

**SPECIAL MEETING OF THE COUNCIL OF THE CITY OF NOVI
WEDNESDAY, APRIL 29, 2020 AT 7:00 P.M.**

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

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

PLEDGE OF ALLEGIANCE

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

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

APPROVAL OF AGENDA:

CM 20-04-045 Moved by Fischer, seconded by Casey; CARRIED UNANIMOUSLY

To approve the Agenda as presented.

Roll call vote on CM 20-04-045 **Yeas: Staudt, Breen, Casey, Crawford, Fischer, Mutch, Gatt**
Nays: None

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

1. Approval of resolution to authorize Budget Amendment #2020-4

City Manager Auger said COVID 19 quickly impacted so many people in significant ways including our daily operations here at the City. The COVID Shutdown has also immediately hit our citywide operating budget in both the short and long-term. So far the largest impact is not the additional costs we have incurred to purchase emergency supplies but more in the way of lost revenue. A significant piece of our General Fund revenue, \$5.1 million, comes from the State of Michigan for our share of sales tax collections. The street funds receive approximately \$6 million annually from the State of Michigan for our share of gas tax collected at the gas pumps. He said current estimates from the State are that sales and gas tax collections may be down 50% or more for the months of March and April due to the mandatory "stay at home" order from the Governor. As you may or may not know, approximately 72% of the General Fund's expenditure budget is for employee salaries and fringe benefits. For the fiscal year 19/20, the current year, this budget amendment before the City Council includes an across the board 1% expenditure reduction in all departments, about \$370,000, to offset part of the estimated \$951,000 revenue loss through June 30th. The order has already gone out that between now and June 30, 2020 for every department to minimize our spending as much as possible. He said he was sure our entire Novi team will get through these challenging times together and will be better and stronger for it moving forward. In the near term with all the uncertainty as to when Michigan will actually get everything reopened, we must continue to be proactive in balancing our

annual operating budget and minimize any hit to our fund balance. He pointed out that Director of Finance, Carl Johnson, was available as well as the rest of the Department Directors and Finance staff, who have all done a great job with a very quick turnaround to get to where we hope City Council wants to be.

Mayor Gatt said last time Council met, they sent administration back with a task. He appreciated the hard work and effort that went into this. Hopefully it will be a smooth meeting as a result of all the hard work.

Member Casey thanked the team for pulling this together. She said it was hard to look at the numbers, but thanked staff for the speed and diligence in getting this amendment together.

CM 20-04-046 Moved by Casey, seconded by Crawford; CARRIED UNANIMOUSLY

Approval of resolution to authorize Budget Amendment #2020-4.

Member Mutch asked about deferred projects and other items that were budgeted for but being excluded with this budget amendment. He asked what the plans were for budgeted projects and if they would be moved into the next year. Finance Director Johnson said the only project deferral in the general fund was for a new vehicle in the Fire Department, and that has been re-budgeted as part of the budget amendment package. Within the street funds, nothing has been deferred. To the point we are deferring anything, they are primarily in future budgets. He said those were detailed out in a separate schedule. The general fund has a substantial amount of projects that have been shifted between the years to make sure we balance out every year in the short term. He said the amendment before them only had one deferral in the general fund, which was the vehicle, and no other deferrals in other departments. Member Mutch asked if the \$60,000 street light installation would be picked up in a future year, or will it not be done. Finance Director Johnson said we budget \$60,000 annually for installation costs for street lights that have requested, so the homeowner associations pay for most of the installation, but there are some additional costs that the City has to bore. He said this was the amount remaining for this fiscal year, so this will be eliminated. There is another \$60,000 included in the 20-21 budget and that will be sufficient to cover projects next year. Member Mutch said that's what he wanted to hear, that it was a one-time elimination.

Mayor Pro Tem Staudt said he had some concerns about the revenue predictions. He thought it was important that staff provides Council with information on an on-going basis for the next year, especially constitutional revenue sharing and Act 51. He said it's going to be clear to Council with what's going on with property taxes. It won't happen until next year or the year after. He said it's critical that we keep close watch on those revenue numbers. He said if they start sinking, it will be their opportunity to weigh in again on the budget. He said he was prepared to support the budget but if they see issues arise, he didn't think any member of Council would hesitate to jump back in and ask for significant reductions in expenditures. He pointed out that 72% of expenditures

are employee costs, and that's where it would come from. He said they will see what happens and hopefully things go better than they could anticipate, but he was wary.

Member Fischer said the team did a good job outlining the changes because of COVID, and he had no questions on this item.

Member Breen thanked staff for their quick work in getting the amendment done. She said her primary concerns were with Public Safety. She appreciated the hiring freeze, but was concerned about the employees being able to do their jobs with the resources that are currently available. She mentioned the City Manager referred to an update from the State soon, and she wanted to know if they would be informed regarding projected revenues. City Manager Auger said if there were any major changes, they would keep Council apprised of what their estimates are changing to.

Roll call vote on CM 20-04-046

**Yeas: Breen, Casey, Crawford, Fischer, Mutch,
Gatt, Staudt**

Nays: None

2. City Council discussion and decisions regarding adjusted FY 2020-21 budget.

City Manager Auger said our team did a great job after City Council gave us the direction at the last budget workshop to reduce revenue and corresponding expenditures to put us in a solid position going into next year. We realize that this budget or any budget will need to be monitored and adjusted as we adapt to actual numbers. He said we will all keep an eye on the budget and keep Council informed.

Mayor Gatt said they will follow the same process with a round of discussion first and motions allowed in the second round. He reminded everyone it takes four votes to add or remove something from the budget, but five votes to pass the budget.

Member Casey thanked administration for hearing the feedback from Council and revising the budget accordingly. She said the only certainty we have is uncertainty. She thought it was unlikely anything we forecast at the moment remains unchanged. The revised budget in front of them is built on what we know at this moment based on the expertise of our City team. Each department has used multiple sources and guidance to reach the recommendations and she believed it to be as reasonable and appropriate as it can be at this moment. We forecast reduced revenues from the State as best we can, based on what we know and we've amended expenditures accordingly for fiscal year 20. She thought they all recognized for fiscal years 21 and 22, we have time to watch how conditions change and we can adjust those next year. She said she wanted to see more realistic revenue projections and she felt this was more realistic. She believed the expenditures have been suitably reduced but still allows us to invest in projects and activities that are right for the City and give us forward momentum. She said staff reviewed every line and made their best recommendations for what needs to, and should be done, and what can wait. She said she indicated at the last meeting that she would like to minimize the impact as

much as we can to existing employees. She saw reducing head count as the last option. She said she was comfortable in the hiring freeze that the City Manager has shared for new positions and looking at attrition as a means of managing head count at this time. She said she could say the City wouldn't have to look at other head count changes in the future, but didn't believe this was the moment to make changes without really knowing what we face, and where and what those changes should be. She said we are going to have to manage this budget in ways we aren't used to. She said she was comfortable approving the budget and financial plan as it stands with a caveat that she expects clear and frequent communication from administration. She expects updates on economic trends and projections on revenue as frequently as they are available, at minimum on a quarterly basis, but a monthly basis in the immediate future. Things are going to keep changing and we have to talk about what those changes mean and what staff would recommend be done to address it. She said since we will be reacting to what happens, we can do something and be well prepared with information and plans. She said the best way to manage uncertainty is clear and frequent communication about what we know, what we don't know, and what we think we may know. She said she didn't know what the financial reality would be; no one does right now. She thought we had a good start with what's in front of them. She said she knows things will change whether they stay the same for the short-term; we are not done making changes to meet our financial reality. She believes in the experts we have in the City and on Council, and they will make it through together.

Member Fischer said at the last meeting he shared frustration with what he thought was a lack of urgency and seriousness from administration. He said all of Council said to go back to the drawing board. He said administration lived up to the expectation and the task with the document that was presented to them. He said he was impressed with how it was laid out and how clear it was, and the thought that went into each and every one of the footnotes. That's exactly the kind of thought that needs to go into this. He said when budgeting from this perspective, a lot of the information is coming from the State and County. He said they tasked administration with going with guesstimates, gut feelings, and experience to alter this and that's not something which is normally done. He said they lived up to the task and this was exactly what he was looking for. He said regarding the general fund, he was comfortable with the overall budget, but the team came up with almost \$2.1 million in revenue declines in 20-21 and found offsets to each one of those, mostly from personnel costs. As mentioned, staff makes up a good portion of this. He said we need to continue because we have more time to focus on achieving those through delays in vacancies, delays in open positions, and retirements. He said he was not looking for layoffs, furloughs, buyouts, or forced retirements. He said natural attrition can accomplish a lot of what they are looking for. He said he was impressed that the team went non-personnel budgets and found another \$400,000. He said it was basically a 5% reduction in overall cost in the next year. He said the bottom line was they are looking at a \$10 million fund balance at the end of next year, which is above their goal. He said the uncertainty still remains with year two and three property values, but there is such a variation to what that could be. He said it would be inappropriate to overreact to that until we get data from the County, the sales, and the Assessor. He said the assumptions that have been changed

are a good estimate and he is comfortable going forward. He said this is good snapshot of where we are today. He said it will change, but it's where the data is pointing us today. He agreed with Member Casey that communication need to be clear. He had some recommendations as to what Council should receive. He recommended instead of getting a financial report every quarter, which is focused on the year-to-date revenues and expenses. He would like that to include information on the future. He first wanted to see a section from the Assessor on latest trends, commentary from Oakland County or private sources, and an analysis on the potential future revenue in year two and three. The second thing was a summary of the revenue sharing and Act 51 estimates versus what we have in this proposal. Third, he wanted to see a summary headcount personnel update, including the status of open positions that are helping us achieve the savings we need to off-set the revenue declines, as well as the progress on potential retirements and potential vacancies, and any hiring that does take place. These are crucial because of the large portion of budget that is made up of personnel. He said the fourth thing he would expect to see was high level observations from the City Manager outlining other risks they might see on horizon and further opportunities to off-set further gaps if things continue to deteriorate. He said those were very specific communication requests that he expects to see in order to approve the budget in front of them tonight. He gave his appreciation to staff.

Member Breen said her primary concern was for Public Safety, and more specifically the retention and the ability of our employees to do their job, wince we are doing more with less. She would like additional communications and updates and thought Member Fischer's were better than she had outlined. She said they need clear communication on what we can expect with state funding and internal issues. She said they don't want surprises with budget amendments. She said it should be brought to their attention as soon as possible. She said she was pleased with the response level they've been getting. She wanted to make sure the reports have information on personnel, funding and what to expect from the State.

Member Mutch said he agreed with the comments shared so far in terms of the direction that administration has taken with amendments to budget as Council had requested. It moves the entire budget process in right direction. His perspective was this proposal and outline are the framework and proof of concept. He said it provides Council some level of certainty that within the potential budget reductions we are going to see, we can continue to provide the level of service that we expect and the residents need. While the budget does propose a number of specific reductions and changes, and allocates dollars to those, his viewpoint for the upcoming year will be different than typical years. As an organization, City management will have to be more nimble in reacting to changes than the normal process. He said instead of quarterly budget amendments, they may see more frequent changes. He said one area where he differs from previous speakers was that he hoped to see, through the review process, was more focus on prioritizing across the organization. Instead of relying on an across-the-board cut in the budget amendment that was just approved, and in the proposal before us, that administration gets more strategic in terms of ensuring the core areas, like Fire, Police, and DPW, we can as much as possible maintain the full staffing that we

currently have. If people leave, there some departments where we wouldn't be in a rush to fill positions, but in others we have to be more mindful because they have an impact on services provided to the public. He said administration has shown within the framework provided that we can continue to provide services we want to provide even with reduced revenues; taking into account we will be pushing things off into the future and not adding positions or filling positions. He said one thing they did last time we went through downturn was continue to do those capital investments, like infrastructure and City facilities. He said a lot of the deferrals fall into that category. He thought administration could prioritize those and say these are projects that can be held off, depending on the economics of it. We can't push off some of these forever. We have to continue to invest back into our community. He said if we are in a downturn for a much longer period of time, that's when you come back to the budget process and question if there are areas where they need to make some adjustments to ensure we can continue to do that. He said he didn't have concerns with approving what was presented. He said he had a question about the budget adjustments to the neighborhood roads program. He said there was a \$1.5 million adjustment that's not being rolled over. He asked if that was street projects not being done, or funding that hasn't been allocated. City Manager Auger said he thought that was the rollover funding that was programmed and rolling over into next year. The funds haven't been spent and will be spent in the following year. Finance Director Johnson said annually the road program starts in May and runs through the entire summer season. Annually we have \$1.5 million rollover and historically we have set it aside to capital road projects. He said the money has always been there and the amount has been the same every year. He said it is not a reduction, it's just timing. Member Mutch said he appreciated the clarification, which is a key element in the steps we are taking. He said they were trying to be realistic about what revenue is going to be going forward, knowing that sales tax falling and that affects state shared revenue, and property tax potentially declining. He said it's more about giving us the maximum flexibility. He said this budget will be different, they will be more involved. As things evolve and they become confident in the national, state, and local economy, things that were deferred or postponed; if things come back faster, we can re-engage and bring things back into budget. The prudent step is what they are doing, which is setting things aside, being realistic about revenues and expenditures, and giving Council and administration the maximum flexibility moving forward. He said we've taken the appropriate steps to give us breathing room and the ability to adjust to declining revenues going forward. He said he was not looking to cut positions and do furloughs like other communities. He didn't think it was appropriate or warranted based on financial position. He agreed, at least for now, we are in the right place. We need everyone on team Novi to continue to work and provide services to the community. They are doing a great job and we need to keep them engaged and serving our community now more than ever. This is a crisis time for the community, state, and country. Our folks are playing and important role in keeping Novi moving forward. Keep up the good work.

Member Crawford said there were not a lot of new comments that need to be made. He said he concurred with most of what was said. He thanked the City Manager and staff for coming up with realistic budget under these trying circumstances. He said he

knew they would keep an eye on things and if things change, it will be brought back for adjustments.

Mayor Pro Tem Staudt said there were a lot of good ideas and suggestions. He said he wanted to see more planned reductions in costs. If we get good news, then we deal with it. He respected what his colleagues wanted to do and move forward. He said he is going to push hard moving forward to deal with unfunded pension liability. After 13 years of listening to us being hamstrung because of something we don't do from an investment standpoint, some governmental agency invests 70% of those funds in stocks, he was inclined to say we bring to voters, pay off unfunded pension liabilities and look for a much better investment vehicle than what we are currently doing. He said it's a bold move. He would rather take care of this and protect future Councils than worry about funding roads, parks, and other things. This is something we have to do. We've looked at it and walked away. We need to deal with it; it is millions of dollars a year. He said that has nothing to do with this budget but everything to do with future budgets. He said he was happy to see we made significant adjustments because they had made it clear that was important to Council at last meeting.

Mayor Gatt thanked City Manager Auger and staff for coming up with this in short period of time. If someone told them in the beginning of the year that we would look at staff reductions, they would have laughed. He said this came out of the blue and has shaken up whole world. He works for the County and had a discussion with their Assessing and Equalization. They gave him hope that they didn't think it would be as bad as some projected. He said there were several mentions of Public Safety, that's always on his list. He would like it to be reported to Council whenever there is an opening and when someone retires or leaves for any reason. He said then they could keep track of what was going on and if they see openings in Public Safety, they may want to talk about it and replace them despite a hiring freeze. They should be aware and have input. He said Mayor Pro Tem Staudt opened can of worms regarding MERS. He thought anyone who retired has a contract and it says the pension is from MERS. He asked the City Attorney to report back on whether they City can exit MERS and affect the retirees.

CM 20-04-047 Moved by Staudt, seconded by Crawford; CARRIED UNANIMOUSLY

To approve the 2020-2021 budget with a public hearing set for May 4, 2020.

Roll call vote on CM 20-04-047

Yeas: Casey, Crawford, Fischer, Mutch, Staudt, Gatt, Breen

Nays: None

AUDIENCE COMMENT: None

ADJOURNMENT – There being no further business to come before Council, the meeting was adjourned at 7:43 P.M.

Cortney Hanson, City Clerk

Robert J. Gatt, Mayor

Transcribed by Cortney Hanson
Date approved: May 18, 2020