



City of Novi, Michigan

**FISCAL YEAR 2010-2011
BUDGET MESSAGE**

May 2010

Even if you're on the right track, you'll get run over if you just sit there - Will Rogers

Honorable Mayor Landry and City Council Members:

The economy and neighborhoods in Novi, Oakland County, southeast Michigan, and much of the Great Lakes region grew around a core of manufacturing and transportation businesses. Novi took advantage of its unique location and history and has grown and thrived by serving and hosting those businesses and providing a safe and stable place to work and live. True to its "Number Six" history, Novi found the right track early and has ridden it to enviable success. But it is not enough to just keep moving along the track. Times change and we in Novi know as well as anyone that the make-up of our core businesses is changing too.

We are approaching a juncture in the track. The risk is not just getting stuck there (and run over) but also getting caught "asleep at the switch" and taking the wrong track. The key is to see the juncture coming and to make the right choice. This fiscal year 2010-11 Budget is – as always -- the result of the long-term planning that has been Novi's hallmark. It is that planning that has allowed us to identify the juncture ahead and that will guide us in the right direction as we reach it. It reflects what we believe are the choices that need to be made to ensure that this City continues to look forward and move forward.

Planning and Budgets after Fiscal Year 2010-11

Knowing the right track to take means knowing your desired destination. The planning foundation for this fiscal year 2010-11 Budget is the input session held on Saturday, January 9, 2010 at which the City Council convened to provide early guidance to the administration for the preparation of its recommendations for this year's budget. The insights, questions, priorities, and concerns shared at that session shaped this document. Significantly, for management, in addition to identifying specific goals and expectations for the short term as part of its discussion, Council emphasized the need to look beyond just this fiscal year in preparing this submission. Doing so has required us to recognize that:

- In simple numbers, our projected total taxable value three years from now, a seemingly distant 2013-14, is \$2.64 billion, or about the same as the City realized back in fiscal year 2003-4, a decade earlier.
- Which means that *total* property tax revenue out in fiscal year 2013-14 will likely be around \$5.709 million less than what we have budgeted in 2010-11 (\$27.1 million compared to \$32.8 million). The projections for next year, 2011-12, include a 9.1% decrease in Taxable Value in the 2011 tax year, resulting in a decrease in General Fund property tax revenue of another \$1.4 million.

So, we have made adjustments to stay on the right track. The 2010-11 budget contains \$1,408,400 designated reserve from existing funds for budget stabilization in fiscal year 2011-12. The \$1,408,400, is over and above our normal undesignated fund balance range. The significant amount established for budget stabilization in 2011-12 is an acknowledgment that there will be more work to do together (City Council, management, union groups, community) over the next year as fiscal stresses continue, but it also gives us a good base upon which we can bridge any gaps coming down the track.

So, consistent with the Council's clear expectations as shared back in January, the General Fund budget presented here is balanced in terms of providing services and balanced in terms of means of financing and expenditures. The budget is also balanced in terms of planning horizons – taking care of needs/services of Novi residents and businesses in the here and now while looking ahead and anticipating how we will meet those requirements in the future.

Fiscal Analysis

Our City of Novi staff has completed a multi-year fiscal analysis since 2004. The fiscal analysis provides the planning horizon looking down the road at trends without overinvesting in future numbers that will change. This year, the Fiscal Analysis has been extended by one additional year of projections as a further planning tool and in an effort to better anticipate the effect of trends.

The assumptions, individual categories, departments, etc. that are baked into the Fiscal Analysis are all in the Appendix D. The basic underlying expectation of maintaining the 14% minimum General Fund - fund balance is continued. Beyond the upcoming fiscal year 2010-11 Budget, as has been shared over the past year, the decrease in revenue is primarily the result of declining property tax receipts, with decreases projected in revenue year over year. Again, being conservative, these revenue estimates **do not assume new construction**. These assumptions and plans allow the City Council and staff to use the Fiscal Analysis as a planning tool, with more reporting and comparisons over the coming years given these projections, to see how we are tracking towards the scenario provided.

With the savings from the current fiscal year and those built into the 2010-11 Budget for your consideration, we have filled the gap to balance the 2011-12 Budget. The look ahead to 2012-13 allows us to respond early, than rather than react to the expected additional declines in revenue, while still providing the balance of public services that are expected both now and in the future. Our track record for finding those needed savings or efficiencies and making needed adjustments is solid. As an example, we have, on average, five retirements a year, which gives the opportunity for moving and reducing positions through attrition where appropriate.

Means of Financing Fiscal Year 2010-11

The planning and looking ahead represented in this City budget is part of our prudent standard of practice -- the Novi way -- which has brought success over the last decade through both boom times and flat times.

One element of that conservative practice is how we budget revenues and expenditures. In Novi, we wait to budget until the revenue is substantially quantifiable. This process gives the City policymakers, Council and management, an additional measure of the known means for financing in the coming budget year that we must live within. For next year, that includes a \$7.6 million General Fund balance beginning July 1, 2010. From that balance, we take \$1.4 million as a hedge for fiscal year 2011-12 as described above. Then we take the Council-established General Fund-fund balance range (14%-18% of GF Expenditures), which for 2010-11 is \$5.06 million at the high end of the range. The remaining appropriation, from money collected by Novi residents and businesses for public services, is what we consider available for such services. Had we budgeted revenues and expenditures less conservatively in the year prior, that revenue would have already been budgeted and spent.

One attribute (maybe the only positive one) of how local governments are funded in Michigan is that the largest portion of our fiscal year 2010-11 revenue stream, the property tax, is essentially known when we put together the budget (for those of us with a June 30th fiscal year). That schedule allows us to make some solid projections. For the second year, our City Assessor, D. Glenn Lemmon, presented his team's analysis of taxable value forthcoming before the Council's early budget input. That diversified taxable value base provides 64% of General Fund means of financing.

The other "known" General Fund revenue source is State-Shared Revenue from sales tax receipts. There are two components to State Shared Revenue -- the part that the State is obligated to pass on to municipalities (the Constitutionally-protected portion) and the part that it appropriates to municipalities in discretionary amounts each year (the Statutory portion). Unfortunately, sales tax receipts throughout Michigan have shrunk, and the Statutory allotment has shrunk with them. Receipts travel from Lansing and then back to local governments after the State takes out the majority for schools and state government operations. The State Shared Revenue component in the City's budget this year results mostly from the Constitutionally-protected formula.

A positive aspect about Novi residents having not received their just share of sales tax receipts back for local services for years is that the City did not become dependent upon sales tax. The State's raid on these State Shared Revenues has not hurt Novi as much as it has those communities that rely on it to a greater extent. Another positive note is the State Constitution requires the State to recognize and use the 2010 Census results. Novi's recognized 2010 population will reflect growth in 2010 from 2000 while growth elsewhere in Michigan is declining. That should provide minor additional Constitutional revenues after mid-year. Taking nothing for granted, however, no additional population revenue is assumed in this budget.

Cost reductions in Fiscal Year 2010-11

On the expenditure side, the City staff team has contracted, sharpened focus, and re-examined items large and small. Overall, General Fund expenditures are \$28.1 million, down 7% compared to the fiscal year 2009-10 Budget. In early 2010, we began regularly publishing "Fiscal Fitness," a one-page flyer that tracks and shares some of the cost containment measures taken so far. Many of these measures seem small when considered by themselves, but they add up. They also reflect the collective thought process of all members of the staff, who are open and attuned to the need to make adjustments and to have full participation in that effort.

Novi has been active at the switch, not asleep at it. Some of the measures already taken throughout this last year include:

- We added more than 50 additional acres of parkland through the award of state/federal grants. Grants have been a primary focus and the staff has been very successful in securing a range of infrastructure and park grants.
- We now perform in-house maintenance on items such as window replacement, power washing buildings, and hot water heaters, resulting in no outside labor costs.
- We now make electronic paystubs via a password-protected e-mail, replacing paper pay statements to City employees. Cost savings result by eliminating paper from the payroll process and the labor associated with distribution.
- We obtained a competitive fixed rate contract for 2009-10 natural gas purchases, resulting in FY savings of approximately \$50,000 based on historical usage.
- The Fire Department receives approximately \$25,000 per year in reimbursement for paid-on-call firefighter marketing and advertising and initial fire and emergency medical training through the (AFG) Safer Grant improvements.

- In an effort to reduce annual fuel cost and control emission of vehicle exhaust, the Police Department has initiated a no-idle policy that has reduced idle time by more than 47%.
- The Novi Police and Fire Administration functions have consolidated into the Department of Public Safety. This restructuring will save the City at least \$100,000 in the 2010-11 budget and beyond by not replacing the full-time Fire Chief position. The budget reflects an additional \$425,000 in savings for next year with the elimination of vacant positions within public safety departments due to attrition and eliminations.
- Effective January 1, 2010, the Library Board approved elimination of overtime pay on Sundays that will save the library approximately \$30,000 annually.
- We will save \$240,845 with the sale of 2010 Novi Building Authority Refunding Bonds for Meadowbrook Commons (net present value benefit is \$165,981 or 5.824%). Additionally, with the sale of the 2010 Refunding Bonds, the City of Novi will save \$333,250 (net present value benefit is \$224,214 or 4.553%).

For the upcoming year's budget, we have included these cost-cutting measures:

- Reduction of all car allowances (including for those called for in contracts) by 20%. (\$14,800)
- Adjustment to fleet fuel octane purchases. (\$6,750)
- Restructured cellular phone plans. (\$24,800)
- Eliminate meal per diem on workshops, training, and conferences. (\$14,565)
- Eliminate free salt for Novi Community School District. (\$10,948)
- Outsource Street Sign Fabrication for required new retroreflectivity program. (\$7,883)
- Outsourcing vehicle preventative maintenance for cars and light trucks. (\$6,007)
- Transition on-demand senior cab service to senior van service. (\$18,000)

Of course, the bulk of any cost reductions is going to have to come from labor savings, and this budget reflects several different sources for those savings. First is the number of full-time employees. The budget identifies 254 full-time employees (including 20 Library employees). This total full-time count is down by 18 positions, all from the General Fund, from what we showed in the fiscal year 2009-10 budget and down by 30 positions (~12%) from the budget two years ago.

Employee wages are shown as flat -- 0% increases where not dictated by labor agreements. Where there are labor agreements, for the bulk of the positions (182 of 234 full-time positions outside of the Library), we are deep into negotiations. Negotiations involve wages, but maybe more importantly fringe benefits. Labor cost issues get to the heart of "fixes" in the City's budget to meet the new reality; as such, the annual City budget consideration is not necessarily the lead for long-term fiscal management. Labor agreements and the day-to-day management of business by our staff are more impactful. Overtime is closely monitored and closely managed whenever and wherever possible. Health care, pensions, and leave time, etc. are all under scrutiny. A discussion on overtime numbers is located in the program strategies of this document.

Given the now-smaller head count, it seems even more critical to invest in the skills and energies of those employees. Training and staff development unquestionably and demonstrably enhances public services. This business strategy -- to continue providing our staff with the technology, equipment, and training to perform and stay energized, reflecting the dynamic and high-expectation community we serve -- continues to be a part of the Novi design for success. The same strategy is being followed in the private sector. Business consultant Deloitte found that **"Leaving 2009 behind and looking ahead to the next quarter, surveyed executives appear to be adjusting their mix of offensive and defensive talent strategies to match their position on the recovery curve.** A ranking of talent priorities over the next three months produced a virtual dead heat, with reducing employee headcount at 31%, training and development at 29%, and retention at 27%."

Economic Development promotes fiscal stability and future growth

Despite the economic downturn affecting the entire United States, Novi welcomed several new commercial developments in 2009 that contribute to the City's already-impressive reputation, and make it a desired *and* required destination. Novi's existing mix of businesses revs up the City's engines as we move full steam ahead to build upon our stellar infrastructure of international companies—like Eberspaecher, Toyota-Boshoku, and Harman Becker Automotive--as well as retail stores, including newcomers Planet Fitness and Bagger Dave's.

Some say that with the economy in its current state there can be no business growth. In this last fiscal year, more than 60 businesses have opened their doors in Novi, bringing with them more than 600 new full-time jobs. But as important as the attraction of business is for adding to the tax base, retaining existing businesses is equally important. Retention is a "team sport" requiring that we continue to be business-friendly and think creatively about ways to help our businesses when in need. We can do this by changing red tape to green tape, as we did recently by **eliminating** the business registration requirement (some cities now rely on this as a revenue stream). Through efforts made by the economic development team, outreach to our businesses increases each year with personalized visits made not only to our major employers but to our small business community as well. The needs of these employers vary from networking

and creating linkages to other businesses to assistance in securing financing options that will grow the business. Part of our comprehensive economic plan is to influence and facilitate the process that allows businesses, both small and large, to create jobs and grow Novi's tax base.

The tracks of economic development will lead the City to attract foreign-based businesses that help shape Novi and the entire region. Focusing on emerging sectors of business such as high tech, sustainability, automotive supply chain, intelligent transportation systems, and life sciences, while still serving our existing 1,600-plus businesses, will promote the City's continued growth and future success.

Forty years ago, when Novi was incorporated, its founders and leaders set out to make the City unique. That effort worked and picked up momentum as the years progressed. Thanks to an aggressive economic development agenda, that momentum continues today as Novi continues to forge a unique path that others would like to emulate. Attracting new businesses, retaining existing ones, and looking creatively for new opportunities are some of the initiatives that will continue to make the city one of the most desirable places in Michigan.

Parks Recreation, and Cultural Services

Novi's parks, recreation, and cultural services efforts provide a great deal of the fuel that drives the economic engine of the Novi train. The Joint Economic Committee of the U.S. Congress has been quoted as saying that "A city's quality of life is more important when it comes to attracting new businesses, particularly in the rapidly growing high-tech and service industry." Over the past decade, there has been a shift from the traditional manufacturing to "footloose" industries. Industries such as high tech, research and development, and company headquarters rely on their ability to attract and retain highly educated, professional employees (one of Novi's attributes). Today, these individuals first make their decisions about where to live based upon quality of life -- a preferred lifestyle -- and then they choose where to work.

Research consistently reveals that recreation and cultural services are the most important factors in the location decision for small business and in the top 5 factors for large businesses. No matter how quality of life is defined, parks, recreation and cultural services are a major component of it. There are no great cities without great parks, recreation, and cultural services. To continue our balancing act in great city, City Council has identified the need to deliver on these long-horizon payback items. Accordingly, Fuerst Park final work, the planned Landings area improvements, etc., are all supported in this budget.

Investment in recreational facilities has enabled Novi to host several mid-sized softball and soccer sports tournaments, which provide significant economic benefits to our local economy. Those investments continue in this budget. In the past, parks investment has been leveraged to obtain additional funds (grants) to create a balanced system of active and passive use parks. That investment continues in this budget. Investment in the arts and culture, such as theatre, art

exhibits, and the upcoming formal gardens and sculpture path, all reflected in this budget, will further attract and retain citizens to the City.

Our past efforts have led to increased citizen satisfaction ratings and the identification by citizens that our Parks, Recreation & Cultural Services is a key driver in their decisions to live and work in Novi as identified in the 2008 National Citizen Survey. In addition to its economic benefits, all this investment provides the opportunity for even more “passengers” to hop on the Novi train and create a stronger sense of community.

Infrastructure

When Warren Buffet’s Berkshire Hathaway bought the Burlington Northern Santa Fe railroad last November for \$27 billion, Buffet said, “Our country’s future prosperity depends on its having an efficient and well-maintained rail system.” Buffet’s investment is an investment in infrastructure -- tracks and engines with high capital costs are expenses that will only be recouped over the long haul. Buffet’s time horizon is famously long-term. Cities should be just as far-sighted and just as focused on their own infrastructure – and more specifically on those underappreciated causeways of commerce and daily life: roads, water, storm, and sewer systems.

In the 2010-11 Budget, we continue to invest judiciously and for the long run. This budget does not reflect the expenditure of high dollar amounts across the board, but it does reflect investment at appropriate levels and for appropriate needs. The road and utility funds continue to make up the bulk of engineering and design investment items for 2010-11. The logic behind this is to have projects positioned and ready for grants and stimulus funds that we have been highly successful in securing and leveraging, totaling nearly \$2.4 million in the past four years. By doing this, we are also holding onto some cash for any required matches to those outside dollars. If the grants and stimulus dollars do not materialize over the next year, we will be in a better position for constructing improvements next year.

We have \$1,000,000 budgeted for neighborhood road reconstruction and more for neighborhood road capital maintenance. Investments are now uniformly guided by our asset management programs, which rationally evaluate and anticipate necessities and provide for them accordingly, all premised on the principle of maximizing an asset’s useful life. We also invest in sidewalks and pathways to encourage alternative people-powered modes of transportation. In addition to the neighborhood road construction money budgeted, our sizable local match contribution is also reserved and ready towards the long-awaited Novi Road Link: Ten Mile Road to Grand River, providing consistent five lanes and an overpass bridge over the CSX railroad tracks (which Mr. Buffet is welcome to come visit).

The list of shovel-ready and shovel-in-the-ground projects remains impressive. More strategically, we are immersed with MDOT and a cadre of partners in the I-96 Corridor Study. That transportation and economic development study will

analyze the operations of the surface street network, county roads, and state trunkline routes in the triangle along I-96 from I-275 to Wixom Road. The goal of the study is to develop a prioritized list of projects for all agencies that will improve mobility and safety, and allow for more economic development. The study will evaluate interchanges, freeway, and local corridors for potential operational, safety, capacity and connectivity improvements. Results are expected by the first part of 2011 for all agencies to use in CIP work.

Opening of New Novi Public Library

In January 2010, Standard & Poor's issued their long-term credit worthiness rating for the City of Novi. That fresh perspective, generated from national evaluation and analysis, resulted in the successful refunding bonds sale in March 2010 (saving the City approximately \$30,000/year in interest expense for five years). One of the factors recognized by S&P in affirming the AA+ rating was "Novi's reputation as a desirable residence for professionals has reinforced its economic stability. In our opinion, wealth and income levels as indicated by median household effective buying income were very strong...." Libraries, parks, infrastructure, public safety all build community and help build for the future and build resources to mitigate declining property values right now.

The City of Novi's commitment to learning and excellence is visibly and beautifully expressed with the opening of a new, full-service, larger public library, complete with books, café, meeting space, and art, all located centrally within the civic center campus overlooking the City's Fuerst Park. No small feat, this great addition gets delivered within our existing 10.5416 property tax rate for both operations and the current debt service on the \$16 million in issued bonds. That achievement and our commitment to investing in the future and building for the future of Novi should not be taken for granted.

Summary

The adopted budget is the expression of the work plans and direction that you have provided and that the community has validated. We have a City staff of dedicated professionals. The results we deliver and the feedback we receive from the community we serve are evidence of the pride we all take in our work. This work is challenging, not just because of the current economic climate, but also because of our expectations that we, the Novi community, will continue to succeed and steam ahead.

In Profit from the Core: A Return to Growth in Turbulent Times, author Christ Zook examined the performance of private sector companies over the course of a decade and found that only 12% of companies worldwide managed to grow profits and revenues by more than 5.5% over the ten years ending in 2008. Reviewing that book, the Harvard Business Review said that the moral is that "Achieving sustained, profitable growth is very challenging, and the odds of success are low." The key to success, according to the book's author, includes reaching full potential in the core business, expanding logically from the core, and preemptively – and pragmatically -- redefining the core in light of the

market. Although city “profits” are measured in different ways, we can still measure success to include the efficient and effective delivery of public services in a safe and stable community. We recognize the difficulty in building upon past successes. But we are, with this budget, getting where we need to go because we have clearly – and pragmatically -- identified where that is and how to get there. We are succeeding because we are even in these times and at this difficult juncture still looking forward and moving forward to a clear destination.

Respectfully submitted,

A handwritten signature in black ink that reads "Clay Pearson". The signature is written in a cursive, flowing style.

Clay J. Pearson
City Manager

c: Leadership Group

Note: City Manager’s Budget Message updated May 2010 to reflect adopted budget figures.