

Budget Message



City of Novi, Michigan

FISCAL YEAR 2014-15 BUDGET MESSAGE

April 7, 2014

Honorable Mayor and City Council Members:

With great honor and pride I present the City of Novi's 2014-15 Recommended Annual Budget—a balanced, forward-looking document fully in keeping with the goals and directives that the City Council has discussed over the past year. A community's annual budget is one of the most important documents (maybe the most important document) produced by its officials as they map out the activities to be accomplished in the upcoming year. As Novi enters the 2014-15 fiscal year, we find ourselves at a turning point. Five years of declining property values, decreased other receipts, and stagnant development activity—some of the most important measures of fiscal health for a local community— have given way to a 180 degree shift in all of those factors. Revenue is up, and potential investors are knocking at the door again. We now have an opportunity to start building on the growth and successes the community enjoyed before the global economic decline. We have emerged from that downturn leaner, smarter, and better-positioned for continued success than most.

The document before you attempts to make the most of this window of opportunity. This Recommended Budget is the result of the kind of long-term planning that has been Novi's hallmark, and is the product of the diligent efforts of staff throughout the organization, who are charged with identifying what needs must be addressed and which available opportunities to seek in the upcoming year, all in accordance with the City Council's overarching objectives.

For a number of years, the City Council maintained seven strategic categories that guided City Administration's budget preparation. At City Council's January 11, 2014 Early Input Budget Session the previous seven strategic categories were condensed to four policy priorities:

Nurture Public Services that residents want and value

Operate a World-Class and sustainable local government

Value and build a desirable and vibrant community for residents and businesses alike, now and into the future

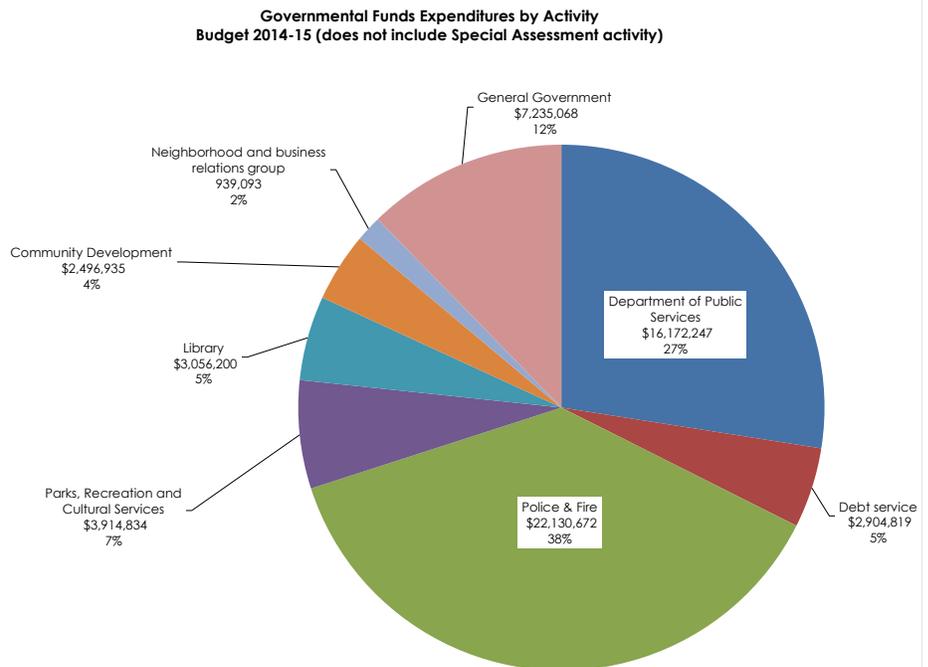
Intest properly in being a safe community at all times for all people

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These four strategic categories/themes are the guiding principles not just for preparing the annual budget document, but for determining how best to deliver City services for the foreseeable future. Consolidating the strategies provided an opportunity to revise the City's Organizational Chart, which previously resembled the "Olympic Rings," depicting how each City Department was intertwined with the seven strategic categories. The rings additionally recognize our external partners/agencies that frequently support the City in service delivery. The new chart mirrors gears of a well-oiled machine. Each gear represents one of the Council's new strategic categories. No one piece can move independently. The parts operate in concert with one another.

Overview

Taken as a whole, the 2014-15 General Fund total budget is a .01% increase from the current Fiscal Year 13/14 Estimated. The new investment is based on the previously-noted modest growth in property tax, building revenues, and constitutionally-guaranteed revenue sharing. The 2014-15 budget focuses on Novi's strong financial foundation by maintaining a healthy **23.34%** fund balance in the General Fund. Committed to forecasting and presenting a balanced three year budget the General Fund Balance is forecasted to be at **20.45% in Fiscal Year 2017-18.**



2014-15 General Fund Operation Budget

	<u>2013-14 ESTIMATED</u>	<u>2014-15 RECOMMENDED</u>
Revenue	\$29,448,962	\$30,645,701
Expenditure	\$30,603,265	\$30,904,926

Future Millage Capacity

Novi has a consistent history of careful investment in capital improvements while maintaining responsible levels of debt. In Fiscal Year 2012-13, the City Council extended its commitment to that legacy by adopting a formal Debt Management Policy to ensure equitable and responsible bond issuances into the future. The City has

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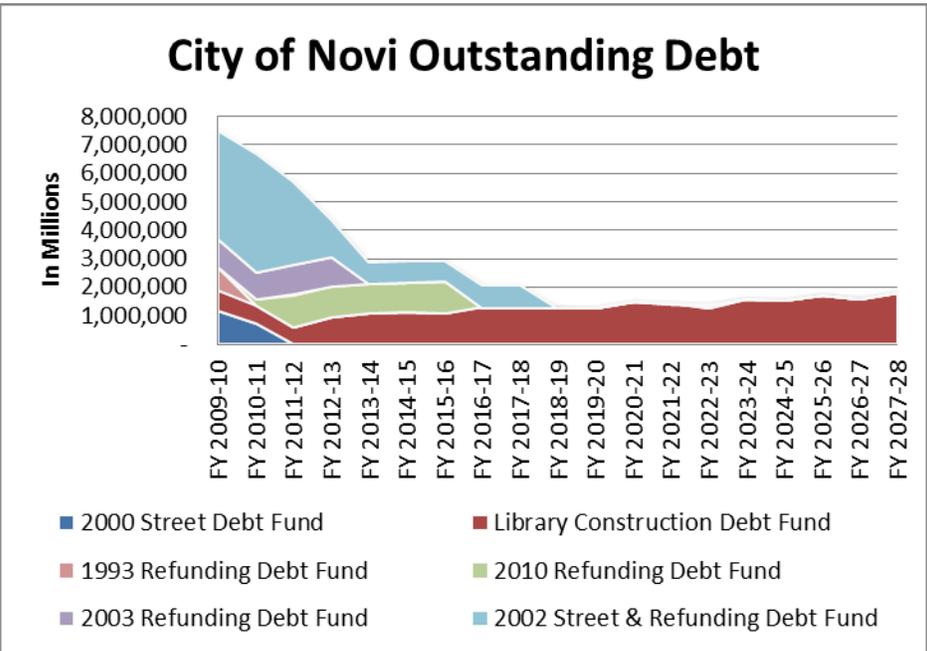
been able to responsibly leverage debt issuance as a legitimate funding source for large capital projects (e.g., the ice arena and the new library building) when warranted, investing and financing projects that future generations benefit from and pay for with debt service. The City has also used, and will continue to use, a range of additional funding mechanisms to equitably fund improvements, including internal borrowing, special assessment revenue, grant funding, state shared revenue and operating revenue, among others.

Each year the City dedicates a portion of the 10.2 millage rate to debt service payments. Last year, FY 2012-13, the City dedicated .9903 mills to debt service payments (Street Debt, Library Construction, Ice Arena Facility Debt,

etc.), or roughly 9% of the total millage rate. In the next Fiscal Year (FY 2015-16), the City will fulfill its obligation to repay the General Obligation Refunding Bonds issued in 2010 for refunding bonds issued for the balance of the 1998 Street Bond Debt issued. Over the last four years annual debt service payments for this bond in particular have averaged just over \$1.0 million.

Also recommended in this Budget is a reduction in the Drain Fund millage rate in order to levy more for the 2002 Street & Refunding Debt Fund in order to retire it earlier than its scheduled retirement date of FY 2017-18. As the City will be retiring a significant amount of debt in the next few years, new opportunities will be presented to the City as to how the community will finance capital projects, retirement pension/OPEB liabilities, or departmental operations. More importantly, the policy question arises as to what is the desired total millage rate moving forward to sustain the City's operations and meet its obligations for today and well into the future. The City has needs and opportunities to issue replacement debt and to provide financing and still keep a low total property tax millage rate. With the roughly \$2.0 million less in debt service that will occur in FY 2016/17 as opposed to today, for example, there could be \$2.0 million in capital provided for continuing replacement investments.

One opportunity to consider is to propose a Headlee Override for the Parks and Recreation (per City Council's long-term goal) and/or Library Fund to restore those respective millages to their Charter permitted levies. Pursuant to the legislative approval of Proposal A in 1994, the City's millage rates have been "rolled back" at the rate of inflation, resulting in lower millage rates, and revenue, for important operating funds like the Library and Parks and Recreation Funds. If an override were approved by the voters, the additional revenue generated would be \$215,000 for Police and Fire operations (original levy of 1.8 mills) and \$342,000 for Parks and Recreation (original levy of .5 mil).



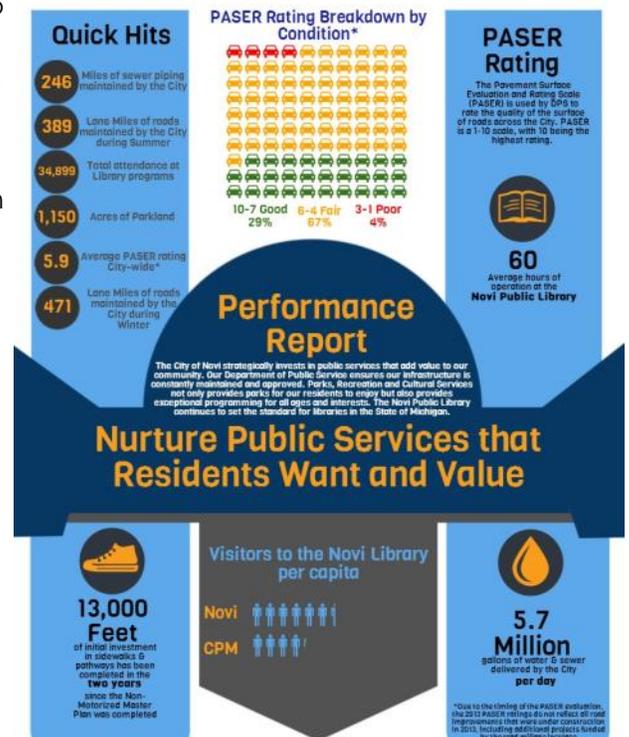
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Performance Measurement

In 2013, the City enrolled in two different performance measurement programs. The first is the International City Manager's Association's (ICMA) Center for Performance Management (CPM) program. CPM is a nation-wide consortium that measures inputs, efficiency, and outcomes across 18 service areas. A membership in the CPM Comprehensive program allows Novi to compare our performance to that of some of the nation's highest-performing municipalities. The second program is the Michigan Local Government Benchmarking Consortium (MLGBC). Although CPM allows the City access to data from top cities around the country, we all know that Michigan has its own "quirks" (e.g., Economic Vitality Incentive Program) that other places do not. Thus, MLGBC affords the City the opportunity to compare categories like road maintenance, snow removal, and water & sewer services with communities that are structurally more like us.

In addition to comparing our performance to that of other communities, the City has always measured key drivers within departments in order to guarantee and measure our own forward progress. Internal benchmarking has been a staple in our management practices for years, whether it is measuring crime levels in the City to measuring new building permits to employee satisfaction levels. One great example is the Computer Statistics (CompStat) system used by our Public Safety Administration. CompStat allows Public Safety to analyze crime data and measure departmental responses in order to identify and evaluate ways to keep Novi safe by maximizing and understanding changing trends and opportunities. The department has been able to establish a more data-driven approach to public safety—with excellent results.

This Budget will continue to fund all of these internal efforts at appropriate levels. But understanding our performance is also key to framing our window of opportunity. By understanding how effectively and efficiently we deliver services we can better serve our residents. Readers of the FY 2014-15 Budget will therefore note the revised "Performance Reports" at the end of each section. Each report lays out in detail how City Administration is delivering services to our residents in an easy-to-understand, intuitive way. We present what we see as key drivers behind each strategic theme, along with some statistic we hope will better inform readers about the essential services the City provides.



Sound Plan to address Infrastructure needs

The American Society of Civil Engineers (ASCE) "2013 Report Card for American Infrastructure" gives the United States, as a whole, a D+ grade for the current state of America's aging infrastructure. ASCE estimates that it will take an investment of nearly \$4 trillion dollars to get the country's infrastructure back to a merely "acceptable" level. For years, news outlets have been reporting on various gas main ruptures, catastrophic water main breaks, collapsing bridges, etc. Novi is a relatively young community, and in general its public infrastructure and physical plant are in better shape than most. Of course, some of municipal buildings are nearly 50 years old now, and while they are for the most part still fully functional and serviceable, if not completely modern, to keep them that way requires significant, consistent, and scheduled attention and maintenance.

Included in this Budget are two air handlers, one for the Civic Center the other for the Police Department building. These devices are used to condition and circulate air and are important components of the heating, ventilating, and air-conditioning (**HVAC**) system. The previous handlers are the originals from when both structures were built. These new devices will be significantly smaller and considerably more efficient. In addition to the renovations to the Civic Center and Police Station's HVAC systems, the Budget also contains over \$100,000 in improvements to Fire Station 3, consistent with the City Council's 2014-15 goal.

These improvements are not particularly glamorous or exciting but are needed to ensure that our facilities are operating at an optimal level. The Budget proposes the purchase of some new equipment (snow plow truck, new vehicle for the Fire Department, etc.), and of course the scheduled water, sewer, and drain improvements that must be made every year.

A significant recommendation is the engineering and architectural design of an expansion of the Department of Public Services building. A facilities needs assessment was presented to City Council on April 7, 2014. In that assessment, the Sidock Group evaluated and presented their findings, which recommended the expansion in order to service a growing community of 59,000 residents with a demanding cadre of infrastructural needs (roads, water/sewer, and sidewalks/paths etc.) Funding sources for the expansion are varied, from internal borrowing from the Water & Sewer Fund, to support through a millage of some type or a general obligation bond. The City Council will need to evaluate the recommendations and the funding options in the coming months and give directions for proceeding forward.

Moving Forward

In Fiscal Year 2014-15, City Council will be making some significant decisions that will affect the community's landscape for the next five years and beyond. One of those decisions will be choosing its next City Manager, who will ink this correspondence to you next year. Whoever succeeds to that position will, as one of his or her main tasks, be leading discussions with the Council about what the community's millage rate should be, how it will fund the major capital projects we know are right around the corner, and how to address expansion needs at the Public Services complex and in the Police and Fire departments particularly. All of these questions/topics have Fiscal Year 2014-15 budgetary implications, and this Budget starts those

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conversations about the opportunities to shape the Novi of tomorrow. These aren't chores. They are opportunities. After a few tough years, the window is wide open to get many important things accomplished. Novi is fantastic, innovative, and hard-working community. Established as a City in 1969, the community has grown from a sleepy rural stop along Grand River into a cosmopolitan, diverse, and vibrant City of nearly 60,000 and counting. This Budget focuses, as it should for a community approaching 45 years old, on the basics—roads, sidewalks, physical plant, necessary equipment, etc.—that need to be replaced, repaired, and remodeled. By doing so, the 2014-15 Budget continues to chart the course to Novi's next 45 years.

Respectfully submitted,



Post Script

I would like to thank Novi's fantastic staff for assisting in the composition of this document, especially Carl Johnson, Jessica Dorey, John McCarter, Sheryl Walsh, Melissa Place, Tom Schultz and Glenn Lemmon, but also many others. They all worked diligently to provide a vibrant, modern, comprehensive, and readable book. We are all fortunate to have such a professional and accomplished staff team to deliver service to a modern and vibrant community.

