

**SPECIAL MEETING OF THE COUNCIL OF THE CITY OF NOVI
WEDNESDAY, APRIL 15, 2020 AT 7:00 P.M.**

Mayor Gatt called the meeting to order at 7:00 P.M.

In accordance with Executive Order 2020-48, this meeting was held remotely.

PLEDGE OF ALLEGIANCE

ROLL CALL: Mayor Gatt, Mayor Pro Tem Staudt, Council Members Breen, Casey, Crawford, Fischer, Mutch

ALSO PRESENT: Pete Auger, City Manager
Victor Cardenas, Assistant City Manager
Thomas Schultz, City Attorney

APPROVAL OF AGENDA:

CM 20-04-038 Moved by Crawford, seconded by Casey; CARRIED UNANIMOUSLY

To approve the Agenda as presented.

Roll call vote on CM 20-04-038 **Yeas: Staudt, Breen, Casey, Crawford, Fischer, Mutch**
Nays: None

PURPOSE OF THE MEETING – 2020-2021 CITY OF NOVI BUDGET

1. Overview

Introduction: Goals - Projects
2020-2021 Budget Overview – Highlights
Multi-Year Budget
Capital Improvement Program

City Manager Auger said this budget process will be different than we expected. COVID-19 has changed much in Novi, Michigan, and the United States in a very short time period. In reality, we expect this budget to evolve over the next fiscal year. The Finance Department has been working with department directors and working out different scenarios as much of the impact to budgeted projects and operations is now unknown. We understand and empathize with everyone negatively affected by this terrible situation. The budget is an accumulation of six months of work that includes City Council goals. City Leadership prepares for the next three fiscal years. Our goal is to continue the best level of service to our residents and stakeholders. With this shutdown of the American economy by Federal, State, and Regional governance through Executive Orders and directives in the past 30 days, no one knows how fast we will rebound from this mass destruction. The Federal government has already infused trillions of dollars into the system to assist states, companies, and individuals. We still await the specifics on the local government funding issues. We have been able to adapt, innovate, and overcome obstacles in the past and I'm confident that our team can continue not only being good stewards of public funding but also continue to

deliver high levels of services to the community. We also understand this fiscal year, and a good chance the following two fiscal years, will not be normal. Council's fiscal preparation in the past has set us up to be in a good position and allows us some tools and flexibilities that other communities may not have. The budget that was prepared for Council is a solid, balanced budget moving three years forward and six years with capital improvements. It covers all areas of state reporting municipal budgeting requirements. As good a foundation as this budget is, we know there are items that will not be implemented. There are purchases that will not be made, projects that will have to be delayed or reprioritized. Department Directors have already been tasked to start prioritizing and looking at everything from programs to infrastructure regarding revenue reductions. We are going to be proactive and not reactive. Even though items are budgeted we are going to reassess prior to appropriating. We do not plan on adding additional positions in Older Adult Services, Planning, or the Code Compliance Officer. He pointed out on page 43 that by state law we are able to have maximum outstanding debt of just under \$500 million. The City of Novi's current debt is \$16,235,000, which is 3.3% of the amount we are allowed to have outstanding. The City of Novi's debt is at an all-time low. Just ten years ago, the City of Novi's debt was \$64,613,290. On page 44, the strategic goals involve investigating and planning items that may or may not be brought forward. They include investigating or planning for multiple years of road construction planning, the public recreation center, and an increased effort in strengthening our blended Fire Department. There is also an emphasis on aging in place for older adults. As we increase walkability, we should include maintenance for what is currently in place. On page 45 the financial summaries are significant in planned capital investment over the next several years. The budget presented has \$20 million in mobility, \$5.5 million in water and sewer infrastructure, \$2 million in storm drainage improvements, \$4.5 million in parks and recreation facilities, and \$4 million in equipment and technology. If revenue was to stay as it is laid out in the budget, you can see that with the previously mentioned investments, that on page 55 we will maintain our general fund balance at 27%. The changes in the economy we see coming are going to impact the prior sections investments and the fund balances. Depending on how long this event is stretched out, and how deep the impact is, we will see. Our current models include different scenarios that affect our different revenue sources and how we reduce expenditures to maintain the 20%-27% general fund balance depending on the model we use. Based on what we know and our funding model for local governments in Michigan, Novi has made and continues to make solid decisions. We have not made knee-jerk decisions based on fads or feelings, but rather on best practices for long term success and sustainability. That doesn't mean we have our heads in the sand. Our assumptions are based on what we know. The challenge is what we don't know. We know we will see a hit to state shared revenue and Act 51 gas tax due to them being funded by sales tax. The State of Michigan will update us on those areas on April 20th. We hope the information will help us understand what the state is seeing. There are many organizations painting more drastic pictures. We are watching and attempting to see the indicators they are watching. For an organization our size and complexity, we are very agile. We continue to look and plan at every level, from our labor force to programs and projects. As mentioned, the revenue sources most likely to impact us are

state shared revenue, both constitutional and statutory, and Act 51 road funding. There are other areas we are monitoring that are affected by this shutdown of our economy: permits fees and inspection fees in Community Development Department as well as program fees in Parks, Recreation and Cultural Services. While there is overhead in both departments, it's not a one for one trade-off as there are pass through costs that we will not be paying out as well. Items such as replacing the ice arena boilers at \$35,000 can be pushed out. They are due for replacement, but we can maintain them until we see the overall impact to ice arena operations when programs are back. We are also looking at items like the North West Park Trails at a cost of \$160,000. This funding could be shifted to maintain existing non-motorized routes rather than starting a new development. A larger impact and concern for us would be long-term property value losses. The loss of a third of property value in communities in the "lost decade" recession is still fresh in many people's minds. He said this feels different in many ways than that, he understood it was also easy to say it feels the same and we should prepare for that type of impact. Part of what sets us apart is the culture we have been operating under. When a department director has a staff member who moves on or retires, we have not automatically been replacing the position. We look at the position and job description to combine opportunities and continue to evolve, along with changes to technology and best practices. Novi has become more efficient by naturally evolving and not waiting for the next downturn in the economy to do so. We have already not replaced positions and continue to outsource where it makes sense. Over the last month and a half, our first focus was the safety of our residents and employees. Our staff has responded as expected. They have been very flexible and innovative and we continue to adapt balancing service levels and work levels along with safety issues. We hope to continue making changes beyond the current hiring freeze. We are also looking at options to help with head count if we see drastic changes in our revenues. It is no secret that employees are an expensive part of operations. It is also known that he doesn't dip into fund balance for operational costs. We should maintain our operation off the revenue that is coming in. We have not sent personnel to training in the past month and a half and do not see that changing for four months. The savings you can expect to see in the budget would be around \$224,000. We have five open positions that we do not foresee filling during shutdown. The cost savings in the budget by not filling these positions is around \$460,000 including salaries and benefits. Training equipment that we plan to push out as it is non-essential is around \$213,000. In the budget they received there is a fire engine in each year in order to modernize our fleet. By delaying those purchases by a year, we can see an \$800,000 reduction in each of the next three years to ensure the CIP fund has funds available if tax revenues drop. Our team is staying abreast of all the changes that could have a financial impact on the City of Novi from home value growth curves to real GDP growth tracking estimates to financial stress indicators to the markets. We have also been looking at future projections in the auto market and CPI inflation rates. Sencog's economic forecast has the region losing 8.9% of payroll in 2020, but increasing 7.8% in 2021 and an additional 2.1% in 2022. This would be about 6,000 higher than what occurred in 2019. We are aware of the discomfort in predicting things we do not know. We know the budget before them will not be implemented as presented. We have a strong belief that the budget they bring back to the next meeting with their advice and perspectives

will more than likely be modified during the fiscal year. One of the reasons people and businesses are smart to be in Novi is that we continue to strive to build the best during a good economic time so we are already prepared for the challenging times like this. We also plan to provide Council with monthly revenue updates so they will have an accurate pulse as we implement the new budget and understand the course corrections that we may have to take. He said Council has a great team available and they are there to answer questions and concerns. We are not expecting Council to approve the budget just yet, given the changes in the last month. We await your input and comments and stand ready to incorporate those into a new version of the budget that will be shared with them before the budget is set.

Mayor Gatt thanked City Manager Auger and staff for their work putting the budget together. When they received it a month ago, they had no idea what was in store for us as far as the COVID-19 crisis. He felt positive that by the end of the meeting, the budget that Council wants to move forward with would be very different than the one in front of them. He pointed out that in the first round of discussions; there should be no motions, just thoughts and ideas.

2. City Council discussion and decisions regarding the plan priorities

Member Casey said we are living in an extraordinary moment and wanted to thank first responders, healthcare workers, and employees deemed essential to work outside their home as well as those at home. She said creating our City budget takes time by a dedicated team of individuals across all departments. She thanked them for the work they put into creating this budget. She said unfortunately, the conditions this budget was initially created for do not exist. We must take a hard look at what the economy landscape is starting to look like. She said Council received a memo with scenarios forecasting reductions in certain revenue categories. She said no one knows how big the loss of revenues for local governments will be, but there is no denying there is going to be one and it will not likely be short-lived. She said there are four Councilmembers who were on Council in 2009 and have made the decisions they will likely be facing and she is glad for the experience. She said in terms of the budget, they must be conservative in revenue projections and plan for significant reductions in these revenues. She said the City Manager spoke about property tax, and she thought for 20-21 we would be in decent shape based on the work the Assessor has done. She said she was hoping we don't see near the decrease we saw a decade ago in terms of the house values. She thought the projections for 21-22 and 22-23 need to be revised down. She said they need to reduce projected state revenue figures significantly because so much of what we get from the state is based on sales tax. People are likely reducing their spending due to wage cuts or job losses. The state has been talking about reductions in tax revenue in the billions and there is no reason for us to expect we will get what they projected. Her preference would be to plan for something closer to the worst case and decreasing revenue noted in the budget. She said whatever decrease in revenue we see has a rolling impact on 21-22 and 22-23. She said all of the revenues sources should be reduced. Some of the amounts noted in various communications are in line with what she would expect to see, assuming we take the

greatest of the identified reductions and anticipate a longer impact on our revenues. The majority of predictions she has seen talk about a slow recovery for the economy. Many of us have had wage reductions, some have lost jobs. Small business owners have closed their doors. Even when stay at home orders are lifted, people will be slow to return to their normal behavior, including spending because no one knows what's coming next and people are going to take time to shore up their own personal finances. These are all lessons we can learn from 2009. She said her focus has been on the revenue side. Once she felt comfortable they have revenue projections at a more realistic level and gets feedback from colleagues, she thought they could start to prioritize what expenditures may be delayed or canceled. She said these decisions have a trickle down to 21-22 and 22-23 financial plans. She said talking about expenditures at this point was premature in her opinion and she wasn't ready to give direction on expenditures until she is comfortable with the revenue projections. She said she would not support adding any employees or new positions. Filling vacancies should only be done if critical for public safety and with Council approval. She wants to minimize the impact, as much as they can, on existing employees and have a head count reduction be a last option. She said there will be projects and work that we need to do because it's necessary for the health and welfare of our residents and businesses. Her preference would be to be in the position of having things be better than we expected and add expenditures than realizing they didn't think strategically enough and face cuts. We may face cuts after they pass the budget because they don't know what's coming next. She would rather it be from the starting point that is realistic. She said this is a scary time and emotions are high. Each of us has been impacted to some degree. She wanted to wish anyone who was sick and full and healthy recovery and if you have not been sick, she hoped you avoid this by staying home and staying safe. She said she has been clear that her focus was on revenue and wants to be as conservative as possible in our projections. If things go better, they would be in a place to make changes and put things back into the budget.

Member Fischer said he echoed the previous speaker. He thanked the staff and pointed out this was a tough time to put this all together. He said unfortunately times have changed since they received the budget book and he felt administration has been slow to respond to the deteriorating situation that is unfolding. He said by watching the news you can see a 3% contraction instead of a 3% expansion that they thought back in January. They are calling this likely be the worst recession since the great depression. He said Detroit is facing a \$300 million budget hole and the State of Michigan is looking at \$1 billion to \$3 billion. He said he has been asking revenue questions but felt the answers he received were dismissive. He thought a lot of this was revenue work and could have been done and presented to Council. This could have been more of a productive discussion. He said as much as we like to talk about diversifying our state, region, and City, we haven't. We are overexposed to the auto industry. He said analysts were looking at \$16.5 billion sales in the U.S. and now they are looking at \$11 billion, which is a 33% decline. He said auto companies and suppliers have pulled out all the stops and pulled all available cash and credit facilities in the hopes of making it through the next few months. He said Novi residents are feeling these effects as they are getting pay deferrals, pay cuts, furloughed, or losing their jobs.

He said a \$1,200 check from the Federal government would not go far when you lose months of pay or lose your job. He said he has been asking questions for two weeks and was not getting satisfactory answers. He thought any insinuation that the switch will turn on is not grounded in reality. He said this does not even contemplate the possibility of a second wave where people and movement is restricted once again. He said administration has had two weeks to come up with a more realistic revenue assumptions and a road map to cut expenses, but has maintained a position that we should approve this pre-COVID scenario and recover later and react at that time. He said that's not how Novi operates. He said he understood the majority of the leadership team may not have been here during the great recession, but four Council Members were and another two served at different levels of the government, serving Novi residents. We have a play book and it has worked in the past. It was not to approve a budget based on outdated assumptions, it was to make educated guesses and incorporate the data we know and make sound decisions. He said his message is two-fold. He said we need to get real with ourselves. What has been proposed overstates the revenue and he would not support a budget with revenue that we know is materially incorrect. He said he was going to reserve his comments related to expenditures for a later date because he didn't feel they were set on the revenue side. In regard to revenue, there were two areas the City Manager mentioned which were his priority in the short-term. He said state shared revenue usually provides us \$5 million or \$6 million each year and Act 51 transportation funds provide \$6 million or \$7 million each year. In the absence of the administration making recommendations, he proposed some for his colleague's consideration. He said like we have seen in the past and what we did in 2008 and 2009, he recommended the budget exclude any statutory revenue sharing assumptions in the budget year and financial plan years. He recommended that the estimated 19-20 amounts be adjusted to reflect lower revenue sharing and Act 51 by about 40%. That's given the complete shutdown of our economy from March to June of 2020 as those impacts will be felt in the 19-20 budget. He said it's important that we plan to understand that material impact because that impacts our starting fund balance. We can then see how it flows into 20-21. He recommended the budget for 20-21 contemplate serious declines in constitutional state revenue sharing and Act 51 funds somewhere in the area of 25%. He said you can see from the Senate Fiscal Agency data that in March, which had half of a shutdown impact; already saw a 25% decline in sales tax receipts for those items that data was available, such as vehicle sales. He said regarding property values, he thought for 20-21 we are basically locked in but we saw how quickly they fell back in 2009 and 2010. He suggested we show slight declines or hold values flat for financial plan years. He also agreed that we should look at program revenues and the impacts to those. He said he wouldn't speak too much about expenses, but was glad to hear the City Manager has agreed to put off the new positions because he would not have supported those. He wanted to see a commitment from the administration to utilize attrition and natural retirements to reduce the headcount in 2021 starting with the five budgeted open positions. He said he wasn't set on the positions that wouldn't be filled, but at least five open positions is what he felt should be carried into the next fiscal year. He thought we could do a better job in looking at 19-20 can be updated to reflect the savings that won't be utilized this year. We usually have savings at the end of the year

that we use to pre-pay pensions. He suggested we don't do that and show those numbers in our estimation, and continue that in future years until this scenario is behind us. He said it pained him to say that because he always supports using those funds in that fashion, but desperate times call for desperate measures. He thought 20-21 should be adjusted so that most of the remainder of this calendar year no one will be traveling to conferences and workshops. He said there were some revenue pieces he was concerned with but there is also a lot of opportunity on the expense side. Aside from this, he expected administration to come back with additional items for Council's consideration so they can make up for any other shortfalls and they can maintain a fund balance. He wanted it to be clear that he wasn't looking for layoffs at this time. His goal was to be proactive. He thought we could utilize open positions to protect staff and thereby protect service levels that residents expect. He said hopefully we will see that we've been proactive and held off by not filling positions and postponing projects and maybe next year will be different. He appreciated the effort that goes into the budget document and thought we had a great foundation to build on, but we need to be pragmatic in building this year's budget. We have five weeks to update this with the reality that we know and we should do that. We should approve a sound budget that Novi residents can see we are taking the financial impact of this pandemic very seriously.

Member Breen said she was grateful everyone she could see appeared healthy and thanked the staff, especially Public Safety, for everything they've been doing to keep our community safe. She said this was a very difficult time and she agreed with what the previous speakers have said. She said she found it difficult to look at expenditures without looking at a realistic revenue expectation. Although we are mostly through this fiscal year, she thought there would be changes that we did not anticipate. She said she was looking at how this would affect the upcoming fiscal year and the one after. There are a lot of things that are uncertain. She said things they were looking at, like the Recreation Center, Roads, and Municipal Broadband; they have no idea whether any of that will be feasible. She said as far as a potential rebound, we don't know if there will be a second wave. She felt the future of retail is very uncertain. She said they people she talks to every day are scared. Even once we do get past this, she didn't think we would see people making a return to the malls and retail as quickly as a lot of folks think. Anything that revolves around public gatherings, such as conventions and hotels, their future is uncertain. She said the City of Novi runs a tight ship when it comes to employees. She felt we had a lean staff and she didn't want to discuss staffing cuts without knowing more about revenues we might be expecting. She said she was happy the City Manager said we were having a hiring freeze and open positions would not be filled for the time being. She said it was hard to move forward with the current budget without knowing more about what is coming through the door. She understood it was very difficult to make these assumptions without knowing what's going to happen, but she knew there were upcoming meetings with the state which may give more of an idea what we are expecting from revenue sharing. She thought statutory revenue sharing would probably be out the window and we wouldn't get anything. It's only a tiny piece of the budget. As far as the constitutional revenue sharing and Act 51 funds, we need to have a better idea of what will come. She said we have about a

month to work with and she would like to see more realistic figures as far as revenue before we talk about expenditures. She thought the last place we should have any discussion about when it comes to cuts is Public Safety as well as employees. Before we can get there, we have to have a more realistic expectation as to what's coming.

Member Mutch said these were challenging times. He mentioned several members of Council were here from 2008-2010 and they went through something similar to what they will probably go through. He said for those of them that went through it, it was some of the most difficult decisions they had to make. Looking back, he felt they made the right decisions at the time with the information they had and set the City up for a decade of success. He thought the decisions made during that time provide a template for how they need to move forward. He said from what he's hearing from fellow Council members, they really do see the direction they need to move. He said first is the important of acting early in terms of making decisions that need to be made without waiting too long to make them. He said that doesn't mean they need to act hastily; we have to be thoughtful in terms of what kind of changes we make to the budget and what they decide to do going forward. He said it's important they don't wait too long in terms of having to approve the budget by a certain date the forces them to move forward. He said it's also important to act decisively by not putting off decisions in the hope that things will get better in a certain timeframe. He said we are all hoping for the best, but at the same time we have to act assuming we are in a worst case scenario. If things turn out better than that, we are well positioned to move forward. He said we have to take a look at the remaining year's budget for potential cost savings. He said the City Manager noted we are not filling positions and that is one place that will make a difference. He said we should also look at planned projects that haven't moved forward at this point and consider postponing or canceling those when they can have a significant impact on the bottom line. What we are attempting to accomplish with moves like that is to ensure we have cash on hand in terms of fund balance to give us the greatest amount of flexibility going forward. He said we have to continue making expenditures where they are appropriate, especially in the areas of Public Safety and projects we do want to see move forward. He said as much flexibility as we can gain in the current fiscal year will help us moving forward. He said in terms of revenue projections and expenditures for the upcoming budget, he agreed we need to be conservative in those revenue projections. He said it is difficult; we are in a situation where we don't know when the public will be able to start moving out of their houses and start going back to some kind of normal. By being conservative in our estimates, we will be working from a better position than assuming the best and that not happening. He said in the upcoming budget it is important in terms of cost savings to not create new positions and leave positions unfilled as well as look at projects that are planned but could be postponed where appropriate. He said one thing they did during 2008-2010 was completely shut down the investment they were making in the City. Where there are funds with dedicated funding and we have confidence that we will have revenue, we do still need to do that with infrastructure, like roads and water and sewer. The longer we put those off, the repairs become more costly and the backlog continues to build. He said they do have to strike a balance in that regard. He said in past years they have been fortunate and able to approve the budget in a single

meeting. That won't be the case this year. There is another meeting scheduled at the end of the month and that gave him confidence that within the next two weeks, there will be a lot more information available to them. It also gave administration time to take the appropriate steps to lay out more realistic revenue projections as well as a more detailed, organized list of reductions in expenditures. He said he wasn't looking for a brand new budget. He thought 80%-90% of the budget could move forward in the form it normally would, but there are important areas where additional work needs to be equated. He wants to see that happen before he would approve a budget moving forward. He said he was confident that Council had the experience and knowledge to provide the appropriate direction to administration. He has confidence that administration would listen to the feedback from Council and make the appropriate adjustments so that when Council does approve the budget in May, as required by Charter, the budget is realistic and sustainable and gives residents confidence that the City is doing the right things necessary to get through this time of crisis.

Member Crawford said he concurred with most of what has been said. He anticipated he would agree with the remaining members. He had no further questions or comments.

Mayor Pro Tem Staudt thanked staff for putting together a good budget. He said he most agreed with comments made by Council Member Mutch because they went through this several years ago. He said it feels different but thought the approach should be similar. That approach is to be proactive, decisive, and to do it up front. One of the things that saved them before was making big decisions that they didn't want to make but proved to be the right thing to do. With this budget, he didn't have specific things he was looking at. He agreed with Member Fischer who did a great job of breaking down revenue. He didn't think any budget they could come up with would be an exact budget. He thought they would be doing a lot of assumptions and they should go into this budget thinking they have the best information at the time and that's what they have to work with. They won't be 100% right or 100% wrong. He appreciated the tone and tenor of the opening by the City Manager. He said they've spoken over the past several days and he understood what was necessary. He said the approach they have to take is the same approach they took several years ago. The positions we had budgeted or were planning to budget will not happen and the current open positions will not be filled which amounts to roughly \$400,000-\$500,000. The far more difficult piece is the 8-10 positions that we need to plan through attrition, buyouts or whatever process of people leaving; we need to plan for through the end of this year. He said he was not suggesting layoffs, but that staff takes a hard look at all of the positions. He said those 8-10 positions represents roughly \$1 million. That \$1 million goes right to the bottom line of our fund balance and at any time Council has discretion to take those dollars and re-apply them back to those positions. He said it was much more important to take a proactive approach. If we are wrong on the good side, then we can always return those funds back into those positions. If we are wrong on the bad side, we are going to approach this again next March or April and those 8-10 positions would only be a drop in the bucket. By that time we will have a more clear idea of the affects this will have on property values and taxable values. He said this is

the hard part. Hopefully the economy comes roaring back and people start buying things again, home sales retain their robustness in Novi, and our commercial property development continues in a good way. If all that happens, we don't really have to worry. We just have to figure a way to loop back to these positions that have been taken out of the budget at this point. He said if we are wrong, we will have to use \$1 million or more of fund balance to fund that period of time until we get to the next budget year. He said he and Member Mutch went through a traumatic period a few years ago and he hoped they don't have to go through it again, but they need to be prepared to. He said when talking about a budget, we was only about removing things that we directly identify where there is going to be shortcoming of revenue. He said he didn't want them to have a wholesale delay on capital improvement projects or infrastructure. He thought they needed to make projections on revenue and be conservative on those projections and continue our capital improvement program. He said one of the things that happened in 2007-2010 was even though we felt like we had no money, we kept investing. It never felt like we stopped. He said it was a tough time and some of the projects were not the scope of things we are doing now, but it's critical that we continue with programs that are important to the residents. He said one of those areas is the panel replacement program. He said it is \$500,000 and he would rather see us find that money somewhere else and continue to invest in our neighborhoods. These are the kinds of things that are important. He liked the comments about the fire engines and deferring them until we have a better idea of what property tax values are going to look like in the next two to three years. If we find that things are stable, we can always move them forward. He said anything that has to do with the capital improvement program, which really doesn't have a lot of things planned, are things we can look at taking the funds and moving them to some of the smaller programs. He said he didn't spend a lot of time looking at specific dollar amounts because this budget is more of a feeling what we need to do in terms of making adjustments for revenue and expenditures. He said they need to understand this is not a normal budget where they just spend money. It will be a work in process and the first evaluation period will come at the end of the year and they will have another deep discussion come March. He thought they would be prepared to understand the future with the budget discussion in April 2021. He said this was a pretty good budget and they would have felt good about it if things had not changed in terms of revenue projections. He said they need to stay focused on this budget with the idea that we are preparing to not spend the money if the revenues aren't there. It's all about revenues and expenditures. It's very important to not overreact to the fact that a bunch of things were pulled out of the budget and fund balance goes up. That just means that we have flexibility to do what we want whenever we're ready to do it. it doesn't mean we are hoarding money; it means we are acting in a prudent manner. He said they have to have a philosophical agreement that this is a work in progress and is unlike anything any of them have seen before; even back in 2007-2011. They knew they were in trouble and had no money. This is different because we don't know. If the economy comes roaring back and we get back to sales tax that is expected to be normal, then our statutory and constitutional revenue sharing will be safe. We could very quickly get back to Act 51 dollars and things could be ok. He said he appreciated the work that Council Member Fischer did in putting together some spreadsheets that

helped him understand this better. He thought City staff had a good message. He said the next few weeks may provide some more direction but we are operating in a world that never existed before and we will have to be flexible.

Mayor Gatt said he hasn't seen this much cohesion among Council in a long time. They all have different backgrounds and varied political opinions, but when it comes to this budget, no one was contradicting each other or speaking against one another. It sends a message to the people watching and administration that this City Council is unified will do the right thing. He said it felt like yesterday when the tax people were in front of them speaking about how great we are doing. We still are the envy of the region and this won't change that because we are not alone. The whole world is in the same predicament. Nobody knows what's going to happen, but it's our job to predict. When he became Mayor in 2011, they reached out to Brooks Patterson who sent his team over and that was when they adopted a three-year budget. Prior to that, Council members didn't think it was possible to predict the future. He said we can, and we have to. We have to see problems that may arise in future years and we have to do things right now to make those better. He said he was elated to hear the City Manager instituted a hiring freeze. He said we need that because the main source of outgoing revenue for any municipality is the staff; they cost a lot of money. To institute a hiring freeze is a big deal and to remove the positions that were in this budget, that's a big deal. To make a promise not to fill any positions that are open in our workforce, that's a big deal. He pointed out that Member Casey said headcount reduction is the last resort. He said he hoped that meant staff that works for us now. Mayor Pro Tem Staudt talked about layoffs and years ago they made difficult decisions that affected people's lives. The decisions we made then set the City up for a period of growth. It wouldn't have happened if we didn't do what we did. It wasn't easy. He said he didn't want to go there. He said it was very important that they buckle down and save every penny we can immediately. If it's gets a lot worse, we may have to get tougher. He said he was hoping and praying that doesn't happen. He didn't think people will start going to the malls or bars; there will be a lot of trepidation. He said he heard there was a spike in this in other parts of the world when they thought it would be going down. We are in for some difficult times. He said City administration puts together a great budget for three months ago but not for today. He reminded Council it takes four votes to add or remove something from the budget but it will take five votes to approve the budget.

City Manager Auger said he wanted to go over what he heard so far: to recalibrate the revenues seriously down because we can always bounce back up if they are greater, get creative with personnel as far as keeping the headcount low through attrition and not replacing, looking at projects tied to revenue sources that we see going down; keep investment going especially in the neighborhoods.

Mayor Gatt said he would entertain a motion to adjourn unless someone had a different motion to make. He said he works for Oakland County and they have instituted a hiring freeze, but have tempered it by saying part-time employees and seasonal employees are not included. He would hope that's not part of the freeze.

They don't cost a lot of money. City Manager Auger said they will find out more over the next week.

Member Fischer said as it relates to part-time, one recommendation would be if it is tied to generating revenue, like some of the Parks positions would be, that wasn't something he was looking at eliminating.

Mayor Pro Tem Staudt suggested we use the budget as it stands now as the foundation for moving forward and anything we do to make changes to it, we provide something similar to what Member Fischer provided where we take existing numbers and show the changes and come up with final numbers. The working document should be more of a spreadsheet which is easier for them to see the activity. We can make most of the necessary changes with minor adjustments to the budget, except for the dollar amounts. Those will be significantly different. In terms of the layout of the budget, we don't need to start from scratch. We need to pick the areas where we are going to make adjustments, put them on the spreadsheet, and they can look at it and make whatever motions are necessary at the next budget meeting. He asked the City Manager if that would work. City Manager Auger said he believed what he was saying was to come up with amendments in a much shorter version to this budget. We won't go through the budget and make replacements. They will highlight the changes via revenue and where those expenditures are going to be reduced so you can see where we think revenues are going to drop and which programs or personnel are being reduced. Mayor Pro Tem Staudt said Member Fischer's spreadsheet would work well.

Member Mutch said he has already asked how we see the potential impact of the adjustments being made to the pension contributions going forward. He understood there was a report forthcoming that would spell that out. He asked if there was a ballpark in terms of how much more we expect to contribute over the next couple years and how that will hit the bottom line. He was primarily concerned with general fund impact. City Manager Auger said Finance Director Johnson would be the best person to address that but stated the projections would be coming out soon. They keep changing and modifying those. Finance Director Johnson said the changes in assumptions were touched on before during the audit presentation. MERS is changing their key assumptions and it will result in liability going up about \$3 million to \$4 million. Those will not impact our contribution until fiscal year 21-22. Currently our annual contribution goes up about \$300,000 per year. He said he would expect, with those changes, to go up another \$200,000 per year beginning in 21-22. He said we won't see the impact of the market downturn until the actuary report a year and a half from now. That one might be significant because to date we have lost \$15 million of our \$60 million of pension reserves. He said it was hard to tell, but in the short term we have the budget fixed at what the actuaries tell us to. We won't be making the extra contributions we have historically done. We are anticipating that \$200,000 in the third year. Member Mutch asked him to clarify if the additional contribution of \$200,000 was factored into the future budget years and if it was reflected in the current budget document. Finance Director Johnson said they only planned for \$100,000 of the \$200,000 because it's just a guess until they get the actual report. Member Mutch said

the immediate change is the changes in the assumptions and looking further out to when the next report is done. When that's done, we may have recovered those loses if things go positively. He was more concerned about second and third year out. He was looking at the assumptions in terms of revenues hits and other things they've talked about like state revenue sharing and Act 51, but pieces like this that are not immediate but will hit our bottom line within three years. When they were talking about this three months ago it wasn't a big deal because we had plenty of fund balance and we could have absorbed a big hit like that. If we are a year out from here any have taken a significant revenue reduction in all the categories we've talked about, this kind of hit could have a greater impact. He wanted to make sure those kinds of things have been incorporated when they look at the budget again so they don't have surprises down the road. Finance Director Johnson said MERS does a five year smoothing so we wouldn't see the impact of it immediately. Even though it's a significant drop, it would be spread out. Who knows what the market will do in terms of rebounding which is why it is difficult and why they did round up. Their goal is to try and contribute as much as they can. City Manager Auger said part of the reason he brought up debt ratio was if our AAA bond rating was looking at floating a bond to actually make a contribution to those pension funds. Maybe those coincide and maybe they don't but we do have room in that tool to use as well. He said he sees the interest rate staying low for a while, even as we come out of this and we would get great rates.

Member Fischer said he heard something very concerning and asked Finance Director Johnson about stating we lost \$15 million on a base of \$60 million. He said that's a 25% loss which would be surprising given our investment policy. He expected that to be more conservative and non-risk to assets. Finance Director Johnson said we are not talking about the City's general investments, but the MERS pension investments. Those are long term investments that follow the foundation of MERS which is 70% in stocks and bonds and 30% in conservative assets, etc. The \$15 million is just an estimate since the market has dropped 25% since January. It has rebounded quite a bit last week, but still down around 20%. Member Fischer said he's asked this before but questioned why we were still with them. City Manager Auger said to get out of the MERS program takes a vote of the people. Member Fischer asked if there had to be a certain level of funding as well. City Manager Auger said yes, to make changes to their plan we would have to be a certain amount funded. Member Fischer said maybe that was something to look at if we are looking at a bond again. City Manager Auger said there are communities that self-fund their retirement.

AUDIENCE COMMENT:

Dorothy Duchesneau stated as a City resident she was impressed with the quality of our City Council. Based on what she heard, our City is looking to be proactive instead of reactive in terms of planning and spending money. No one knows for sure what the next days or weeks hold. There are way too many moving parts when it comes to coronavirus. All that really can be done now is to anticipate the what-ifs. Thank you for making meetings like this available to the residents. Stay healthy, and stay safe.

ADJOURNMENT – There being no further business to come before Council, the meeting was adjourned at 8:18 P.M.

Cortney Hanson, City Clerk

Robert J. Gatt, Mayor

Transcribed by Cortney Hanson
Date approved: May 4, 2020