

Budget Message



**One World.
One City.
One NOVI.**

March 24, 2016

Dear Honorable Mayor, City Council Members, and Residents of Novi:

I am pleased to deliver the Recommended Fiscal Year 2016-17 Budget, and the Projected Budgets for FY2017-18, and FY 2018-19. This is the start of an important journey as we work with City Council and Novi residents in charting the course the City will embark on over the next three years. The City Council's adopted and prioritized goals and objectives will guide us through the next few years.

AAA Bond Rating

Congratulations to the City Council and the entire staff for elevating the City of Novi's Bond Rating to the highest possible level of AAA. The AAA rating is the highest issued governmental credit rating assigned by Standard & Poor's and is defined as a City "having extremely strong capacity to meet financial commitments." Novi is now among only approximately a dozen other entities in Michigan with this rating. According to Standard & Poor's credit analyst Helen Samuelson, "The upgrade reflects Standard & Poor's assessment of the City's improved economy, with increasing market value and decreasing unemployment, as well as the City's passage of more formalized financial policies and procedures."

The Process

The budget process is one of the tools that helps us elevate our game .

Again, thank you to the staff who does the heavy lifting during the budget process. The entire Finance team has continued to simplify the process, working closely with all City departments. Finance Director Carl Johnson, Senior Budget Analyst Jessica Dorey, and Assistant City Manager Victor Cardenas have done a fantastic job blending the day-to-day operations with the goals City Council has set forward.

It takes about nine months to put together the City Budget. The City Council's early budget input session was held on Saturday, January 9. City Council identified the priorities they would like to see addressed specifically in the 2016/2017 budget year, and also supplied direction and information for the years to come. Victor Cardenas and Melissa Place were very helpful, creative, and innovative by finding software that allowed staff to facilitate the Council Goal Session



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instead of bringing in a consultant. In doing so, the City of Novi realized a savings of \$8,000. In an organization of our size some may think \$8,000 is not significant, but any amount helps focus our dollars where they bring the most value to Novi residents and businesses.

What some people don't realize is the budget process never really stops. We are always looking at the budget: comparing budgeted vs. actual revenues and expenditures, recommending amendments or adjustments where necessary, and completing the annual audit. Here in Novi, we also attempt to look out five years to see how the decisions made today affect us financially in the near future.

The local economy continues to improve, but there are still many challenges to address. Through the "Great Recession," the City of Novi was able to reduce staff levels and defer maintenance on some facilities. These actions maintained a healthy Fund Balance (FB) that bodes well for our current financial position. Challenges remain as property tax revenue growth is significantly limited by Headlee Rollback combined with the second lowest inflation rate in the last 20 years, 0.3% in FY 2016-2017 (Headlee is a 1978 constitutional amendment moderating millage funds to no more than the yearly inflation rate). The 2016/17 budget begins to address some of these needs.

Capital Improvement Plan

Through the Capital Improvement Plan (CIP) the City identifies and plans for maintaining the assets needed to deliver municipal services to residents and businesses. Planning becomes important as there is never enough money to do what everyone requests. Making tough decisions will continue to be the pattern into the near future. Importantly, we have acquired new park land and built facilities and trail systems. All these will need to be tended to and properly maintained into the future.

Any good organization should live financially within its means. The City of Novi has been very conservative on operational spending. This budget keeps operational expenditures within revenue amounts. The six-year Capital Improvement Plan (CIP) is projected to spend over \$13 million in FY 2016/2017, which will also leverage around \$3.7 million of outside funding (grant dollars, State funding, private partnerships, etc.) for almost \$17 million total in infrastructure, projects, and equipment.

Over the next six years, there is just under \$100 million worth of CIPs. Prioritizing these items is always a balancing act as some infrastructure, or other projects, requires certain items to be done in the correct sequence.

Some of the projected CIP's for this fiscal year include:

- Approximately \$5.5 million in road rehabilitation, repaving, and reconstruction projects, which also leverages an additional \$3.3 million from other funding (County, State, or Federal)
- \$2.5 million in neighborhood roads; an increase of \$400,000

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- \$1.7 million (including \$220,000 outside funding) to complete Beck Rd (8 Mile to 9 Mile) reconstruction
- Over \$1.1 million in sidewalk and pathway construction
- \$860,000 in storm drain improvements including a pilot program to remove and improve some subdivision open ditches
- About \$1 million into Novi's water distribution system
- \$650,000 into Novi's park system that will include work in Pavilion Shore, Lakeshore Park, and Ella Mae Power Park
- \$1.4 million to improve city parking lots including the Meadowbrook Commons Facility, Police access driveway, and the Civic Center Parking area
- \$1.8 million in equipment and vehicles, including a Fire Apparatus, Snow Plow Trucks, a sewer camera, street lights, and the Next Generation 911 System Replacement
- \$300,000 into technology, including Document Imaging equipment and software, to better program and communicate with the Transportation System run by Novi's Older Adult Services

For a number of years, the City has been fortunate to utilize Federal Forfeiture Funds to purchase Police patrol vehicles. As those federal funds continue to shrink the City will need to begin funding those vehicles out of the General Fund. FY 2016/17 will reflect a \$320,000 General Fund expenditure.

Operations

There are a couple of changes occurring on the operations side of our organization. We will continue to make contributions above required amounts to improve funding of both our pension obligation and Other Post-Employment Benefits (OPEB). The stock market has not been kind to us lately, but we will continue to chip away at these liabilities.

There are two debt millages coming off the tax roll with the first expiring this year (2015/2016). The expiration of the 2010 Refunding Bonds issue repayment will mean the elimination of voter approved mills of 0.3374. The second is the 2002 Street Refunding Bonds which will be paid off during 2016/2017 (a year early) resulting in a reduction of voter approved mills of approximately 0.3250 annually beginning in 2017/2018.

Additionally, the City Council has approved the refinancing of the library building debt in the 2016/2017 budget year in an attempt to save more than \$1 million over the remaining 10 years of the debt, and result in a reduction in voter approved mills annually, or approximately 0.0304 mills.

All total, 0.6928 mills will be available to possibly utilize for other City funding needs.



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Personnel

Five new full-time positions are accounted for in this year's General Fund budget. The City historically has contracted with Oakland County Equalization to facilitate personal property assessments and audit personal property returns. With the elimination of these external services, the newly created position of Personal Property Auditor will take care of these responsibilities in-house. Another new position, a Fleet Asset Manager will be responsible for the entire City vehicle fleet (130 vehicles). We will be looking at adding two Police Officers and one Fire Protection Officer.

With respect to the City's Fire Department, we will be exploring a part-time staffing model to staff Fire Station #3. This is to ensure proper staffing of the department and to maintain prompt response times 24 hours a day, seven days a week.

Two Cable Broadcast employees are going to be added during FY 2015-16 and will be budgeted for out of our PEG Cable Fund going forward. Our existing cable consortium (Southwestern Oakland Cable Commission) will dissolve on March 31, 2016.

The Budget Balanced

The budget for 2016/2017 is balanced for all Governmental Funds.

In addition, the City has three enterprise funds: Water and Sewer, Senior Housing (Meadowbrook Commons), and the Ice Arena. While the enterprise funds are not required to have formally approved budgets, the City has created balanced budgets for all three. These funds are set to operate on the fees they charge. All three of these funds are meeting their prescribed goals, keeping revenues over expenses, and have sufficient capital reserves to be able to maintain current assets within budget.

The Trends We Are Seeing

Our local economy is getting stronger. Residential developments will continue as Novi's reputation of maintaining and growing home values ranks highest in the nation. The region's economy is also gaining strength, but there is still uneasiness as the national growth model seems fragile. Technology has a large impact on business growth. Companies of all sizes can place their facilities anywhere in the world. This is why we must maintain focus on things within our control. We must build on goodwill and relationships as others become the best sales force for our community. Being innovative includes looking at everything we do and figuring out how we can add value.

Our Community Development Department is currently going through a transformation. Every aspect of operations is being reviewed and reinvented with regard to how we work with developers and investors in our community. We are currently reviewing the fees and costs of our processes to see if they are all necessary to complete high quality projects. Projects held up in the review and approval process do not substantially help the City's bottom line. Having projects completed and developments occupied directly impact the tax revenue the City generates. Developers and investors become part of our sales force as they speak highly to their colleagues and partners

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about our innovative team approach where we treat time as a commodity.

Finishing up the Community's Master Plan for Land Use should challenge us to re-grow some of our underutilized areas and maybe rethink land uses and densities in certain areas of the city.

In conclusion, there is a continued slow growth across southeast Michigan, but Novi retains stronger growth than the regional pattern. The U.S. economy is still fragile. The State of Michigan shows no sign of changing how communities are funded, so the City of Novi should continue to rely on the sound fiscal management of paying for projects, equipment, and infrastructure as we go and continuing to look for opportunities to grow our business corridors.

Respectfully submitted,

Peter E. Auger
City Manager