

**SPECIAL MEETING OF THE COUNCIL OF THE CITY OF NOVI  
SATURDAY, APRIL 16, 2011 AT 8:30 A.M.  
COUNCIL CHAMBERS - NOVI CIVIC CENTER - 45175 W. TEN MILE ROAD**

**Mayor Landry called the meeting to order at 8:30 A.M.**

**PLEDGE OF ALLEGIANCE**

**ROLL CALL:** Mayor Landry, Mayor Pro Tem Gatt, Council Members Fischer, Margolis, Mutch, Staudt, Wrobel

**ALSO PRESENT:** Clay Pearson, City Manager  
Victor Cardenas, Assistant City Manager  
Kathy Smith-Roy, Finance Director

**APPROVAL OF AGENDA**

**CM-11-04-051 Moved by Gatt, seconded by Margolis; CARRIED UNANIMOUSLY:**

**To approve the Agenda as presented**

**Roll call vote on CM-11-04-051**                      **Yeas: Gatt, Fischer, Margolis, Mutch, Staudt, Wrobel, Landry**  
**Nays: None**

**PURPOSE OF SPECIAL MEETING – 2011-2012 CITY OF NOVI BUDGET**

**1. Overview**

Mr. Pearson thanked City Council for their time during the whole process. He said the budget went back to the administrative and management staff winter institute that was conducted with 50 of their leaders at the Walled Lake Education Center. He said the budget document for the fiscal year was a work plan of what Council had heard and said they wanted to do. He said what Council had heard came from the citizens that spoke individually and through the statistically valid 2010 National Citizens Survey. He said what Council heard and said they wanted to accomplish came from the Planning documents such as the PASER Road Study, the I-96 corridor study and such plans. He said the items in the budget shouldn't be a surprise; they came from the prioritized projects, which were put together in the budget document. He said the staff had taken that work to heart and put it into a budget document that has been available to the public for the past 2 weeks. He said the money was first allocated to fixed items that there was no choice about such as contractual obligations and debt service. He said they spent a lot of time talking about the prioritized service areas of infrastructure, public safety, citizen service, parks and recreation, natural features, and financial stewardship. He hoped Council agreed that they were focused on delivering in all those areas. He said the budget and financial plan enhanced the core areas and maintained quality services. He said the context and background was that Novi was a special place that was blessed with many unique attributes and assets. He said we had resources because of where we were and because of what we had done with that opportunity. He said at the same time we were not oblivious to the convulsions of the national and state economy that have heaved many homes and businesses over the last several years. He said they seemed to be calming in a large extent. He said he believed the opportunities ahead were laid out well by Governor Snyder in his recent special message. He said he talked about the importance of place, the

global market place, accountability and transparency, consolidation and partnerships, and employee compensation rationalization. He said it shouldn't come as a surprise that the City of Novi scores well in all of the important factors and described in his special letter. He said as a big picture, the City of Novi's total assets are \$325 million greater than total liabilities. He said much of the assets are the City's pipes and roads, buildings and equipment that people do not see but are essential for brushing teeth and selling cars. He said these investments, judiciously spending on the prioritized and focused projects, had yielded a 41% increase in net assets since such things were counted 8 years ago. He said there was a graph that gave them a long view with 11 years of actual expenditures and then the current year's estimates and next year's budget. He said they focused a great deal on General Fund, but that actually was just one part of the complex array of services and responsibilities that they had. He said the General Fund was generally less than the other governmental funds combined. He said all the various funds that were required to be separate by governmental accounting provided the Parks and Recreation, Library and other services. He said as the economy had convulsed, the City adjusted by reducing costs by a corresponding amount. He said the General Fund expenditures for the upcoming year were budgeted to be up to \$28.5 million whereas just 4 years ago the actual was over \$32 million. He said looking at the actual expenditures from the General Fund over the last 10 years, the focus stayed where it should when expending money. He said public safety accounted for between 51% and 58% of expenditures during the series. He said the last fiscal year was at 58%, the high of that range. He said these were just expenditures. They didn't guarantee results and it didn't mean that what you wanted to get accomplished would. He said it may be easy to track the dollars, but just saying we were spending a lot on something was not the whole story. He said how the money was used and getting results was where the Council and the employees at the City of Novi made things happen. These are the people that are trained, have the technology and tools, and that needed to be fairly compensated to make the difference. He said it was the leadership and management of the resources that mattered, organizing the people, holding the people accountable, thinking about what future challenges lie ahead, networking with partnerships, and those were the things that delivered results. He said the police services had innovated with community service officers to get Sergeants in the field working to make the most of our resources, which was one example of how far the money went that was entrusted to the City. He said after looking at the economic environment that affected the budget and the financial plan, the economy was more positive than the lows of the last several years. He said Novi vacancy rates in office markets are lower than surrounding Oakland and Wayne County. He said Novi's population was up 16.5% from the official Census. He said Novi's unemployment rate was lower than comparisons. He said he wanted to touch on the focus areas, first public safety. He said they highlighted continued implementation through negotiation and management of efficiencies kicked off by the ICMA staffing and utilization study. He said one sequel study was the first ever Fire Department Strategic Plan. He said Directors Molloy and Johnson and their leadership and staff teams were focused on delivering results with the available resources. He said they had an exciting round of infrastructure projects that Rob Hayes and his engineering team would be busy overseeing in the coming year. He said City Council had emphasized a focus on quality infrastructure and because of the planning and budgeting that had occurred, Novi will have a first class road system by this time next year that matches the quality and ambitions of Novi to sling shot ahead when the economy fully rebounds. He said Mayor Landry and Council have emphasized that we can not cut our way to success. He said that economic development is focused on being a great host to businesses of all shapes and sizes. By getting the review processes smooth and transparent and by telling their story, Novi is at the top of every search list. He said the citizen focus is their

focus, they outlined in the budget a package of tools and services to engage the residents and deliver, partnering with them and asking them to help. He said they do it everyday and it was one of the reasons they came to work everyday. He said Novi stood out for its natural features, when things were booming with paving, they were also planting. He said the plantings now take care and maintenance and we look to be stewards of the water quality and public properties that are entrusted to them. He said none of this happened without a focus on being fiscally responsible. He said the ending fund balance in the General Fund was at the top of the established range of 18% to 22%. He said the year started at 34% and the Capital was otherwise deployed for essential daily services, Capital improvements, and service enhancements. He said in some ways the focus of the budget was on the things they had seen already with no surprises, the plans and the projects. He laid out a look ahead in the budget transmittal to start a conversation about the future. He said they would see additional operating in the City from the constitutional state shared revenue. He said Ms. Smith-Roy showed that within another month or two, we will know that number more precise. He said it would be between \$300,000 and \$500,000 annually. He said we still had to look at an adjustment to the millage rates within the existing 10.5416. He said the City had an impeccable track record of delivering on promises and staying within the rate. He said for instance in 2000, they gave a promise for no new road bonds within 5 years and now it has been 11 years. He said they talked about operating and building the new Novi Public Library with zero increase in property taxes. He said the little bit of millage adjustments that were possible could go a long way to help continue our operating successes for roads, library, and public safety. He said the fiscal analysis had been a guide and was a tool to help Council. He said he hoped the budget document and next year's work would continue the success and high standards that have been set out. He thanked the staff that was involved in preparing the document, it was 2 books but there was a lot of work that went between them. He said over the last 2 weeks they responded to Council Members' series of questions. He said it was the Directors but also a lot of the staff that made it possible. He said Kathy Smith-Roy and her team have again delivered results that they were very proud of. He said there were a lot of people behind the scenes, Becky Arold and Pat Cauchi, who were the people in the large operating departments like Police, Fire, and Public Services that really gave the numbers that assist us in making decisions.

- a. Introduction
- b. 2011/12 Budget Overview/Highlights
- c. Rainy Day Funds
- d. Budget Program Categories
- e. Capital Improvement Program

2. City Council discussion and decisions regarding the plan priorities

Member Staudt said he appreciated the work that was done on the budget. He said he looked at a budget from 4 different points of view; revenue, operating expenses, Capital expenditures, and fund balance, each had different components and each were important in the overall budget. He said we continued to have declines in revenue and it seemed as though they weren't as severe as they anticipated in previous budgets, but it was clear that they probably had 2 or 3 years that they could anticipate some reduction in revenue, especially from the Property Tax General Fund. He said the operating expenses had been going down, but they were offset by increases in a lot of factors including health care costs, gasoline and other things down the road. He said operating expenditures continued to

increase at a small percentage even with the cuts that they had. He said they had a very broad list of things that needed to be accomplished and fortunately they had some fund balance that would allow them to do some of those things. He said in the past they were able to use the excess General Funds to fund those types of operations, but a lot of that has gone away. He said it was pretty much money that they had that was remaining from operations savings. He said the fund balance was a measure of their safety net. He said continuing to have a strong fund balance, whether this was in the 18% to 22% range or slightly higher was critical. He said the budget was presented with the amendments they received and addressed some of the revenue issues, addressed Capital expenditures and fund balance, but the one piece missing was operating expenses which he believed was necessary. He said last year they had extremely severe reductions in operating expenses and costs through reductions of personnel and other places and it looked like with the initiatives that were going on now, for example the arbitration, they were going to recognize some additional savings. He said overall, for this particular budget, it was very important that they considered additional operating cuts. He said he was very willing to listen to his colleagues to see what level they supported. He said they continued to have a gap and it was a gap that would continue to widen between the actual operating expenses and revenues. He said the only way to close the gap was to reduce the long term fixed cost which in City Government was employee costs and benefits. He said overall the budget was a tremendous effort and was presented as well as it always was. He said Novi was light years ahead of many other communities in Metro Detroit.

Member Wrobel said he appreciated the effort the staff put in and the time that was spent addressing Council's issues. He said it was his first time going through a budget from a government view and it was a learning experience. He said he came in with the experience of working in a business environment and questions he would give to everyone would be business related. He said they did things in business different than government did, but both could learn from each other. He said his bottom line was that he wanted to see revenue equal expenditures and he was concerned about operating expenses. He said he did not object to spending some of the fund balance on items they need as long as it could be demonstrated that the need was there.

Mayor Pro Tem Gatt thanked City Manager Pearson, Kathy Smith-Roy and their staffs. He said from being a former employee, he knew a lot of work went into the budget process and it was a lot of the line staff that contributed greatly toward producing these figures for their bosses to present to Mr. Pearson and his staff. He said he longed for the days when they were talking about how they would spend all the excess money. He said we found ourselves still with declining revenue. He believed next year they would be faced with another cut in property taxes which would equate to another cut in revenue for the City. He said when they met in January for the goals session, 6 out of 7 of Council said by next year they hoped to have the goal that revenues and expenses intersect. He said the budget presented was close but not quite there. He said he hoped they could come to an agreement on how to reduce operating expenses that would equate to the intersecting line being met next year. He said he had the greatest respect for the employees of Novi and hoped that we could find a way to do this without laying off people. He said he had a conversation with the Mayor about offering incentives which is something they could talk about.

Member Margolis thanked the staff. She said it was always interesting at budget time because the public often thought that was the beginning point but it was more the end point. She said

it was a process that the City had down to a fine art. She said as City Manager Pearson said, this began back with a staff meeting that gave input to the City Council, they then sat down at goal setting time and said what they wanted to see done. She said they had a robust discussion at the goal setting session about fund balance. She said it was something she talked about every year and wouldn't change now. She said she had a very strong opinion that they had a responsibility to set a reasonable fund balance and set a consistent policy on fund balance. She said the idea that they should hoard money was against everything she believed about government. She said when she lived in her City, she deserved to have services provided to her based on the taxes she was paying. She said she didn't deserve to have the City put away money just in case, because that just in case may never happen and the reality was you couldn't rely on your fund balance, no matter how high it was, to take you very far. She said it was supposed to be there to get you through a tough time or perhaps something happening that you didn't imagine. She said it was the year to year budgeting that was really important. She said the idea that fund balance should change a lot year to year was a problem for her. She said they increased their range on the fund balance. She said after the session, they told the City what they wanted to accomplish and what money was available, the staff then came back to them with a budget. She said they read it and asked questions and received responses. She said she strongly believed that consistency was the key to leadership. She said the budget came back with what they asked for, a fund balance range which was .1% under the top of the range. She said when she heard the concerns about operating expenses versus revenues, it was unclear to her what that meant. She said the reality was that the only way the bottom line of a budget was revenues equaling expenses was if there was no carry over from last year, which gave staff an incentive to spend every penny in their budget the year before. She said she had lived under those rules in a different organization and if you are rewarded for spending the budget, people will spend their budget. She said that we always had carry over at the end of the year that would take them forward because they had a culture that said we work together. She said the fund balance that they were projected to have by the end of this year was \$9.8 million. She said she had been here 6 years and every year she heard that we were eating through fund balance, but it kept increasing. She said we were over 35% on the fund balance, which was way over what the guidance was. She said as a tax payer she didn't want to sit on that money, she wanted roads fixed and her services. She said it was consistence for her and when she talked about consistence being the key to leadership, they had a responsibility because they were the bosses of the City. She said Council had a responsibility to follow through and be consistent on the message they gave. She said she heard talks about cuts in operating, but their job was to look at the budget and talk about their concerns on where it was spent. She said they had to talk about when they needed to do one thing over another and why something might not be a good use. She said they could have the conversation, but it was a balanced budget that provided services to the residents and they couldn't continue to sit at the table and say they wanted cuts and have the fund balance continue to rise. She said they needed to provide the services within the bounds of what they had and the budget did that. She said she was comfortable with most of the items in the budget. She said the staff had continued to deliver every year and for Council to talk about making cuts when they had a balanced budget and have had a balanced budget, she wanted more specifics about what they were and what the results would be. She said it was easy to say they wanted cuts but what would happen because of them. She didn't want to get in a situation where the City staff and administration was put in a corner that Council provided that forced them to do things that were not in the best interest of the City. She said she was not in favor of them sitting on any more money than they already had. She said when the budget was developed, it was always very conservative.

She said she was looking at some of the assumptions that went into the budget and it didn't expect any increase in state shared revenue and constitutionally, we knew, our population went up when other populations went down, so we knew we would get some money, but it wasn't in the budget. She said in 2010, which was a difficult year, the budget assumed new construction addition at about \$10 million and Novi actually had \$25 million in new construction. She said she thought it was great that we had conservative assumptions. She said she loved to be surprised at the end of the year and didn't want the surprise to be that we estimated revenue a little high. She said she was very comfortable with the budget as she had been in the past. She said the best predictor of future behavior was past and the past behavior of the staff had been stellar.

Member Mutch said he approached this year's budget as part of a multi year effort by Council to bring alignment between revenues and expenditures. He said it changed from where they had been in the past when they were discussing how to spend the extra money on additional services and Capital improvements. He said because of the economy and how property taxes have fallen and the lag that occurred in local government, we were the last to feel the impact on revenue stream and the last to recover. He said we would have to continue to work for the next couple of years to ensure that we brought those two into alignment so we had a soft landing at the bottom; some thought we were at the bottom while some thought we still had another year or two to go before we were at the bottom. He said more importantly we are well positioned to be able to move forward when the economy fully recovered and City government started to realize additional revenues from property taxes. He said they were in a position to be a strong and successful local government. He said there were a lot of examples in southeast Michigan of local governments that didn't adjust and were struggling right now. He said the idea that a community would entirely close down their library told them the depths that some communities had fallen. He said the things he liked about the budget were that we utilized our resources to make investments back into the City, investments in our Road Funds, investments in our Parks and Recreation Funds, investment in Water and Sewer Fund, and investment in our General Fund. He said looking at how they utilized the fund balance through the Council action last year they were able to carry over, in addition to revenues that have come in. He said they have planned a significant amount of that money to go back into the community, City infrastructure, keeping the well-running City a place that residents and businesses would want to locate. He said at the same time he had concerns about the revenues versus the operating expenditures going forward. He said one of the elements that the City Manager included in last year's budget and that the Council embraced and built upon, was the idea that beyond the fund balance target, they would set aside some Fiscal Stabilization Funds and those funds would be available for the upcoming budget year to ensure that we were in a position that we didn't have to make significant operating cuts to the core services that we provided to the community. He said one thing that stood out that this Council had done and many of them had been there for a time working together was that the cuts made so far, most community members hadn't felt. He said they did it in a way that was measured and responsible and hadn't led to the kind of turmoil and disruption they saw in other communities. He said they could continue to do that and what he wanted to accomplish was to see a prioritized list of potential reductions that Council could review. He said utilizing the priorities they had set, they could review them and adopt a budget that fully reflected the goals and priorities of Council. He said the document was City Council's document. They had two large responsibilities: one was legislative oversight in terms of setting City policies and the other was the financial document which provided the direction for all the City activities for the upcoming year. He said Council decided to make appropriate

adjustments to match the priorities and policy directions they wanted to set and they did it in a reasonable way that ensured that at the end of the process, the citizens, business members and tax payers would continue to receive high quality services in a community that would continue to be an attractive destination for people to live in and move towards. He said they could do that in a balanced way that would set them in a good position for the upcoming budget year.

Member Fischer said he sent in-depth questions to City Manager Pearson at 6:30 in the morning and had answers by around noon and he appreciated everyone's efforts. He said he continued to appreciate the fact that the staff used conservative estimates. He said while conservative estimates were good in a planning document, he thought at a certain point, they used conservative estimates to a fault. He said when they approved a budget with fund balance within the range they were looking for and then end the year so well, it was hard to make those decisions at this time. He said if anything, they were being too conservative if we knew that revenue sharing would increase to a certain extent, then he wasn't sure they should hold it steady. He said in his opinion it was like a tax refund in a personal budget. He said everyone was excited when they received a tax refund at the end of a year but all that meant was you gave Uncle Sam money to hold onto interest free for the year. He said he appreciated where they were going but thought they needed to be a little more realistic in some of their assumptions. He said when they were sitting there at budget time, they could make educated discussions with a holistic budget. He said he liked more discussion on core services and the City made a large effort to focus on that. He said a City can't necessarily do everything for everybody. He said when things were tough, they had to focus on the core services and what the residents wanted and expected and what City government should be providing. He said he continued to see glimmers of hope; he came from experience of 6 long years at Ford Motor Company where they saw the darkest days and came through. He said as he looked through the budget, he liked seeing that they anticipated property values becoming steady and that gave a better comfort for Council during their planning and preparation. He said the budget made it very difficult because at this time last year, they saw large increases in healthcare costs. We still don't know where the general economy is going, market conditions are still unsteady, there are a lot of transfers from other funds which were some policy discussions that should be continued in further rounds of budget talks. He said as they discussed, they didn't know where shared revenue would end up, interest income, fees, in addition to property revenues, and previous year revenue and expenditure actuals and how good that would be for us. He said there were very difficult discussions to take place because so many things were unknown. He said he looked forward to the discussions and comments from his colleagues on Council. He said as far as cuts and operating expenditures, the way he viewed the budget was that he liked to look at the bottom line number and back out Capital and one-time expenditures. He said to him that was the operating expenditures and where they lined up with the revenues. He said as he did that analysis, he saw there was a large shortfall this year and it continued to dwindle over the next 3 years, which was good news, but he thought we still needed to see a prioritization list of what area, services, personnel etc. they could look at and cut some expenses to make sure that in the next year or two, revenues and expenditures were aligned.

Mayor Landry said he agreed with what had been said and he thought the concerns around the table were optimistic compared to the past. He said as he looked at the budget he couldn't ignore the fact that it was Novi's budget. He said we weren't a community on the brink of an emergency financial manager and we had made good decisions in the past. He

said while anyone in the general public may approach a budgeting process from an initial knee jerk, we just had to cut. He said we had to look at Novi and what our position was in, we had to make sure that Novi was postured going forward. He said as Member Mutch said, to appreciate where we were today we had to understand that this was not a snapshot; it was a continuum looking into the future. He said since 2008 we've added 41% to our net assets which meant we were growing, maybe not as fast as we have in the past, but we were growing. He said Member Margolis said we added between \$23 and \$25 million to our tax base, we were growing, that meant that tax revenues would increase. He said we were not only growing, but we were increasing the City's assets. He said we haven't been oblivious to what is coming. In fiscal year 2008-09 we had 284 employees; with this budget we will have 238, in 3 years we had decreased 46 employees. He said that meant 1 out of every 6.2 employees were gone now. He said that was a very serious effort taken to decrease the number of long term expenses, we had not been sitting idly by. He said City Council had implemented a two year budget vision that was foresight. He said last year they parked \$1.4 million in fund balance for Fund Stabilization. He said the amount of fund balance they were using this year was not alarming to him because they knew it would be a big number and they planned for it last year. He said someone could look at the budget and not have the institutional memory that they do. He said someone could look at things like the ring road and ask why they were spending money on engineering. He said since the 1990's they have been in litigation over the subject and have made promises in court that they were going to do it, they were trying to use it as an economic development tool. He said they knew they had businesses because there were people going to the economic development corporation in Lansing seeking mega grants because they wanted to move to Novi. He said we know we have growth, however, the conservative mind in him and others would say don't count your chickens. He said we grew 16.5% and it wasn't a maybe, we will get more statutory state shared revenue. That's a certainty and it will be between \$300,000 and \$500,000. He said this budget included zero dollars, some people may think that's wonderful because we were conservative, but maybe we are all arguing over something that we don't have to argue over because maybe we will have the money. He said we also have to keep in mind who we are dealing with, this administration was asked to do the analysis that we received. He said this analysis showed that in the last 5 years at the end of the year, the net increase in revenue over what was expected and our net decrease in expenses has averaged \$2.8 million. He said looking at the 2 most conservative years we have averaged \$1.75 million to the good, some years were as high as \$3.9 million, we spend less than we say and we bring in more revenue than we expect to bring in. He said personally, he couldn't ignore that, he couldn't sit there and say they should lay people off knowing, based on the track record that they will have the money to pay for the people because people deserve services. He said we should be conservative, but he didn't think they could ignore the track record. He said putting all this together as he looked at the budget; the Council took an unprecedented action at goal setting. They increased the fund balance policy to an all-time high, 18% - 22%. He said City Administration brought back a budget at 21.9%. He said they also set a goal that by 2012-13 revenues should equal expenses. He said now in their 2 year budget vision they were being told that expectations for next year would be \$895,000 short. He said they had always used fund balance for budget stabilization. There had never been a year they didn't. He said they could be concerned with that and say they needed to make more cuts because that should be zero dollars, but that would be ignoring the track record, ignoring the fact that we were absolutely, positively, going to get more state shared revenue. He said \$895,000 didn't bother him because he was looking at an average of \$2.8 million to the good and the most conservative of \$1.75 million. He said to him the \$895,000 was balanced. He said he was



looking at a track record, looking at a census, looking at economic development and as had been stated, looking at labor negotiations too. He said there was always uncertainty, health care costs, market rates, always uncertainty. He said there was also discussion about a list of items which he thought was a good discussion for fiscal stabilization. He said he was in favor of taking the list of Capital expenditures and doing similar to what they did last year and deferring some of the items to the second half of the fiscal year when they knew what the state shared revenue was and what the audit was. He said if the state shared revenue increased and the audit resulted in enough to pay for the items, they could go ahead and pay for them and the money they budgeted would stay in fund balance for fund stabilization next year. He said the column on the right would make it a balanced budget next year in the sense that there was the money for the \$895,000. He said if you took the \$742,000 in the right column and added it to the fund balance, they would be keeping 24.5% and if all were added together, that was \$1.3 million, the fund balance would be 26.5%. He said as he looked at the budget in a conservative fashion, he would be in favor of deferring some of the items to the second half of the year with a specific date that it would come back to City Council. He said then they would decide whether to pull the trigger on those specific items or not and that way if they didn't have the money, they would be removed from the budget and that money would go into fund balance so they would be able to offset the \$895,000 next year. We would be balanced this year and we would be balanced next year. He said speaking about jobs and personnel, he thought they needed to talk about who it would be specifically because they had already cut 16% of the employees in the last 2 years.

Member Staudt said the \$1.4 million budget stabilization number was largely because they took the effort last year to reduce employee count. He said the money didn't come from some additional funding that was out there. It was there because they made the cuts necessary last year. He said it was a wonderful thing that they all came from a diverse background with different job experiences and philosophies but he disagreed with some of the philosophies he had heard. He said his background was business and he had been through very difficult business experiences and he was the person who had to sit across the table and lay off 100 employees. He said he didn't think they could solve the budget gaps using fund balance. He said he didn't believe that revenue was the answer to all ills in government. He said part of what needed to be done was have a systematic approach to right sizing government. He said the elections last year were very clear, they sent a lot of people to Lansing and Washington D.C. who went there with the idea to cut. He said they weren't there to say they had to cut a tremendous amount from the budget but he felt strongly that the City couldn't sustain the work force they had in the long term with the decreasing revenue and the fund balance that they have. He said the fact that there was a \$9 million fund balance was a direct reflection on what Council did last year. He said there were no secrets, it didn't come about because of huge increases in revenue, it happened because the City Manager and City Administration had taken on a systematic approach to downsizing government. He said sometimes they had to push it one step further. He said last year's budget did not have significant cuts, they arrived at them as a Council and they implemented them and they were reaping the benefits of that now, the benefit wasn't better customer service, the benefit was a more fiscally stable City budget and government. He said they could disagree about how things should be done and how money should be used. He said they each had their own opinion and they each got a vote. He said at the end of the day there were some things that needed to be looked at. He said he was a little surprised to have to line item what cuts they were looking for because frankly that wasn't something he had ever done and wasn't looking forward to doing it, but if that was what it would take to

reduce the costs long term so they could have a sustainable City Government, then he would be willing to go line by line and do what they needed to do to reduce their permanent City costs. He said he thought they had to have a head count reduction or some costs, somewhere, that were related to personnel because 80% of the budget was personnel and for Council to say that expenditure reduction wasn't a critical part of this year's budget process was not something he was looking forward to and not something he would support.

Mayor Landry said since it was him who made the recommendation to park the \$1.4 million; he asked Mr. Pearson if that was part of what they made up with the reductions.

Mr. Pearson said it was his recollection that Mayor Landry parked \$1.4million and asked for a \$1.1million reduction.

Mayor Landry said the \$1.4 was before the cuts they made last year.

Member Staudt said the \$1.4 was heard during the final budget process not during the round table session.

Mayor Landry said he suggested last year that they take \$1.4 of fund balance and park it. Then Administration was asked to make \$1.1 million in personnel cuts by January 1<sup>st</sup>, the moves that would yield \$1.1 million. He said the \$1.4 was not in any of the cuts that they made last year, it was over and above the cuts.

Member Staudt said regardless of that, the cuts were made and we were in a much better place because of that this year than we were last year.

Member Mutch said one thing that was driving his concern in terms of the operating expenditures was the fiscal analysis and he thought it was a great tool that they had and they were fortunate because they didn't legally have a two year budgeting process but the fiscal analysis provides them an opportunity to look ahead. He said like any fiscal analysis there were certain assumptions that may change over time, it wasn't carved in stone. He said one thing the fiscal analysis didn't incorporate which was an important part of the discussion they were having was the fact that it was purely operating expenditures, there were no Capital expenditures built in except for a couple future-year, very specific police car purchases. He said in the current fiscal year they had \$1.6 million in Capital outlays and service improvements compared to last year's \$1.3 million. He said he couldn't look at next year's number and the \$895,000 amount that was referenced and ignore the fact that it included no Capital expenditures. He said even a conservative amount of Capital, \$500,000 would push the fund balance under 18%, if they looked at \$1 million, they would be at 16% and then as they continued the trend over the next couple years the fund balance would continue to decline. He said we could be like many communities and not put money into Capital expenditures, we could not purchase the new fire truck or invest in our facilities, the type of activities you would do year to year to maintain and improve the City facilities, but that was unrealistic. He said looking at the numbers, besides the \$895,000, there had to be a certain amount of assumption of Capital outlays. He said it would be reasonable to incorporate those into the fiscal analysis. He said going forward in the future, he would like to see a fiscal analysis that incorporated it because they had adopted a 6 year Capital improvement plan. Members of Council, the Planning Commission, and City Administration sat down as a group and looked for the next 6 years at the kind of investments we needed to make as a community. He said they assigned

dollar numbers to those based on the best of their knowledge. He said it wasn't carved in stone that they would do every one of the items on the Capital improvement plan, but looking at it, it told them that as a City they would have to continue to make Capital investments into the community and they had to have money in the budget to do that. He said as the operating expenditures continued to take up a bigger percentage of the money available, it could only go in two directions, they would either give up Capital or reduce operating so they could continue to invest and he thought that was the direction that as a Council they were asking the City Administration to go. He said his approach in terms of the revenue side was that he wasn't ignoring the fact that they had the potential for state revenue sharing increases. He said they knew they had an increase in population so they saw that coming and it was wise for them to keep it in mind. He said there were some other areas that as a City they may see some increased development, may generate some additional fees, and may generate some additional tax revenues. He said balanced against that was the point that they talked a lot about the revenues they realized in the past year which were outlined in the budget, but they also incurred some additional expenses. He said they saw a significant increase in the health care costs due to a previously negotiated pension benefit that came into effect this year. He said that was money they would have to continue to pay going forward forever until they were no longer obligated to pay them. He said those were costs that balanced out some of the revenues they took in and had to deal with. He said the approach he wanted to take to it was that they shouldn't be going through and line iteming specific people in the budget. He said the City Manager, better than Council, could say whether they had to make a reduction between a range of dollars and what priorities in terms of services and what people he wanted to keep and what he would want to eliminate. He said he didn't think, unless there was something that really stood out, where they were adding personnel or creating new positions, he didn't think it was their role as Council to get in there and start whacking out specific areas of the budget. He said their responsibility as Council was to set some priorities and say there were certain areas of the budget, the core services that are provided, that they wanted the City to focus on. He said if they had to make reductions they weren't necessarily going to be in those priority areas. He said looking at the list that the Mayor provided and talked about in the discussion, his biggest problem was that it didn't address the long term issue, the operating costs. He said almost every one of them was a Capital outlay. He said some had a benefit in terms of long term operating costs that they would realize down the road through reduced maintenance or energy efficiency, but those didn't result in reductions they would see next year. He said by parking the money and saying we can decide at that time whether we will spend it didn't address the operating expenditures and if they came back in 6 months and said they had to cut, they now had half the time to make it up. He said it didn't make sense to him to wait if they felt the operating side was where they needed to go. He said what he would be looking at was a range of recommendations both on the operating and Capital side. He said there may be some Capital items that it didn't make sense to defer or completely remove from the budget list and that was where Council could go through and express its priorities. He said there were items on the list and elsewhere in the budget that there wasn't support for the Council to do, one was a wage and benefit study, there was a recommendation that Council move to an iPad, he thought everyone he talked to thought it was a nice idea but it wasn't where they wanted to see money spent. He said there was a discussion of a position in Facilities Operations and they felt the idea of adding a position at this time wasn't something they wanted to look at. He said he thought those were appropriate for them to go through and identify, but he would be more interested in setting a range of what kinds of dollar numbers they wanted to see. He said looking at the \$895,000 for next year he wanted to see a range between \$600,000 and \$1 million in

operating, not that he would come to the table and say let's see \$1 million in operational cuts. but he wanted to see a list of priorities and the dollars associated with it so as a Council they could set their priorities and express them through the budget. He said he would make the same recommendation on the Capital side, a prioritized list of what we needed this year versus something we wanted, but could be deferred a year. He said it wasn't something he expected to be sorted out right away, but would be something discussed at a future budget meeting.

Member Fischer asked if the deferred column was supposed to be just the second half of the year.

Mayor Landry said his suggestion was to come up with a list of big ticket items and smaller items that could be included in the budget, but indicate the money wouldn't be spent until the second half of the year. He said they would be able to see what the audit turned up, what state shared revenue was and if those extra conservative estimate monies, this money that is already in the budget would add to the fund balance so it would be there next year to offset the \$895,000; with the \$1.3 million the \$895,000 next year would be paid for.

Member Fischer asked what was the difference between the deferred and the over and above column.

Mr. Pearson said his only clarification was that the first column was targeted toward getting a dollar amount and that small amount that was not covered by revenues and expenditures or the \$1.4 million set aside. He said when they went through the analysis of use of fund balance, they did \$1.6 million and \$1.4 million and then there was the extra. He said the rest was categories.

Member Fischer said he was in favor of that and there were several things on the list he thought they could eliminate. He said any items that remained on the list, it was a great idea to defer them and look at where the unknowns come in at midyear. He said he was disappointed in the call for specifics for head counts. He said he thought the Council had done an excellent job, at last year's budget; they looked at one line item and discussed it from a line item perspective. He said when they had 7 people coming in with personnel, actual heads, or line item expenditures that they don't want to see, wasn't good governance and was not what they were elected to do. He said they set priorities and the City Manager was at the City on a daily basis and he was the one who could make good recommendations as to what cuts were possibilities and what the actual ramifications of the cuts were. He said they did it on the Capital side and he didn't see why they couldn't do it on the operational side. He said his concern was that they were talking about the \$895,000 next year and he thought it was well known that he appreciated the two year budget vision, but he didn't like to look beyond that. He said years 3, 4 and 5 and the confidence and assumptions of what would happen fell greatly in those years. He said it was great to have as a planning tool, they could see trends and could plan for those trends, but to talk to those numbers specifically was a waste of time. He said when they looked at 2012 and 2013 from his estimates they were looking at about \$27 million in expenditures and appropriations and on the revenue side they were looking at \$26 million in revenue. He said from Council Member Mutch's point, no Capital expenditures from the General Fund were even included in that and he didn't expect they would be up at the \$1.6 million range like this year, but there was no doubt they would look at having some Capital expenditures next year, there was a gap there. He said the other item

that was a concern to him was the \$5.2 million that they had of transfer from Police and Fire Fund. He said that was a policy discussion that he wouldn't go too far into but Council needed to have it to see what they wanted to do with the fund and see what the appropriate balance was for the fund. He said when he looked back at actuals for '09-'10 the transfer from Police and Fire to General Fund was \$3.5 million and the budget for next year was calling for \$5.2 million in the '12-'13 budget and the following year would be \$5.7 million which is close to double to actual transfer from '09-'10. He said if they were looking from '11-'12 to '12-'13 increasing the transfer by \$1.6 million, if they wanted to hold it steady, the \$895,000 now became \$2.5 million of a short fall. He said that was the reason why they needed to continue to have the discussions on the cuts. He said the prioritization process similar to what they were talking about with the Capital side was the way to go. He said he wouldn't call for specifics because he didn't see it as good governance for 7 Council Members to sit around and talk about specific heads.

Member Wrobel said that he agreed with a lot of what Member Fischer and Member Mutch said. He said being his first budget he wanted to look at it in detail in case there was a line by line look at so he had a total understanding of what was going on. He said overall he didn't feel it was their responsibility to go through every item every year and tell City Manager Pearson what they like or don't like. He said their job was to set him a budget and let him administrate it as he needed. He said he went through the budget and needed a lot of justification not having the background and history with Mr. Pearson; he needed to find out for himself. He said they discussed the items and some they agreed on and some they agreed to disagree on. He said he would agree with a prioritization list of potential cuts on an operational side, but for Council to go line item by line item, to do that wasn't their job. He said he was looking at the deferred items and thought it was a good idea to wait to see if the money was there but in the back of his mind he kept thinking if they could defer it for 6 months, did they really need it. He said he's always had the impression and business sense that if you didn't need to spend the money, then don't spend the money until you need to whether the money is there or not. He said he looked at a lot of the items and understood some of them but thought do they really need to do it at that point and time. He said eventually down the road a lot of the things would have to be done but it didn't have to be next year. He said he knew it was deferring costs out down the road which could lead to trouble but until it was broke there was no need to fix it.

Mayor Pro Tem Gatt said in the old days City Council did line item everything and every single item. There were people on City Council who labeled themselves as budget terrorists and it was ugly. He said it was weeks and weeks of an ugly process that he didn't ever want to go back to and he was sure they weren't going to. He said there were several little line items that he could not support but as far as line iteming items, it wasn't going to happen. He said he was a simple guy who believed any budget should equal revenues and expenses for the most part as close as possible. He said they weren't very far off, next year they were talking \$2 million minus the \$1.4 million which brings them to \$600,000 or \$700,000 away. He said if they could come up with operational costs that total that and defer some of the big ticket items, it would be something they could all agree on. He said someone else would talk about the huge fund balance they will end up with and they talked about it at goal session and decided how they would spend some of the additional funds. He said everyone was on record as what they wanted to do with the additional money. He said he didn't want to sit on it; it was the people's money. He said there were roads to be fixed and if there was an abundance of monies left over at the end of this year or next year they would spend the money, but he

thought it was only prudent that they adopted a budget where the expenses and revenues intersect or were as close as possible.

Mr. Pearson said the fiscal analysis was a base analysis; they couldn't have it both ways. He said there was going to be some Capital and they always did it that way because of the flexibility that was awarded with some of the savings and that is what's piled back into Capital. He said it wasn't by accident that they had \$1.6 million in Capital this year; it was because of the savings in other kinds of things. He said if they wanted to do that, they would need to look at how they built the fiscal analysis and look at the other side of it and have assumptions for the revenue and everything else like that to be balanced. He said it wasn't just fire trucks, there were other funds that took care of that such as the Police and Fire Funds and that was looked at for multiple years out. He said there was \$400,000 or \$300,000 in the Parks Fund, there was \$800,000 in the Major Roads Fund and those were all in the fiscal analysis for Capital improvements. He didn't want it to be out there that they were zero Capital because that was only partially right. He said the pension multiplier increase was agreed to and was built into the fiscal analysis. He said they were in arbitration with labor groups for deductions savings and the worst case was minimum increases asked for, but that wasn't the track record and didn't worry him. He said the position in facilities was not an additional position. He said they were anticipating retirement and adjusting the position when it came open. He said they needed to have someone to take care of the place. He said they were talking about doing that more efficiently and effectively with an administrative position. He said it was a tradeoff; they were looking ahead to have a 3 month overlap so someone could be there and learn the system in place with the incumbent who had been there for years. He said on the state shared revenue, it has been said they shot themselves in the foot by being so conservative and in some ways it solved a lot of the problems because it was not a huge gap. He said it was a process to put it together and they didn't know what the population would be because the number just came out within the last month. He said he would have had to guess on the impact of that and it wasn't necessary because they didn't have to plug it in, cash is cash and it would be there. He said if there was a majority that wanted a prioritization list developed, it would be done with a pretty clear introduction and ending. He said he knew they appreciated the staff's work but that was the package they recommend and they didn't believe those types of cuts were necessary because of all the other things that were in there, especially existing positions. He said they could talk about opening up a window for early outs which seemed like a palpable way to do that. He said some of the work needed to get done whether it was through part time or replacement people who would come in without retiree healthcare and defined benefits, so that savings would be the most sensible way to start.

Member Margolis said there were a couple people who talked about having a Fiscal Stabilization Fund. She said that was fund balance. She said let's set a fund balance and live with it, if they wanted it to be 100%, they go on record that it was 100%, which she wouldn't. She said they had to be honest with the tax payers and not park it in different places and pretend they aren't sitting on money. She said if she heard another Fiscal Stabilization Fund, it was fund balance which was money they were sitting on. She said as far as she was concerned, they had a fund balance policy and they should follow that policy. She said if they were talking about potential reductions, what she was looking at was okay and the discussion was they wouldn't have money sitting there, they would spend it. She said every time they sat down to budget, they wouldn't spend it, so the people who needed their roads done, the City was still sitting on the money. She said they heard two things when people talked, they didn't want to sit on money, but they want revenue to equal expenditures. She

said when they save money every year and the fund balance continued to grow, you can't have it both ways, revenues will not equal expenditures because there is extra money saved. She said there was no mathematical formula that could let you do both of those things. She said it was frustrating as a Council that they talk both sides. She said she was trying to write down numbers and agreed that she didn't want to line item, however, if her staff was working on a project for her for 3 months and they came to her with the project, she felt that she would need to give them some specific feedback other than she didn't like it and it needed to get better because they wouldn't know what to do. She said she was writing down numbers as feedback and the numbers she heard were \$600,000 to \$700,000, \$600,000, and \$895,000. She said if they were going to have the staff go back before they talked about making cuts, a huge part of the budget for personnel services was public safety. She said she didn't think they would make the cuts they were talking about without touching public safety. She said they needed to be comfortable with what staff would bring back. Public safety also has the richest benefit packages, highest pension multipliers. She said the interesting thing was when talking about those numbers, if they were really looking to match operating expenditures to revenue then they need to be comfortable that the revenue, numbers may change. She said talking about \$600,000, they were estimating pretty conservatively that state shared revenue might increase by \$350,000 to \$500,000. She said she wasn't comfortable laying off public safety, people who provide services, they were already lean. She said they just had a conversation about concerns over snow removal and they can't have it both ways, they can't have all the services they want and on the other side cut back, especially if they aren't in a dire situation. She said if they were going to ask the staff to go back and look at it, they also need to ask them to go back and do a less conservative estimate on revenue so they have a clear picture. She said she didn't want to get to audit time next year and have the report come back that we have extra money and have laid people off who were providing good services and then they are back next February with a big snow storm asking why the roads weren't cleaned fast enough. She said there was only so much people could do. She said the other piece was the whole fiscal analysis and no Capital. She said they had the same discussion last year and they managed to do Capital items, most of the Capital items came out of other funds. She said they never talked about the other funds with fund balances; they talked about the fund balance in the General Fund as if it was their only savings account. She said if they look through the books they would know there was a fund balance in Police and Fire, Water and Sewer, Drain. She said the big ticket items came out of that fund. She said she was concerned about the question of looking at a plan for Capital expenditures; they have that, a pretty involved process. She said she had been on the CIP Committee and there was a detailed plan about Capital improvements. She said the Capital improvements they were discussing were variable from year to year depending on what was going on and that was why they weren't in the fiscal analysis because some things could be planned but some were small service improvements or Capital improvements that came up as you went along. She said retirement incentives she would be willing to look at but the caution was what the long term effects were. She said she didn't want to balance this budget balance yet put long term costs on the books for someone else to deal with. She said any type of retirement incentives had to be looked at very carefully. She said she was concerned that retirement incentives actually incentivize people who they don't want to lose. She said she was concerned that the people who would be most likely to take an early retirement incentive would be those who felt they were the most employable and she wouldn't want to lose those people in the City of Novi. She said she thought they had revenue they hadn't planned on that got them very close.

Mayor Landry said his intention was that they had to be aware if they would make cuts in personnel, what services they would be. He said they had to know that before they voted on the budget, if they would make cuts in personnel how would that affect their ability to provide services to the residents of the community. He said he had no hesitation at all in saying he didn't think it was necessary to do. He said he heard earlier that they shouldn't make a Capital expenditure until it was absolutely necessary to do so. He said he didn't think you should make cuts in personnel until it was absolutely necessary to do. He said he was looking at a 2 year fiscal analysis that showed it wasn't necessary to do this year and if they couldn't come up with \$895,000, they would have to do it next year. He said he has shown where they could come up with the \$895,000 so he didn't see how they had to do it. He said he heard people would like to see a list of options. He said it was his suggestion to allow the administration to do that, come up with a list of potential operating expense cuts that would result in permanent cuts so they could look at both a blending of his Capital deferrals and whatever the number was on potential permanent operating cuts. He said one thing that would be on the list was to get rid of the dispatch, that would be \$400,000 to \$500,000 of permanent cuts right there if Dispatch went to Oakland County. He said perhaps they could explore offering some incentives, if they allowed administration to let them know what the long term effect of that would be, which would be the least painful. He said if they offered retirement incentives to those that have the years of service to qualify but not the age, they may be able to offer a 60 day window that would offer a couple years of services, his understanding was that they wouldn't start paying the benefits now but it would allow someone to be qualified for retirement when they reached the retirement age. He said as Mr. Pearson said they would have to analyze if they would have to backfill the position if someone took advantage of that. He asked if they could outsource it or replace it with someone not on a defined benefit but on defined contribution. He said in his mind that would qualify for a permanent benefit. He said there was a budget session scheduled for Wednesday night but he was willing to stay there as long as anyone wanted to stay. He suggested that once administration came up with a list of potential operating cuts, that could be discussed Wednesday night.

Member Staudt said he also wanted a more accurate picture of revenue because it was really hard to look at a moving target. He said nowhere in the deferrals were roads deferred. He said the budget had some significant Capital improvements from other funds, not just the fund balance, and looking at some of the deferred items such as Civic Center roof, single axle dump trucks, Council Chamber AV systems, pension contributions, wage benefit studies, Facilitate Pro license. He said he didn't think anyone sitting at the table could say that everything on the page was essential. He said it might be essential in someone's eyes at the staff level, and some things like the Civic Center roof needed to be done. He said if they would take the list as a totality and work off the list as opposed to two combined lists, it wasn't his nature to line item down to \$14,000 items but he would rather work off that list and add back the Civic Center roof because it was an absolute whether it was today or a year from now. He said he was in complete agreement and liked Member Mutch's range of \$600,000 to \$1 million, he thought they should look at the totality of the options. He said they needed to reevaluate engineering, it wasn't in house until 7 to 10 years ago and it needed to be put on the table. He said everything should be on the table for them to consider but they should hear the ramifications of all the considerations from staff and then they could make their decisions.

Member Fischer said he didn't think the open window would be a good idea. He said they had already cut and they would lose talent that they didn't want to lose at this point by trying to do the early incentives. He said he liked Member Margolis's idea of looking at the revenue



side. He said in the fiscal analysis they did a worst case scenario. He said he would like to see a fiscal analysis that addressed and made assumptions for different revenue items, realistic items with realistic numbers; a fiscal analysis that actually had footnotes of the assumptions. He said they needed to sit down and look at the same document of realistic assumptions. He said he could appreciate the fact of Capital expenditures and that most came from major funds but a lot of work went into the Capital Improvement Fund and in fiscal year '12-'13 they had items with Capital expenditures that were coming from the General Fund. He said if they were to look at revenue items on the fiscal analysis and wanted a realistic document, then they would need to put the Capital expenditure numbers as well.

Member Mutch said he wanted to ask administration for a midpoint for them to meet again between Wednesday and the last scheduled meeting. He said he didn't think they would want a meeting Wednesday if they wouldn't have the information and they wouldn't want to wait until they had to adopt the budget when they haven't have a big detailed discussion; they needed time to digest it all and make a decision. He said he wanted to talk about a few items in terms of if they were priorities or if they could be addressed in a different way than the administration had presented. He said the administration would come back with a recommendation. He said he liked the idea of additional pension contributions because it helped pay down the long term costs but it made it to the deferment list because the administration wanted to hold off on it. He said similarly there was a \$151,000 sick bank payout which had been used for administrative staff over the last 2 years. He said as far as he knew there was no obligation for them to do the entire amount this year and his question was if there was an option to defer or extend that a second year to give them more flexibility in terms of General Fund dollars. He said there was \$295,000 they were using to pay off the bonds that they issued related to the Sandstone lawsuit and he didn't think there was any obligation that they use General Fund dollars to pay the bonds. He said he would look at whether those bonds could be paid for out of the Special Assessment Revolving Fund since they had a lot of flexibility and they were utilizing some of that money to beef up their Street Funds. He said it would be moving that money over to a different area but giving them flexibility in the General Fund dollars that they currently didn't have because it was tied up to pay off the bonds. He said video conferencing equipment in the Police Department was a small amount but he was surprised it wasn't covered by Forfeiture Funds. He said they had generally tried to do most of the Police Department Capital expenditures out of Forfeiture Funds while they had them. He said under Neighborhood and Business Relations there was a line item of \$16,000 for Citizen Survey; we just did a Citizen Survey. He asked why there was another \$16,000 in the budget, he assumed it was because of the funds being transferred from one department to another and was carried over and not needed. He said they knew at the state level there was state legislation moving through that was talking about increasing the healthcare premium contribution at the local level. He said they don't know what the final form of that legislation would look like but he would like to see discussion of what the impact of that would be if that was something they had to implement in Novi and move the employees to a 20% premium contribution which would be the amount they were talking about now. He said the approach currently being discussed would be partly through negotiations but not everyone was unionized so may come on line sooner. He said talking about revenue assumptions was something that they needed dollar figures attached to because it got into laying off public safety personnel and that may be what the monies look like but they needed to talk about the potential options because this document was the administration's take on the budget from their view point. He said they also had a role to provide their view point on it and

sometimes there were differences in priorities and that was their role as Council Members to provide it.

Mr. Pearson said the 20% healthcare that is being talked about isn't anything close. He said the only thing he had heard about it was accessing the state shared revenue through the pot of money so we wanted to get 1/3 of the \$17,000. He said the citizen survey was there on purpose, they budget for it each year. He said on the off years when they didn't do the full National Citizen Survey they planned on revisiting the older adult survey which was done 4 years ago. He said they were looking at a follow up to see how it has changed. He said they made changes for communications and transportation, it was envisioned for that. He said he wasn't sure about the video conferencing; they could transfer money from the Special Assessment Revolving Fund, it was water moving it back and forth. He said the sick bank payouts was something they could look at, it was something that was started and he thought they would want to finish it out. He said the next year was under \$100,000.

Member Wrobel said he wasn't averse to looking at potential incentives as he had been through an organization that did it numerous times. He said generally you would lose people who are getting ready to go anyways and generally those are the highest paid people with the highest costs. He said organizations go on; it may be rough short term but people back fill and learn. He said they should look at going to an outside source for the gas fuel management system. He said it would eliminate the system and the storage of gas. He said hopefully if it was deferred we could look at an alternative between now and then. He said the iPad issue wasn't necessary for Council but possibly it was something the Planning Commission could use, there were a lot of papers that could save the City a lot of printing costs.

Mayor Pro Tem Gatt said the City of Novi had offered incentives many times in the past very successfully, Oakland County did it successfully a few years ago. He said he brought it up because if there were going to be cuts in personnel he would rather it be where someone volunteers to leave versus a mandatory cut.

Member Margolis said she wasn't against looking at it but wanted to look at what the long term costs were. She said when you do that you often do a sweetened benefit multiplier which looks real good right now but down the line your actuarial costs in your pension plan and your funding percentage drops which are the kinds of things she doesn't want to see happen. She said they needed to be very aware of what they were giving other people down the line to deal with because some of the issues they are now dealing with were because of similar things.

Mayor Pro Tem Gatt said he would be looking for a pot of money to offer the people, not an incentive where their multiplier increased because that would cost too much money in the long run. He said if administration could tell them how many people may be eligible they could come up with a fixed dollar amount offered as an incentive maybe they would take it maybe they wouldn't but it wouldn't be a legacy cost.

Mayor Landry said he would be more in favor of adding years because that wouldn't cost them anything if they said to anyone in the next window we would add 2 years to your years of service or knock 2 years off of the age you need, it wouldn't cost anything in the short run. He said he wanted to look at what the multipliers would be and what it's coming out at on the

other end. He asked if everyone wanted to put the next meeting off until the following Wednesday so the administration and Council would have more time to look at it. He proposed that instead of meeting on April 20<sup>th</sup> they meet on April 27<sup>th</sup>.

Member Staudt said as long as they received the document 2 to 4 days prior to the meeting.

Mayor Landry said he assumed they would have it by the end of this week. He said they would reconvene at 7 p.m. on April 27<sup>th</sup> and receive documents by April 22<sup>nd</sup>.

Member Mutch said on the citizen survey there was \$13,000 in the Parks and Recreation budget for the senior citizen survey and then there was another \$16,000 in the General Fund.

Mr. Pearson said they would be doing a Business Survey in addition to the Older Adult Survey.

Member Margolis said even if they reduced service years on pensions and don't sweeten the benefit multiplier they may be looking at increased costs down the road because they have less years to be paying into the pension.

Ms. Smith-Roy said the years of service were part of the formula of the pension benefit they received so it would increase the long term costs. She said they wouldn't be able to provide the costs for those estimates. She said they could provide information about what past windows cost. She highlighted that windows and early retirement packages work great for permanent long term reductions but at some point in a few years if the City starts to grow again and the staff member need to be added back you aren't doing any favors by increasing the long term liability and added the staff back. She said they were meant for organizations that were truly downsizing on a long term permanent basis. She said the cash out was a different issue.

Mayor Landry said wouldn't you be replacing someone with a defined benefit with someone with a defined contribution so even if you added back it would be cheaper for the City.

Ms. Smith-Roy said it would be a different cost but you have permanently increased the pension cost for the people who were leaving because that gets in the formula. She said that is often not considered, people think of the multiplier but not the other factors that go into the computation of the pension itself.

Member Mutch asked if there would potentially be people leaving at a lower salary than they might otherwise have and what they sometimes see, which could potentially happen at the City is people working a lot of overtime in their last couple years to run up over time.

Ms. Smith-Roy said in normal times that would be correct but they brought back the purchase of years of service credit policy to Council for that reason, they didn't anticipate increases in final average compensation for the next several years for anyone including overtime. She said we have had a lot of reductions in overtime and they believe people are at their maximum final average compensation right now. She said that the FAC included people's longevity. She said at this point and time, with the way the economics were working, the final average compensation was about the same and the argument with MERS right now about this particular computation is that they were assuming raises and increases that the City doesn't

believe would happen and they were assuming some of those savings in the purchase of service credit computations and she didn't think that was realistic in these times.

**AUDIENCE COMMENT - None**

**ADJOURNMENT**

There being no further business to come before Council, the meeting was adjourned at 10:24 A.M.

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David Landry, Mayor

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Maryanne Cornelius, City Clerk

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Transcribed by Natalie Laitinen

Date approved: May 9, 2011