FINANCE COMMITTEE AGENDA

CITY OF NOVI
May 29, 2024 | 5:30 PM
Mayor's Conference Room
Novi Civic Center | 45175 Ten Mile Road
(248) 347-0460

CALL TO ORDER

ROLL CALL - Mayor Fischer, Council Members Casey, Staudt

APPROVAL OF AGENDA

PURPOSE OF THE MEETING

Investment Policy

Bonding Framework

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.

~~Adopted by City Council December 9, 2019~~

STATEMENT OF INVESTMENT POLICY, OBJECTIVES & GUIDELINES

Of the

CITY OF NOVI RETIREMENT HEALTH CARE FUND

Statement of Investment Policy, Objectives, and Guidelines
City of Novi, Retiree Health Care Fund

A. GENERAL INFORMATION

The City of Novi Retiree Health Care Fund was established to provide for the retirement health care benefits for covered retirees and their beneficiaries. The Fund is financed by contributions from the City and investment earnings. Distributions from the Fund are to pay for the medical insurance premiums and for investment and administrative expenses.

The Plan is created under the authority of the Public Employee Health Care fund Investment Act, Public Act 149 of 1999, as amended to invest the assets of the Plan in accordance with the provisions of Public Act 314 or 1965, as amended.

Federal Tax ID# ……………………… 38-6032551
Fund Fiscal Year End ………………... June 30th
Primary Contacts …………….……….. Carl Johnson, Finance Director/Treasurer
Tina Glenn, Assistant Treasurer

B. SCOPE OF THIS INVESTMENT POLICY

This statement reflects the investment policy, objectives and guidelines ("Investment Policies"), which the City of Novi (City Council and Administration) currently considers appropriate for the City of Novi Retiree Health Care Fund.

C. PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This statement of Investment Policies is set in order to:

- Establish a long-term strategic investment plan for the Fund. Including, but not limited to, evaluating the City's risk tolerance and determining a long-term asset allocation policy consistent with the long-term investment objectives, financial needs and circumstances of the Fund and the City.

- Define and assign the responsibilities of all involved parties.

- Establish a clear understanding for all involved parties of the investment goals and objectives of the City of Novi Retiree Health Care Fund assets.

- Offer guidance and limitations to all Investment Managers regarding the investment of City of Novi Retiree Health Care Fund assets.

- To monitor and evaluate the performance of the Fund's assets as a whole and each investment manager.

- Manage City of Novi Retiree Health Care Fund assets according to prudent standards as described herein under the "General Investment Policy."

This document will identify and present a set of Investment Policies which will serve to provide guidance to any Investment Management Consultant(s) and/or Investment Manager(s). The policy is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical. This document is intended to supplement the *City of Novi Investment Policy*, and provide additional guidance for the management of the investments of the City of Novi Retiree Health Care Fund.

D. ACTUARIAL INFORMATION

Actuarial valuations will be performed as required by the State of Michigan.

E. RESPONSIBILITIES OF INVESTMENT MANAGERS

The City intends to utilize separately managed accounts with various investment management firms, however mutual or other commingled funds may be used from time to time to implement the investment strategy of the Fund, where practical. For mutual and other commingled funds, the prospectus or Declaration of Trust documents of the fund(s) will govern the investment policies of fund investments.

Fiduciary Responsibilities

Each investment manager is expected to manage the Fund's assets in a manner consistent with the investment objectives, guidelines and constraints outlined in this statement and in accordance with applicable laws. This would include discharging responsibilities with respect to the Fund consistent with "Prudent Investor" standards, and all other fiduciary responsibility provisions and regulations. The Fund's assets will be managed by experienced investment management firms.

Each investment manager shall:

- Obtain and maintain bonds and other surety agreements sufficient in amount to comply with all applicable laws and to protect the interests of the City. The investment manager shall provide proof of such insurance and amounts of coverage to the City's Treasurer's Department on an annual basis;

- At all times be registered as an investment advisor under the Investment Advisers Act of 1940 (where applicable); and

- Acknowledge in writing that they are a fiduciary with respect to the assets they manage.

Investment Consultant Responsibilities

The primary role of the investment consultant(s) is to provide objective, third party advice and counsel that will enable the fund fiduciaries to make well-informed and well-educated decisions regarding the investment of Plan assets

The investment consultant's role is that of an advisor to the Retiree Health Care Fund. The investment consultant acknowledges its responsibilities as a co-fiduciary under Act 314 of 1965, as amended. The investment consultant acknowledges that it is a registered investment advisor under with the Investment Advisors Act of 1940 or the Michigan Uniform Securities Act.

Investment advice offered by the Investment Consultants will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement.

Security Selection/Asset Allocation

- Except as noted below, each investment manager shall have the discretion to determine their portfolio's individual security selections;

- Each investment manager has been delegated responsibility for establishing and maintaining the asset allocation strategy for their individual portfolio. It is expected however, that each investment manager will utilize a stable asset allocation strategy and not engage in market-timing asset allocation decisions. The performance of each investment manager is measured versus a fully invested market index, or combination of market indexes, representative of the investment manager's investment style, asset allocation and risk level;

- The asset allocation strategy for each investment manager's portfolio can deviate from the overall Fund's asset allocation, however, the City's Treasury Department is responsible for monitoring the aggregate asset allocation, and may re-balance to the target allocation on a periodic basis.

Proxy Voting

Each investment manager is responsible and empowered to exercise all rights, including voting rights, as are required through the purchase of securities, where practical. Each investment manager shall vote proxies according to their established Proxy Voting Guidelines. A copy of those guidelines, and/or a summary of proxy votes shall be provided to the City upon request. The City's Treasury Department is responsible for voting any proxies received from Investment Companies retained in the Fund and for any other "Self-Directed" investments.

F. INVESTMENT MANAGEMENT OBJECTIVES

The priority listing of investment objectives is as follows:

1. Preservation of Capital - Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.

2. Risk Aversion - Understanding that risk is present in all types of securities and investment styles, the City recognizes that some risk is necessary to produce long-term

investment results that are sufficient to meet the City of Novi Retiree Health Care Fund's objectives. However, the investment managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.

3. Diversification of Assets – Investments of the City of Novi Retiree Health Care Fund shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

4. Liquidity of Assets – Cash is to be employed productively at all times, by investment of short term cash equivalents to provide safety, liquidity, return, and restructuring of the City of Novi Retiree Health Care Fund portfolio to meet the City of Novi Retiree Health Care Fund's changing needs over time.

5. Adherence to Investment Discipline - Investment managers are expected to adhere to the investment management styles for which they were hired. Investment managers will be evaluated regularly for adherence to investment discipline.

G. INVESTMENT RETURN OBJECTIVES

In order to meet its obligations, the investment objective of the City of Novi Retiree Health Care Fund is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income.

The *primary* investment return objective shall be:

Long-Term Growth of Capital – To emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated inasmuch as it is consistent with the volatility of a comparable market index.

The *secondary* investment return objective shall be:

Income and Growth - To achieve a balanced return of current income and modest growth of principal.

H. Performance Objectives

The City's Treasurers Department will monitor the performance of the fund. The City's Treasurers Department will evaluate each investment manager's contribution toward meeting the investment objectives outlined below over a three-to-five-year time period and a full market cycle, unless otherwise noted.

***Style Index*:** Over a given market cycle, (typically defined as 3 to 5 years), the time weighted total rate of investment return should exceed, for the total fund, an appropriately designed custom benchmark. The custom benchmark is based on the fund's and investment manager's investment style, actual asset allocations, and constructed with appropriate indices given the asset mix. For example: 20% Russell 1000 Growth Index, 20% Russell 1000 Value Index, 10% MSCI EAFE, 10% Russell 2000 Value Index, 30%Barclays Capital Aggregate Bond Fund (using appropriate sub-category based on credit quality, duration, etc.), 10% 90 Day T-Bill.

Secondary Performance Targets:

1. The real return goal (return after adjusting for inflation) for the Fund assets is ***3.0%*** Inflation shall be measured by the U.S. All Urban Consumers Price Index (“CPI”); and
2. The Fund is expected to outpace the style index return measured on a compound average annual return basis after the deduction of investment management fees and annualized over a three-to-five-year rolling time period and a full market cycle.

I. Risk Tolerance

Investment theory and historical capital market return data suggests that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (i.e. volatility of return) is associated with higher return.

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Fund is the determination of an appropriate risk tolerance. The Investment Committee examined two important factors that affect the City’s risk tolerance:

Financial Ability to accept risk within the investment program and,

Willingness to accept return volatility.

Positive factors that contribute to a higher risk tolerance are:

- The financial strength of the City provides the ability to withstand some uncertainty in changes in funding cost of the Fund;
- Contributions to the Fund are determined during the budget process based on recommended actuary percentages of payroll, and other financial considerations, and thus are generally known in advance and stable from year-to-year;
- The City’s willingness to accept short-term volatility in the market value of the Fund and in the funding ratio for the sake of earning higher long-term returns; and
- The long-term time horizon available for investment provides the opportunity to benefit from the opportunities for growth that may accrue to a patient investment strategy.

Offsetting these factors are:

- The cash flow requirements of the Fund are on-going, thus requiring the Fund to maintain sufficient liquidity to finance required distributions;

- The medical cost inflation rate has historically been significantly higher and more volatile than the overall inflation rate of the US economy. This implies greater uncertainty in future costs of this Fund; and
- Cyclical economic activity can significantly influence the finances of the City and its financial ability to fund large unexpected contributions.

J. INVESTMENT GUIDELINES

All investment guidelines and restriction of Federal and Michigan law as well as Retiree Health Care fund investment policy must be complied with, including and specifically Public Act 314.

1. Permitted Securities

(a). Cash Equivalents

- Treasury Bills
- Money Market Funds
- STIF Funds
- Commercial Paper
- Banker's Acceptances
- Repurchase Agreements
- Certificates of Deposit

(b). Fixed Income Securities – must have a readily ascertainable market value and must be readily marketable.

- U.S. Government and Agency Securities
- Corporate Notes and Bonds
- Mortgage Backed Bonds
- Fixed Income Securities of Foreign Governments and Corporations
- Convertible Notes and Bonds

(c). Equity Securities – all equity investments will be made within the guidelines of the prudent trustee rule and within the requirements of Public Act 314. Investments in American Depository Receipts (ADR's) will be designated as foreign securities for asset allocation purposes under the act.

- Common Stocks
- American Depository Receipts (ADRs) of Non-U.S. Companies
- Stocks of Non-U.S. Companies (Ordinary Shares)
- Preferred Stock
- Convertible Preferred Stocks

(d). Other Assets

- Mutual Funds, which invest in securities as allowed in this document.
- Real Estate Securities (i.e. equity REITs, mortgage REITs, CMO or mortgage-related securities REITs, Health Care REITs, and equities of real estate operating companies)
- International Securities

- Other Alternative Investments – in compliance with Public Act 314

2. Asset Allocation Guidelines

In line with the return objectives and risk parameters of the Fund, the mix of assets should be generally maintained as follows (percentages are of the market value of the Fund):

	Minimum	**Maximum**	**Target**
Domestic Large/Medium Cap Equities: 30% to ~~55~~70%			
Domestic Large Cap Equities (growth & value)	30%	~~55~~70%	~~40-50~~40%
Domestic Small/Medium Cap Equities: ~~5~~0% to 30%			
Domestic Small/Mid Cap Equities (growth & value)	~~5~~0%	20%	~~10-15~~5%
International Equity	5%	~~15%~~20	~~5-10~~15%
Total Equity	50%	70%	60%
Real Estate	0%	5%	2-5%
~~Investment Grade~~ Fixed Income*	20%	~~30~~60%	25-~~30~~35%
Cash/Cash Equivalents	~~5~~1%	15%	~~10~~5%
Other Alternative Investments	0%	15%	0%

- All in compliance with PA 314

3. Diversification Requirements

To minimize the risk of large losses, each investment manager shall maintain adequate diversification in their portfolio. Subject to the constraints outlined in this policy, each investment manager shall have the discretion to determine their portfolio's individual security selections.

In order to achieve a prudent level of portfolio diversification, the securities of any one company should not exceed 5% of the total fund, and no more than 20% of the total fund should be invested in any one industry. The total allocation to treasury bonds and notes may represent up to 100% of the City of Novi Retiree Health Care Fund's aggregate bond position and treasury securities may represent up to 60% of the total fund.

4. Prohibited Transactions

Prohibited transactions include those identified under Public Act 314 including Michigan Compiled Laws 38.1133(5) and those specifically identified below:

Short Selling
Margin Transactions
Agency Cross Trades

K. PROCEDURAL GUIDELINES

1. The Investment Manager will:

    a) Provide monthly portfolio appraisals including the market value and cost of all assets as well as the estimated annual level of interest and dividend income.

    b) Meet periodically, at not less than once each year with the City of Novi staff to review the portfolio under supervision, discuss the investment outlook for the economy and securities markets, and indicate anticipated portfolio changes.

    c) Provide written information of security transactions.

2. The City of Novi will notify the Investment Manager of:

    a) Any changes in the Investment Policies and procedures noted above.

    b) Provide information regarding significant anticipated changes in cash flow and/or cash flow needs.

L. INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION

The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the Investment Policies. The City intends to evaluate the portfolio(s) over at least a three-year period, but reserves the right to terminate an Investment Manager for any reason including, without limitation, the following:

1. Investment performance, which is significantly less than anticipated given the discipline employed, and the risk parameters established, or unacceptable justification of poor results.

2. Failure to adhere to any aspect of these Investment Policies, including communication and reporting requirements as well as their investment management agreement.

3. Significant qualitative or quantitative changes to the Investment Manager’s organization.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative or quantitative factors that may impact their ability to achieve the desired investment results in conformance with these Investment Policies.

Approved by the Novi City Council on: ______ __________

MEMORANDUM

TO: VICTOR CARDENAS, CITY MANAGER

FROM: JEFFREY HERCZEG, DIRECTOR OF PUBLIC WORKS
CARL JOHNSON, FINANCE DIRECTOR/TREASURER/CFO

SUBJECT: ROAD BOND RECOMMENDATION

DATE: MARCH 14, 2024

On January 6, 2024, the City Council held an Early Input Budget Session to provide staff input on their goals and objectives for the **Budget, Capital Improvement Program (CIP)**, and several ***Transformative Projects.*** During the meeting the idea of a ***road bond*** to complete major road projects was discussed (attached) and supported by City Council. The following memo provides an update and recommendation to execute the bond process.

The Early Input Session memo *Major Road Projects Update and Funding* (dated December 13, 2023) details the three major road projects recommended for a road bond.

- **12 Mile Road (Beck Road to Novi Road) 4 Lane Boulevard**
  - Road Commission for Oakland County (RCOC) project
  - City share ~$3.5M (~$10.5M advance construct funding required in FY 2026, ~$7M payback by FY 2028)
  - The City has already committed contractually to do this project but due to significant cost increases since the initial approval, the street funds do not have sufficient funds to advance fund the County's $7M and would need to use other funds cash for this loan without bond proceeds.

- **Beck Road (11 Mie to Grand River) 5 Lane Section**
  - ~$4.7M in federal funding must be obligated by September 2025
  - ~$10M total project costs

- **Crescent Boulevard connection to Lee BeGole Drive/ 11 Mile RAB or Grand River**
  - ~$7M connection to 11 Mile Road or ~$10M connection to Grand River (updated estimates attached)
  - Enhances Ring-Road concept; movement of traffic around one of the busiest intersections (Grand River & Novi)
  - Facilitates site development for either resale or future Public Safety facility needs

These projects have a total estimated cost of **~$22-$25M**. Issuing a bond makes sense to meet the timelines of the 12 Mile project and Beck Road segment (which have federal obligation windows). The addition of the Crescent connection aligns with future considerations and allows construction to start now, which means the project will cost less (today's dollars). Staff anticipate the Crescent connection (just to 11 Mile Road) will require a minimum of two years to initiate, given current design, permitting and lead times. Having the all the funding available also allows flexibility in bidding to achieve economies of scale.

Furthermore, executing projects of this magnitude within the next five years without additional funding would have a ripple effect on existing CIP road projects, some of which are tied to obligated federal funds. Per the *Road Report Refresh* memo (dated February 29, 2024), road funding is already stretched and falling short in relation to network conditions. Road funding is not going as far as in 2012 when the road millage was originally passed, which has been further exasperated by the last few years of inflation.

For example, the Beck Road (11 Mile to Grand River) segment is currently in year one (2024-25) of the proposed Budget for $3.5M (plus the $4.7M federal funding). When staff assigned the projects in the queue nine months ago, the estimate was still reasonable. Since then, other projects, including 13 Mile Road (Meadowbrook to M5, assumed from GLWA), 9 Mile Road (Meadowbrook to Haggerty), and Meadowbrook Road (10 Mile Road to 11 Mile Road), are all projected to bid out over budget. Additionally, the RCOC 12 Mile project has more city cost share for right-of-way, design, and construction than originally budgeted. The Beck Road segment will likely not be constructed until 2025-26; therefore, the **$3.5M in 2024-25 can be used to offset project overages if bond dollars become available**. All existing projects in the CIP can remain in their fiscal year (or obligation year) by redirecting the dollars assigned to Beck Road and using bond funds.

Therefore, staff presents a **revised** **Road Bonding Option** from the *Major Road Projects Update and Funding* memo (the debt service estimates can vary depending on actual interest rates at the time of issuance and are assumed to be 3.5% as the worst case scenario for the estimate below)**:**

- Issue the **$25M** in bonds and **do not** use the **$6.908M** in grant repayments (from RCOC 12 Mile Road Project) to repay the debt, which would result in an estimated annual debt service payment of **$2.17M** and be part of the annual roads budgets moving forward.
- Issue the **$23M** in bonds and **do not** use the **$6.908M** in grant repayments (from RCOC 12 Mile Road Project) to repay the debt, which would result in an estimated annual debt service payment of **$2M** and be part of the annual roads budgets moving forward. The reduction of $2 million would be a result of the mayor and city council suspending the 10% fund balance minimum requirement for the street funds reducing the debt service by approximately $170k annually or $3.4M over the life of the bonds.

The bond funds will be directed at the sum of the three bullet point projects above:
~$5M Beck (11-GR) + ~$10M 12 Mile (Beck to Novi) + ~$10M Crescent Connection = ~$25M

The **~$7M** repayments from the RCOC (see schedule in Dec. 13 memo) would come in FY 2027 and 2028. Those funds could be used to address existing local road projects, the Neighborhood Roads Program, or the condition of Beck Road south of 11 Mile Road (given widening is abandoned) as discussed in the March 7, 2024, administrative memo *Beck Road CIP Recommendations*:

- *The projected costs for widening projects on the 9 Mile to 10 Mile and 10 Mile to 11 Mile segments currently in the CIP are ~$10M and ~$13M, respectively**. Based on current unit prices project for rehabilitation projects (Wixom Road ~$5M for two miles), the two miles of Beck Road would be in the ~$5-6M range (today's dollars),** which could be additionally offset with FAC funds (around 50/50 based on similar projects) if successfully obtained. In a "best case scenario," the rehab projects would cost the City ~$3M*

While the bond solves some immediate funding needs, it does create a 20-year debt service of $2M. If the expectation is a consistent increase in overall network ranking, the roads are already ~$2-$3M underfunded (Road Report Refresh). Further consideration by City Council should be given to increasing the road millage to offset the new debt service and address the current road funding shortfall.

MEMORANDUM

TO: VICTOR CARDENAS, CITY MANAGER

FROM: JEFFREY HERCZEG , DIRECTOR OF PUBLIC WORKS

SUBJECT: MAJOR ROAD PROJECTS UPDATE AND FUNDING

DATE: DECEMBER 13, 2023

cityofnovi.org

Staff has identified three major road projects in the Capital Improvement Plan (CIP) which require funding beyond the current capacity in the road's funds. The identified projects are **Beck Road** (12 Mile to 8 Mile Road), **Road Commission for Oakland County (RCOC)12 Mile Road** (Beck to west of Novi Road), and the proposed connection of **Crecent Boulevard and Lee BeGole Drive** (northeast ring road Crescent to 11 Mile Road). All projects are expansion and traffic improvements to significant corridors. Additional information and history on all the projects are attached for reference. The status of the three projects are as follows:

RCOC 12 Mile Road (4 Lane Boulevard)

- Federally project in cooperation with RCOC
- Project limits originally were Beck Road to Dixon Road estimated at ~$15M
- New project limits are from Beck Road to just west of Novi Road estimated at ~$35M
- Currently $1.2M budgeted in 2025 for design and right-of-way acquisition (50/50 split with RCOC)
- City responsible for 10% of construction costs ($3.5M), with advanced construction in FY2026 required to secure federal funding of $10.5M (federal payback of $7.5M spilt between in FY 2027-28 below)

CON Estimate	$35,000,000			
Funds Identified	2026	2027	2028	Total
Federal "C"	$4,694,000	$4,694,000	$4,694,000	$14,082,000
State "C"	$9,863,660	$3,228,000	$1,200,000	$14,291,660
Local	$3,639,415	$1,980,500	$1,473,500	$7,093,415
Total	$18,197,075	$9,902,500	$7,367,500	$35,467,075
JobNet/TIP	2026	2027	2028	Total
Federal "C"	$4,694,000	Convert Above	Convert Above	$4,694,000
State "C"	$9,863,660	Convert Above	Convert Above	$9,863,660
Local	$20,909,415	$0	$0	$20,909,415
Total	$35,467,075	$0	$0	$35,467,075
City Front Costs	$10,454,708			
City Reimbursement		-$3,961,000	-$2,947,000	
City NET Costs				$3,546,708

Beck Road (4 Lane Boulevard)

- Environmental Assessment (EA) is wrapping up in 2024, final step is a public hearing
- \$4.7M (for segment from Grand River to 11 Mile Road) Federal Funding Congressional Directed Spending to be obligated by August 2025 (segment estimated cost \$9M)
- Continue to work with City of Wixom to peruse additional federal funding for the entire corridor
- Estimated cost for other 3 segments (11 Mile to 8 Mile) ~\$30M
- Total cost Novi Beck Road Corridor Grand River to 8 Mile Road ~\$40M

Crescent Boulevard to Lee BeGole Drive /11 Mile Road Roundabout (RAB)

- Currently budgeted in 2028 estimated \$5M
- Recent acquisition of property across from Department of Public Works makes road construction possible
- Aligns with potential Public Safety Complex planning process
- Increases value of property for resale if the City decides not to move the Public Safety Facility to said location

To fund and construct these projects staff recommends bonding the approximate ~\$20M (~\$5M for Beck (Grand River to 11 Mile, \$10.5M for 12 Mile, and \$5M for Crescent/Lee BeGole). The City will receive \$7.5M back in federal reimbursement on the 12 Mile Road project as mentioned above but it will be repaid over a two year period.

The proposed bonding for these projects **does not** include going to the voters and asking for a millage to pay them, the debt service would be paid directly by the Municipal Street Fund and would only need council approval to proceed. City has several options for the bonds (20-year amortization) which include the following:

- Issue the \$20M in bonds and use the \$6.908M in grant repayments just to repay the debt which would result on an estimated annual debt service payment of \$1.390M which would be part of the annual budgets moving forward.
- Issue the \$20M in bonds and **do not** use the \$6.908M in grant repayments to repay the debt which would result on an estimated annual debt service payment of \$1.735M which would be part of the annual budgets moving forward. The grant repayments would be used to fund additional local street repairs as identified by the Road Committee final report or other council initiatives (see below).
- Issue \$18M in bonds and use the \$6.908M in grant repayments just to repay the debt which would result on an estimated annual debt service payment of \$1.216M which would be part of the annual budgets moving forward. The reduction of \$2M would involve the City Council temporarily suspending the fund balance minimum requirement in the street funds for two years and using those funds for the advance funding of 12 Mile. Using the fund balance would save the road funds more than \$3.74M over the duration of the bonds.
- Issue the \$18M in bonds and **do not** use the \$6.908M in grant repayments to repay the debt which would result on an estimated annual debt service payment of \$1.562M which would be part of the annual budgets moving forward. The grant repayments would be used to fund additional local street repairs as identified by the Road Committee final report or other council initiatives (see below). The reduction of \$2M would involve the City Council temporarily suspending the fund balance

minimum requirement in the street funds for two years and using those funds for the advance funding of 12 Mile. Using the fund balance would save the road funds more than $3.74M over the duration of the bonds.

This essentially frees dollars in the CIP to complete other projects competing for funding year after year. In 2020 The Roads Committee reported out a gap of $2-$3M in the road funds results in moving and deferring existing projects. Further complicated by local projects with federal funding which need to be obligated in specific fiscal years below:

Project	**Year**	**Limits**	**Federal Share**	**Novi Share**
Wixom Road	2023	790' S of Grand River Ave to Ten Mile	$1,475,280	$ 323,506
Meadowbrook	2024	10 Mile Rd to 11 Mile Rd	$ 931,161	$ 232,790
9 Mile Road	2024	Meadowbrook to Haggerty	$ 573,379	$ 143,345
13 Mile Rd	2025	M-5 to Haggerty Rd	$ 523,745	$ 130,936
West Park Dr	2025	12 Mile Rd to West Rd	$ 576,978	$ 144,244
West Park Dr	2025	West Rd to Pontiac Trail	$1,198,688	$ 299,672
		Total	**$6,851,062**	**$2,528,803**

A bond of this magnitude would provide flexibility and allow execution of the larger projects timely enough to align funding sources which can ultimately be directed by the City Council's preferred priorities.

The remaining segments on the Beck project (11 Mile Road to 8 Mile Road) are estimated at ~$30M and assuming no additional federal dollars, they would have to be addressed separately and will likely need to be funded by a voter approved millage as the estimated annual debt service is $2.603M or .56 mills. However, there is a lack of support for expansion from communities south of 8 Mile, so any expansion project south of 10 Mile (staff does recommend completing expansion to 10 Mile based on its current traffic volumes) would need further consideration.

City of Novi
Debt Service Example

Amount of Debt	$20,000,000
Interest Rate	3.50%
Term	10 years

	Principal	Interest	Total	Annual Debt Serv	
6/30/2024	-	700,000.00	700,000.00		$20,000,000
12/31/2024	2,000,000.00	700,000.00	2,700,000.00	3,400,000.00	18,000,000
7/1/2025	-	630,000.00	630,000.00		
1/1/2026	2,000,000.00	630,000.00	2,630,000.00	3,260,000.00	16,000,000
7/1/2026	-	560,000.00	560,000.00		
1/1/2027	2,000,000.00	560,000.00	2,560,000.00	3,120,000.00	14,000,000
7/1/2027	-	490,000.00	490,000.00		
1/1/2028	2,000,000.00	490,000.00	2,490,000.00	2,980,000.00	12,000,000
6/30/2028	-	420,000.00	420,000.00		
12/31/2028	2,000,000.00	420,000.00	2,420,000.00	2,840,000.00	10,000,000
7/1/2029	-	350,000.00	350,000.00		
1/1/2030	2,000,000.00	350,000.00	2,350,000.00	2,700,000.00	8,000,000
7/1/2030	-	280,000.00	280,000.00		
1/1/2031	2,000,000.00	280,000.00	2,280,000.00	2,560,000.00	6,000,000
7/1/2031	-	210,000.00	210,000.00		
1/1/2032	2,000,000.00	210,000.00	2,210,000.00	2,420,000.00	4,000,000
6/30/2032	-	140,000.00	140,000.00		
12/31/2032	2,000,000.00	140,000.00	2,140,000.00	2,280,000.00	2,000,000
7/1/2033	-	70,000.00	70,000.00		
1/1/2034	2,000,000.00	70,000.00	2,070,000.00	2,140,000.00	-
	20,000,000.00	7,700,000.00	27,700,000.00	27,700,000.00	
			Approximate annual debt service	**2,770,000.00**	
			Approximate annual debt service using $6.908 grant repay	**2,079,200.00**	

City of Novi
Debt Service Example

Amount of Debt	$20,000,000
Interest Rate	3.50%
Term	20 years

	Principal	Interest	Total	Annual Debt Serv	
6/30/2024	-	700,000.00	700,000.00		$20,000,000
12/31/2024	1,000,000.00	700,000.00	1,700,000.00	2,400,000.00	19,000,000
7/1/2025	-	665,000.00	665,000.00		
1/1/2026	1,000,000.00	665,000.00	1,665,000.00	2,330,000.00	18,000,000
7/1/2026	-	630,000.00	630,000.00		
1/1/2027	1,000,000.00	630,000.00	1,630,000.00	2,260,000.00	17,000,000
7/1/2027	-	595,000.00	595,000.00		
1/1/2028	1,000,000.00	595,000.00	1,595,000.00	2,190,000.00	16,000,000
6/30/2028	-	560,000.00	560,000.00		
12/31/2028	1,000,000.00	560,000.00	1,560,000.00	2,120,000.00	15,000,000
7/1/2029	-	525,000.00	525,000.00		
1/1/2030	1,000,000.00	525,000.00	1,525,000.00	2,050,000.00	14,000,000
7/1/2030	-	490,000.00	490,000.00		
1/1/2031	1,000,000.00	490,000.00	1,490,000.00	1,980,000.00	13,000,000
7/1/2031	-	455,000.00	455,000.00		
1/1/2032	1,000,000.00	455,000.00	1,455,000.00	1,910,000.00	12,000,000
6/30/2032	-	420,000.00	420,000.00		
12/31/2032	1,000,000.00	420,000.00	1,420,000.00	1,840,000.00	11,000,000
7/1/2033	-	385,000.00	385,000.00		
1/1/2034	1,000,000.00	385,000.00	1,385,000.00	1,770,000.00	10,000,000
7/1/2034	-	350,000.00	350,000.00		
1/1/2035	1,000,000.00	350,000.00	1,350,000.00	1,700,000.00	9,000,000
7/1/2035	-	315,000.00	315,000.00		
1/1/2036	1,000,000.00	315,000.00	1,315,000.00	1,630,000.00	8,000,000
6/30/2036	-	280,000.00	280,000.00		
12/31/2036	1,000,000.00	280,000.00	1,280,000.00	1,560,000.00	7,000,000
7/1/2037	-	245,000.00	245,000.00		
1/1/2038	1,000,000.00	245,000.00	1,245,000.00	1,490,000.00	6,000,000
7/1/2038	-	210,000.00	210,000.00		
1/1/2039	1,000,000.00	210,000.00	1,210,000.00	1,420,000.00	5,000,000
7/1/2039	-	175,000.00	175,000.00		
1/1/2040	1,000,000.00	175,000.00	1,175,000.00	1,350,000.00	4,000,000
6/30/2040	-	140,000.00	140,000.00		
12/31/2040	1,000,000.00	140,000.00	1,140,000.00	1,280,000.00	3,000,000
7/1/2041	-	105,000.00	105,000.00		
1/1/2042	1,000,000.00	105,000.00	1,105,000.00	1,210,000.00	2,000,000
7/1/2042	-	70,000.00	70,000.00		
1/1/2043	1,000,000.00	70,000.00	1,070,000.00	1,140,000.00	1,000,000
7/1/2043	-	35,000.00	35,000.00		
1/1/2044	1,000,000.00	35,000.00	1,035,000.00	1,070,000.00	-
	20,000,000.00	14,700,000.00	34,700,000.00	34,700,000.00	
			Approximate annual debt service	**1,735,000.00**	
			Approximate annual debt service using $6.908 grant repay	**1,389,600.00**	

City of Novi
Debt Service Example

Amount of Debt	$18,000,000
Interest Rate	3.50%
Term	20 years

	Principal	Interest	Total	Annual Debt Serv	
6/30/2024	-	630,000.00	630,000.00		$18,000,000
12/31/2024	900,000.00	630,000.00	1,530,000.00	2,160,000.00	17,100,000
7/1/2025	-	598,500.00	598,500.00		
1/1/2026	900,000.00	598,500.00	1,498,500.00	2,097,000.00	16,200,000
7/1/2026	-	567,000.00	567,000.00		
1/1/2027	900,000.00	567,000.00	1,467,000.00	2,034,000.00	15,300,000
7/1/2027	-	535,500.00	535,500.00		
1/1/2028	900,000.00	535,500.00	1,435,500.00	1,971,000.00	14,400,000
6/30/2028	-	504,000.00	504,000.00		
12/31/2028	900,000.00	504,000.00	1,404,000.00	1,908,000.00	13,500,000
7/1/2029	-	472,500.00	472,500.00		
1/1/2030	900,000.00	472,500.00	1,372,500.00	1,845,000.00	12,600,000
7/1/2030	-	441,000.00	441,000.00		
1/1/2031	900,000.00	441,000.00	1,341,000.00	1,782,000.00	11,700,000
7/1/2031	-	409,500.00	409,500.00		
1/1/2032	900,000.00	409,500.00	1,309,500.00	1,719,000.00	10,800,000
6/30/2032	-	378,000.00	378,000.00		
12/31/2032	900,000.00	378,000.00	1,278,000.00	1,656,000.00	9,900,000
7/1/2033	-	346,500.00	346,500.00		
1/1/2034	900,000.00	346,500.00	1,246,500.00	1,593,000.00	9,000,000
7/1/2034	-	315,000.00	315,000.00		
1/1/2035	900,000.00	315,000.00	1,215,000.00	1,530,000.00	8,100,000
7/1/2035	-	283,500.00	283,500.00		
1/1/2036	900,000.00	283,500.00	1,183,500.00	1,467,000.00	7,200,000
6/30/2036	-	252,000.00	252,000.00		
12/31/2036	900,000.00	252,000.00	1,152,000.00	1,404,000.00	6,300,000
7/1/2037	-	220,500.00	220,500.00		
1/1/2038	900,000.00	220,500.00	1,120,500.00	1,341,000.00	5,400,000
7/1/2038	-	189,000.00	189,000.00		
1/1/2039	900,000.00	189,000.00	1,089,000.00	1,278,000.00	4,500,000
7/1/2039	-	157,500.00	157,500.00		
1/1/2040	900,000.00	157,500.00	1,057,500.00	1,215,000.00	3,600,000
6/30/2040	-	126,000.00	126,000.00		
12/31/2040	900,000.00	126,000.00	1,026,000.00	1,152,000.00	2,700,000
7/1/2041	-	94,500.00	94,500.00		
1/1/2042	900,000.00	94,500.00	994,500.00	1,089,000.00	1,800,000
7/1/2042	-	63,000.00	63,000.00		
1/1/2043	900,000.00	63,000.00	963,000.00	1,026,000.00	900,000
7/1/2043	-	31,500.00	31,500.00		
1/1/2044	900,000.00	31,500.00	931,500.00	963,000.00	-
	18,000,000.00	13,230,000.00	31,230,000.00	31,230,000.00	
			Approximate annual debt service	**1,561,500.00**	
			Approximate annual debt service using $6.908 grant repay	**1,216,100.00**	