree healthcare, is our two largest outstanding debts.
13 And when we got our evaluation last year we made over \$2
14 million in additional payments. And we used the money
15 from the LCSA to do that. And we reduced our debt, which
16 increased our funding ratio, to fund 36 percent to 40
17 percent.

18 So it's the first time in over ten years the
19 city actually made a positive step forward, so that was
20 good news. So MERS had come out with some
21 recommendations; I have actually said, numerous times,
22 that I thought their rate of return, their interest rate
23 on how they do their evaluations is overstated. And the
24 reason why they do that, is because if they actually put
25 it to actual value, the cities couldn't afford the

1 payment. Because if they did it to the rate of return of
2 the market, let's say if they put it down to five percent,
3 the monthly payment would be so high, we couldn't afford
4 it. So to offset that, I think they leave the rate of
5 return higher, which lowers the monthly payment, but it
6 doesn't help us with funding.

7 As you can see, historically we make the ARC
8 payment, the Annual Required Contribution, yet our funding
9 ratio goes down every year. So obviously, there's
10 assumptions that aren't being met. Because you can't have
11 both -- you can't meet your ARC and have funding go down,
12 unless your assumptions are not correct. That's basically
13 the highlight of that.

14 So they have come in and they have said, all
15 right, so you have two options. You can do the phase-in
16 option, which will reduce the rate of -- the interest.
17 Expected interest reevaluation, that's basically the
18 status quo. And currently the city pays \$189,955 a month
19 at 12 months, is \$2.2 million.

20 That's the status quo, you're locked in with the
21 same standing contribution whether you take action or not.
22 And the city council took no action. So they went with
23 the phase-in. You can take out the phase-in, which is
24 just going straight to the reduced interest, and make up
25 the extra monies, which would be \$147,816 additionally per

1 year.

2 Which I thought would have been more reasonable.
3 We would have came up with 143 -- we would have had to
4 come up with \$147,000 under budget, each year. They were
5 not willing to commit to that. I would like to see number
6 three happen, obviously, and do the \$627,000 each year,
7 for ten years, and the plan would have been funded and we
8 wouldn't have to worry about MERS any more.

9 That is only realistic if we continue to get the
10 excess payments we have in the past, and basically, that's
11 what we did. We actually over-achieved that, because
12 \$627,000 a year over ten years; last year, we had a \$2.2
13 million payment. So that's over three times that.

14 So -- and that's why our quantity went from 36
15 to 40. So if we continue to make large payments like
16 that, which is basically option three, we're just not
17 committing to it. We're just saying if we get a payment,
18 we're going to send you a bulk extra money.

19 But I would have liked them to at least do two,
20 but they weren't willing to. So, that's just MERS.
21 That's just MERS.

22 MR. SYKES: Keep pushing for that.

23 MR. BOVITZ: Well, what's going to help you is,
24 in the next couple months, when you get the auditor
25 report, I'm sure the auditor's recommendations will be,

1 will give you more weight with council, to pay that down.

2 MR. SADOWSKI: Yeah, I mean, \$147,000 is a
3 commitment. I, we have range about, what, \$10 million
4 general fund. We have some irregularities. But, so if --
5 I can understand why you wouldn't want to commit to that
6 every year, to say we're going to come up with \$147,000 a
7 year, every year, to pay down. But I can understand that
8 point, to say yeah, if we do get extra money, we will pay
9 it down. So I can understand where they're coming from.

10 MR. SYKES: This part's just for my personal
11 education, I'm kind of curious about is so they talked to
12 you about modifying the rate of return, so that it -- I
13 mean, obviously if you're earning eight percent as opposed
14 to five percent, that changes what the shortfall's going
15 to be. Are they actually going through and saying
16 different communities have different rates of return? It
17 seems like it would be a consistent.

18 MR. SADOWSKI: It is a consistent rate of
19 return.

20 MR. SYKES: Okay.

21 MR. SADOWSKI: So, right now it's at eight
22 percent. And I believe it's going to -- back up -- 7.75.
23 But they do that over a ten year average smoothing which
24 also adjusts the numbers. And there's a financial figures
25 in here, if you read the detailed report, it says if we

1 take out the smoothing ratio, your actual funding is not
2 40 percent. It drops down several percent.

3 MR. SYKES: Right.

4 MR. SADOWSKI: Because they took -- because when
5 they do the valuation they use estimates. And one of
6 those estimates is rate of return. The other one is how
7 long an employee works, mortality rates, all those
8 different rates.

9 So we have employees that are in their nineties.
10 The system was not built for retirees in their nineties.
11 These plans were not designed for that. So as they adjust
12 these different figures, it adjusts the debt.

13 MR. SYKES: Right, no, that makes sense. I
14 guess I just thought I heard you say for a second ago that
15 they were sort of modifying the rate of return. Or were
16 you just -- for you guys specifically?

17 MR. SADOWSKI: They were, so --

18 MR. SYKES: In Ecorse?

19 MR. SADOWSKI: No, for all the communities, but
20 you can say, then, you can say yes, we're going to the
21 7.75 now, or you can phase it in over five years.

22 MR. SYKES: Okay.

23 MR. SADOWSKI: We're doing the phase-in over
24 five years, rather than just taking the reduction.

25 MR. SYKES: Okay.

1 MR. SADOWSKI: And that would be the \$147,000
2 difference.

3 MR. SYKES: Okay. All right, great. Thanks.

4 Next we have approval of Resolution 549; now,
5 this was also addressed in new business.

6 And lastly, there is the checks released, and
7 this is informational only.

8 So Eric, at this point, are there any public
9 comments?

10 MR. CLINE: No public comment.

11 MR. SYKES: All right, any board comments?

12 MS. BROPHY: None.

13 MR. BOVITZ: On the MERS thing, you know,
14 people, reluctance to pay down on it. A lot of times, the
15 term rainy day fund is thrown out and people get all
16 excited about, what is a rainy-day fund? Well, if you
17 have \$100,000 sitting in the bank doing nothing, and you
18 owe \$100,000, there is no rainy-day fund, because it's
19 already spoken for.

20 And if the rate of return you're making on the
21 \$100,000 sitting in the bank, isn't as much as what you're
22 accruing, so at some point you've got to stop the
23 bleeding, and use that cash reserve and pay it down.

24 MR. SYKES: I absolutely agree with you. Any
25 further board comment?

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(No response)

MS. BROPHY: None.

MR. SYKES: All right, I'll entertain a motion
for adjournment.

MR. BOVITZ: So moved.

MS. BROPHY: Support.

MR. SYKES: We are adjourned.

(Proceedings adjourned at 9:28 a.m.)

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STATE OF MICHIGAN
COUNTY OF WASHTENAW) .ss

I certify that this transcript is a complete, true, and correct transcript to the best of my ability of the RTAB meeting held on August 8th, 2017, City of Ecorse. I also certify that I am not a relative or employee of the parties involved and have no financial interest in this case.

RESPECTFULLY SUBMITTED: August 16, 2017

s/ Amy Shankleton-Novess

Amy Shankleton-Novess (CER 0838)
Certified Electronic Reporter