FINANCE AND ADMINISTRATION AGENDA

CITY OF NOVI
July 10, 2024 | 5:30 PM
Mayor's Conference Room
Novi Civic Center | 45175 Ten Mile Road
(248) 347-0445

CALL TO ORDER

ROLL CALL - Mayor Fischer, Council Members Casey, Staudt

APPROVAL OF AGENDA

MINUTES

May 29, 2024 Minutes

OLD BUSINESS

Road Funds Re-Group

OPEB - Pension Presentation

PUBLIC COMMENT

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.

CITY OF NOVI
Finance and Administration Committee
May 29, 2024, 5:30 p.m.
Council Conference | 45175 Ten Mile Road
(248) 347-0445

CALL TO ORDER 5:31 p.m.

ROLL CALL: Mayor Fischer, Council Members Casey, Staudt

PRESENT: Mayor Fischer, Council Members Casey, Staudt

STAFF LIAISON: Danielle Mahoney, Assistant City Manager

ALSO PRESENT:
Victor Cardenas, City Manager
Danielle Mahoney, Assistant City Manager
Carl Johnson, CFO/Treasurer/Finance Director
Jeff Herczeg, Department of Public Works Director
Katherine Oppermann, Recording Secretary
Patrick McGow, Miller Canfield Bond Counsel

APPROVAL OF AGENDA
Amendment by Mayor Fischer to move the OPEB/Investment item to the next meeting, to include a basic 101 on all topics and discussion points.
Seconded: Casey, approved 3:0

PURPOSE OF MEETING

1. Investment Policy

   Item moved to next upcoming Finance and Administration Committee meeting per agenda amendment.

2. Bonding Framework

   The City of Novi has a number of upcoming projects that may be worth bonding. Mr. Johnson gave a brief background on the process of bonding. He noted that of the several upcoming projects has a dollar total anticipated to exceed city funds which opens the opportunity to bond the work.

   Mayor Fischer requested that the main projects eligible for bonding be reviewed.

One of the main projects is the 12 Mile Road project being cost shared with the Road Commission of Oakland County (RCOC) which goes back to a 2011 agreement. The project will need to be funded in full by 2026. Due to the time elapsed between the 2011 agreement and the present the expected costs of the project rose significantly, from approximately 13 million to 30 million, the new costs were presented to the City in December 2023. It was noted that the main complication of the project is the railroad crossing. While a large portion of our 10-million-dollar share will ultimately be funded by federal dollars we must front the pay and expect later reimbursement. The project is expected to take two years to complete.

Mayor Fischer noted his concerns about the timeline between the city taking on the bond and it being paid back. He would like it to be paid back as soon as possible.

Mr. McDow, of Miller Canfield, explained that generally bonds of 10 years or less are not callable early. That said, a schedule could be set up for principal payback based on expected federal dollars received however it would be likely to have a higher interest rate.

Mayor Fisher reiterated that he is not against bonding for the 12 Mile Road project or for Beck Road but that he would like it to be short term.

The Committee then briefly discussed the previously budgeted amount for the roads projects versus the actual amount required in case there is the possibility of not bonding for that portion which is already in the City Budget.

Councilmember Staudt and Mayor Fischer agreed that City Council needs a new presentation on the 12 Mile Road Project as it is not clear to the where all the changes in cost have occurred. They noted their displeasure at recent projects coming in at three times the original budgeted cost. They also briefly went over their thoughts on various options for funding: from city budget, from millage, or from bonding.

Mayor Pro Tem Casey stated her concerns with bonding in regard to the interest the City would be responsible for paying, with no reimbursement.

Mr. Johnson agreed to create a new, clean spreadsheet for the committee and City Council review regarding the project. He affirmed his understating that, per the committee, the City should borrow as little as possible for the 12 Mile Road Project.

Mayor Fischer summarized that the purpose of the meeting is that the committee is loosely agreeing to move forward with the 12 Mile Road cost share project, that funding should be found through bonding or other means and determine exactly how they should move forward with the project at this point. He noted the drastic changes in numbers from what is initially presented at the Capital Improvement Program (CIP) and how several projects were underfunded at outset thereby requiring amendments.

Councilmember Staudt agreed and stated that the committee was created in order to have these necessary discussions before an item goes to a City Council meeting. Debt is a large concern for the current Council.

Mayor asked that, when this item goes before City Council again, that the motion sheet is very clear, with any necessary explanation and total projected project costs included.

With that settled, City Manager Cardenas asked if the Committee had any questions for Bond Counsel McDow.

Mr. McDow made note that the City of Novi was one of the fastest growing communities throughout the 2000s and did a huge number of road projects in that time, funded by a variety of means and all now paid off. He explained that when doing bonding the timing is very important as bond monies have a finite time in which they must be spent and used. Bonding is sometimes done in a series, common with School projects and other community plans. Novi has the option to use Act 51 or Construction Fund towards a bond without a vote. He also noted that a Capital Improvement Bond is probably Novi's better choice, done via City Council resolution. This would allow the City Clerk to publish a notice of intent, a choice that is common with other cities and townships. The key is that if there is money from existing revenue the City can do a Capital Improvement Bond and have those monies available within 90 days. It is a more efficient and less costly way to borrow money.

Mayor Fischer confirmed that Mr. Cardenas and Mr. Johnson had their direction on the 12 Mile Road Project, to go forward to Council on Monday (6/3/24). Seeing nothing else on the agenda and nothing further from the other committee members, he thanked Mr. McDow for being present. He noted that there is a lot more for the committee to tackle going forward and that he appreciates the candor of the group.

AUDIENCE COMMENTS - none

ADJOURNMENT – 7:11 p.m.

City of Novi

Capital Improvement Program

FY 2024-25 Budget

https://novi.maps.arcgis.com/apps/dashboards/e7e5283c966f4aebaadeb748e4c2e25b

			BUDGET	PROJECTED		FORECAST				
Project ##	ID #	Project Name	FY 2024-25 YR 1	FY 2025-26 YR 2	FY 2026-27 YR 3	FY 2027-28 YR 4	FY 2028-29 YR 5	FY 2029-30 YR 6	Total Budget	New Project Total
		Roads								
1	102-01	Neighborhood Roads Rehabilitation, Repaving, and Reconstruction Program	$ 4,500,000	$ 4,500,000	$ 4,550,000	$ 6,000,000	$ 6,000,000	$ 6,000,000	$ 31,550,000	$ 27,050,000
		reduce NRP budget in YR2 & YR4 due to Village Wood Road & Willowbrook Estates projects(local road collectors)	$ -	$ (2,500,000)	$ -	$ (2,000,000)	$ -	$ -	$ (4,500,000)	
2	162-07	Beck Road Widening (11 Mile Road to Grand River Avenue aka Providence Drive/Central Park Boulevard) (including signal modernization @ 11 Mile Road & updated DTE lighting) secured outside funding $4.7M; net of city costs	$ 3,148,649	$ -	$ -	$ -	$ -	$ -	$ 3,148,649	$ 5,300,000
		Reallocated funds to other projects (see details in accompanying spreadsheet)	$ (3,148,649)						$ (3,148,649)	
		Must obligate federal funds by September/October 2025.	$ -	$ 5,300,000	$ -	$ -	$ -	$ -	$ 5,300,000	
3	162-03	Beck Road Rehabilitation (9 Mile to 10 Mile Road)	$ 1,165,269	$ -	$ -	$ -	$ -	$ -	$ 1,165,269	$ 1,165,269
4	162-06	Beck Road Rehabilitation (10 Mile Road to 11 Mile Road)	$ 64,712	$ 1,092,792	$ -	$ -	$ -	$ -	$ 1,157,504	$ 64,712
		By change ordering on an existing project, the total project costs were significantly less and are being completed in YR1.	$ -	$ (1,092,792)	$ -	$ -	$ -	$ -	$ (1,092,792)	
5	ENG078	9 Mile Road Rehabilitation (Meadowbrook Road to Haggerty Road) secured outside funding 573K; net of city costs	$ 1,989,062	$ -	$ -	$ -	$ -	$ -	$ 1,989,062	$ 1,989,062
		Updated amount	$ 285,605							
6	ENG075	Meadowbrook Road Rehabilitation (10 Mile to 11 Mile Road) secured outside funding 931K; net of city costs	$ 364,708	$ -	$ -	$ -	$ -	$ -	$ 364,708	$ 869,928
		Updated amount	$ 505,220						$ 505,220	
7	NEW	13 Mile, Meadowbrook to M-5, GLWA, CO	$ 980,200						$ 980,200	$ 980,200
8	ENG089	Novi Road Rehabilitation (8 Mile to 9 Mile); RCOC (Local share $633,701; Novi-share estimated @50%)	$ 348,530	$ -	$ -	$ -	$ -	$ -	$ 348,530	$ 364,030
		Updated amount	$ 15,500						$ 15,500	
9	ENG093	West Park Drive Rehabilitation (12 Mile Road to Pontiac Trail) secured funding (1.7M); net of city costs	$ 217,386	$ 2,545,930	$ -	$ -	$ -	$ -	$ 2,763,316	$ 2,763,316
		Updated amount	$ 166,128							
10	ENG096	10 Mile & Taft Intersection Upgrades RCOC; estimated City share	$ 150,000	$ -	$ -	$ -	$ -	$ -	$ 150,000	$ 150,000
11	ENG081	Village Wood Road (Cranbrooke Drive to Haggerty Road) and Section 25 Storm Drainage Improvements; includes sidewalk construction - Street Fund portion	$ 112,250	$ 1,684,282	$ -	$ -	$ -	$ -	$ 1,796,532	$ 1,796,532
12	ENG016	13 Mile Road Rehabilitation (M-5 to Haggerty) secured outside funding 523K; net of city costs	$ 68,240	$ 578,901	$ -	$ -	$ -	$ -	$ 647,141	$ 647,141
13	ENG097	Ashbury Bridge Rehab (over Middle Rouge River)	$ 62,760	$ -	$ 936,112	$ -	$ -	$ -	$ 998,872	$ 998,872
14	162-01	12 Mile Road Widening (Beck Road to Cabaret Drive) RCOC; estimated City share - design/ROW $1.0M & construction $1.7M (design currently underway; construction TBD)	$ 995,595	$ 1,200,000	$ -	$ -	$ -	$ -	$ 2,195,595	$ 4,542,303
		Assume RCOC does not need the funds before July 1, 2026. City's estimated construction costs only. Advance funding of 6.9M would need to be identified elsewhere.	$ -	$ (1,200,000)	$ 3,546,708	$ -	$ -	$ -	$ 2,346,708	
15	ENG074	Novi Road Rehabilitation (13 Mile Road to 14 Mile Road) including traffic signal modernizations at 13 Mile Road, Waverly Drive, and 14 Mile Road	$ -	$ 208,650	$ 4,112,098	$ -	$ -	$ -	$ 4,320,748	$ 2,460,913
		Changed for preventive pavement program	$ -	$ (208,650)	$ (1,651,185)			$ -	$ (1,859,835)	
16	082-30	11 Mile Road Rehabilitation (Beck Road to Taft Road) including Seg 37a Sidewalk (north side, Beck Road and East Mandalay Circle) net of design	$ -	$ -	$ 3,213,376	$ -	$ -	$ -	$ 3,213,376	$ 679,883
		Changed for preventive pavement program	$ 679,883		$ (3,213,376)				$ (2,533,493)	
16	132-26	11 Mile Road Rehabilitation (Wixom Road to Beck Road) includes Segment 52a pathway connection to ITC Trail; net of design	$ -	$ -	$ -	$ 1,514,025	$ -	$ -	$ 1,514,025	$ 1,514,025
17	132-27	11 Mile Road Rehabilitation (Taft Road to Clark Street); net of design	$ -	$ -	$ -	$ 1,087,020	$ -	$ -	$ 1,087,020	$ 1,087,020
18	ENG080	Willowbrook Estates No. 3 Road Reconstruction and Storm Drainage Improvements (Glen Ridge Court, Rock Hill Lane, Maude Lea Circle, Ripple Creek Road) - Street Fund portion	$ -	$ -	$ -	$ 2,343,310	$ -	$ -	$ 2,343,310	$ 2,343,310
19	ENG008	Lee BeGole Drive Reconstruction (11 Mile Road to Terminus); net of design	$ -	$ -	$ -	$ -	$ 1,319,942	$ -	$ 1,319,942	$ -
		This project's costs would be part of the Crescent Connection estimate	$ -	$ -	$ -	$ -	$ (1,319,942)	$ -	$ (1,319,942)	

Project ##	ID #	Project Name	FY 2024-25 YR 1	FY 2025-26 YR 2	FY 2026-27 YR 3	FY 2027-28 YR 4	FY 2028-29 YR 5	FY 2029-30 YR 6	Total Budget	New Project Total
			BUDGET	PROJECTED		FORECAST				
20	102-04	Old Novi Road Rehabilitation (Novi Road to 13 Mile Road)	$ -	$ -	$ -	$ -	$ 1,704,564	$ -	$ 1,704,564	$ 1,704,564
21	ENG037	13 Mile Road Rehabilitation (Old Novi Road to Novi Road)	$ -	$ -	$ -	$ -	$ 915,056	$ -	$ 915,056	$ 915,056
22	112-01	Sixth Gate Reconstruction (Paul Bunyan to Grand River Avenue) net of design	$ -	$ -	$ -	$ -	$ -	$ 484,421	$ 484,421	$ 484,421
23	ENG017	Seeley Road Rehabilitation (Grand River Avenue to 11 Mile Road)	$ -	$ -	$ -	$ -	$ 962,243	$ -	$ 962,243	$ 962,243
24	ENG099	West Park Drive Widening for Bike Lanes (West Road to Pontiac Trail)	$ -	$ -	$ -	$ -	$ 1,088,396	$ -	$ 1,088,396	$ -
		This project scope has to be part of the road project scheduled in 2025/26	$ -	$ -	$ -	$ -	$ *(1,088,396)*	$ -	$ (1,088,396)	
		Non-Motorized/Other								
25	ENG068	Neighborhood Sidewalk Repair Program (Street Fund portion)	$ 200,000	$ 200,000	$ 200,000	$ 200,000	$ 200,000	$ 200,000	$ 1,200,000	$ 1,200,000
26	New	Safe Streets for All (SS4A) Action Plan (total cost 200,400)	$ 40,080						$ 200,400	$ 200,400
27	ENG098	Boardwalk Repair and Replacement Program	$ -	$ -	$ -	$ -	$ -	$ 3,704,601	$ 3,704,601	$ 3,704,601
28	ENG069	Segment 4020 (Off-road paved) -- Meadowbrook Road (Village Wood Lake Park to Chattman Drive) - 5' sidewalk & 8' pathway along with boardwalk over wetlands	$ -	$ -	$ -	$ 390,802	$ -	$ -	$ 390,802	$ 390,802
29	ENG070	Segment 101c &104b -- Napier Road (East side; ITC Community Sports Park entrance drive to Villa Barr Art Park) - 8' Pathway	$ -	$ -	$ -	$ 345,555	$ -	$ -	$ 345,555	$ 345,555
30	ENG030	Segment 66 -- Grand River Avenue (South side; Sixth Gate to Main Street) - 8' Pathway	$ -	$ -	$ -	$ 142,389	$ -	$ -	$ 142,389	$ 142,389
31	FLD045	Salt Storage Dome Replacement with Pit and Conveyor System - DPW	$ 421,048	$ -	$ -	$ -	$ -	$ -	$ 421,048	$ 421,048
		TOTALS	$ 13,332,176	$ 12,309,113	$ 11,693,733	$ 10,023,101	$ 9,781,863	$ 10,389,022	$ 67,237,595	$ 67,237,595

Combined Road Funds (Mayor, Local, Municipal)

	ACTUAL 2022-23	ESTIMATED 2023-24	BUDGET 2024-25	PROJECTED 2025-26	2026-27
Property tax revenue	$ 6,186,798	$ 6,539,559	$ 6,963,067	$ 7,202,772	$ 7,323,365
Interest income	$ 213,583	$ 25,861	$ 203,961	$ 169,682	$ 155,185
Licenses, permits & charges for services	4,087	10,000	20,000	20,000	10,000
State Sources	8,434,075	8,392,021	8,676,266	8,943,206	9,216,591
Other revenue	539,005	145,000	150,000	246,000	160,000
Total Revenue	**$ 15,377,548**	**$ 15,112,441**	**$16,013,294**	**$16,581,660**	**$ 16,865,141**
Expenditures					
Major Street Fund	$ 1,555,916	$ 10,143,240	$ 7,609,074	$ 4,446,273	$ 7,345,474
Local Street Fund - Annual Neighborhood Program	4,023,445	3,992,441	4,500,000	4,500,000	4,550,000
Local Street Fund - Other	2,128,462	559,613	175,010	1,684,282	936,112
Municipal Street Fund	1,153,084	1,663,621	548,530	1,400,000	200,000
Subtotal Capital Expenditures	**$ 8,860,907**	**$ 16,358,915**	**$ 12,832,614**	**$ 12,030,555**	**$ 13,031,586**
Routine/Preventative Maintenance	2,586,966	3,685,126	3,884,000	3,034,200	3,034,200
Winter Maintenance	689,123	878,000	820,000	820,000	820,000
Traffic services	255,215	255,000	250,000	250,000	250,000
Other Services and Charges	470,897	345,220	367,680	357,905	358,355
Subtotal Maintenance and Other Expenditures	**$ 4,002,201**	**$ 5,163,346**	**$ 5,321,680**	**$ 4,462,105**	**$ 4,462,555**
Total Expenditures	$ 12,863,108	$ 21,522,261	$ 18,154,294	$ 16,492,660	$ 17,494,141
Revenues over/(under) Expenditures	$ 2,514,440	$ (6,409,820)	$ (2,141,000)	$ 89,000	$ (629,000)
Fund balance	11,555,500	5,145,680	3,004,680	3,002,680	2,373,680
Fund balance as % of expenditures	90%	24%	17%	18%	14%
Total of estimated changes since budget -- (underrun)/overrun			$ 499,562	$ 278,558	$ (1,338,473)
Total expenditures including changes			$ 18,653,856	$ 16,771,218	$ 16,155,668
Fund balance including estimated changes			2,505,118	2,724,122	3,712,153
Fund balance % including estimated changes			13%	16%	23%

MEMORANDUM

TO: VICTOR CARDENAS, CITY MANAGER

FROM: CARL JOHNSON, CFO

JEFF HERCZEG, DIRECTOR DEPARTMENT OF PUBLIC WORKS

SUBJECT: ROAD PROJECTS BUDGET UPDATE

DATE: JULY 10, 2024

During the last Finance committee meeting held May 29, 2024, the discussion centered around three road projects, timing and possible financing for the projects, and questions about how projects budgeted in fiscal year 2024/2025 had been reprogrammed. The following are the are the items discussed:

1. Crescent Boulevard connection to Lee BeGole Drive and possibly Grand River
2. Detail of Beck Road (11 Mile to Grand River) budget of $3,148,649 reprogrammed to other projects
3. Beck Road (11 Mile to Grand River)
4. 12 Mile Road (Beck to Novi Road)

The discussion also included which of the above projects, if any, would be recommended to be funded by a non-voter approved bond issuance with the estimated total cost if all were bonded of $22-25 million. The following is a summary of recommendations form the committee for each project along with additional information as requested:

Crescent Boulevard connection to Lee BeGole Drive and possibly Grand River

The estimated cost of the connection of Crescent to Lee BeGole is $7 million and a total of $10 million if extended all the way to Grand River. The committee recommended at this time not to move forward with this project. The committee recommended that if the proposed new public safety facility moves forward on Crescent Boulevard that the road project be included as part of any potential bonding at that time.

Detail of Beck Road (11 Mile to Grand River) budget of $3,148,649 reprogrammed to other projects

The proposed budget for fiscal year 2024/2025 had a budget of $3,569,697 for this project. During the budget meetings with City Council this amount was amended down to $3,148,649 as $421,048 was allocated to the salt dome project. During the committee meeting there were significant discussions regarding this project and what led to the entire budget being reprogrammed. The first item was that the total cost increased significantly and the original estimate of the city's share of $3.5 million was now $5.3 million (with federal funds of $4.7 million for the balance of the project). The second part of this project that had changed was the timing. The original budget proposed needing the funds during the 2024/2025 fiscal year, but the project has been pushed back until the 2025/2026 fiscal year. DPW explained at the time that like almost every year, timing issues like this arise and that this revised project would be rebudgeted during next year's budget process and other projects would be reallocated to future years. The attached summary details the exact projects that the budgeted $3,148,649 was reallocated to and includes new projects that were never on the CIP and projects that required additional funding to complete from both fiscal 2023/2024 and 2024/2025.

Beck Road (11 Mile to Grand River)

As part of reviewing the financing for the 12 Mile Road Project (below), the DPW revised the three-year road budget and came up with a proposed funding plan for the city's share of $5.3 million for fiscal 2025/2026. The revised plan incorporates the current estimated costs, the change in timing and includes no bonding. The only significant reduction to cover these projects would be a reduction in the funding for the neighborhood road program (NRP) from $4.5 million to $2 million in 25/26 and an additional $2 million reduction in 27/28. The alternative to reducing the NRP is to bond $2.5 million or $4.5 million for this project. This is the only proposed bonding.

12 Mile Road (Beck to Novi Road)

As discussed during the meeting, the 12 Mile project is a complicated project as it is a County project that the City Council pushed to have done sooner rather than later and agreed to advance fund the project and get reimbursed over a period of years. DPW discussed with the committee that the significant issue with this project was with the overall increase in the cost of the project coupled with the expanded scope. When the project was originally proposed the three street funds had sufficient cash available due to their required fund balance minimums to cover the advance funding while the City was waiting for grant funding to come in. Due to the above issues, the road funds no longer have sufficient cash available to cover the required $6.908 million advance funding. The committee expressed their desire to not have to borrow to cover the advance funding and asked for the three-year road budget to be revised and updated to determine the bear minimum, if any, of the non-advance funding costs that would need to be bonded.

As discussed above, DPW revised the three-year road budget and the attached summary details a plan on how to cover all road projects, including those listed above without any bonding (see yellow highlights for changes). While the plan shows how the listed projects can be completed without any bonding, it does come at the expense of the NRP program with reductions of $2.5 million in year 2 (25/26) and $2 million reduction in year 4 (27/28). The plan also does not detail where the funds would come from for the advance funding required in 2026 of $6.908 million.

After review of the other non-restricted funds of the City, finance has identified the following funds that would be available for the advance funding of the 12 Mile Road project:

- The City Council mandated minimum fund balance of 10% in the three street funds results in approximately $2.5 million of available cash
- The Special Assessment Revolving (SAR) Fund loaned approximately $4 million to the CIA fund for their share of the Ring Road project 2019/2020 fiscal year. The CIA has been paying the loan back annually and as a result the SAR fund would have a projected $4-5 million available by the 2026/27 fiscal year
- To the extent the $6.5-7.5 million identified above are not available, the General Fund would have on average $10 million available from its City Council mandated fund balance minimum

FY 2024-25 BUDGET YR1 ROADS FUNDS	GL DESCRIPTION	GL Account	NOTES
980,200.19	13 Mile (Meadowbrook to M-5)- GLWA- construction costs only- CO on Industrial	202-449.20-976.219	design costs are in current FY; construction award CO on 6/17 CC agenda
995,595.00	12 Mile Widening (Design additional funds 245K; ROW realistically 750K)	204-446.00-975.034	Design on the 6/3 CC agenda; unknown when ROW agreement will be ready
505,220.44	Meadowbrook (10-11 Mile)- estimated overage	202-449.20-975.227	based on engineer's estimate from 90% design plans; July MDOT letting; estimate cost share agreement sometime in August
285,605.27	9 Mile (Meadowbrook to Haggerty)-estimated roads only overage	202-449.20-975.229	based on engineer's estimate from 90% design plans; July MDOT letting; estimate cost share agreement sometime in August
15,500.00	ENG089 Novi Rd (8 Mile - 9 Mile) RCOC Increase	204-446.00-975.156	based on April 2024 email with RCOC
200,400.00	Safe Streets for All (SS4A) Safety Action Plan	204-446.00-974.464	Agreement on 6/17 CC agenda; gross amount; will be reimbursed up to 164,320 as costs are incurred
166,128.10	West Park Drive - engineering costs over estimate	202-449.20-975.152	based on engineer's estimate from 90% design plans
3,148,649.00	162-07 Beck Rd Widen(11Mi-Prov Dr/CP Bv)	202-449.20-975.226	Project pushed to 25/26, will be rebudgeted

City of Novi: OPEB

Retiree Healthcare Investment Policy
Overview and Proposed Changes

What is OPEB?

- **Other Post-Employment Benefits (OPEB):** Benefits promised to employees upon retirement who are part of the defined benefit (DB) pension plan. Benefits include:
    - Medical
    - Prescription Drugs
    - Vision

- **Does not include RHC for employees who are part of the defined contribution pension plan**

OPEB HISTORY

- Unlike DB pensions, no legal requirement to fund OPEB
- Most communities were pay-as-you-go for RHC
- Novi proactively determined the liability and began funding OPEB in April 2003.
- Treasurer is the trustee of the OPEB funds
    - Investment policy approved by council
    - Funds held in trust

OPEB - INVESTMENTS

- OPEB investments are deemed to be long-term in nature (similar to pensions) and therefore follow PA 314.
- **Public Employee Retirement System Act, ACT 314 OF 1965:** Authorizes the investment of assets of retirement system assets

City of Novi - OPEB

Insights:

- In 2003 began to actuarially fund the OPEB liability.
- Utilized (3) investment managers:
  - Morgan Stanley (MS)
  - UBS
  - MERS
- Overall sum of all managers investments must follow OPEB investment policies.
- City over the last few years working toward a single investment manager (currently have MS and MERS)

OPEB - GASB 74

- As of June 2015 (FY 2017 implementation), GASB 74 requires quantification and disclosure of OPEB assets and liabilities.
  - Significant liability not recorded on books
  - Government wide only, not fund based.
  - No funding requirement.
  - Improves transparency.

OPEB - PA 202

- **PA 202 (Protecting Local Government Retirement and Benefits Act):** As of December 2017, requires local governments that have DB (pension) retirement plans and/or OPEB plans to report funding information to the Michigan Department of Treasury.
  - Funding level requirements: 60% pension, 40% OPEB.
  - 30-year corrective action plan.
  - Does require contributions of normal cost for new employees after 2017
  - FY 2018, 532 total plans, 348 under 40%, 195 0%

OPEB Components

- **AAL (Actuarial Accrued Liability):**
    1. Healthcare costs (self-funded 2020)
    2. Age/Mortality
    3. Retirement date
    4. Marital status
    5. Medicare post 65
    6. Closed DB plans 2006-2011
- **Net Position:**
    1. Investment rate of return (7%)
    2. Contributions
    3. Smoothing

Smoothing

City of Novi
Development of Valuation Assets

Year Ended June 30	2018	2019	2020	2021	2022	2023	2024	2025
A. Funding Value Beginning of Year		$29,531,156	$31,039,262	$32,217,877				
B. Market Value End of Year	$29,531,156	30,831,971	31,322,380	39,568,187				
C. Market Value Beginning of Year		29,531,156	30,831,971	31,322,380				
D. Non-Investment Net Cash Flow		(631,236)	(731,694)	(894,902)				
E. Investment Income								
E1. Market Total: B - C - D		1,932,051	1,222,103	9,140,709				
E2. Assumed Rate of Investment Return		7.50%	7.00%	7.00%				
E3. Amount for Immediate Recognition		2,191,165	2,147,139	2,223,930				
E4. Amount for Phased-In Recognition: E1 - E3		(259,114)	(925,036)	6,916,779				
F. Phased-In Recognition of Investment Income								
F1. Current Year: (1/5) x E4		(51,823)	(185,007)	1,383,356				
F2. First Prior Year		0	(51,823)	(185,007)	$ 1,383,356			
F3. Second Prior Year		0	0	(51,823)	(185,007)	$ 1,383,356		
F4. Third Prior Year		0	0	0	(51,823)	(185,007)	$ 1,383,356	
F5. Fourth Prior Year		0	0	0	0	(51,822)	(185,008)	$ 1,383,355
F6. Total Recognized Investment Gain		(51,823)	(236,830)	1,146,526	1,146,526	1,146,527	1,198,348	1,383,355
G. Funding Value End of Year A + D + E3 + F6		31,039,262	32,217,877	34,693,431				
H. Difference between Market & Funding Value		(207,291)	(895,497)	4,874,756	3,728,230	2,581,703	1,383,355	0
I. Recognized Rate of Return		7.32 %	6.23 %	10.61 %				
J. Market Rate of Return		6.61%	4.01 %	29.61 %				
K. Ratio of Funding Value to Market Value		100.67 %	102.86 %	87.68 %				

In the year of implementation, the Beginning of Year Funding Value of Assets is set equal to the Beginning of Year Market Value of Assets. The Funding Value of Assets recognizes assumed investment return (line E3) fully each year. Differences between actual and assumed investment return (line E4) are phased-in over a closed 5-year period. During periods when investment performance exceeds the assumed rate, Funding Value of Assets will tend to be less than Market Value. During periods when investment performance is less than the assumed rate, Funding Value of Assets will tend to be greater than Market Value. The Funding Value of Assets is unbiased with respect to Market Value. If assumed rates are exactly realized for 4 consecutive years, it will become equal to Market Value.

PA 314 – Investment Overview

Key Guidelines:

- Common investment guideline generalization 70/30%.
- No more than 70% in equities (stocks).
- No more than 5% of total portfolio in a single stock.
- Up to 10% of portfolio may be used in alternative investments.

NOVI OPEB INVESTMENT POLICY

Overview:

- Created by City Treasurer in 2003 and periodically amended
- Last amendment was approved by council December 9, 2019.
- Proposed amendment is to allow for more flexibility with investments while moving toward a more conservative overall approach given the 113.73% funding level.
- Proposed amendment is only for changes to the asset allocation ranges

OPEB/Pension Funding Overview

	Assets	Actuarial Accrued Liability (AAL)	Funding (%)
6/30/2014			
OPEB	$19,300,000	$23,200,000	83.2%
Pension	$57,100,000	$84,000,000	68.0%
6/30/2023			
OPEB	$34,000,000	$29,900,000	113.7%
Pension	$74,400,000	$123,100,000	60.4%

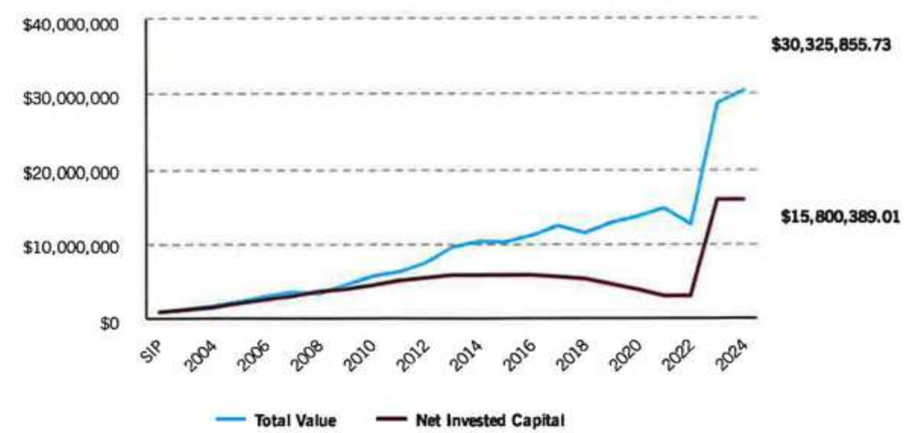
Asset Allocation

Novi Performance — As of March 31, 2024 | Reporting Currency: USD

DOLLAR-WEIGHTED RETURN % (NET OF FEES)

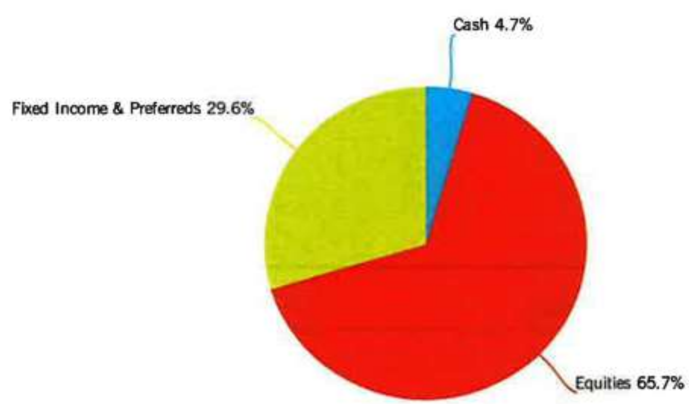
	Year to Date ($) 12/31/23-03/31/24	Previous Year ($) 12/31/22-12/29/23	Performance Inception ($) 04/25/03-03/31/24
Beginning Total Value	**28,615,094**	**12,427,911**	**750,000**
Beginning Accrued Income	74,437	17,558	0
Net Contributions/Withdrawals	-815	12,930,810	15,050,389
Investment Earnings	1,711,577	3,256,373	14,525,467
Ending Total Value	**30,325,856**	**28,615,094**	**30,325,856**
Ending Accrued Income	68,200	74,437	68,200
DOLLAR WEIGHTED RATE OF RETURN (%) (Annualized for periods over 12 months)			
Return % (Net of Fees)	5.98	14.92	8.03

TOTAL VALUE VS. NET INVESTED CAPITAL



Does not include Performance Ineligible Assets.

ASSET ALLOCATION



INCOME AND DISTRIBUTION SUMMARY

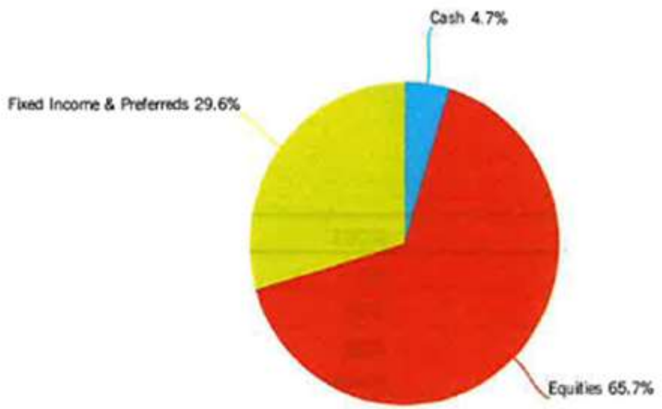
	Rolling 12 Months ($) 04/01/23-03/31/24	Year To Date ($) 01/01/24-03/31/24
ASSET CLASS		
Cash	86,183.91	22,980.34
Equities	308,796.55	44,227.10
Fixed Income & Preferreds	242,424.72	78,241.98
Alternatives	19,160.39	3,795.79
Total Asset Class	**656,565.57**	**149,245.21**
TAX CATEGORY		
Taxable Account(s)		
Taxable	656,565.57	149,245.21
Tax-Exempt	-	-
Total	656,565.57	149,245.21
Tax Qualified Account(s)	-	-
Total Tax Category	**656,565.57**	**149,245.21**

Taxable and tax-exempt income classifications are based on characteristics of the underlying securities and not the taxable status of the account. Please see Disclosures for important information on how income & distributions from certain securities/investments are presented in this material.

Asset Allocation (cont.)

Novi Performance | As of March 31, 2024 | Reporting Currency: USD

ASSET ALLOCATION - ASSET CLASS



ASSET ALLOCATION

	Total Value ($) 03/31/2024	% of Portfolio 03/31/2024
Cash	**1,412,642.31**	**4.7**
Global Cash	1,412,642.31	4.7
Equities	**19,915,862.50**	**65.7**
US Equities	16,369,012.18	54.0
International Equities	3,546,850.32	11.7
Fixed Income & Preferreds	**8,981,800.75**	**29.6**
US Fixed Income Taxable	8,981,800.75	29.6
TOTAL PORTFOLIO	**30,310,305.56**	**100.0**

cityofnovi.org

MERS Total Market Portfolio

Retiree Health Funding Vehicle (RHFV) and Investment Services Program (ISP)

MERS
Municipal Employees' Retirement System

Objective

The MERS Total Market Portfolio is a diversified portfolio that provides current income and capital appreciation while minimizing the volatility of the capital markets.

Fund Expenses

Administrative Fee	0.21%
Investment Management Expenses	0.37%
Total Annual Operating Expense	**0.58%**

The total annual operating expense is deducted from the rate of return of the fund. This means that for every $1,000 invested in the MERS Total Market Portfolio, an employer is charged $5.80 in fees each year.

Asset Allocation

Global Equity	**48.3%**
U.S. Stocks	22.6%
International Stocks	17.0%
Emerging Market Stocks	8.7%
Global Fixed Income	**26.1%**
U.S. Treasury Bonds	17.5%
U.S. High Yield Bonds	0.7%
Emerging Market Bonds	5.7%
Short Duration Bonds	2.2%
Private Markets	**25.6%**

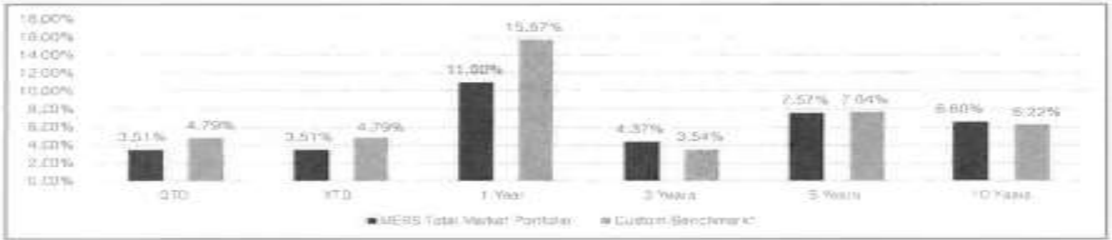
Risk Analysis

Low Medium High

Standard Deviation (5-Year) Describes the volatility of the historical returns of the fund. A higher standard deviation indicates more risk due to higher fluctuation above and below the average.	10.12%
Sharpe Ratio (5-Year) Measures returns generated per unit of risk taken. The higher the Sharpe Ratio, the more you are being compensated for the amount of risk you are taking.	0.58

Performance – Annualized

Fund Inception: October 1975



Performance – By Calendar Year

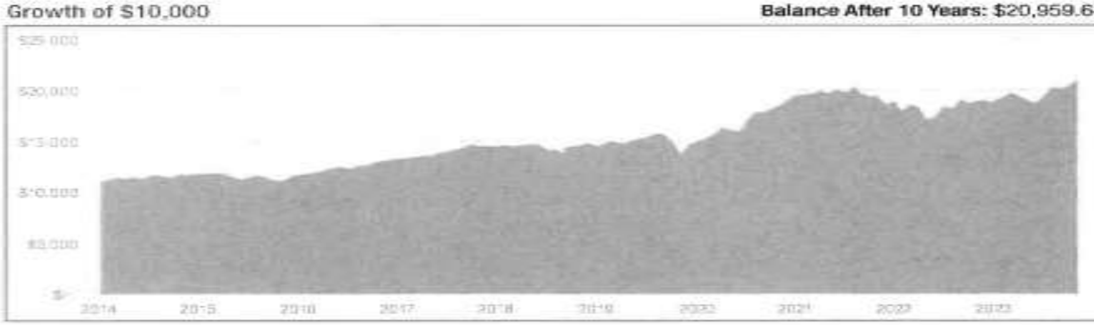
Year	MERS Total Market Portfolio	Custom Benchmark*
2023	11.64%	16.56%
2022	-10.42%	-16.81%
2021	14.09%	11.61%
2020	13.29%	15.19%
2019	13.52%	20.83%
2018	-3.62%	-5.36%
2017	13.21%	16.72%
2016	10.67%	6.30%

Top Ten Holdings

iShares Core S&P 500 ETF	7.09%
Invesco S&P 500 QVM Multi-Factor ETF	5.60%
SPDR Portfolio Intermediate Treasury ETF	5.22%
SPDR Portfolio Short-Term Treasury ETF	4.40%
iShares Core MSCI Emerging Markets ETF	2.87%
SPDR Portfolio Long-Term Treasury ETF	2.28%
Invesco S&P 400 Midcap QVM Multi-Factor ETF	2.15%
iShares Core MSCI Pacific ETF	2.08%
SPDR Bloomberg Emerging Markets USD Bond ETF	1.71%
Vanguard Short-Term Treasury ETF	1.67%

Growth of $10,000

Balance After 10 Years: $20,959.64



This graph shows the growth of $10,000. If someone invested $10,000 in the MERS Total Market Portfolio ten years ago with no additional contributions or withdrawals, they would have $20,959.64 as of 03/31/2024.

Fund Restrictions

A 2.00% redemption fee is charged for shares sold within 90 days of purchase. The charge is applied on a first-in, first-out basis.

Asset Allocation Guidelines

	Minimum	Maximum	Target
Domestic Large/Medium Cap Equities: 30% to 55%			
Domestic Large Cap Equities (growth & value)	30%	55%	40-50%
Domestic Small/Medium Cap Equities: 5% to 30%			
Domestic Small/Mid Cap Equities (growth & value)	5%	20%	10-15%
International Equity	5%	15%	5-10%
Total Equity	50%	70%	60%
Real Estate	0%	5%	2-5%
Investment Grade Fixed Income	20%	30%	25-30%
Cash/Cash Equivalents	5%	15%	10%

	Minimum	Maximum	Target
Domestic Large/Medium Cap Equities: 30% to 70%			
Domestic Large Cap Equities (growth & value)	30%	70%	40%
Domestic Small/Medium Cap Equities: 0% to 30%			
Domestic Small/Mid Cap Equities (growth & value)	0%	20%	5%
International Equity	5%	20%	15%
Total Equity	50%	70%	60%
Real Estate	0%	5%	2-5%
Fixed Income	20%	50%	25-35%
Cash/Cash Equivalents	1%	15%	5%
Other Alternative Investments	0%	15%	0%

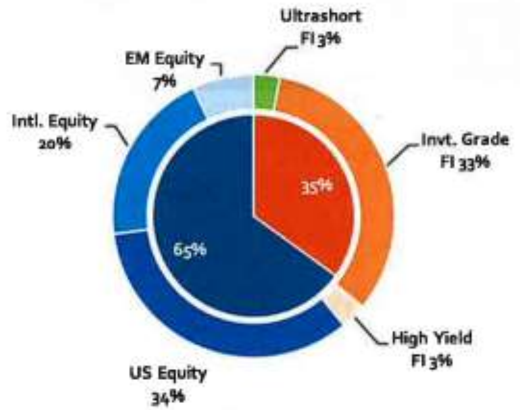
Portfolio Allocation

Hypothetical Performance Data Through December 31, 2023 *Allocations as of April 19, 2024*

Global Investment Committee Asset Allocation Models

Traditional Assets Only (Level 0) Market Growth **Model 4**

STRATEGIC ASSET ALLOCATION



BENCHMARK ALLOCATION*

Asset Class	Benchmark Index	Wt (%)
Ultrashort FI	FTSE US 3M T-Bill	0%
Fixed Income	Bloomberg US Aggregate	35%
Equity	MSCI All Country World	65%
Alternatives	Alternatives Blend	0%
Benchmark Total		**100%**

The table and pie chart located in the center of the image above represent the benchmark portfolio allocation. The GIC strategic portfolio allocation is represented by the table to the right and the donut chart located on the outside of the pie chart.

MODEL 4 FORECASTED STATISTICS

Forecasted Estimates**	Model 4
Bull Case	15.6%
Strategic Return (Base Case)	6.7%
Bear Case	-2.2%
Volatility	8.9%
Sharpe Ratio	0.32

MODEL 4 PORTFOLIO ALLOCATION

Asset Class	Benchmark Index	Strategic	Tactical	Difference
Ultrashort Fixed Income	**FTSE US Three-Month T-Bill Index**	3%	0%	-3%
US Large-Cap Growth	Russell 1000 Growth Index	14%	21%	7%
US Large-Cap Value	Russell 1000 Value Index	13%	15%	2%
US Mid-Cap Growth	Russell Midcap Growth Index	1%	1%	0%
US Mid-Cap Value	Russell Midcap Value Index	2%	2%	0%
US Small-Cap Growth	Russell 2000 Growth Index	2%	0%	-2%
US Small-Cap Value	Russell 2000 Value Index	2%	0%	-2%
International Equities	MSCI World ex-US Index (USD, U)	18%	17%	-1%
Japan	MSCI Japan Index (USD, U)	2%	0%	-2%
Asia-Pacific ex-Japan	MSCI Pacific ex-Japan Index (USD, U)	0%	0%	0%
Emerging Markets	MSCI Emerging Markets Index (USD, U)	7%	7%	0%
Total Equities		**61%**	**63%**	**2%**
Short-Term	Bloomberg US One- to Five-Year Govt./Credit Index	11%	8%	-3%
US Core	Bloomberg US Aggregate Index	20%	26%	6%
US Long-Term Treasuries	Bloomberg US 20+-Year Treasury Index	0%	3%	3%
International	Bloomberg Global Aggregate Non-USD Index	1%	0%	-1%
Inflation-Linked	Bloomberg US TIPS Index	1%	0%	-1%
High Yield	Bloomberg US High Yield Corporate Index	2%	0%	-2%
Emerging Markets	J.P. Morgan EMBI Global Index	1%	0%	-1%
Total Fixed Income		**36%**	**37%**	**1%**
Total Portfolio		**100%**	**100%**	**0%**

The weights herein are inspired by the Morgan Stanley Wealth Management Global Investment Committee (GIC)'s Asset Allocation Models (Level 0) but do not represent a GIC recommendation. The Strategic Allocation represents the blend of asset classes identified by the GIC, subject to various allocation constraints that the Committee believes is appropriate over the long run, for achieving maximum return potential for the level of risk tolerance associated with the Market Growth model (Model 4). The Tactical Allocation seeks to maximize potential returns, for the same risk tolerance, over a shorter period (generally approximately 12 months). The Tactical Allocation is adjusted more frequently than the Strategic Allocation, although both are subject to change at any time. The analyses in this profile are based on the Strategic Allocations. (H) Denotes the hedged version of an index, and (U) denotes the unhedged version of an index.

** Forecasted estimates are for illustrative purposes only, are based on proprietary models and are not indicative of the future performance of any specific investment, index or asset class. Actual performance may be more or less than the estimates shown in this table. Estimates of future performance are based on assumptions that may not be realized. Strategic return and volatility estimates are long-term estimates with a seven-year time horizon. Volatility estimates are based on data with longest available history to the end of the last full calendar year. Please refer to the GIC Annual Update of Capital Markets Assumptions paper.