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COPIES OF THE 2007 AUDIT ARE NOW AVAILABLE IN THE CONTROLLER'S OFFICE

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plante moran

Plante & Moran, PLLC
Suite 300
19176 Hall Road
Clinton Township, MI 48038
Tel: 586.416.4900
Fax: 586.416.4901
plantemoran.com

December 13, 2007

Honorable Mayor and Members
of the City Council
City of Roseville
29777 Gratiot Avenue
Roseville, MI 48066

Dear Mayor and Council Members:

We recently completed our audit of the basic financial statements of the City of Roseville for the year ended June 30, 2007. As a result of our audit, we have the following comments and recommendations for your review and consideration.

FINANCIAL RESULTS

For the year ended June 30, 2007, net assets in the General Fund increased by approximately $2.9 million. This was in contrast to the City's fiscal 2006 year, where the City's General Fund decreased fund balance by approximately $3.2 million. This increase in net income is primarily attributable to the November 2006 voter-approved 5 mill tax increase which was implemented for the City's fiscal year ending June 30, 2007. The additional tax revenue helped to lessen the financial impact of funding $3.4 million for current retiree health care benefits, $1.25 million to fund post retiree health care benefits, the increase in the actuarial required payment to fund the City's pension system and the effects of long-term contractual obligations previously entered into by the City. However, despite the positive effects of the November 2006 operating levy increase and marginal increase in property values each year, the City continues to try and compensate for the effects of declining state shared revenue payments experienced in recent years and healthcare benefits and pension contributions that continue to rise at rates in excess of inflation.

Due to the many factors affecting the City's well being going forward, the City's management has developed a five-year capital improvement plan and a five-year financial forecast that will be updated annually and reflected as part of the City's annual operating budget in order to continue to allow the City the ability to react prudently to the challenging municipal economic conditions without significant cuts to City services. The ongoing economic challenges that the City will continue to face are as follows;

- Due to the current statutory formula expiring in September 2007, the State temporarily extended the formula. However, it is unclear what the outcome will be regarding the short-term and long-term funding of statutory revenue sharing. Decisions still remain on the ultimate funding level for revenue sharing for the State's fiscal year 2007/2008. If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City of Roseville has approximately $1,600,000 at risk in its General Fund budget based on current funding levels.

- Despite being proactive in the beginning to fund its future expected post-employment benefits over the past three years, the City remains under-funded with regards to the preliminary projected GASB Statement 45's 2008 estimated $4.9 million dollar funding for current and future retiree healthcare benefits requirement. This cost and liability associated with funding future retiree health care over the working life of the employee will be fully disclosed in the City's financial statement for the year ended June 30, 2009.

- The pension contribution continues to increase, as a percentage of payroll. The 2007 contribution was approximately $3,938,000 or an average of 20.765 percent of payroll for general and public safety employees combined. This amount is expected to stay at approximately this level of payroll for the year ending June 30, 2008. The continued increased costs to fund the pension system are a result of many factors, including declining market returns from 2001-2004 and from changing demographics (people living longer, etc.).

- Current expenditures for employment health care paid by the General Fund on behalf of the Employees' Retirement System was approximately $3,400,000 for the year ending June 30, 2007 with expected increases of 8 percent annually to this cost going forward. With limited investment income of previous years combined with the increasing interest rates currently, the City continues to analyze the impact of this cost on the General Fund and appropriately allocate costs to the applicable fund and to continue to analyze the appropriate reimbursement amount from retirees.

- The economic forecast of the State of Michigan housing market projects decreases to future property values.

LEGISLATIVE ISSUES

Revenue Sharing

As mentioned above, the future of the State's revenue-sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The State was approximately $1.8 billion short of the revenue needed to cover basic services for the State's upcoming fiscal year 2007/2008 budget. The legislature and the governor acted on October 1 to increase the income tax rate (from 3.9 percent to 4.35 percent, raising more than $750 million) and to enact a new 6 percent tax on certain services. The service tax was estimated to raise approximately $700 million per year. However, the service tax was repealed on December 1, 2007, the same day it was to go into effect, and was replaced by a Michigan Business Tax surcharge that is estimated to raise the same $700 million in revenue per year. This tax surcharge will be effective for the year beginning January 1, 2008 for corporations. With many last minute revisions to the State's budget, it is not completely clear whether the State's fiscal year 2006/2007 budget has been completely balanced as well.

The outcome of the following matters will also impact revenue sharing:

- Future of County Participation in Statutory Revenue Sharing - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately $182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund," which is to be used by the counties to replace lost statutory revenue sharing in future years. The potential impact is that as counties come back into the revenue sharing formula, if the total statutory revenue-sharing pot does not grow accordingly, this will reduce the amount available for cities.

- Statutory Revenue-sharing Formula Expires in 2007 - Legislative action is required on this Act for appropriations to continue into 2008 and beyond.

- Changes to Michigan's Tax Structure - The Michigan Single Business Tax has been eliminated effective December 31, 2007, which will result in the loss of $1.9 billion from the State's budget in 2008. In June 2007, a replacement tax - called the new Michigan business tax - was approved by the legislature. More details on this new tax structure, which begins January 1, 2008, are included below. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers, and is forecasted by the State to generate about the same revenue ($1.9 billion) as the Single Business Tax. Technical corrections on this recently passed law are still pending and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict.

As introduced, the governor's budget for fiscal year 2007/2008 includes a revenue-sharing increase of $27 million to be distributed using the three-part formula currently contained in the revenue-sharing act (taxable value per capita, population/unit type, and yield equalization) with an additional $14.5 million for public safety funding. While specific details have not been announced yet, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments. Many observers have indicated that it is likely that revenue sharing for fiscal year 2007/2008 will more than likely be tied to fiscal year 2006/2007 funding levels.

The current statutory formula expired in September 2007, but has been temporarily extended. It is unclear what the outcome will be regarding the short-term and long-term funding of statutory revenue sharing. Decisions still remain on the ultimate funding level for revenue sharing for the State's fiscal year 2007/2008.

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City of Roseville has approximately $1,600,000 at risk in its General Fund budget based on current funding levels.

Personal Property Tax

Over the last seven years, the State's personal property tax laws and regulations have changed substantially. In 2000, the State Tax Commission updated the general business depreciation tables that are used to calculate personal property taxes, resulting in an approximate drop in property tax revenue

of 10 percent. In addition, the State Tax Commission also approved new personal property tax tables for utilities which made drastic changes to transmission and distribution property of utilities (resulting in approximately 30 percent revenue loss to local units of government). Also, the Michigan Supreme Court in WPW Acquisition Co. v. City of Troy ruled that the Proposal A cap prevents assessors from increasing the taxable value of commercial rental property above the rate of inflation using the occupancy methodology even when reductions in taxable value were previously granted due to a decrease in occupancy.

The new Michigan business tax also provides more personal property tax relief to business taxpayers as detailed in the Michigan business tax section below. Even with this most recent relief provided in June 2007 through the Michigan Business Tax, further reductions to personal property tax remain part of the State's tax structure discussions. The governor's tax plan, as introduced, proposes to change the property tax system to mitigate the impact of the WPW case. A similar attempt to make this correction occurred in 2005 and 2006 with no success.

New Michigan Business Tax

As previously indicated, the new Michigan Business Tax (MBT) was approved by the legislature in June 2007 and replaces the Single Business Tax (SBT), which expires December 31, 2007. According to the State, the new MBT is intended to generate about the same $1.9 billion generated by the expiring SBT as well as an additional approximate $700 million to be generated by the newly added tax surcharge within the MBT. The MBT intended to simplify the old SBT; the MBT is a very lengthy and complicated new law. The new MBT consists of three taxes - a modified gross receipts tax, a business income tax and a tax surcharge.

More personal property tax relief is also part of the new MBT. Business personal property classified as "industrial" or "commercial," will be exempt from certain personal property taxes - specifically from the State Education Tax (SET) and local school operating mills. "Industrial" personal property will receive exemptions from the six SET mills and the 18 schools' operating mills (for a total 24 mill exemption). "Commercial" personal property will be exempt from 12 of the 18 school operating mills.

These newly enacted personal property tax exemptions will mean that local governments will collect less school taxes on these properties. Given the favorable tax treatment of industrial versus commercial personal property, it is expected that businesses will be re-reviewing the classification of their personal property. Your assessor will likely receive more frequent inquiries and requests to change classification of personal property to take the most advantage of the tax break afforded to industrial property and commercial property and the additional relief available for industrial property.

As we understand it now, these are the areas at the local governmental level (i.e., impact on administrative fees; impact on school dollars available for capture for certain tax increment financing authorities; property classifications) that are the most directly impacted by the new MBT. We will keep you updated as we continue to explore these and other issues regarding the impact of the MBT on local units of government.

Property Tax Legislation

A series of House bills was introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property. With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred to as the "uncapped" value or the "pop-up" value. As several published studies and reports have demonstrated, the treatment of "uncapped" values or the "pop-up" amount when a property is transferred or sold as growth on existing property subject to the Head Lee rollback calculation has resulted in continued downward pressure on mileage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994.

The three bills in the package are House Bills 4440, 4441 and 4442 and would propose to do the following:

- House Bill 4440 - This bill establishes an 18-month moratorium on the "pop-up" or "uncapping" of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the time frame of the moratorium would continue to pay property taxes at the previous taxable value amount. The "pop-up" or "uncapping" of taxable value would be delayed until the property was sold or transferred in later years.

- House Bill 4441 - This bill increases the real estate transfer tax by .10 percent and earmarks the money to be returned to local government for potential loss in revenue occurring from House Bill 4440.

- House Bill 4442 - This bill would change the General Property Tax Act to exempt the "pop-up" or "uncapped" value from the Head Lee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as "additions" to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not yet been voted on in the House.

Recent Revisions to the State Transportation Funding Program

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent, including the adoption of an asset management process for the Major and Local Street Funds' systems as well as a detailed resolution passed by the City. It is important to note that Major Street Fund monies transferred for use on local streets cannot be used for construction, but may be used for preservation. These provisions sunset on December 31, 2008. Without an extension of this provision, a transfer from the Major Street Fund to the Local Street Fund can only be done to the extent that local revenues exist in the Major Street Fund.

Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions were met.

AUDIT STANDARDS CHANGES - THIS YEAR AND NEXT

The American Institute of Certified Public Accountants Audit Standards Board recently issued several new Statements on Auditing Standards that significantly affect the audit process. The first two changes impacted the current audit of the year ended June 30, 2007; the other changes will have a much more significant impact and will be applicable next year.

The current year's audit changes impacted audit documentation procedures, and communications of internal control deficiencies to the City Council. Under these new rules, if our firm had become aware of any internal control deficiencies that could result in more than a remote likelihood of an error in the financial statements (unless clearly inconsequential), we would have communicated those to you in writing. The purpose of this new rule is to make you aware of potential issues before they arise to the level of material weaknesses. During the current year, we became aware of no material weaknesses to report to you.

For next year's audit, eight new auditing standards have been issued that require significant changes in how audits are performed. Similar to the Sarbanes-Oxley rules that impacted publicly held corporations, these rules are intended to help audited entities strengthen their internal controls. We have recently put on a seminar explaining these new rules, which was attended by your staff. In brief, these new rules require all auditors to:

- Obtain a deeper understanding of the design and operation of internal control
- Assess the effectiveness of internal control
- Obtain corroborating evidence that the understanding is correct and the assessment is appropriate (i.e., inspection of documents, observation of procedures, or inquiry)
- Consider "what could go wrong" in the financial statement process (evaluate the risks of financial statement errors)
- Link the results to specific further audit procedures
- Communicate a summary of the results of the auditor's work to those charged with governance (the City Council)

As you can see, auditors will spend significantly more time working with all aspects of your internal control (accounting processes, information technology, general and application controls, and traditional internal control procedures). The intent of these new rules is to help audited organizations deal with their internal control. The thought process is that internal control is critically important to any organization, and an organization would be better served if the annual audit focused significant work on the internal control effectiveness. These new rules are not limited to the public sector - they will apply to any organization that obtains an audit (nonprofit organization, private company, etc.).

These new rules will impact audited organizations in two ways: your finance staff will incur more time and effort in preparation for the audit; and the audit process will require additional time. Plante & Moran has spent the last six months creating the new audit forms and documents that will be needed to meet these new rules. The internal control and accounting process documentation documents (which will be required for the June 30, 2008 audit) have already been shared with your finance staff.

CONCLUSION

We would like to thank the Financial Services Department staff for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC

Mark R. Hurst

Mark R. Hurst

Kathryn J. Kercorian

Kathryn J. Kercorian

ORDINANCE NO. _____

AN ORDINANCE TO AMEND ORDINANCE NO. 1202 KNOWN AS THE ZONING ORDINANCE OF THE CITY OF ROSEVILLE.

NOW THEREFORE, THE CITY OF ROSEVILLE ORDAINS:

Section I. To amend Zoning Ordinance No. 1202 Section 201 to add the following:

Adult Housing, Dependent: A multiple family housing form with individual sleeping rooms or dwelling quarters served by a central dining facility which provides a basic daily service to each occupant, either in the central dining facility or in their individual dwelling units, as well as nursing care and limited medical care. Each dwelling unit may or may not contain a central dining facility.

To amend Zoning Ordinance No. 1202 Section 1202 to add subsection 12 as follows:

Dependent Adult housing as defined in this Ordinance code, not to exceed a height of two (2) stories, when the following conditions are met:

a. The site shall be so developed as to create a land to building ratio on the lot or parcel whereby for each (1) bed in the facility there shall be provided not less than one hundred fifty (150) square feet of land area per bed which shall provide for a landscaped setting, off-street parking, service drives, loading space, yard requirements, employee facilities, and space required for accessory uses. The one hundred fifty (150) square feet requirement is over and above the building coverage area.

b. No building shall be closer than forty (40) feet from any property line.

c. Such uses shall be located on a major or secondary thoroughfare as identified in the City's Master Plan.

SECTION II. That all other sections of Ordinance No. 1202 as amended not in direct conflict with this Ordinance shall remain in full force and effect.

SECTION III. That the provisions of this Ordinance shall take effect on July 3, 2006, 20 days after adoption on June 13, 2006.

Attested:

_____

Harold L. Haugh, Mayor

Attested:

_____

Richard M. Steenland, City Clerk

I, RICHARD M. STEENLAND, City Clerk of the City of Roseville, Macomb County, Michigan, do hereby certify that Ordinance No. _____ was adopted by the City Council of Roseville, assembled in regular session on January 8, 2008 and will become effective on January 28, 2008.

Said Ordinance was posted in the following places:

Roseville Police Station, 29753 Gratiot Avenue
Roseville Public Library, 29777 Gratiot Avenue
Roseville City Hall, 29777 Gratiot Avenue

_____
Richard M. Steenland, City Clerk

NOTICE OF PUBLIC HEARING
CITY OF ROSEVILLE

A Public Hearing will be held by the Roseville City Council in the Roseville Civic Center Council Chambers, 29777 Gratiot Avenue (VFW Memorial Drive), Roseville, Michigan on

Tuesday, January 8, 2008
7 p.m.

To amend Zoning Ordinance No. 1202 Section 201 to add the following:

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b. No building shall be closer than forty (40) feet from any property line.

c. Such uses shall be located on a major or secondary thoroughfare as identified in the City's Master Plan.

All interested parties should appear at this time or file petitions with the City Clerk, Richard M. Steenland, prior to the Public Hearing.

Richard M. Steenland
City Clerk