



City of Novi, Michigan

FISCAL YEAR 2012-13 BUDGET MESSAGE

March 30, 2012

Honorable Mayor and City Council Members:

Earlier this month, Novi staff members participated in a winter leadership program led by Rebecca Ryan, Founder of Next Generation Consulting. Ms. Ryan advises private and public organizations around the country about how best to attract and retain the next generation of creative residents and workers, and how to positively leverage the way in which different generations interact within the community and workplace. We partnered with Farmington Hills to bring this shared service program to our two communities via webinar. Both cities recognize these issues as not just a challenge but also an opportunity for our communities. Ms. Ryan's upbeat presentation resonated with our Novi team and got me thinking about this year's budget message.

Ms. Ryan passionately believes that, more than anything, **Quality of Life** attracts our next generations. And I see that definitely as the *plural*; that is, not just one segment of our population, but across the range of ages. The factors familiar to us in Novi, and increasingly across Michigan and cities around the country, that Ms. Ryan argues drive Quality of Life in a given community can be framed as a series of questions, which I have listed and discussed in the context of our Novi community:

- 1. Cost of Lifestyle** – *Can I afford to live here?* While long-time homeowners rightly lament the general decline in home values, the corollary fact is that housing has become more affordable in Novi for those looking to move into the City. More importantly from the City's policy-setting view, there is a strong mix of housing types. Median housing value in 2010 was \$253,300 and median rent was \$907. The number of rental units increased 34% between 2000 and 2010 and now represents one-third of the 24,000 housing units in Novi. We have a variety of housing stock and options at reasonable cost points given our desirable location.
- 2. Earning** – *How are the quality and diversity of job and career opportunities present?* One of Novi's long-standing priorities has been quality economic development. That strategic theme has been given focus and priority with the City Council annually adopting a specific set of economic development strategies. Those strategies are pursued by staff and partners and annually achieved and we will do so again this year. While the Novi economy is a relatively large part of the area economy, it will continue to be the region as a whole that must advance for Novi to be truly successful.



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3. **Vitality** – *Is our community a healthy community?* We are a regular winner of Promoting Active Communities Gold Award by the Governor’s Council on Physical Fitness, an early entrant into the emphasis on trails and pathways, and an active provider of parks and recreation services. We continue all of these efforts to promote an active and healthy lifestyle in this budget, to enhance and add park and cultural opportunities. These special amenities will attract new residents and investments.
4. **Learning** – *Is this a “smart” community, and one that values ongoing education?* We do not take for granted the huge competitive advantage that we already enjoy from having a highly educated workforce. The organization CEO for Cities has said that 58% of a city’s success, as measured by per capita income, can be attributed to post-secondary degree attainment. Ms. Ryan challenged in our webinar that rather than be satisfied, we should imagine Novi growing from 55.7% to 56.7% of adults of having college degree. Her rough estimate is that this 1% increase would mean a \$45 million in impact through the local economy. To retain and attract this mobile group, there are things we can do: not just preserve but actually grow the Novi Public Library’s open hours and programs; cooperate with all our schools so they have resources preserved to remain strong; and enrich our cultural arts programs provide the environment for growing to that 56.7% and its benefits.
5. **Around town** – *How easy is it to get around – and out – of town?* While much progress has been made, this is an area in which we still have room to improve. This budget again dedicates a substantial amount of available resources to improve transportation means, particularly our roads, and continues to make strides with the non-motorized pathway system. The existing road network has received millions in City funds, leveraged with outside Federal and State dollars for improvements. Our neighborhood roads continue to be prioritized for the right mix of improvements, and we have a solid program for balancing maintenance and reconstruction (see program strategy under Infrastructure).

Because of increasing material and labor costs, the march of time eroding the road quality, and declining revenue (property tax and motor fuel tax), we will not get to where we need to be in this budget with existing funding. The City Council will therefore be asked to make policy decisions and ask voters to consider a Charter amendment to change the millage amount dedicated specifically for road purposes. The Municipal Street Fund provides funds eligible to be dedicated to roads reconstruction and maintenance, streetscapes, pathways/sidewalks. To state the obvious, the dollars have a direct benefit: These Novi funds would be used for Novi streets. Our track record proves that we’ve kept promises about what we would get done and have gotten it done in a first-class, Novi manner. We look forward to the discussions on this matter of strategic long-term importance to the Novi community.

6. **Social capital** – *Does our community engage all people?* The City Council has long-identified ‘developing governmental structures and staff skills for effective delivery of citizen services and communication with the community’ as an important strategy for effective governing. As a City, we have long touted the importance of welcoming people of all backgrounds and perspectives. The need is even more important today. As Bruce Katz from the Brookings Institute explains, “racial and ethnic minorities accounted for 83 percent of our population growth this last decade. We are well on the way to becoming a majority-minority society.” It is not just racial and ethnic backgrounds that we embrace. Again, with the theme of engagement with all generations, we must provide opportunities for singles, young families, and the growing older adult cohort. From Katz: “America in 2025 may also be

significantly older. The number of seniors and boomers already exceeded 100 million this past decade.” That growth is exciting and energizing, an opportunity for the Novi community to embrace.

7. After hours – *What’s there to do after work, and on weekends?* We need to recognize that the abundant (181, according to Oakland County records) Novi restaurants and bars - with a wide variety of cuisines and price points available within our 32 square miles - is an asset. The activities available from the City, schools numerous area clubs, service agencies, and neighborhood associations provide valuable and nearby attractions for community members to relax, interact, participate, and play. Novi has an active after-work, after-retirement, and after-school environment. Recognizing and sharing that environment can be an attraction in touting our Quality of Life offerings, and this budget appropriately takes the support of all those activities into consideration.

After the webinar with our staff, we decided to build on the theme. We asked the above questions of our Novi Youth Council and of a group of older adults. The resulting feedback affirms our path forward:

	Novi Youth Council	Novi Older Adults
1. Cost of lifestyle	<ul style="list-style-type: none"> • Earning potential is a positive • Lots of teen job opportunities • Pay wage is good • Lot of jobs available in restaurants/food industry • Majority of teens receive money from parents • Can be stressful at times • Wide age range for jobs • Some teens starting own business 	<p>Good discussion; most felt that as you age, your lifestyle changes and you find ways to adapt. You can change your lifestyle to stay within means of your income by finding ways to save, maybe not go out to dinner as much, and find good housing. Most felt Novi offered good housing and a few looking into moving into Meadowbrook Commons. The group felt there were great services that are free, especially programs at the senior center and social services. The Library offers many programs free of charge, Parks, Recreation and Cultural Services allows them opportunities to stay active with the parks and programs offered at the Civic Center like Light up the Night, Memorial Day and Concerts in the Park. They would like to have transportation in the evenings for events. (We do offer, many just don’t know...yet.)</p>
2. Earning	<ul style="list-style-type: none"> • Expensive to surrounding communities • Offers a wide range of activities • Offers a wide variety of shopping, eating, entertainment opportunities • Affordable if you choose • Expensive if you choose 	<p>This group is no longer working but wanted to say that each one volunteers at various places on a consistent basis and all for free!</p>



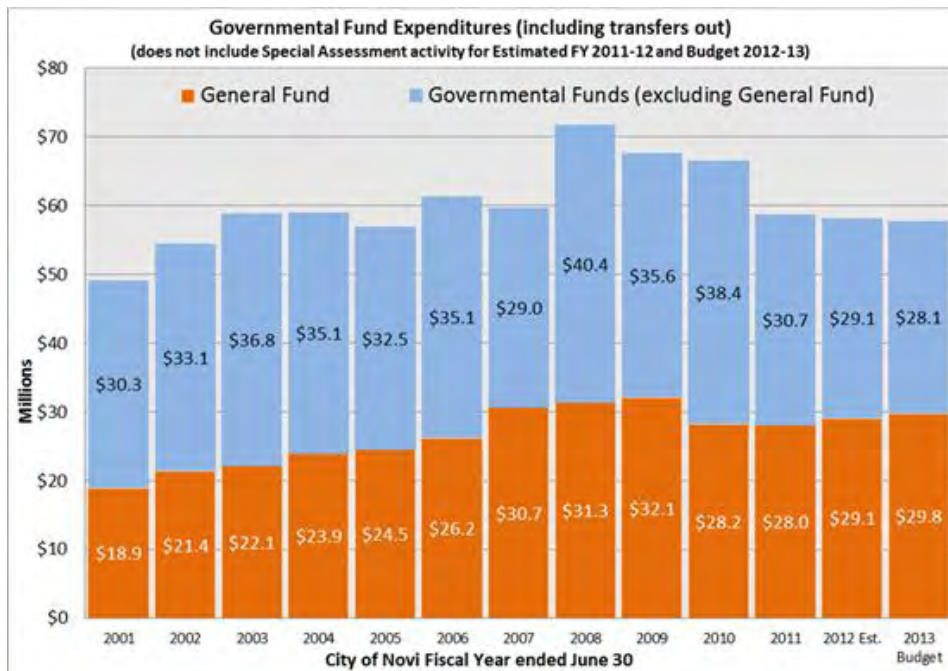
Budget Message

<p>3. Vitality</p>	<ul style="list-style-type: none"> ● Environment is clean ● Emergency Run promoted ● Schools require a gym ● Recycling Committee worthwhile ● Parks and recreation opportunities exist ● Options to eat healthy foods ● Healthy options for school lunches 	<p>Overall, yes, very healthy. Many attend programs at Providence and Botsford, as well as go to discussions at the Senior Center, Library and attend travel programs.</p>
<p>4. Learning</p>	<ul style="list-style-type: none"> ● School levels are excelling ● Teachers are committed ● Variety of cultural learning is offered ● Variety of classes are offered ● Athlete scholars ● High GPA's ● LEAP Programs ● Band ● Dance ● Arts 	<p>Many continue learning every day by attending programs at Providence; enroll in their Care Link, which provides great information and coupons. Attend programs at the High School, Senior Center, and Civic Center. Continue with computer classes and social media classes at the Senior Center and Library. The group also feels Novi does a great job with young children and young adults and have many programs and activities for all.</p>
<p>5. Around Town</p>	<ul style="list-style-type: none"> ● With a car it is easy ● Walking not so easy ● Organized roads ● Freeways are close ● No Public Transportation ● Sidewalks aren't widely available but developing 	<p>The group that drives feels they know the "ins and outs" of Novi and can by-pass many busy intersections and still get to where they want to go. They also felt Novi offers a great transportation program for those that no longer drive or don't want to drive.</p>
<p>6. Social Capital</p>	<ul style="list-style-type: none"> ● People need to put an effort into participating ● Novi Youth Council ● Musicals and Performances ● Japan Festival ● Japanese School ● Indian Day ● Wide-variety of events for all ages are offered 	<p>They felt no matter where they go, they see all ages involved in activities and see many programs opened to all ages and feel Novi does a very good job with all ages.</p>
<p>7. After Hours</p>	<ul style="list-style-type: none"> ● Variety of restaurants available ● Variety of places at Twelve Mile Crossing at Fountain Walk to visit ● Variety of places at Twelve Oaks Mall to shop and eat ● Variety of Coffee shops ● Maybury Park is close ● Lakeshore Park ● Novi Public Library ● Volunteer opportunities 	<p>As this group no longer works but still actively go to places after 5, they felt the city has many offerings. They may no longer go out after work however; they do go out to dinner, enjoy the pool at the High School, go to cooking classes in the evening at ABC Warehouse, enjoy the Super Saturdays at the Senior Center, many types of classes at Jo-Ann Fabric in West Oaks. They also go to theatre productions at the Civic Center and High School.</p> <p>All in all, this group was happy with their lifestyle and the quality of life they are able to have in Novi.</p>

Taking a step back to see the past before forecasting ahead

In most cities - and Novi is no exception - the budget and financial discussions tend to focus on a single fund, the General Fund, because it contains and supports some of the most visible City activities. But the City's stewardship and work crosses multiple interlocking and mutually-supporting activities that are each separated for financial reporting purposes and compliance with finance-related legal requirements. As of June 30, 2011, the City had 65 individual funds (four fewer than the previous year), of which 24 are considered governmental funds. Six include both proprietary and fiduciary funds, one component unit (EDC) and 34 Special Assessment Funds which are combined with the related governmental/enterprise funds for budget and financial reporting purposes. The General Fund does have the broadest set of purposes and represents 51% of the total governmental fund's budgeted expenditures for Fiscal Year 2012-13. The City is a large, complex, multi-faceted conglomerate of sometimes competing purposes and activities. Our task is to balance the Quality of Life indicators that we can influence for people of all generations and all backgrounds. We have done this – and do it again this year – by assigning priorities through the budget year.

Assigning the right priorities, however, requires the right perspective. This year we've looked back at the history of our governmental funds transfers for that perspective. We see that it reflects the familiar growth and development of the early part of the century, spiking a bit with the construction of the new public library, and then retrenching during the Great Recession (which was anything but a great feeling). No real surprises in the graph below, except maybe to note that looking at expenditures, the General Fund expenditures have followed with revenue, mostly property taxes. General Fund expenditures have remained between \$29 million and \$32 million since FY 2006/08, even without adjusting for inflation. Note, too, that these consistent absolute expenditures over the last seven years came at a time when many commodities (e.g., fuel) were increasing in cost per unit, along with increasing costs for items like worker's compensation. Meanwhile, employee health care costs have been managed. Total employee health care costs declined slightly to \$5.48 million in FY 12/13 from \$5.61 million estimated the year prior, but still higher than the \$5.3 million in FY 2007/2008.



Looking at expenditures, the General Fund expenditure budget of \$29.8 million for FY 2012/13 has shrunk by \$2.3 million from its peak in FY 2008/09.



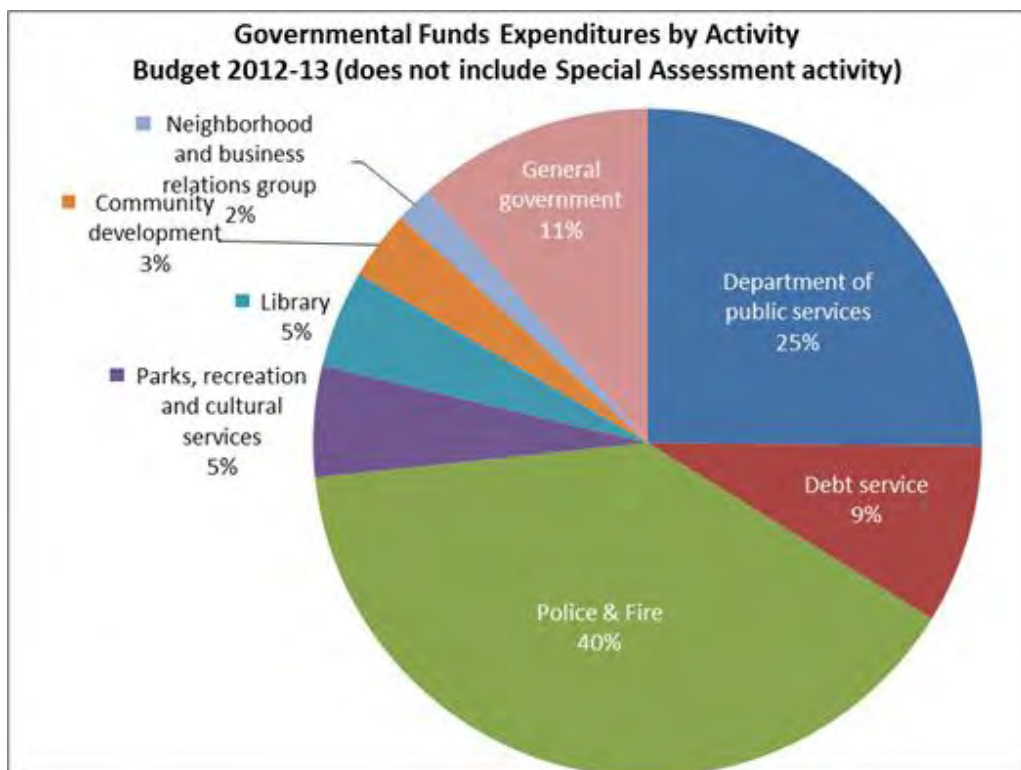
Budget Message

A good way to look at the big picture is through our Comprehensive Annual Financial Report (CAFR). More perspective can be gained by looking at the statement of net assets found in the CAFR prepared by our Finance Department which shows that as of June 30, 2011 the City's assets exceeded its total liabilities by \$331 million, which is up \$5.5 million from the previous year. Net assets for governmental activities increased by \$4.27 million, a 2.8% increase. It is this type of holistic balance sheet statement that Oakland County officials have emphasized as a critical financial measurement during their recent budget symposiums about the State of Michigan's financial problems. While that economic turmoil has touched us too, Novi's balance sheet remains strong. The "Novi Difference" results in good measure from the kinds of investment the City has made over the years and will make again with this budget.

New governmental accounting and financial reporting rules for the accounting for other post-employment benefits recently implemented are forcing units of government to make a clearer and more complete assessment of their overall financial position. Novi implemented the requirements of full-accrual accounting in 2003, nine years ago, to include reporting of government-wide financial statements. As of June 30, 2003, total net assets were \$230 million. So, despite the economy and revenue fluctuations, we have still managed to increase the value of the City's total net assets by 44%.

Maybe the most-discussed change over the last few years has been accounting for other post-employment benefits. The reporting rules now require that the statements show the costs of providing retiree healthcare expenses after the working life of the employee, rather than when the expenses are incurred. The City has made cumulative excess contributions of \$375,800 towards this liability over the last three years, as shown in the last audit. In this budget, we are making a specific additional contribution of \$157,000 towards this liability to make a deposit now that will provide generations of future City leaders with flexibility.

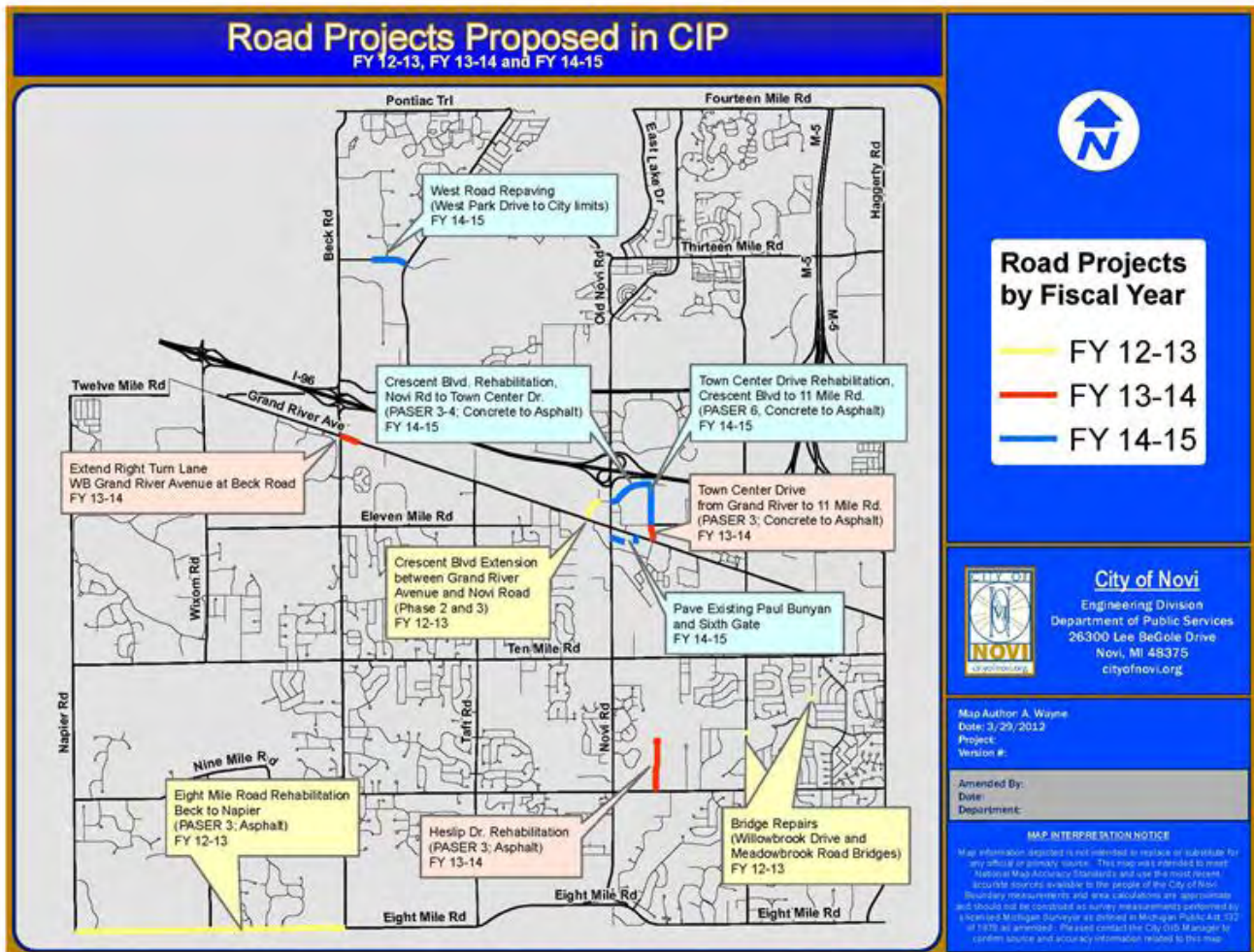
Finally, staying with the more holistic view of governmental fund activities, the pie graph below reflects where the City of Novi dedicates its resources on an activity basis. As in the past, the emphasis is on public safety, with the direct expenditures to police and fire services. In addition to those direct dollars, much of community development (i.e., code enforcement) is linked to public safety. Likewise, parks and recreation spending, supporting activities and enrichment for citizens of all ages, reflects our efforts for safe and healthy opportunities.



Public construction in Novi continues forward

Our focus on infrastructure in Novi is perhaps uniquely keen. Infrastructure requires planning, regular maintenance and care, and big ticket purchases. We see that responsibility as essential to supporting public safety, economic development, neighborhoods, and general quality of life – essentially everything we do as a City government. The infrastructure we tend is below ground and above; it is multi-faceted. We are not just a road agency; we are responsible for providing availability for people to walk, bike, and run as much as drive. Such facilities address Novi being welcoming for multiple generations, from youth to older adults. As functional as our infrastructure must be, we can also make our infrastructure 'look nice'. The Complete Streets emphasis can be a jumping off point to make the right-of-ways safe and attractive for multiple modes of moving about. A city of Novi's stature must provide funds for landscaping and tree plantings that beautify public spaces, including roadways, and can provide spaces for public art to grace the thoroughfares people move about daily.

This budget works our capital improvement plan to those good effects. We have projects teed up over multiple years that will meet all of these varied objectives. The map below depicts construction work on only the arterial or other non-residential roads. It does not reflect the neighborhood roads work and none of our maintenance/repair efforts, which we have shown is just as, if not more important, to our infrastructure success.



Budget Message

Unknowns and threats

City of Novi Taxable Value Personal Property Classifications 2011 and 2012

Class	Count	2011 Board of Review	
Commercial	2,323	\$ 158,720,000	71.9%
Industrial	57	\$ 18,909,560	8.6%
Utility	15	\$ 43,048,980	19.5%
Total	2,395	\$ 220,678,540	

For purposes of illustration, the impact on the **General Fund** property tax revenue if personal property tax was eliminated in its **entirety** (and not replaced) in 2012 would be a reduction in property tax revenue as follows:

Commercial	\$ 796,489
Industrial	\$ 94,892
Utility	\$ 216,028
Total	\$ 1,107,409

Any budget document is a work plan of things to accomplish, based upon a combination of past experience and future assumptions. Usually, these assumptions are pretty sound because unlike private businesses, which face the revenue vagaries of quick changes in the stock market, fashion trends, or fuel prices, the City's dependence upon property taxes means that the next fiscal year's revenue budget is in large part known.

This year, though, we have a potential change to prepare for - the possible

reduction or elimination of the personal property tax, as proposed by the Governor and Lt. Governor. At this point, it appears that the focus is currently on personal property paid by industrial users only. For the City of Novi, industrial personal property provides just under \$100,000 in revenue to our General Fund. Losses would occur in the other funds supported by property taxes as well, such as roads and parks. The elected leaders in Lansing are suggesting that they will make losses right by offsets with other revenue, at least for a time. So far, though, no specific plans to do so have been identified.

A larger unknown is the amount of revenue that will be lost through appeals on valuation through the Michigan Tax Tribunal (MTT). The City is required to defend valuation cases to provide equity in the assessment process and stand by its valuations until there is evidence and documentation that a revision is necessary. The process can be long, compounded by the fact that the State Tax Tribunal system is swamped with cases from throughout the state. Throughout the year, the City records settlements and MTT case refunds for the **current** tax year against the property tax revenue account in each fund through the property tax distribution schedule. In July/August, the Finance Department reviews the outstanding cases filed as of June 30th and prepares a schedule and entry to record a liability for the estimated potential loss. The estimates for taxable value in the City in any given budget year must therefore reflect an allowance for downward valuation settlements and the write-off of uncollectible personal property tax receivable. In addition to the reserve set aside in the City's balance sheet, the FY 2012/13 includes a \$50 million decrease in taxable value for that year's adjustments, which is based upon historical evidence and recent trends, but the ongoing exact amounts are not known for certain.

Another factor we take into consideration is the future of valuations in the non-residential property market. Making up just under 1/3 of the City's taxable value, commercial and industrial property values composed of office, retail, and other uses continue to struggle, comparatively. Values, occupancies, and lease rates in Novi are better than most in the Detroit metropolitan area, but are still experiencing static or declining values. Residential values, meanwhile, have stabilized or are increasing.

Fiscal Analysis takes the next step into Multi-year budgeting

In this budget document, we have taken Novi's traditional Fiscal Analysis projection to a new level. The Fiscal Analysis moves from an appendix to replace the duplicative 'Rainy Day Fund' tab.

The City Council took action towards providing fund balance and reserve targets with adoption of policy actions on September 12, 2011, requiring that the existing fund balance/reserve policy now include Special Revenue Funds and the Capital Replacement Reserve policy of the Enterprise funds, in addition to the traditional General Fund-Fund Balance policy. The City Council's early budget input session held on January 7, 2012 also provided policy direction to go back to identifying short-term (next 18 months) and long-term (beyond 18 months and ongoing) initiatives. Those time horizons for each of the seven strategic themes are reflected to guide and organize this document.

This broader look beyond the twelve months of FY 2012/13 extends to our multi-year budget (also and formerly referred to as the Fiscal Analysis). You will notice that the requested capital improvement projects and heavy equipment purchases, are all basically funded for FY 2012/13. Our ability to fund these improvements now stems from the fact that staff understands what is projected to be available for revenue and has provided a sequenced and prioritized set of projects per year, rather than a long list of wishes for one year that we have to pare down. That list of scheduled projects extends to the next two fiscal years in our multi-year budgeting. Again, instead of having a generic estimated dollar amount for FY 2013/14 and FY 2014/15 capital projects within our respective Road Funds, Drains and Parks, Recreation & Cultural Services Fund, we have programmed the specific projects into the plan.

The benefits of such an approach are several. For one, staff is able to anticipate, plan, engineer, and prepare for major capital projects. Moreover, opportunities for leveraging outside dollars, communicating to the public, and anticipating issues are more plentiful when we plan in such a way. We are specific about what is to be accomplished and still have ending fund balance equity targets as of June 30, 2015 through all the funds in the multi-year budget tab in this recommended budget.

Taking the temperature: Novi Numbers and comparisons on finances, operating indicators readily available

In one of Governor Snyder's special messages over the past couple years, he discussed government transparency and accountability. He and the Legislature set some goals for communities in this regard. We have received good marks already, which should come as no surprise. In 2006, 2008, and 2010, statistically valid National Citizen Surveys were conducted to gauge citizen perception of the Novi community.

The survey measures perceptions of community character, public safety, parks and recreation, and public trust. Novi rated "above" or "much above" the national benchmark in all four categories, including being welcoming of citizen involvement and the overall direction Novi is taking. One such reason may be the City's dynamic information hub - cityofnovi.org. Novi citizens have the opportunity to view cityofnovi.org at any time to view current, and past, City Council Agendas (complete with supporting documentation),



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watch Novi Television programming, check out the itemized City check warrant, or browse the Fiscal Fitness publication. New to the website (June, 2011) was a "Transparency" icon that will take visitors to all the items mentioned above, the annual budget, and a dashboard (another call from the Governor).

Declining Outstanding Debt provides flexibility

The City of Novi last issued new General Obligation bonds (i.e. not refunding bonds) in 2008 for construction of the new and expanded public library. Before that, it was back in 2001 for a road bond approved by voters in November 2000. Meanwhile, the regularly scheduled payments have been made such that total debt obligations were reduced by \$8.69 million by June 30, 2011 over the prior year. Total principal outstanding on debt at June 30, 2011 stood at \$57.20 million and by June 30, 2012 will fall further to \$49.17 million.

The reduction in the City's declining debt position provides us flexibility for future endeavors. For new capital construction projects, there theoretically could be a new bond issue in some future year. No specific items are contemplated in our current financial plans. However, in the Capital Improvement Program, at some juncture, there will be a need for major facility upgrades/additions to our Field Services Complex, which is the base for the entirety of the Department of Public Services. There is also potential for replacement of Fire Station #1 out of the Main Street area and onto City-owned land at Eleven Mile Road. Those items would be capital expenditures certainly appropriate for long-term bond financing.

It should be noted that the millage amounts for debt service purposes has declined steadily along with the outstanding debt amount. The debt service millage for FY 2012/13 is down to just under 1.5000, as opposed to the amount historically closer to 2.000 mills.

City Dashboard

Munetrix Dashboard For City of Novi
Citizens' Guide to Finances [View details in the Citizens' Guide](#)

Fiscal Stability			
	FY 2010	FY 2011	Progress
Annual General Fund expenditures per capita	\$512	\$508	↑
Fund balance as % of annual General Fund expenditures	0.3%	0.4%	↑
Unfunded OPEB liability as a % of annual General Fund revenue	0.4%	0.4%	↔
Unfunded Pension liability as a % of annual General Fund revenue	0.8%	0.9%	↓
Debt burden per capita	\$878	\$733	↑

Public Safety			
	2009	2010	Progress
Crimes against persons per thousand residents	5	4	↑
Crimes against property per thousand residents	28	25	↑
Crimes against society per thousand residents	12	12	↔
Other crimes per thousand residents	11	7	↑
Traffic crashes non-injury	1,226	1,264	↓
Traffic crashes injuries or fatalities	289	317	↓

It made sense that the City took on financing to grow from its young first generation to build out a strong network of roads and facilities. Now that the community has matured and developed a healthy tax base and the `bones' of infrastructure, it is logical to increase the pay-as-you-go maintenance and construction financing through operating millages, which will be the subject of discussion below, in the "Looking Ahead" section.

Property tax bill reductions preserve money in pockets at home; less for City service purposes

It must be noted that by maintaining a constant total 10.5416 City property tax millage rate, the City has levied less from its property taxpayers whose taxable values are equivalent to their assessed value, which in turn has resulted in a significant reduction to property tax bills because of generally declining values. A table is provided with five actual property tax amounts for residences scattered throughout Novi.

Sample Residential Property Tax Bills Five-Year History and Change from Previous									
City of Novi, Michigan									
	Maple Hills			Saratoga Circle			Is. Lakes N. Bay		
2008	\$2,906			\$5,011			\$8,980		
2009	\$2,410	-17.06%	-\$496	\$4,401	-12.17%	-\$610	\$7,304	-18.66%	-\$1,676
2010	\$2,205	-8.48%	-\$204	\$3,832	-12.92%	-\$569	\$6,820	-6.63%	-\$484
2011	\$1,606	-27.18%	-\$599	\$3,842	0.26%	\$10	\$6,535	-4.18%	-\$285
EST 2012	\$1,570	-2.24%	-\$36	\$3,885	1.12%	\$43	\$6,968	6.63%	\$433
Five-year Difference 2008 to 2012		-45.97%	-\$1,336		-22.46%	-\$1,126		-22.41%	-\$2,012
	Applegate II			Dunbarton Pines			Addington		
2008	\$2,519			\$3,994			\$7,045		
2009	\$2,367	-6.00%	-\$151	\$3,814	-4.51%	-\$180	\$6,954	-1.29%	-\$91
2010	\$1,100	-53.54%	-\$1,268	\$3,504	-8.13%	-\$310	\$6,291	-9.53%	-\$663
2011	\$1,122	2.01%	\$22	\$3,331	-4.94%	-\$173	\$6,076	-3.42%	-\$215
EST 2012	\$1,122	0.00%	\$0	\$3,258	-2.19%	-\$73	\$5,960	-1.91%	-\$116
Five-year Difference 2008 to 2012		-55.45%	-\$1,397		-18.43%	-\$736		-15.40%	-\$1,085
	Bellagio								
2008	\$23,922								
2009	\$18,036	-24.61%	-\$5,886						
2010	\$16,713	-7.33%	-\$1,322						
2011	\$17,545	4.98%	\$832						
EST 2012	\$19,933	13.61%	\$2,388						
Five-year Difference 2008 to 2012		-16.68%	-\$3,989						

This table shows local and state government revenue derived from property taxes declining even in a stable City like Novi from 15% to 55% depending on the neighborhood. While that obviously leaves more money in our residents' and businesses' pockets, it leaves less available for the City to provide the services that they have come to expect.



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FY 2012/13 General Fund Revenue exceeds Operating Expenditures

Despite the revenue decline shown in the previous table, the recommended budget still has General Fund revenue greater than annual operating expenditures for FY 2012/13. By virtue of savings from prior year, revenues over expenditures, and remaining within our targeted fund balance, we are also able to complete one-time capital items and service improvements, including 'big ticket' item of replacing one of our fire engines.

The ending General Fund fund balance (or fund equity) at the end of June 30, 2015 is likewise within its targeted percentage.

CITY OF NOVI General Fund		
DESCRIPTION	Estimated 2011-12	Budget 2012-13
Annual Revenue (including transfers from Police & Fire Fund)	<u>\$25,893,491</u>	<u>\$28,601,171</u>
Annual Expenditures (excluding transfers out, service improvement requests & capital outlay)	26,596,362	27,174,706
Transfers out to other funds	583,900	282,500
One-time capital items, service improvements, etc.	1,936,718	2,329,360
Total Expenditures	<u>\$29,116,980</u>	<u>\$29,786,566</u>

Note: Budget 2012-13 Annual Revenue does not include appropriation from fund balance.

Conclusion

Novi's Quality of Life offerings are good, and we have good reason to be confident about our ability to draw and keep the Next Generation that Rebecca Ryan is right to believe this is the future of any community. Where do we go from here? The suggestion throughout this budget document is to continue the successful recipe for offering a balanced set of programs and partnerships for people in all generations. Through it all, we need the constant and solid execution of everything we do, which can be done by engaging citizens and the exemplary City staff who have the training, tools, technology, and passion for public service.

We stack up pretty well by reference to Ms. Ryan's list of factors defining a community with good quality of life. Our broad mix of housing and job opportunities are the result of good planning, not just happenstance. We work hard to make sure that we have created and can maintain the mix of services and recreation and socialization that attracts a broad range of generational interest, from single professionals, young families to retirees. We can always get better, and this budget reflects the annual set of priorities that will help us do that--carefully, incrementally, and responsibly, with some perspective on both where we've come from and where we need to go.

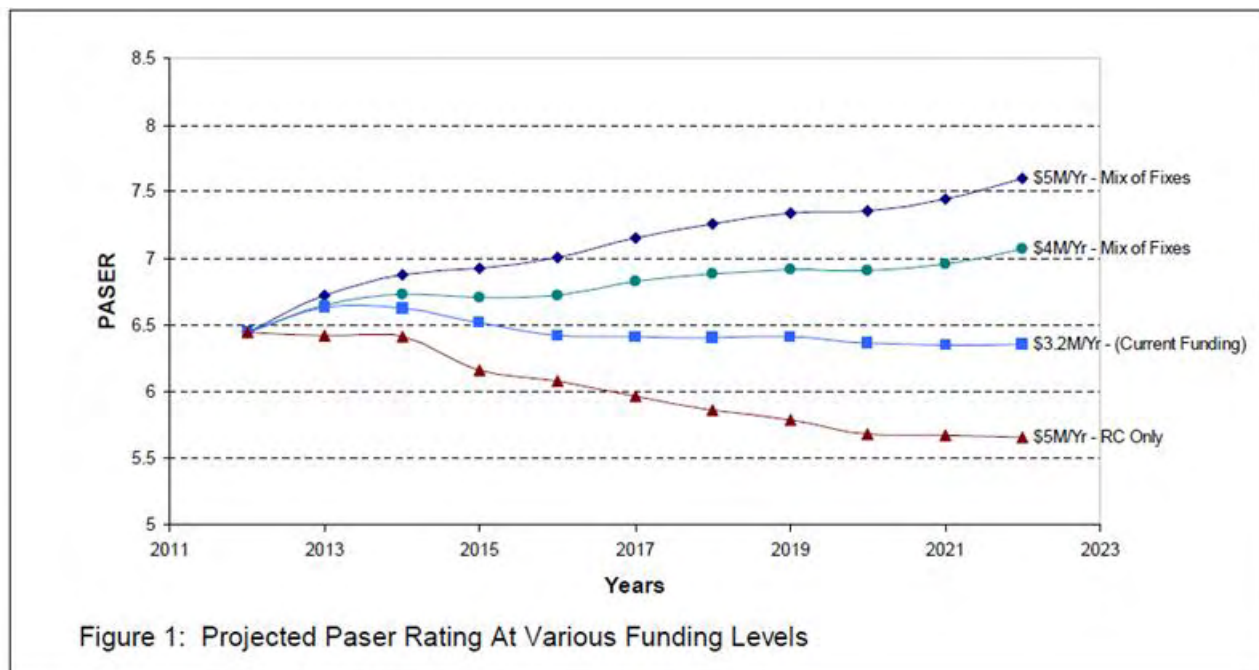
Respectfully submitted,



Clay J. Pearson
City Manager

POSTSCRIPT: Looking Ahead

Paying for the right mix of services requires balancing our property tax millage rates. As presented at the March 12, 2012 City Council meeting, the current annual road funding level of approximately \$3.2 million is not sufficient to maintain and rehabilitate Novi's roadway pavement conditions at an acceptable level. If the *status quo* funding level is maintained, then the City's overall average Pavement Surface Evaluation and Rating (PASER) would continue to **decline** to even more unacceptable levels, as illustrated by the blue line below:



A recurring feedback theme we increasingly hear from Novi residents and businesses – both via the bi-annual survey and anecdotally – is the need to improve the condition of roads in the City of Novi. Now may be the time to look at ways in which to structurally increase road funding opportunities.

One option would be to amend the City Charter to allow the maximum millage for the Municipal Street Fund to be raised from its current maximum of 1.000 mill to 1.500 mills. Doing so would annually generate more than \$2.1 million of additional revenue (over and above what the current Headlee-capped millage rate of 0.7719 provides), based on projected adjusted taxable values from the recently-completed Fiscal Analysis. This additional revenue would allow a total road investment of over \$5 million per year, which is estimated to bring Novi's overall pavement PASER rating *up* to an average of over 7.5 in ten years – a significant and sustainable improvement compared to current conditions.

As shown above, this would be accomplished by implementing a “mix of fixes” based on different pavement conditions, ranging from routine and capital preventive maintenance, to rehabilitation and reconstruction projects. In comparison, a \$5 million investment in reconstruction only (a “worst first” strategy) would quickly yield a significantly lower average PASER rating over the same ten-year period, as indicated by the declining red line in Figure 1.



Budget Message

The following table depicts total and additional revenue projections for FY13/14 and FY14/15 based on raising the Municipal Street Fund millage to 1.500 mills. The table also shows additional road projects that could be completed with an increased millage, including a *substantially augmented, 40% more than the current \$3.2 million, Neighborhood Road Program* and several significant major road projects (the projects listed are in addition to those presented in the Capital Improvement Program for these two years). Please note these projects are as-listed in the CIP and not absolutes, they are subject to change. As noted on the table, annual expenditures on local/neighborhood streets would comprise roughly 70% of the additional funding, while major street funding would make-up approximately 30%, both of which are based on the distribution of lane-miles between road categories.

Novi dedicated Municipal Street Millage: Taxable Value & Property Tax Revenue with new 1.500 Maximum cap			
Property Tax Year	2013	2014	
Fiscal Year	FY 13/14	FY 14/15	
Adjusted Taxable Value	\$2,958,115,000	\$3,068,277,000	
Municipal Street Fund - Revenue			
Proposed New Millage (Assumed to go into Effect Tax Year 2013)	1.5000	1.5000	
Less Existing Millage	<u>0.7719</u>	<u>0.7719</u>	
Proposed Additional Millage	0.7281	0.7281	
Proposed Revenue Generated by Additional Millage	<u>\$2,172,006</u>	<u>\$2,234,012</u>	
Additional Road Projects - Expenditures			
<i>Local Street Fund Projects - Additional</i>			
Expanded Neighborhood Road Program/Other Local Street Projects	\$1,300,000	\$1,300,000	
To Fund Balance (15%)	\$195,000	\$195,000	
<i>Major Street Fund Projects - Additional</i>			
11 Mile Road Repaving Taft to Beck	\$490,000		
13 Mile Road Rehabilitation (Novi to Meadowbrook)		\$435,690	
To Fund Balance (15%)	\$73,500	\$65,354	
<i>Municipal Street Fund Projects - Additional</i>			
Signal Modernization Novi Road at 13 Mile (mast arm)	\$43,750	\$175,000	
Sidewalk/Pathway Capital Preventive Maintenance Program	\$50,000	\$50,000	
To Fund Balance (10%)	<u>\$9,375</u>	<u>\$17,500</u>	
Total Additional Road Project Expenditures	<u>\$2,161,625</u>	<u>\$2,238,544</u>	
Notes and Assumptions:			
1. Taxable value and resulting property tax revenue based on March 23, 2012 Fiscal Analysis.			
2. Using the more conservative adjusted total taxable value is appropriate.			
3. Pro-rated contributions into each fund balance are necessary for capital expenditures.			
4. Based on lane-miles, project expenditures are split approximately 70% to local and 30% to major roads.			

While we do not have ballot language in final form, it is likely that the ballot question could, based upon the City Council's direction, look something like this:

"Shall the Novi City Charter, Section 9.1(b), be amended to increase the millage amount for specific street and highway improvement purposes from 1.0 mills (which

has been reduced by the Headlee Amendment to .7719 mills) to 1.5 mills beginning with 2013 tax year, resulting in the authorization to collect an estimated additional \$2,172,006 dollars in the first year?"

To have this or similar language on some future ballot for voter consideration, the City Attorney would propose this or similar ballot language to an Assistant Attorney General, who would informally review the language. Next, the City Council would put the approved language in a resolution and then formally submit that to the Attorney General's office and the Governor's office for final approval to place it on the ballot.

Road infrastructure and its associated right-of-way improvements eligible for expenditure have been most discussed. In keeping with our balanced Novi approach, there may be additional needs for future discussion.

During the January 2012 City Council early budget input session, there was interest in exploring options for the **Parks, Recreation, and Cultural Services millage**. A restoration of the Parks, Recreation and Cultural Services millage to .5000 through a Headlee Override Ballot Proposal would generate an additional \$338,000 for the Parks, Recreation and Cultural Services Fund which would be used for improving infrastructure and the development of parks facilities within the parks system. These capital projects have been identified as enhancements that will improve infrastructure and enhance Parks, Recreation and Cultural Services in Novi.

The projects identified are currently outlined in the Capital Improvement Plan, though funding sources have not been identified, other than if there were a millage consideration.

Novi dedicated Parks and Recreation Millage: Taxable Value & Property Tax Revenue with Headlee Rollback			
Property Tax Year	2013	2014	
Fiscal Year	FY 13/14	FY 14/15	
Adjusted Taxable Value (Source: 12/19/2011 Property Tax Primer)	\$2,958,115,000	\$3,068,277,000	
Parks and Recreation Fund - Revenue			
Proposed New Millage (Assumed to go into Effect Tax Year 2013)	0.5000	0.5000	
Less Existing Millage	<u>0.3857</u>	<u>0.3857</u>	
Proposed Additional Millage	0.1143	0.1143	
Proposed Revenue Generated by Additional Millage	<u>\$338,113</u>	<u>\$350,704</u>	
Additional Parks Projects - Expenditures			
Pavilion Shore Park Development	\$ 220,000		
ITC Community Sports Park Pathway Resurfacing	\$ 95,445		
Lakeshore Park Asphalt Paved Parking Lots and Drive		\$ 337,000	
ITC Community Sports Park Asphalt Parking Lots			
Total Additional Parks Project Expenditures	<u>\$315,445</u>	<u>\$337,000</u>	
Assumptions:			
1. The more conservative adjusted total taxable value is appropriate.			
2. Funding for Pavilion Shore Park and Greenway Development stay funded through 14/15			



Budget Message

The City Council will need to decide on whether to proceed with just a road question at this time, or to provide some combination of millages. We believe that the roads question is the most pressing and provides the most direct benefit at this time for the entire Novi community.