CITY COUNCIL AGENDA

CITY OF NOVI
Special Budget Session
April 17, 2024 | 7:00 PM
Council Chambers | Novi Civic Center | 45175 Ten Mile Road
(248) 347-0460

CALL TO ORDER

PLEDGE OF ALLEGIANCE

ROLL CALL – Mayor Fischer, Mayor Pro Tem Casey, Council Members Gurumurthy, Heintz, Smith, Staudt, Thomas

APPROVAL OF AGENDA

APPROVAL OF MINUTES

1. Approve Minutes of:
   April 3, 2024 - Special Budget Session

PURPOSE OF SPECIAL MEETING: 2024 - 2025 CITY OF NOVI BUDGET

1. Proposed 2024-25 Budget, Revised

2. City Council Discussion and Decisions Regarding the Plan Priorities

AUDIENCE COMMENT – In order to hear all citizen comments at a reasonable hour, the City Council requests that speakers respect the three-minute time limit. This is not a question-answer session. However, it is an opportunity to voice your thoughts with City Council. Speakers wishing to display visual materials through the City's audiovisual system must provide the materials to the City Clerk's Office no later than 12:00 P.M. the day of the meeting. The materials cannot be changed before the meeting.

ADJOURNMENT

NOTICE: People with disabilities needing accommodations for effective participation in this meeting should contact the City Clerk (248) 347-0456 at least two working days in advance of the meeting. An attempt will be made to make reasonable accommodations.

REGULAR MEETING OF THE COUNCIL OF THE CITY OF NOVI
WEDNESDAY, APRIL 3, 2024 AT 7:00 P.M.

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

PLEDGE OF ALLEGIANCE

ROLL CALL: Mayor Fischer, Mayor Pro Tem Casey, Council Members Gurumurthy, Heintz, Smith, Staudt, Thomas

ALSO PRESENT: Victor Cardenas, City Manager
Tom Schultz, City Attorney

APPROVAL OF AGENDA:

CM 24-04-38 **Moved by Thomas, seconded by Smith; MOTION CARRIED: 7-0**

To approve the agenda as presented.

Roll call vote on CM 24-04-38 **Yeas: Casey, Gurumurthy, Heintz, Smith, Staudt, Thomas, Fischer**
Nays: None

PURPOSE OF SPECIAL MEETING: 2024 - 2025 CITY OF NOVI BUDGET

1. Proposed 2024-25 Budget

City Manager Cardenas thanked the Council for their engagement since receiving the budget. He said the theme of the budget was "Building Community Together" and it has a Lego theme. He explained that before it got to Council, staff from all departments brought everything together for Council's early budget input discussion. Next is this budget meeting and then consideration of the budget at the first meeting in May. He said there are different pieces that go into building the budget, including the CIP program, National Citizen Survey, the Master Plan, and several other documented master plans. He said we're governed and guided by three buckets that help with the goals, which are invest, operate, and build. He said this was a balanced budget. He said he knew Council has always been very interested in and stress the important of fund balance. He said in 2024 they are estimating a rollover of $1.7 million. He said Council is always interested in personnel and explained they were proposing an additional employee to be an accreditation assistant that would be shared between Public Safety, Public Works, and Parks, Recreation & Cultural Services. That person will oversee the accreditations throughout the community. He said this budget was created under the guidelines set forth by the City Council and it is within the parameters of fund balance established by City Council, which is within 22%-25%. He said the staff was ready for any questions.

2. City Council Discussion and Decisions Regarding the Plan Priorities

Mayor Fischer said they will follow the same process as in years past and start with a first round where each Council Member can speak about the budget at a high level and share initial thoughts. He explained the first round would not have any motions and the second round they can dive into specific questions of staff and proposed changes to the budgets with motions.

Mayor Pro Tem Casey thanked the staff for their work. She said they've been talking as a Council about some big ticket items that will lead to other conversations they'll need to have as a Council. There is a need for library funding to make sure they are giving the library the funds they need to operate based on the higher resident count over the last few years. They've been talking about transformative projects like 12 Mile Road widening and repair, Public Safety buildings, Beck Road, ITC, and the possibility of a community center. All of those things are conversations they need to have as a Council and as a community to understand what the needs are and so they can make some forward plans and momentum. She also spoke about the tree fund and said they're starting to see a marked decrease in fund balance projected over the next few years. The tree fund is primarily funded from developers who build developments and can't replant so they pay into the tree fund. She said they need to be conscious of the fact that they are seeing a decrease in fund balance. If that continues to be the way that the tree fund continues to operate, they'll have to talk about how that looks and how to continue to fund tree plantings in the city.

Member Thomas said she appreciated the level of detailed information about what the funds are and how everything should function. She said she was a little concerned that we didn't receive some of the backup they had in the past, like the breakdown of details. She said sometimes when you look at some of the big buckets, you want to know what comprises it and she would appreciate that level of detail. She said the library caught her eye and watching the fund balance go down is scary. She wanted to make sure they're paying close attention and don't put it off too long. The library is the gem of the community, it's a communal place where people get together. She said she would like more information on the tree fund to know where tree fund costs are going and to make sure the personnel head counts are appropriated correctly. She said it looks like we don't get a lot of grants, however, we are a more affluent community. She wanted to make sure that the city is paying attention and applying for grants that are appropriate.

Member Heintz thanked staff for their hard work in putting the budget together. He said he appreciated the detail and definitions in the budget because he's going through this for the first time. He said he was interested in saving money where we can so we can spend money when we want to. He said he was trying to be fiscally responsible and was looking forward to continuing to learn that process. He wondered if there were different visuals that could be helpful in understanding how money is shifted from categories.

Member Gurumurthy thanked the staff for the time and effort in putting the budget together and helping her catch up to speed. She said they just finished the goal setting and they identified short-term and long-term goals. She wanted to make sure they were looking at making sure they have a budget planned and keeping that in mind. She said she understood there are things we cannot plan in the budget right now, but they should always keep it in mind moving forward. She said they've asked for quarterly updates with respect to goals. She said one of the goals is about the strategic plan and the future of Novi. She was interested in finding a way to save a recurring amount as an emergency fund for the strategic plan. Then when they are ready to do it and the plan is clarified, they will have that money ready. She said there are opportunities to set some goals like reducing the cost of something by 5% and she wanted the group to find innovative ways.

Member Smith said it's a lot of work to put the budget together and appreciated the opportunity to ask questions because that makes it a better process. He said we have some big items coming up like roads, parks, possibly a community center, and public safety improvements. He said they want to get feedback from the residents on what direction to go because they are ultimately paying the bills.

Member Staudt said he's been on Council for 17 years and he's seen good, bad, horrible, and great times. He said they're in a really good position for great times right now. He said he starts with fund balance as his guide to the health of the city and that's something they're going to have to work on in this budget. He said they need to know what's in the second and third year of the budget because that's a guide for staff to know what Council's expectations are.

Mayor Fischer thanked staff for their hard work. He said he starts with fund balance in the general fund because he considered that to be a very good indicator of the operations of the city. He said he was very concerned about the trends in this budget, and he's analyzed it quite a bit. He said he felt like we're starting to walk away from some of the historically sound policies and practices. He wanted to talk about high level policies that he would like to see implemented and changed in this budget year to make sure they are headed back on the right track. He said he had concerns about the financial policies that were implemented in this budget and the trends he's seen. He said he heard this was a balanced budget, that our revenues equal expenditures, but that isn't true in this budget year. There is a shortfall of a million dollars. He said he heard that we're in our target range, but realistically this is the first time he could remember being in the target range because they are usually above it. He said people might ask what's the issue with being in the target range. He said once you start looking at the historical number, you see that causes a bit of an issue. He said he wanted to talk about the general fund and a potential change in how they view it. He said Council has an obligation to be very transparent with residents. With the general fund being kind of the operating fund, it's important to see how that expense looks like it's in isolation as far as how we're running the city versus our one-time expenditures and capital. It's all combined into one fund right now and that can vary greatly. In the last couple years, they've had $2 million of capital and $4.5 million of capital and then it falls down to $3 million of capital and that variation is unfair. He said he wanted to create a new fund where we move the capital expenditures of the general fund and the Parks and Rec fund into that new capital fund. He explained that right now it's like we put our whole paycheck into a checking account and we pay our utilities and grocery bill every week, but we also try to save for a new rood every 10 years in that checking account. He said in most households, you have a savings account that you put some money away and you pile it up so you're ready for that roof every 10 years. He views the general fund and the Parks and Rec fund currently as our checking accounts and this new capital fund as the savings account. It will allow us to plan properly and save up for those items but also align with our CIP Plan. He said if you've ever tried to understand the rollover process, he understood that it would actually make that process easier as the rollovers are typically capital, and they would all be held in one fund. He asked Finance Director Johnson if this was a common practice and if he's seen it in other municipalities. Finance Director Johnson said it's a matter of preference. There's no accounting rules or regulations that state you must do it one way or the other. He said is eliminates the variability of the one-time expenditures, which is an advantage. He explained the confusion with the rollovers is that there are supply chain issues and it's taking years to buy some of the significant equipment like large dump trucks and fire trucks. So, what's happening is that Council is approving a budgeted amount in this fiscal year, but not getting a bill for it for two years. That leads to confusion because they approved it last year, then they roll it over, and it's re-budgeted the next year. This would eliminate the need to continue to roll it over. They would take the money that was set aside to fund it and put it into the account by itself and the account would only have the monies that were appropriated for it and the related expenses. He said in the years where we don't spend the money, it would just sit the and not distort the general fund's budget. He explained that if they want it done this year, it would be a substantial change, but wouldn't impact the net budget. They would have to remove all of those capital expenditures out of the general fund, and the Parks and Rec fund, from every page of the budget and move it to the new fund. It would substantially change the budget document, but they could do it. Mayor Fischer said he talked about the rollovers being in that fund and he thought they could call that an already spent fund balance, but they could also have unassigned fund balance in case they were to come under. It was the concept of being able to build up some sort of fund balance for future capital expenditures in that fund or transfer from other fund that they wanted to build up a fund. Finance Director Johnson said that was correct and there's nothing that says you must keep only the amounts for what's budgeted. To the extent you have a purchase planned in the future and you want to start putting money aside, you definitely can. Mayor Fischer said they weren't looking at changing dollar amounts in the budget. It's just trying to split this from a transparency perspective.

CM 24-04-39 Moved by Fischer, seconded by Smith: MOTION CARRIED: 7-0

Approval to direct staff to create a capital fund and to move over the expenditures from the Parks and Rec fund and the general fund into the newly created capital fund.

Member Thomas wanted to clarify if this was something they wanted in the budget now or can it wait until July 1st, because Finance Director Johnson said it's a pretty substantial process. Mayor Fischer said he didn't have a preference. He said you get to the same point, but to not do the heavy lifting at this point, he was fine with it being done after the budget process and have it noted in the subsequent changes section that they intend to do that. Finance Director Johnson said after the budget meeting, they could put together a summary to show what it would look like. The budget document would stay the same, but there would be an amendment that comes forward to Council that they could do before year end.

Member Heintz asked if there were any other ramifications or impacts to a change like this. He said the total balance would be the same, but he wanted to make sure there weren't other impacts. Finance Director Johnson said they'll be taking $1 million from the general fund and $3-4 million from Parks and Recreation fund and transfer that out of those funds so there would be no net impact.

Member Staudt said to be clear, this was almost like operating on a cash basis for that account. As money comes in and money's expended, it will go up and down. Finance Director Johnson said yes, once you appropriate it, you spend it. The general fund would show you budgeted for $1.3 million of capital and once the invoices come in, that's when it gets paid. Member Staudt said he loved the idea and supported it.

Roll call vote on CM 24-04-39	**Yeas:**	**Gurumurthy, Heintz, Smith, Staudt, Thomas, Fischer, Casey**
	Nays:	**None**

Mayor Fischer said he wanted to dive into the fund balance and discuss the trends he has seen. He said the fund balance fell into the low end of the target range through the recommended budget projected years and that was not something he has ever supported. He said he created a chart that shows the last seven years' budgets. If you look at the actual percentages of the fund balance, the majority of the time it's been well into the thirties. Sometimes it's dipped into the high twenties, but it's never been below 25%, which is the maximum recommended in the target allocation. To get a budget that is below the 25% and then spends down to the low end of 22%-23% by the end of the projected years is rather concerning and something he would not support. He said he knows people will say it's in the target range and we should be ok, but he wanted to go back and figure out where we've been over the last couple years. Since 2020, tax revenues are up $4.6 million every year and revenue sharing is up $2.5 million every year, so we're bringing in $7.1 million every year that we didn't have 2020. He said he knew there were things that offset that, but we're still bringing $6.5 million more in 2024 than in 2020. He said we had a census adjustment of $1.5 million and we had Covid funds come in at almost $5 million yet the recommended budget from the City Manager has fund balance less than the recommended budget in FY 17/18. Putting that in perspective, we have a recommended budget of $10.2 million for fund balance on $44 million of expenditures this year versus $10.5 million recommended fund balance on $33 million of expenditures back in FY 17/18 and that was concerning to him. He said he got his old budget books out to try and figure out what was going on. He said we always project out a couple years and in the 2023 budget book for FY 24/25, it was assumed that we would spend $928,810 this bud get year. When we got this budget book of all the changes that have happened in the last 265 days, we somehow decided to once again assume we would need $928,810 and he didn't think that was a coincidence. We know we saw a $700,000 revenue increase from last year's projection to this year's projection, so our revenue went up and we decided to spend that $700,000. The first thing he would say is when we see new revenue come in or one-timers come in, we should be attacking debt. We should be attacking fundamental issues with our fund balance when we're actually spending more than we're bringing in. He said he didn't think we were doing that anymore. Next, he said he wanted to talk about the concept of a balanced budget now that we've parked the $700,000 of extra revenue. There have been a couple comments about pull aheads. We had $1 million in the budget at one time for cameras and we got an amendment to go ahead and pull them in FY 22/23 from FY 23/24. He asked for someone to explain more about the pull ahead meaning and what ended up happening with that $1 million. Finance Director Johnson said that was for body cameras for the Police and it was budgeted in out years. It was not in the current fiscal year's budget when it was approved by Council. When that happens, you add a million dollars to the expense, that's pulling forward budget items that are budgeted in the future into the current fiscal year. He said when that happens, it falls off the budget request. If you looked at last year's budget, that would now disappear when the budget comes out. It opens up that million in the out year because it was pulled forward. He said more than $3 million was pulled forward over the past two years. The assumption at the time was those pull forwards were use of fund balance. So again, it was an expense brought forward and we spent more than we brought in that year. Then we create a new budget and estimate what the revenues will be and for the expenditures, historically that match those. With those million dollars pulled forward and spent a year earlier, there was a million available and then the budget would've had new items added or if costs increased on the existing ones. He said one way or another, what's been happening is that there wasn't an excess million in the subsequent year's budget. It was presented to Council where revenues and expenses were equal, just using fund balance every time one of those items were pulled forward. There was never any excess left, it was reprogrammed to some other expenditure. Mayor Fischer asked if the City of Novi's policy is that a pull ahead is use of fund balance. Finance Director Johnson said yes, according to accounting rules, because there's no revenue for it. Mayor Fischer asked how that was different than any other budget rules or cash accounting rules. Finance Director Johnson said when it's pulled forward, if there's no revenue to match it, the only revenue source for it is the use of fund balance with the anticipation that you spend those funds in the following year where it was budgeted. Mayor Fischer said you don't see the good news the next year. Finance Director Johnson said historically, we've reprogrammed those funds. Mayor Fischer said for example, let's say we have $10 million of fund balance today. If for the next 10 years, staff presented a pull ahead of $1 million in each budgeted year, you would deplete the fund balance given your current policies and how you apply them. Finance Director Johnson said that's not a policy of ours because it contradicts the other policy that says the fund balance minimum is 22%, so we would not allow that to happen. He said in the years that we pull something forward, we'd be mandated to not fall below our policy limit. Mayor Fischer said absent the 22% floor, the way you pull ahead and spend it from fund balance but don't anticipate putting it back in fund balance, it would go away in 10 years. Finance Director Johnson said yes, but that's not the reality of what would happen. Mayor Fischer said illustratively, that's literally what we are doing by pulling ahead and deciding to still spend $10 million the next year. Finance Director Johnson said that's what's been done the last two years, but he didn't recall doing that in the previous 8 years. Mayor Fischer said now that the policy was clear to him, he didn't think that was a sound policy. He said when he looked through the minutes, it was clear to him by the maker of the motion that it was not to be put in the FY 23/24 budget. If we're going to use fund balance this year, we expect the fund balance to come back in subsequent years.

CM 24-04-40 Moved by Fischer, seconded by Staudt: MOTION CARRIED: 7-0

Approval to change the definition of a balanced budget to be that revenues equal expenses and staff must account for prior pull ahead items so that fund balance is not impacted by prior pull-ahead items.

Member Staudt said let's go one step further with this. We had pull aheads but we also had two years of million dollar shortfalls in revenue, which caused us to have a million dollars applied against fund balance in two years. He said when we know that we're going to have a million-dollar reduction in fund balance, why would we pull something ahead. He said that's double dipping, not just taking the amount we're pulling ahead and reducing fund balance. Now we also have a million-dollar allocation of fund balance because we made a bad estimate in the budget. Finance Director Johnson said it was a matter of timing. When the interest rates rose substantially and development stopped, it was subsequent to pulling forward some of that stuff. Staff monitors this and amended the budget downward for revenue but it came out worse that they thought. He gave an example that this past year, he went down a million dollars in projected revenues and we're currently running ahead on revenue. They address those things as they come up, but a lot of those things were unplanned. Member Staudt said they were unplanned but they're now in a position to fix it.

Member Gurumurthy said the example was very helpful. If we pull ahead $1 million for this year, then next year they want to get it back. She asked how that would be identified in the budget. Finance Director Johnson said historically the motion sheets may not have been specific enough, so they will identify if something is being pulled forward and ensure the next budget shows a surplus.

Member Heintz said in his mind, if he incurs an unexpected expense, he wouldn't try to recoup that expense immediately in the following year, but over the next 2 or 3 years. He questioned if there is value in having that flexibility to rebuild.

Mayor Fischer said Council has flexibility all the time and can use fund balance if there's some sort of emergency need. He said we have been doing a three-year budget for many years so they can see what's on the horizon for 3 years. When something is in year 2 or year 3 and they pull it ahead, they had anticipated that it would get spent somewhere and fund balance has always reflected that. He wanted to be able to say if they approve the three-year budget and fund balance is $10 million, then they pull something ahead, that year 3 still has fund balance at $10 million. He said his understanding of the current policy is that when we pull that ahead and we're at $10 million, they present a new budget and say expenses equal revenues, you used fund balance last year of a million dollars and you're now at $9 million. He didn't want to do that, and he didn't think it was a fiscally responsible way of viewing pull aheads. That's the reason for the change. Finance Director Johnson said pull aheads were a recent phenomenon and he didn't see them as a frequent occurrence going forward. He gave an example from last year when the heated gutters were pulled ahead from year 3. If you looked at the budget, the general fund said net revenues over expenditures by $66,000 in year 2 and 3. If they agree with the Mayor's policy, then the budget next year would start at $66,000 to the good. Historically, the City Manager's proposed budget would have this opening of $66,000 and try to find another capital item to move forward with. The fund balance was always deemed to be sufficient and they pass a balanced budget on an annual basis, but the pull aheads have really impacted that. Mayor Fischer said he was leading to an interesting point he was going to make. Last year's budget showed bad news of $900,000 this year but the good news of $66,000 next year. All of a sudden, this year they kept the bad news of $900,000 and wiped away the good news of $66,000 in this proposed budget. He said those are the things that were not sound in his mind and we need to correct that quickly. Finance Director Johnson said to address the $900,000, the motion was to remove it from the CIP Fund and use general fund balance. Mayor Fischer said the point was moving the $900,000 with no effort made to absorb it despite $700,000 of more revenue. It should not be going that way.

Member Smith said he wholeheartedly supported this and it makes it more clear what's going on. He said it was a more natural way for him to think about it and if he was going to spend this year, he wouldn't re-spend the next year. He said it gives them the flexibility to add things when they need to. If they have to react to something, like having the possibility to buy park land, they still can.

Mayor Pro Tem Casey said she wanted to read the policy to make sure she what the change was. She said she agreed with making the change. She said pull aheads were relatively new and they come from Council. They are decisions that they make as a Council to look at what's been budgeted and they say they want to accomplish that sooner. She said the gap was if they are taking something from year 2 or 3 and pulling it forward, they expect that money to still be available, but not spent. They are pulling it out of fund balance for today and putting it back into fund balance in a future year.

Roll call vote on CM 24-04-40 **Yeas: Heintz, Smith, Staudt Thomas, Fischer, Casey, Gurumurthy**
Nays: None

Mayor Fischer asked Finance Director Johnson if he would quantify the FY 22/23 pull aheads and the FY 23/24 pull ahead dollar amounts. He said we know at least $800,000 was pulled in FY22/23, which was then quicksanded. He asked what we have pulled into FY 23/24; he thought it was about $545,000. Finance Director Johnson said he would have to verify. Mayor Fischer said we have $700,000 of revenue that came in that we didn't account for and we had at least $800,000 of pull ahead that we probably shouldn't have spent. He asked if the $200,000 for senior transit was included in the budget. Finance Director Johnson said yes, it was in the Parks and Recreation fund. Mayor Fischer asked about the $250,000 for the senior department that was added to the budget last year from the general fund. Finance Director Johnson said that was in the current budget and is not assumed to go forward. Mayor Fischer confirmed that it was a one-timer, and they expect that to fall to fund balance. Finance Director Johnson confirmed that was correct. Mayor Fischer said last year they did a couple things that used up fund balance in the amount of $812,000, which included $500,000 for the Field of Honor, $250,000 for the senior department, and around $60,000 for the pull ahead from Member Smith. He assumed the $500,000 was still in the budget and available. Finance Director Johnson said the $500,000 was amended at the last Council meeting as part of the second quarter budget amendment in January. Mayor Fischer said about a year ago the Council allocated $500,000 for a project and it was decided to be used for other capital items in January. Finance Director Johnson said that was correct. Mayor Fischer asked if he thought that was clearly delineated in the budget amendment. Finance Director Johnson said he thought he wrote it clearly. Mayor Fischer said he saw $500,000 and the transfer from the capital improvement plan, but he saw no reference to any budgeted item. He thought if they had any idea that they were funding something with a different capital item without having a discussion on whether or not they wanted to stop that capital item, he didn't think they recognized what was happening in that budget amendment. He said he found that to be less than transparent and he was frustrated that they went ahead and spent that basically unbeknownst to Council. Finance Director Johnson said in the future he would do a verbal presentation about the details. Mayor Fischer said it would be a good idea to look at the presentation of how the budget amendments are shown to maybe show clearer charts on fund balance impacts and all of those funding mechanisms.

Mayor Fischer said this budget shows $10 million in fund balance, which is 23% and on the low end of their fund balance range. He would not be able to support that. He said they've talked about $700,000 of incremental revenue that came in and got eaten up. They've talked about $800,000 of pull aheads that somehow got eaten up. He said the $250,000 should flow to the bottom line. The $500,000 for the Field of Honor that was pushed aside and used. He said that adds up to about $2 million of funds that Council probably thought was in their back pocket. He was asking the City Manager to go back and instead of showing a $1 million reduction in the fund balance, he would like to see $1 million increase to fund balance by finding different structural and/or projects that can be delayed or canceled. He said it wasn't their job to line item or tell the City Manager how to do his job other than to give direction that this is not a financially sound budget that he would support. It's their job to set the budget policies and priorities. He said he wouldn't mind seeing some structural items that get pushed to FY25/26. He encouraged the administration to look at the chart he created. There are 7 types of budget and projections they have approved as a Council. They were approved with varying degrees of ideologies and backgrounds. He said the reason he wanted to go first was because when they get into the second round, they start talking about pulling ahead items and he didn't think he could support bringing anything into the current year showing that we're already spending a million dollars more than we're bringing in. He would like staff to come back with something more in line with what they've seen in the past. Then at the next meeting he would be more willing to hear rationale for different projects that they may want to move around.

Member Staudt said they've lost a million dollars in two years because of fund balance and bad estimates. He asked what would prompt him to not recover that million dollars and instead run them into additional fund balance deficit. He said they've had consecutive years where we're drawing down the fund balance and they put the salt dome in as an item which further reduces the fund balance. Having the fund balance at 23% leaves it at the bottom of the range and gives them no flexibility. He said he wants 30% so they have flexibility when they think it's appropriate. He asked the City Manager to provide an explanation of the logic behind this. City Manager Cardenas said that's a big question with many different factors. He said they've talked many times about the fund balance policy in terms of what those parameters are, which has guided them into this process. He said the salt dome wasn't something that was just brought up this fiscal year. It was brought to Council and the CIP Committee last year. Council members gave direction to take that money out of the fund balance and not the capital improvement fund. That can be seen in the CIP Committee meeting minutes from 2023. He said all of these things that have been done were with notification. He agreed they could have spelled it out better in the motion sheet and there is room for improvement. Those documents are full of a lot of numbers and literature that could be improved upon. He said he wholeheartedly understood that fund balance had been something the Council has been hawkish on, but they stayed within the guidelines they've been given. He said he hoped that since he began the position, he's been extremely forthcoming and presents information to Council with much more tenancy than year's past. He added they will continue to make improvements. He stated he heard the direction from Council that we need to be on the higher end of the policy, and they will do everything they can to reduce some of the capital and reduce some other structural spending to satisfy Council. Member Staudt said he was the one who hounded fund balance up from 17% in 2007 and the 23%-25% range, but that was never with the idea they would be in that range and spend down to it. It was always a worst-case scenario. He said we're in the best of times and maybe it's time to readjust that. He said they are the ones who decide how the money's spent, and they have no flexibility when it's at 23%. He said he wants to be clear that when they pass the budget, he'd like to see another million dollars in the next budget for fund balance and maybe another million after that. He said he wants to see it where they are at 30% or higher. He said when he was making decisions about fund balance several years ago, and the rollovers, little did he know that we were out $2 million because of estimates that were wrong. He said maybe he should have noticed it, but he trusts the administration to tell them important things. It should have been very clear that we are a million dollars down in our estimates. He said looking at the fund balance, this was going to be a painful year. Once they get an audit, maybe they'll get good news that they can add more to the fund balance and look at some of the other projects. He said it's easy to figure out expenditures, but it's harder to figure our revenue especially when it's variable. He said he wants to see a minimum of a million dollars increase in fund balance and he won't vote for a budget that doesn't have that.

Member Thomas said there were some new Council members and she wanted to have some things explained. She asked the Finance Director to explain the general idea of fund balance and what the purpose of having fund balance is. Finance Director Johnson said under the accounting rules, the fund balance is basically a rainy-day fund. It represents the City's savings account. Every year we collect our revenues and make expenses, and whatever is left over falls to fund balance. The general rule of thumb is a minimum of 15% because anything less impacts cash flow. Having more than 15% is a comfortable range, but in a city this size, you don't want to be at the 15% range. He said he believed our range was increased to 23%-25% because we have been running around 30%. It is for one-time items or significant events, like Covid, where we are impacted on the revenue side and can't cut the budget fast enough. It can be used and appropriated as the Mayor and Council see fit. Member Thomas asked how that impacts the city. Finance Director Johnson said if the bond ratings came to the city and you're at 15%, they would say that's low, and you may not get AAA bond rating. Some agencies rate differently though. Member Thomas asked if he knew what other communities had for fund balance. Finance Director Johnson said they can vary depending on the community and what their plans were. Member Thomas said looking at the budget, she saw a minimum of 22% and a maximum of 25% and she wondered where those numbers come from. Finance Director Johnson said that is the Council policy that was adopted by the Mayor and Council in the past. Member Thomas said there have been a lot of great points made so far, but she wanted to point out that they are staying within the guidelines that Council set. She said there are things that need to be addressed, but she didn't want to beat people up for being within the guidelines. She said if Council thinks those guidelines are insufficient, maybe they need to change the guidelines. If they are over the maximum in fund balance, they might be losing opportunities for the community. Moving forward, if they try to cut $1 or $2 million, she understands why they want to do that, but she wasn't sure they should cut beyond the max that was set by Council. She said she was concerned because in talking to members of the community, there is concern about roads deteriorating and she wanted to be sure they were cognizant of what's being cut. She said if they do want the fund balance to be higher, she wants to understand the reason behind it. She wants to make sure that the people who are paying into the city are getting their money's worth and that aren't just hoarding the money. They should use it to improve the lives of the people who live here. The people of Novi expect a certain level of service and we should make sure that we are providing that as much as we can while staying fiscally responsible. She reiterated that they have a minimum and a maximum and we're within that. If those guidelines are out of place, they should be changed. Finance Director Johnson clarified that the recommendation so far was that they don't want revenues to equal expenditures, but to reduce expenditures by another million dollars in the operating fund. Member Thomas asked if that still put them within the range. Finance Director Johnson said it would bring it to 28% if they cut $2 million. Mayor Fischer said that would still be lower than what they had last year. Member Thomas said she understood that, but questioned if it made sense to be above the max. She said maybe it does, but they should clarify that. Mayor Fischer said they've had those conversations before. He asked the administration for the general ledger detail. Finance Director Johnson said he would provide that the next day. Member Thomas said no matter where you cut, it's going to hurt something or you're going to lose something you were planning on. She said her point was they want to be careful and make sure they aren't cutting something important or anything necessary to the continued functioning of the city and its current level of service.

Member Heintz said they could try to see about opportunities for building back at a slower pace. He said he understood being fiscally responsible, but the idea of reducing a budget by $1 or $2 million was hard to comprehend. What's going to be either pushed out, cut, or reduced. He said knowing what would be removed or reduced would be helpful to know if it would be less impactful to do a smaller amount over time. Mayor Fischer suggested they do what they've done in the past and have the City Manager go back, sharpen the pencil, and make a proposal. The Council would receive all of the information with the impact of each proposed change. They would be able to discuss it at the next budget meeting. They'll see each individual line item. Member Heintz said he'd hate for that to have an impact on goals they've discussed recently.

Member Smith said he agreed they need to keep an eye on fund balance and also agreed they need to see the details on what's proposed to be cut. From there they can make decisions to see if they can actually get to $2 million the next year.

Mayor Pro Tem Casey said this has been a sensitive topic for many years. She remembered during Covid they were at 32% when it first started, and they purposefully let the fund balance grow so there was plenty of cushion because they didn't know what would happen with Covid. She said at that point she was comfortable keeping fund balance that high because they didn't know what would happen. She expected to see it start to get back down towards the normal numbers. She said there may have been conversations amongst Council that they'd like to see it higher, but the documentation, what they show the public, and what they've asked staff to hold it is 22% - 25%. If they want to talk about increasing it and maintaining a higher level, that would be a good conversation to have, but staff is doing what they've asked them to do. She said she'll be clearer in the upcoming year to see what we can do to cut out some expenses to start adding more to fund balance, but they don't generally put things in the budget that aren't necessary and important things to do for the community. Those cuts might come in and be harder than they thought. She said the salt dome has been on the CIP for quite some time. It's something they've been planning for, and it needs to get addressed. They could consider moving it out another year or two, but trying to go too deep to the bone too fast worried her in terms of what the trade-offs would be. She was looking forward to seeing the list of projects and maybe there's a balance they can reach. She said she doesn't like having too high of a fund balance. She knew it gave them many opportunities and they have taken advantage of those opportunities in the past. She said she is cautious when it gets up to 28% or higher because she wonders what trade-offs they are making on a current basis to have a fund balance that high. She said she wants to be cautious on how they plan for the future.

Member Gurumurthy said it's not easy to benchmark and compare our city because there are many variables. She would like to compare what percentage other cities have in fund balance as a minimum and maximum.

Member Staudt said he was there when they started building fund balance up when they were hit with an economic disaster. They had two choices. They could use a portion of the fund balance or lay people off and they laid a lot of people off. It's not a coincidence that they had a 30% fund balance, it was thought out. As a result of having a significant fund balance, they were in great shape when Covid hit. They didn't have to lay off employees or reduce services dramatically. He said they don't know when the next crisis will be, and they should be prepared for it. There are two ways. They use fund balance or cut expenses. He said he's been accused of hoarding money, but they do it because they have a vision. It's a rainy-day fund for when things get tough, and they want to be in a position to not lay off staff and not cut back services. He said experience may not teach you anything, but in this case, it's taught him the better they can protect the employees, the better they can protect the services. He said there was never a max and the 25% wasn't meant to be a max. He said if they have to creep back up slowly, that's great, but he wanted whatever they could afford to keep, and he didn't think they would be cutting too many services to get back there.

Mayor Fischer said he thought they were getting caught up on the percentage. He financial experts say to have 3 to 6 months of emergency savings in case you get laid off. A 25% fund balance is 3 months of our operating expenses which is $11 million. 33% would be $14.5 million. A few million dollars is a lot of money, but not in the grand scheme of savings. He said he didn't want to have a discussion on the percentage because they were really talking about whether or not they are saving $1 million. He said it made more sense to him to err on the side of caution and save $1 million. He said more importantly, it's the trend they were seeing that's the problem. He said they are at the highest earnings, and they have nothing to show for it in the fund balance. The structural problem is that they are spending more than they're bringing in and driving fund balance to the bare minimum.

AUDIENCE COMMENT:

Keith Elliot, 1988 Austin Dr., was present to highlight concerns about the deteriorating water quality around Shawood Lake. He said it's a beautiful resource that we are losing little by little over time. He said the wildlife activity has declined due to the muck in the shallow areas which is promoting the growth of aquatic weeds. He said some of the causes are fertilizer runoff and the amount of biomass in the lake. He said they've spent lots of time and money to try and mitigate the issue. Since the City of Novi owns the majority of Shawood Lake and the fact that it has a shoreline along Lakeshore Park, he believed the city should help improve the water quality of the lake. He said they've investigated dredging and chemical treatments, but it's expensive and requires repetition. He said there may be a potential solution that is environmentally friendly and significantly less expensive than dredging and could reverse the deterioration of the lake by decreasing the excess nutrients using beneficial bacteria and aeration. He said it deserves to be reviewed.

ADJOURNMENT – There being no further business to come before Council, the meeting was adjourned at 8:41 P.M.

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Cortney Hanson, City Clerk

____
Justin Fischer, Mayor

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Transcribed by Alyssa Craigie,
Administrative Assistant

Date approved: April 22, 2024

MEMORANDUM

TO:	MAYOR AND CITY COUNCIL
FROM:	VICTOR CARDENAS, CITY MANAGER
	CARL JOHNSON, CHIEF FINANCIAL OFFICER
SUBJECT:	BUDGET SESSION 2.0/BUDGET QUESTIONS 3.0
DATE:	APRIL 10, 2024

During the first budget session for fiscal year 2024/25, the administration was directed by City Council to provide recommendations for increasing the General Fund fund balance to an amount exceeding the target percentage approved by Council resolution a few years ago (22%-25%). The discussion generally contemplated that the increase would come from reducing expenditures by approximately $2 million for fiscal 24/25 and an additional $1 million annually for 25/26 and 26/27, increasing fund balance to the 30%+ range. The specific request was to identify various capital and/or operating reductions that could be made to meet the desired fund balance levels.

The proposed budget for FY 24/25 had revenues equal to expenditures —with the notable exception of one specific proposed use of fund balance for a new salt dome at the DPW. The recommendations that follow propose

1. funding the salt dome from other funds (i.e., no longer the General Fund), and
2. reducing operating/capital costs to achieve revenues more than expenditures of $1 million annually for each of the next three years.

The salt dome realistically has to be built this year, but other expenditures can be put off or abandoned to meet the target percentage.

SALT DOME ($928,810)

The reconstruction of the salt dome storage is a significant project, and staff strongly recommends proceeding as scheduled. This project has continually been "kicked down the road" going back to 2016. Planned as part of the reconstruction of the DPW facility in 2019, it was removed from the project as a cost savings but was kept in the Capital Improvement (CIP) Fund. During the discussions leading up to the approval of the FY 2023/24 budget, members of City Council on the CIP Committee recommended the salt dome project be removed from the CIP and be a planned use of General Fund fund balance. This project has been in the works for months (the dome has been emptied and readied for demo) and is ready to begin in July 2024.

It is the administration's first recommendation to use a combination of CIP, drain and possibly road funds to cover the General Fund's portion of this projectIf the use of the

CIP fund is not desired, the City could use a combination of municipal road funds (which will be freed up if the Council moves forward with the $20 million in road bonding discussed during the budget study session) and drain funds.

General Fund Operating and Capital Reductions

Approximately 76% of the City's annual budget is salaries and fringe benefits, which include the significant pension contributions driving that percentage slightly above the industry average of 70-75%. To reach the significant level of expenditure reductions requested, personnel must be included. The following are some of the key items involving capital projects, operating costs, and personnel noted in the attached plan:

Fiscal 2024/25

- Do not fill the vacant Plan Examiner position. (Annual savings of approximately **$110,000**.)
- Eliminate Accreditation Assistant (Annual savings of **$78,900**)
- Do not fill the vacant Economic Development Manager (formerly the Director role) position. (Annual savings of **$138,000**.)
- The City is currently on a five-year replacement cycle in replacing fleet vehicles to reduce repair costs and maximize trade-in values. The City would skip a year in this cycle and not purchase the scheduled six (6) vehicles. (Savings of approximately **$215,000**.)
- The City is currently on a seven-year replacement cycle in replacing fleet truck vehicles to reduce repair costs and maximize trade-in values. The City would skip a year in this cycle and not purchase the scheduled two (2) vehicles. (Savings of approximately **$158,000**.)
- Eliminate the **$25,000** transfer from the General Fund to the EDC for the next three years, as the EDC has no plans for the use of these funds and has a healthy fund balance to cover events.

The above-recommended savings (including moving the salt dome out of the General Fund but still building it) represent a reduction in General Fund expenditures of approximately $1.6 million, bringing the fund balance to a projected $12.1 million, which represents 29% of FY 24/25 expenditures. To obtain an additional $773,000 in reductions, additional cuts could be made:

- Do not make the annual purchase of the large plow truck CIP #94 (two-year build on these vehicles). (Savings of **$332,000**.)
- Push generator replacement at Civic Center off from FY 24/25 to FY 27/28. (Savings of **$441,000**).

Fiscal 2025/26 and 2026/2027

In addition to the above positions not being filled and the EDC transfer not being made, the administration proposes the following:

- Remove the proposed two (2) new positions for training officers. (Annual savings of **$220,680**.)

- Remove the proposed two (2) new positions for fire training assistant and fire inspector. (Annual savings of **$223,820**.)
- Annual department savings (across the board), which the council previously directed to put toward capital rather than pension, would go directly to the fund balance, totaling **$150,000**.

The above-recommended savings represent an expenditure reduction of approximately $956,639 and $980,087 for FY 25/26 and FY 26/27, bringing the fund balance to a projected 31%, or $14 million, by 6/30/27. If the plow truck and generator are not spent, fund balance would be 33% or $15 million.

Additional Resources

All of the above actions to meet the 30%-plus fund balance discussed are reductions in expenditures (including through the use of different funds for the salt dome). It should also be noted that other resources at the City Council's disposal can be leveraged for needed projects or expenditures at any given time. The CIP Fund, specifically, is available for any capital-related projects as outlined in the specific ballot language (except for roads).[1] The projected remaining funds available in the CIP Fund on 6/30/24 is $2.1 million, including the recent property purchases.

[1] In August 2016, voters approved (3,330 to 3,243) a 1-mill Capital Improvement millage for 10 years. The purpose of the millage was to cover a gap in the city's budget where most tax dollars went to pay day-to-day operations, leaving little left over to fund long-term capital needs. Year to date the millage has raised $26,959,000 (FY's 2018-2024).

BUDGET QUESTIONS 3.0

1. **Please provide the official Fund Balance policy and advise when it was approved?**

A. Current Policy. From the City's Annual Audit document
The City follows the City Council's adopted, by resolution, fund balance/reserve policy. The policy establishes a reserve to pay for expenditures, states the City will attempt to obtain additional revenue sources to ensure a balanced budget and aggressively collect revenue, establishes user charges and fees at a level to take into account the cost of providing the service, maintain a level of reserves to comply with terms and conditions of debt instruments, and review fund balance/reserves annually during the budget process. In addition, in the event the level of expenditures exceeds the estimated appropriations, the City will create a plan to replenish fund balance/reserves within three years by controlling operating expenditures, adjusting operations and/or dedicating excess or specific revenue sources. The policy establishes a minimum reserve as a percentage of budgeted expenditures of 22-25% in the General Fund, 10-20% individually and collectively amongst the three road funds, 12-22% for Parks and Recreation, and varying reserves for the remaining special revenue funds dependent on the funds yearly activity and capital needs

B. City moved from 14-18% to 18-22% in 2011

https://cityofnovi.org/Novi/Minutes/Council/2011/110124.htm

C. Amendment in September of 2011 to encompass other funds

https://cityofnovi.org/Novi/Minutes/Council/2011/110912/2-AmendCitysFundBalance-ReservepolicytoincludecertainSpecialRevenueFunds.pdf

D. Change to current 22-25%

https://cityofnovi.org/media/dfzn1rum/452017_170405.pdf

CM 17-04-050 Moved by Staudt, seconded by Wrobel; MOTION CARRIED: 5-2

To change the City Council Fund Balance Policy for the General Fund to increase the range from 18%-22% to 22%-25% effective with this budget.

Member Wrobel wondered if this passes how this would be looked at by the financial institutions. Finance Director Johnson said they have been able to increase the rating from S & P, when he talked to Moody's we got a bump up to the second highest rating. One of the items they recommended was Fund Balance and their target is 43%-45%, so any increase looks well to the rating agencies. Mayor Gatt said he learned from the best, Mr. Brooks Patterson. Mayor Gatt insisted on a 3 year budget when he became

Mayor and was told it couldn't be done. Mr. Patterson has had an AAA Bond Rating for years and his Fund Balance is about 40%. Special Meeting of the Council of the City of Novi Wednesday, April 5, 2017 Page 11 Roll call vote on CM 17-04-050 Yeas: Wrobel, Gatt, Staudt, Burke, Mutch, Nays: Casey, Markham

2. **Please provide a history of the Fund Balance amount going back to 2000?**

	Fund Balance		Expenditures		FB%	
Fiscal Year	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
24/25	10,209,830		44,100,000		23%	
23/24	12,161,923		42,024,747		29%	
22/23	11,660,827	14,445,394	39,995,555	41,374,300	29%	35%
21/22	11,564,043	16,409,153	37,036,890	37,657,226	31%	44%
20/21	9,968,668	13,675,202	35,342,824	37,145,329	28%	37%
19/20	10,347,085	10,596,128	35,622,849	35,742,115	29%	30%
18/19	11,155,123	11,297,109	34,815,376	35,242,582	32%	32%
17/18	10,590,619	11,819,066	33,484,730	33,627,514	32%	35%
16/17	11,189,911	12,905,841	33,288,909	32,855,622	34%	39%
15/16	8,621,500	13,745,202	31,249,612	31,858,979	28%	43%
14/15	7,743,968	12,357,647	30,423,995	29,038,582	25%	43%
13/14	6,228,792	9,490,017	29,878,687	29,308,072	21%	32%
12/13	7,008,191	8,811,564	29,786,566	30,084,543	24%	29%
11/12	6,175,704	9,564,600	28,484,075	28,159,739	22%	34%
10/11	6,471,892	11,417,075	28,148,605	28,041,078	23%	41%
09/10	5,323,185	9,710,402	30,095,493	28,248,221	18%	34%
08/09	5,940,449	10,314,220	33,039,201	32,083,184	18%	32%
07/08	5,737,330	12,413,039	33,973,972	31,347,750	17%	40%
06/07	5,015,930	11,614,777	32,648,670	30,697,031	15%	38%
05/06	3,795,852	10,513,370	27,113,892	26,198,303	14%	40%
04/05	3,697,380	7,204,337	24,862,196	24,480,845	15%	29%
03/04	3,445,501	5,133,307	23,966,235	23,941,919	14%	21%
02/03	2,295,668	5,293,046	22,956,682	22,142,897	10%	24%
01/02	1,906,289	4,700,855	21,251,828	21,405,614	9%	22%
00/01	1,411,348	4,404,123	20,391,854	18,942,254	7%	23%

3. **Why was the $900k transferred in from Muni Street Fund during Amendment #1? My guess is that it was to keep minimum fund balance at $1.2M (10%) per the policy. Which (again) begs the question, if we transferred in $900k to plug the hole, and then we had underruns, shouldn't the motion sheet clearly call this out so that council can understand that instead of reversing a portion of the transfer, you are**

recommending we fund a project not originally contemplated in the budget (or any version of amended budget) with said underruns?

In general, both the major and local street funds are kept at their fund balance minimum of 10% as we spend every dime of these funds, and additional funds are transferred from the Municipal Street Fund as needed. Because of that, any increase or decrease in revenue or expenses results in an increase or decrease in the funds transferred from the Municipal Street Fund. Amendment #1, referred to in the question, is the rollover amendment that was mentioned the other night, which had a total of $4,521,140 of contract balances remaining as of 6/30/23; the remaining subsidy related to them from prior years from the Municipal Street Fund specifically was the $900,000.

4. **Why was the Industrial Rehab Project increased by $900k in Amendment #1, and now is coming back in at original budgeted amount? (Coincidentally, driving the need to transfer in $900k).** The increase was the exact balance remaining in the budget at 6/30/23 that was a rolled over. As stated above, the $900k transfer in was the amount of the rollovers covered by the Municipal Street Fund.

5. **It appears you are double counting the Fountain Walk project in your 2023/2024 estimated budget.** The amendment to move the savings between the lines in the Major Street Fund was originally posted in error twice and then reversed once we saw that. Unfortunately, it looks like the information you have was before the reversal. At this point, there is no net impact on the overall fund as it was again just moving amounts between the capital outlay line items.

6. **Please provide fund balance policies for General Funds in our comparable communities.**

Rochester Hills
Page 60 of the 2022 Annual Comprehensive Financial Report has a section related to Fund Balance Policies, including that "At a minimum, the fund balance of General Fund and Special Revenue Funds will be maintained at twenty percent of operating revenues". Additionally, their 2024 Adopted Budget Plan Book (pg 44 - 45) goes into further detail on their Fund Balance/Reserve Policy that was initially adopted on June 4, 2018. I have attached both the agenda summary and the proposed Policy from the 2018 meeting.

Troy
2023/2024 Adopted Budget Page 23 indicates: "RESERVE POLICIES The City accounts for reserves in accordance with Governmental Accounting Standards Board (GASB) No. 54. City policy calls for a range of General Fund unassigned fund balance between 20% to 30%. A financial plan is required should the General Fund unassigned fund balance fall outside of this range". Earlier adopted budgets reference the same percentage rate as having been adopted by City Council as a General Fund Balance Policy in 2014 wherein "*The policy states the General*

Fund must maintain a minimum unassigned fund balance at a level of 20% to 30% of annual expenditures. This Fund Balance policy is used to guide City administration in future fiscal situations while providing stability and flexibility to respond to unexpected opportunities or economic adversity. Fund Balance is used to cover costs of one time, capital expenditures." (2015-2016 Budget pages 4-5)

Auburn Hills

Page 43 of the 2022 Annual Financial Report states *"The City's fund balance policy proscribes the minimum unrestricted fund balance as 20 percent of operating expenditures in the General Fund. This is deemed to be the prudent amount to maintain the City's ability to meet obligations as they come due throughout the year."*

Canton

Page 12 of the 2022 Annual Comprehensive Financial Report offers that, as part of long-term Financial Planning *"The Board maintains a fund balance policy which requires a minimum of fifteen percent (15%) of total expenditures for the four major funds: General, Roads, Fire and Police. Unassigned fund balance in the General Fund (as reported to be in compliance with GASB Statement No. 54) amounted to 17.11% of total General Fund expenditures."*

Farmington Hills

Page 32 of the Adopted FY23-24 Budget lays out Financial Policies and includes "*The City will strive to establish and maintain an unassigned fund balance of 15-25% of the General Fund expenditures for the subsequent year to pay expenditures caused by unforeseen emergencies, cash shortfalls caused by revenue declines or delays and mitigate the need for short term borrowing."*

City of Rochester Hills
Governmental Fund Balance Reserve Policy
Recommended May 23, 2018

Governmental Fund Balance Reserve Policy Purpose:
Sound financial management policies and practices are of vital importance in maintaining and strengthening the long-term financial future of the City of Rochester Hills.

The City of Rochester Hills believes a Governmental Fund Balance Policy is essential to:

- Plan for contingencies from temporary revenue shortfalls or extreme weather events
- Maintain good credit standing with rating agencies
- Avoid unnecessary interest expenses by funding capital projects from reserves
- Generate investment income
- Ensure cash flow availability throughout the year
- Create a transparent and shared understanding of fund balance reserves between City Council, City Administration, and City stakeholders

Governmental Fund Balance Reserves are to be accumulated and maintained to provide stability and flexibility, and to respond to unexpected challenges and/or opportunities in order to help the City achieve its primary goals.

Governmental Fund Balance Reserve Policy Statement:
This policy establishes the desired funding levels under normal operating conditions that the City of Rochester Hills will strive to maintain in various governmental fund balance reserves, the specific conditions under which the reserves may be used, and how the reserves may be funded. This policy shall serve as a benchmark, or frame of reference, against which current and future decisions related to the use of governmental fund balance reserves can be made.

1. Governmental Fund Balance Reserve Levels:
Governmental Fund Balance Reserve Levels as a percentage of annual operating expenditures for the following funds shall be targeted at:

• General Fund	70-80%
• Local Street Fund *	20-25%
• Fire Operating Fund	20-25%
• Special Police Fund	20-25%
• Pathway Maintenance Fund	20-25%
• Green Space Operating Fund	20-25%

** = Target Range as a percentage of total expenditures, including capital outlay*

Governmental Fund Balance Reserve Levels as a percentage of annual operating expenditures for the following funds shall maintained at minimum:

- Major Road Fund 25%
- Tree Fund 25%
- Water Resources Fund 25%

Certain other governmental funds with special purposes (RARA Millage, OPC Millage, Debt Service Funds, Capital Project Funds, Permanent Funds, etc...) are not included and are exempted from this policy due to the unique nature of their individual functions.

The use of governmental fund balance reserve balances ***above*** the target or minimum levels as stated in (1) above will be allowed as directed by City Council. Under normal operating conditions, General Fund balance reserve levels ***above*** the target level as stated in (1) shall be transferred-out to the Capital Improvement Fund (CIF) to provide a funding source for future citywide capital improvements.

As part of both the annual Budget Presentation and the 4th Quarter Budget Amendment processes, the Chief Financial Officer shall prepare reports documenting the status of the governmental fund balance reserves with regard to this policy.

2. Governmental Fund Balance Reserve Usage:
The use of governmental fund balance reserves to fund on-going recurring operational activities is to be avoided under normal operating conditions. If at any time the utilization of governmental fund balance reserves is necessary to maintain or improve the quality or level of current services, an explanation of the circumstances along with a strategy to replenish the governmental fund balance reserves in the future must be presented and authorized by City Council.

Use of governmental fund balance reserves may be considered for City Council authorization if any of the following reasons exist:

- Capital Improvement projects
- Opportunity to leverage City funds as a matching funds with external funding sources including grants or donations for potential projects
- Opportunity to advance construct projects prior to the availability of external funding sources
- Opportunity to reduce future operational expenditures
- Loss of a significant budgeted item(s)
- Economic downturn
- Local disaster
- Monetary judgment against the City
- Unfunded mandates
- Temporary gap in funding

Usage of Capital Improvement Fund (CIF) fund balance reserves is limited to no more than 50% of the available fund balance reserves in the CIF in one particular year. City Council is authorized to permit the usage of over 50% of CIF fund balance reserves in one particular year pending City Administration presenting an explanation of the circumstances.

3. Governmental Fund Balance Reserve Restoration:

Should a governmental fund balance reserve level fall ***below*** the prescribed target or minimum levels stated in (1) above, City Administration shall present a Fund Balance Reserve Financial Recovery Plan before City Council within 90 days including a prudent financial plan to restore the governmental fund's reserve balance to the prescribed target or minimum level, stated in (1) above, within three (3) budget years of its occurrence. The restoration of governmental fund balance reserves will generally come from excess revenues over expenditures or from one-time revenue sources.

4. Governmental Fund Balance Reserve Review:

This Governmental Fund Balance Reserve Policy should be reviewed by City Administration and reaffirmed by the City Council Strategic Planning and Policy Technical Review Committee on an annual basis prior to the budget development cycle.

Fund Balance Definitions:

<u>Fund Balance</u>:

- The accumulated difference between (a) fund assets and deferred outflows of resources and (b) fund liabilities and deferred inflows of resources in a governmental fund.

<u>Fund Balance Reserves</u>:

- Includes components of fund balance which are considered available and spendable
  - The four (4) combined fund balance components of Restricted, Committed, Assigned, and Unassigned are considered as Fund Balance Reserves.

<u>Fund Balance Components (per GASB Statement No. 54)</u>:

- **Non-Spendable:**
  - Includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
    - Not in spendable form includes items that are not expected to be converted to cash, for example, inventories and prepaid items.
- **Restricted**:
  - Includes amounts when constraints are placed on the use of resources by either:
    - Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments
    - Imposed by law through constitutional provisions or enabling legislation
- **Committed**:
  - Includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council
    - Committed amounts cannot be used for any other purpose unless the government removes or changes the specific use by taking the same type of action it employed to commit those amounts
- **Assigned**:
  - Includes amounts that are constrained by City Council *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by the City Council to assign amounts that are to be used for specific purposes.
- **Unassigned**:
  - Includes residual General Fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.
    - The General Fund should be the only fund that reports an unassigned fund balance amount

City of Novi - General Fund	2023-24	2024-25	2025-26	2026-27
Per Original Budget Document				
Total Revenues	$ 41,548,527	$ 43,186,528	$ 45,220,574	$ 46,351,837
Total Appropriations	44,855,281	44,115,338	45,220,574	46,351,837
Net Revenues (Appropriations)	(3,306,754) A	(928,810)	-	-
Beginning Fund Balance	14,445,394	11,138,640	10,209,830	10,209,830
Ending Fund Balance	11,138,640	10,209,830	10,209,830	10,209,830
Fund balance as a % of expenditures (council set goal: 22-25%)	**25%**	**23%**	**23%**	**22%**
Proposed Budget Adjustments	**2023-24**	**2024-25**	**2025-26**	**2026-27**
Appropriations				
Move salt dome to CIP or Muni Streets/Drain Fund	-	(928,810) B		
Remove the following vehicle purchases:				
LDV030 LDV w/ Plow 695 - DPW Field Oper	-	(78,980) E		
LDV028 Pool Vehicle 148 - City Hall	-	(34,950) E		
LDV029 Pool Vehicle 149 - DPW		(34,950) E		
LDV027 LDV 145 - Assessing	-	(34,950) E		
LDV038 Vehicle - IS FM (501)		(34,950) E		
LDV031 LDV w/Plow 647 - IS Parks Maint		(78,980) E		
LDV037 LDV 142 - CD Planning		(40,490) E		
LDV035 LDV 629 - DPW Eng		(34,950) E		
Not fill Plan Examiner position in community development		(110,411) C	(113,723)	(117,135)
Not fill vacant Economic Director position		(138,000) C	(142,140)	(146,404)
Remove proposed new business & accreditation coordinator		(78,908) C	(81,275)	(83,713)
Remove proposed new training officers (2) positions			(220,680) C	(227,300)
Remove proposed new fire inspector and fire assistant training officer positions			(223,820) C	(230,534)
Unspent budget amounts at year-end - all departments			(150,000) H	(150,000)
Remove OAS position	(250,000)			
Eliminate the General Fund transfer to the EDC	(25,000) D	(25,000)	(25,000)	(25,000)
Total appropriations increase (decrease)	(275,000)	(1,654,329)	(956,639)	(980,087)
Net increase (decrease) to fund balance	(275,000)	(1,654,329)	(956,639)	(980,087)
Additional possible reductions				
FT017 Single-axle RDS bondy truck with underbody scraper and wing plow (replace #602, 2011)	-	(332,408) F	-	-
Delay Civic Center Generator Replacement to 27/28	-	(440,640) G	-	-
Total additional possible appropriations decrease	-	(773,048)	-	-
Revised Proposed Budget				
Total Revenues	$ 41,548,527	$ 43,186,528	# $ 45,220,574	$ 46,351,837
Total Appropriations	44,580,281	42,461,009	44,263,935	45,371,750
Net Revenues (Appropriations)	(3,031,754)	725,519	956,639	980,087
Beginning Fund Balance	14,445,394	11,413,640	12,139,159	13,095,798
Ending Fund Balance	11,413,640	12,139,159	13,095,798	14,075,884
Fund balance as a % of expenditures (council set goal: 22-25%)	**26%**	**29%**	**30%**	**31%**
Fund balance as a % of expenditures with additional reductions	**26%**	**31%**	**31%**	**33%**

Notes

A The amended budget for FY 23/24 represents approximately $3,134,500 of capital expenditures from FY 22/23 that were not purchased in FY 22/23 but rollover to be purchased in 23/24. In addition, $250,000 for the new fire contract wages, $251,000 for MERS transfer policy, $40,000 for fire radio replacement and $318,000 for fire truck repairs and emergency generators at two fire stations.

B Assume the General Fund's share of the salt dome will be paid by the CIP Fund or the Muni Street/Drain Funds

C Cost includes salary and fringe benefits

D Conclude to not transfer funds out to the Economic Development Fund but to maintain funds to cover the year to date costs of the Economic Development Department. The annual levy of $50,000 a year is used to promote economic development within the City.

City of Novi - CIP

	2023-24	2024-25	2025-26	2026-27
Per Original Budget Document				
Total Revenues	$ 4,377,583	$ 5,017,000	$ 4,773,050	$ 4,885,100
Total Appropriations	13,501,158	207,000	93,050	5,100
Net Revenues (Appropriations)	(9,123,575)	4,810,000	4,680,000	4,880,000
Beginning Fund Balance	(3,695,068)	(12,818,643)	(8,008,643)	(3,328,643)
Ending Fund Balance	(12,818,643)	(8,008,643)	(3,328,643)	1,551,357

Proposed Budget Adjustments	2023-24	2024-25	2025-26	2026-27
Appropriations				
Removal of Field of Honors budget	(500,000) A			
Move salt dome to CIP or Muni Streets/Drain Funds	-	928,810 B		
Total appropriations increase (decrease)	(500,000)	928,810	-	-
Net increase (decrease) to fund balance	(500,000)	928,810	-	-

Revised Proposed Budget	2023-24	2024-25	2025-26	2026-27
Total Revenues	$ 4,377,583	$ 5,017,000	$ 4,773,050	$ 4,885,100
Total Appropriations	13,001,158	1,135,810	93,050	5,100
Net Revenues (Appropriations)	(8,623,575)	3,881,190	4,680,000	4,880,000
Beginning Fund Balance	(3,695,068)	(12,318,643)	(8,437,453)	(3,757,453)
Ending Fund Balance	(12,318,643)	(8,437,453)	(3,757,453)	1,122,547

A Transfer in from General Fund removed but expenditure budget remains and will be removed

B If the General Fund costs for the salt dome costs were to be paid by the CIP Fund

City of Novi - Major Streets Fund

	2023-24	2024-25	2025-26	2026-27
Per Original Budget Document				
Total Revenues	$ 7,003,738	$ 9,102,289	$ 6,459,638	$ 8,365,989
Total Appropriations	11,747,878	9,338,289	5,985,638	8,884,989
Net Revenues (Appropriations)	(4,744,140)	(236,000)	474,000	(519,000)
Beginning Fund Balance	5,919,485	1,175,345	939,345	1,413,345
Ending Fund Balance	1,175,345	939,345	1,413,345	894,345

Proposed Budget Adjustments

	2023-24	2024-25	2025-26	2026-27
Appropriations				
Reduce the budget for #2 in the CIP (Beck Rd) as it will be included in bonding		(800,000)		
Move salt dome to CIP or Muni Streets/Drain Funds	-	800,000 B		
Total appropriations increase (decrease)	-	-	-	-
Net increase (decrease) to fund balance	-	-	-	-

Revised Proposed Budget

	2023-24	2024-25	2025-26	2026-27
Total Revenues	$ 7,003,738	$ 9,102,289	$ 6,459,638	$ 8,365,989
Total Appropriations	11,747,878	9,338,289	5,985,638	8,884,989
Net Revenues (Appropriations)	(4,744,140)	(236,000)	474,000	(519,000)
Beginning Fund Balance	5,919,485	1,175,345	939,345	1,413,345
Ending Fund Balance	1,175,345	939,345	1,413,345	894,345
Fund balance as a % of expenditures (council set goal: 22-25%)	**10%**	**10%**	**24%**	**10%**

B If $800,000 of the General Fund costs of $928,810 for the salt dome costs were to be paid by the Major Street Fund

City of Novi - Drain Fund

	2023-24	2024-25	2025-26	2026-27
Per Original Budget Document				
Total Revenues	$ 5,328,267	$ 4,952,264	$ 3,117,001	$ 3,183,878
Total Appropriations	5,857,446	4,952,264	3,117,001	3,183,878
Net Revenues (Appropriations)	(529,179)	-	-	-
Beginning Fund Balance	529,179	-	-	-
Ending Fund Balance	-	-	-	-

Proposed Budget Adjustments

	2023-24	2024-25		2025-26	2026-27
Transfer in from Drain Perpetual Care Fund	-	128,810			
Appropriations					
Move salt dome to CIP or Muni Streets/Drain Funds	-	128,810	B		
Total appropriations increase (decrease)	-	128,810		-	-
Net increase (decrease) to fund balance	-	-		-	-

	2023-24	2024-25	2025-26	2026-27
Revised Proposed Budget				
Total Revenues	$ 5,328,267	$ 5,081,074	$ 3,117,001	$ 3,183,878
Total Appropriations	5,857,446	5,081,074	3,117,001	3,183,878
Net Revenues (Appropriations)	(529,179)	-	-	-
Beginning Fund Balance	529,179	-	-	-
Ending Fund Balance	-	-	-	-

B If $128,810 of the General Fund costs of $928,810 for the salt dome costs were to be paid by the Drain Fund (adjust Drain Perpetual Care Transfer)

City of Novi - Drain Perpetual CareFund				
	2023-24	2024-25	2025-26	2026-27
Per Original Budget Document				
Total Revenues	$ 81,000	$ 135,000	$ 435,000	$ 395,000
Total Appropriations	2,475,467	1,935,000	-	-
Net Revenues (Appropriations)	(2,394,467)	(1,800,000)	435,000	395,000
Beginning Fund Balance	6,987,251	4,592,784	2,792,784	3,227,784
Ending Fund Balance	4,592,784	2,792,784	3,227,784	3,622,784

Proposed Budget Adjustments				
	2023-24	2024-25	2025-26	2026-27
Appropriations				
Transfer to Drain Fund to cover salt dome costs	-	128,810 B		
Total appropriations increase (decrease)	-	128,810	-	-
Net increase (decrease) to fund balance	-	128,810	-	-

Revised Proposed Budget				
Total Revenues	$ 81,000	$ 135,000	$ 435,000	$ 395,000
Total Appropriations	2,475,467	2,063,810	-	-
Net Revenues (Appropriations)	(2,394,467)	(1,928,810)	435,000	395,000
Beginning Fund Balance	6,987,251	4,592,784	2,663,974	3,098,974
Ending Fund Balance	4,592,784	2,663,974	3,098,974	3,493,974

B If $128,810 of the General Fund costs of $928,810 for the salt dome costs were to be paid by the Drain Fund (adjust Drain Perpetual Care Transfer)

Budget Amendment #2024-1 September 25, 2023

GL #	Project/Item Description	Budget Category	Amount
	GENERAL FUND		
Expenditures			
101-172.00-816.002	Entryway Signage Grant Prgrm Residential	Other services and charges	49,435
101-215.00-816.062	SIP053 Recodification - City Clerk	Other services and charges	33,700
101-228.00-850.004	WiFi Access Point Replacements (16)	Other services and charges	8,997
101-228.00-850.999	Internal Technology - citywide (OnBase ELA subscription conversion)	Other services and charges	16,500
101-228.00-850.999	Internal Technology - citywide (Software)	Other services and charges	57,625
101-228.00-986.031	IFT005 Virtual Desktop (VDI) Server Repl	Capital Outlay	13,742
101-228.00-986.039	COR012 Domain Server Replace - Police	Capital Outlay	7,080
101-265.00-816.086	Public Safety Facility Needs Study	Other services and charges	79,000
101-265.00-816.087	Trailer Rental - Fire Station #1	Other services and charges	142,000
101-265.00-976.083	FAC016 Roof Replace - FS#4	Capital Outlay	284,882
101-265.00-976.126	FAC038 Bldg Genrtr&Tech incl cncrte- PD	Capital Outlay	178,265
101-265.00-976.135	FAC037 Elevator Mechanicals - Police	Capital Outlay	126,072
101-265.10-983.067	LDV014 LDV w/plow replace 697 DPW FO	Capital Outlay	18,810
101-265.10-983.071	LDV013 LDV w/Plow replace 641 IS PM	Capital Outlay	17,603
101-265.10-983.072	LDV015 LDV w/ Plow replace 651- DPW FO	Capital Outlay	18,810
101-265.10-983.090	SIP017 Vehicle (NEW POSITION) dept265.10	Capital Outlay	16,250
101-301.00-850.015	SIP024 Firewall Replace -Police Vehicles	Other services and charges	4,820
101-301.00-980.000	Communications equipment (911 phone system upgrade)	Capital Outlay	74,410
101-301.00-980.006	POL023 InCar Cameras & Body Cameras	Capital Outlay	801,373
101-301.00-983.000	Vehicles	Capital Outlay	300,000
101-301.00-983.100	Vehicle-new install	Capital Outlay	39,245
101-336.00-850.000	Internal Technology (5 toughbooks-Fire dept)	Other services and charges	20,862
101-336.00-982.075	COR023 Paging Talk Groups (10) - Fire	Capital Outlay	12,000
101-371.00-850.008	CDB002 CD Tech Upgr Ph2 - EPR & M Sftwre	Other services and charges	60,220
101-371.00-983.089	SIP005 Vehicle (NEW POSITION) dept371.00	Capital Outlay	39,080
101-371.00-986.030	CDB001 CD Tech Upgrades Ph1-BSA PZE	Capital Outlay	24,095
101-441.10-805.000	Engineer consulting (Traffic Study - Civic Center / Novi High School)	Other services and charges	9,300
101-441.20-975.021	ENG068 NSP 2021 (FY 2021-22)	Capital Outlay	193,000
101-441.20-982.057	COR001 Entryway Sign Replace	Capital Outlay	25,000
101-441.30-983.050	LDV011 LDV w/Plow replace 693 DPW FO	Capital Outlay	17,603
101-441.30-984.037	FLT010 RDS Body Truck (replace 619)	Capital Outlay	294,668
101-701.00-816.003	SIP025 Active Mobility Study (formerly: Nonmotorized Master Plan)	Other services and charges	44,294
101-701.00-816.033	Zoning districts/City West &Pav Shor Vil	Other services and charges	3,260
101-701.00-816.051	SIP004 Master Plan-Land Use & Throughfare	Other services and charges	102,483
			$ 3,134,485
		Net Increase (decrease) to fund balance	**$ (3,134,485)**

Ending Fund Balance	**$11,419,782**
Fund Balance as a % of total annual expenditures	**25%**

GL #	Project/Item Description	Budget Category	Amount
	MAJOR STREET FUND		
Revenues			
203-000.00-699.204	Transfer from Municipal Street Fund	Transfers In	900,000
			$ 900,000
Expenditures			
202-449.20-975.214	ENG058 Wixom Rd& Lft Trn Ln (10Mi-CL)	Capital Outlay	18,138
202-449.20-975.226	162-07 Beck Rd Widen(11Mi-Prov Dr/CP Bv)	Capital Outlay	465,351
202-449.20-975.248	ENG079 Industrial Bus Parks Rd Rehab	Capital Outlay	950,576
202-449.20-975.271	ENG073 Taft Rd(Sth CL-10 Mile)&R@9MiRd	Capital Outlay	1,621,100
202-449.20-976.089	ENG067a/b GLWA 14 Mi WM Trans Red Route	Capital Outlay	1,465,975
			$ 4,521,140
		Net Increase (decrease) to fund balance	**$ (3,621,140)**

Ending Fund Balance	**$1,170,346**
Fund Balance as a % of total annual expenditures	**10%**