

**REGULAR MEETING OF THE COUNCIL OF THE CITY OF NOVI
TUESDAY, NOVEMBER 12, 2019 AT 7:00 P.M.
COUNCIL CHAMBERS – NOVI CIVIC CENTER – 45175 TEN MILE ROAD**

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

PLEDGE OF ALLEGIANCE

ROLL CALL: Mayor Gatt, Mayor Pro Tem Staudt, Council Members Breen, Casey, Crawford (absent/excused), Fischer, Mutch

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

APPROVAL OF AGENDA:

Mayor Gatt added the appointment of Mayor Pro Tem to the agenda.

CM 19-11-187 Moved by Casey, seconded by Breen; MOTION CARRIED: 6-0

To approve the Agenda as amended.

Roll call vote on CM 19-11-187 **Yeas: Staudt, Breen, Casey, Fischer, Mutch, Gatt**
Nays: None
Absent: Crawford

APPOINTMENT OF MAYOR PRO TEM

Mayor Gatt appointed David Staudt as the Mayor Pro Tem for the next two years.

PUBLIC HEARING: None

PRESENTATIONS:

1. Comprehensive Annual Financial Report ending June 30, 2019 - Carl Johnson, Finance Director

Carl Johnson, Finance Director thanked the City Manager and his team. He said we really have a great organization and a great team. He stated the department heads, year after year, came in under budget. He said there was not a single variance and single item noted in the audit reports. He commented that it isn't just done by finance and treasury; it's everyone on the team. He said he has worked 30 years in the industry and he hasn't run across a better team than what we have here. He was proud of that. He gave special thanks to Deputy Finance Director, Sabrina Lilla, who oversaw the audit. He said he wanted to touch on three or four items in the audit. He said the audit itself is 186 pages. He said the first one was the General Fund, general operating fund; the original budget that we started with was approved to spend \$50,000 to spend of fund balance. We ended on 5/21, using 5/21 and dipping into 5/21. What that means is dipping into that \$50,000 that was the original which was the Transportation

Study; we pushed forward the breathing apparatus for the fire department which was another \$350,000. The other \$100,000 is just the difference between our roll-overs of our contracts. Every year will roll over about \$1.2 million to \$1.3 million in equipment purchases and contracts, etc. between the two years. He said we were right on with budget and actually we were about \$300,000 under budget. He said we used that \$300,000 to make an extra pension contribution. He said our ending Fund Balance is just about \$11.3 million, and the General Fund around 32%. Next he talked about the Capital Improvement Fund (CIP). He said in June we passed a deficit elimination plan. When we created this bond and went to the voters, we said we wanted to do four to six projects in advance- the DPW building, Lakeshore Park, Gun Range, and the ITC Trail. We wanted to do those ahead of when we were going to actually have the funding yet. What that meant was that we were spending money before we brought it in through the millage. He stated that our millage is projected to bring in around \$40 million dollars and those projects were estimated to cost around \$20 million dollars. We only bring in around \$3.5 annually. Our options were to go issue bonds, or to borrow internally. He said we opted to borrow internally. The reason for that was financial. It is substantially cheaper for us to borrow money internally. The money stays in house. The earnings on that, the interest that would have been paid to a third party, we pay to ourselves. The money is actually making a better rate of return than what it would have out there. He explained in the financial statements it will show a deficit, it is going to show that we spent more than we brought in. He explained that \$8.6 million was the borrowing that we had as of June 30, 2019. If we were to issue bonds that would be zero and that amount would be revenue in the fund itself if we would have issued bonds, but we didn't. We borrowed from the other fund. We show borrowing here, and we actually show that we brought in our normal money, we spent \$16 million dollars, and we have a deficit in the fund of \$6.7 million dollars. We borrowed from another fund instead of the outside world. Under the accounting rules if we borrow from the outside world it is called revenue, so we would not have a deficit in this fund. What it means we spent \$7,250 interest last year on the borrowing related to this. If we would have issued debt, we would have had \$300,000 plus in closing costs and the interest cost just for that year would have been over \$100,000. Just for the first year of this we were \$400,000 better off. That is the reason we did it this way. The plan is that we have plenty of money in the future years to cover it. The third item he wanted to touch on was the retiree health care, OPEB funding, as well as pension funding. He said OPEB was 104% funded last year, this year our liability, which is the amount we owe our retirees for health care went from \$28.1 to \$29.5 million dollars. We made \$2.2 million on that money because we invested that money in house. Internally we did much better than MERS did. He stated our contributions continue to go up annually. It was \$880,000, \$950,000, and we are just about a million dollars annually. Even with the increase in our liability we remained at 104% which is outstanding. We would be in the top 5% in the entire State as far as the funding levels of the OPEB. He moved on to the pension plans and noted that we were at \$600,000 annually, now we are at \$200,000 -\$270,000 annually. Until the OPEB gets to 120% to 140% funded we will have to continue to contribute, but the amounts are going down. The decrease we have reprogrammed directly into the pension contribution. He said the pension side of the liability at the end of 2019 was \$101 million dollars is the amount that we owe for pensions that is up from

\$99.7 million dollars the year before. He said without any new people in there, without any changes, the liability continues to grow. The actuaries are never correct. It continues to go up, five years ago it was \$86 million, and now over \$101 million. Our plans are closed; they are not open to new members. The earnings from MERS last year, the assumption MERS make is that we earn 7%, they lost \$2.6 million dollars for the year on our \$70 million dollars that they invested. The assumption is 6% so our contributions are going to go up more into the future. What that means on an interim basis is that our contribution percentage, out funded level drops significantly. Our funding level dropped from 65% to 60%. The trigger for PA202 as far as pension funding is 60% so we are right there. The bad news is MERS has already sent a letter to us and said that the next actuary report they are changing their assumptions again, they are going to lower the interest earnings assumption, they are going to raise the assumptions related to death benefits, etc. The last time they did that the liability rose \$3.3 million dollars. He assumed that would be about a \$3 to \$5 million dollar increase again just in the liability. We will definitely be below the 60% going forward. He said we will have to address that, we talked about bonding before. If we were ever interested in that, the bond rates have never been better, the market and interest rates have plummeted lately. That is always an option. The issue we've had is if you look at 2018, if we would have bonded, our entire deficit of \$34 million, are entire underfunded, it is \$39 million now. That is one of the significant drawbacks of bonding. If we would have bonded out to zero, we would be \$5 million in the hole already, just one year later because the assumptions not being met. It is a short-term way to get to the funding level if you want. We are still on track. We are still doing what we are supposed to. We made extra contributions. Along those lines, the past two-years we kicked in another \$450,000. This was under budget savings in the General Fund that we kicked in. Every dime of savings that we have in the departments we are going to kick it in towards the pensions. He said \$450,000 a year ago, \$310,000 the year before, we kicked in 3/4 of a million dollars and we still lost 5% in our funding levels. It is hard; it has doubled in the last five years and will double in the next five years. It is something that we need to keep our eye on. We have almost no debt. It is an incredible amount of debt that we have on our books. The only debt that we have is Library debt, we paid off another million of that, we have \$9.6 million dollars of debt. It is paid off in 2026, a little over \$1 million a year. That is financed by a millage. The other two debts are the Ice Arena debt; the balance is about \$2.5 million dollars which we pay about \$500,000 a year. The other would be Meadowbrook Commons Senior Center, we have \$6.5 million in debt there and that goes through to 2025. In the next six to seven years we will literally have no debt on our books what so ever. The debts that we do have the Ice Arena and Meadowbrook Commons are both funded through the rates, there are no taxpayer contributions what so ever. The fees we collect at the Ice Arena and the fees we collect at Meadowbrook Commons. In his final statements he said we have been making capital improvements. During the past year we spent almost \$29 million dollars of our \$100 million dollar budget. This isn't even Water & Sewer, so it is \$60 million dollars. He said \$30 million on capital improvements. A lot of it in the Capital Improvement Program (CIP) we spent over \$15 million dollars. He said roads, land purchases, and equipment. We have been reinvesting in our future and in the infrastructure. That is a monstrous number for us to do. It is paid dividends, the City has never looked better. We still have our \$100 million

dollars in our six-year Capital Improvement Plan (CIP). We are still looking to improve and invest in the City of Novi.

Mayor Gatt said minus the pension liability, he didn't think there was a city within 500 miles that wouldn't kill for those kinds of numbers. The City of Novi is doing very well. Everyone that is watching on television should understand that. He gave credit to the seven people sitting at the Council table, the City Manager and staff, and last but not least, Finance Director Johnson for all of his diligent work. He said they should enter into some discussion regarding the pension funding. He would like to be perfect.

Member Mutch thanked Mr. Johnson for the thorough coverage of these major issues. He touched on the pensions and MERS managed to lose money last year in terms of the investments that they managed for us. He assumed that our pension plan and the determination of when that valuation is set is December 31. Mr. Johnson said that was correct. Member Mutch said he sits on a pension board in another community. In their community they suffered the same problem. They saw the same kind of losses because December of last year was a horrible year in the market. Mr. Johnson said yes, the month of December was bad. Member Mutch said many pension plans they've had to grapple with the fact that their valuations were set during a major down turn in the market. Many have seen their valuations rebound and go beyond what they were at their highest levels they had previously. He wondered if MERS have provided us with those numbers to give us a sense of where those valuations are now. Mr. Johnson said yes, if it would have been a June report, instead of December where we lost 10% to 11%, but we made most of it back by March. The overall return was approximately 6%, so 6% of \$60 million dollars is around \$3.6 million dollars, well short of the assumption of 7%, but not quite as bad. They smooth the gains and losses over a period of time. Even with the smoothing there is a \$2 million dollar gap between market and the amount that they are reporting to the negative. The returns would have to exceed the 7% in order for us to break the 7% mark. Member Mutch said that made sense. He said they are making additional changes to the assumptions that are going to be used again to determine the amount that we have to pay. Member Mutch asked Mr. Johnson is his expectation was to pay another \$3 to \$5 million dollars in liability that will accrue from just that. Mr. Johnson said yes, that was correct. Member Mutch said that hopefully we will have a good year in the market and that will help offset the four or five year smoothing and we will have some positive impact relative to that. He said that is a big jump again in that liability as was noted. He said when folks hear these numbers when we are not at a 100% is the concern that down the road for those employees who are eligible for a pension benefit, will that money be there. If the City is this underfunded at this point, 20 years or for some, sooner will those funds be there. Member Mutch asked Mr. Johnson what the actuarial determined contribution and what that amount reflects in terms of what we are asked to pay every year. Where is that taking us in fully funding that pension fund? Mr. Johnson said he didn't have the number in front of him, he thought we were at a 23 year amortization or around 20 years amortization period. They look at it like you are not funding it immediately, but over time. We are sticking to that. The other thing is when we closed these plans several years ago it accelerated the contribution. Rather than a one-year knocking off the amortization period, it goes

two-years because the closed plan. They want you to fund it even quicker because you now have closed the plan and there are no new people coming into it. He said we have done all of those things, we have accelerated our contributions we have made extra contributions; it is MERS projection that we won't hit 60% again until another five to six years, that we would fall below it and it would take that long to get back if we made just the normal actuarial contribution. Member Mutch said the contribution amount is on the valuation which is changing all the time. He said this amount does reflect that at the end of that time period we would fully fund that pension liability at the end of that period. Mr. Johnson said yes. Member Mutch said folks get concerned, but we as a City and what we are contributing is the assumption in that number is when we get to the end of that time period we will have fully funded that. He said obviously things do change and it will adjust, but that is the concept behind that amount. It is not just a number made up there is some idea behind that to get to that point. Mr. Johnson said last year we contributed \$4.4 million dollars, our benefit payments to our retirees was a little over \$6 million. We are almost paying dollar for dollar what our pension benefit is and on top of that we have \$65 million dollars sitting in MERS for additional contributions. There is no risk what so ever as far as not having money available for our pensioners when it comes time to it. Member Mutch brought up that Mr. Johnson said that all the departments had come in under budget. Mr. Johnson said that was the \$310,000 in additional contribution. What we did was take every dime they could to meet budget we made an extra contribution to that. Member Mutch agreed with the Mayor and said they will have to have discussions about what we will have to do with the pension liability especially if we go under that 60%. He said everything else looked good, especially retiree healthcare. He appreciated Mr. Johnson sharing that information.

2. Comprehensive Financial Audit for year-end June 30, 2019 - Rehmann

Nathan Baldermann thanked Mayor and Council for their time. He noted that this was their first year on our audit. He said he was the Engagement Principal on the audit. He said they were excited to get the audit this year and work with the City. They know what the City of Novi is and our Finance Department and their experience with working with Mr. Johnson. They felt it would be smooth and it was smooth. He said that usually when they come in to do the audit they are expecting first year pains in an audit and transition as we learn. It was almost like they had worked with us before. It was well prepared. He commended Carl and Sabrina for being well prepared. When we come in for the audit, sole objective is to issue opinion on financial statements so they know whether they can rely on information. Opinion was "unmodified" or clean. He said in laymen's terms it says that you can rely on information included in the reports. He said they had no findings. They had one comment, but Mr. Johnson explained what it was about. Technically because of deficit in Capital Improvement Program, it has to be noted in audit because it is a deficit. He said the City has a deficit elimination plan that's been filed so it's been taken care of. He said there were really were no other issues. It was a very clean audit.

Mayor Gatt said he appreciated their work. Novi is a robust and healthy community right now. There were no questions at the time.

MANAGER/STAFF REPORT: None

ATTORNEY REPORT: None

AUDIENCE COMMENT: None

CONSENT AGENDA REMOVALS AND APPROVALS:

- A. Approval of Minutes of October 28, 2019 - Regular Meeting
- B. Acceptance of a Woodland Conservation Easement from Pulte Homes of Michigan, LLC for the woodland replacement trees, offered as a part of the Woodbridge Park development, located on the northeast corner of Novi Road and Nine Mile Road, in Section 26 of the City.
- C. Acceptance of a Woodland Conservation Easement from Orville Properties, LLC for the woodland replacement trees, offered as a part of the Adell Center Roads and Utilities site plan, located west of Novi Road and south of I-96, in Section 15 of the City.
- D. Approval of a Resolution of the City Council Authorizing Termination of Portion of Water Main Easement, for Daifuku North America located at 30100 Cabot Drive (parcel 50-22-01-400-041).
- E. Approval of a Storm Drainage Facility Maintenance Easement Agreement from C&L Land Holding – Novi Mercedes, for Mercedes Benz of Novi located west of Haggerty Road and north of Grand River Avenue (parcel 50-22-24-426-010).
- F. Approval of Claims and Warrants – Warrant No. 1047

CM 19-11-188 Moved by Casey, seconded by Fischer; CARRIED UNANIMOUSLY

To approve the Consent Agenda as presented.

Roll call vote on CM 19-11-188

**Yeas: Breen, Casey, Fischer, Mutch, Gatt,
Staudt
Nays: None
Absent: Crawford**

MATTERS FOR COUNCIL ACTION

1. Consideration of Ordinance No. 19-195, an Ordinance to Amend the City of Novi Code of Ordinances, at Chapter 12, "Drainage and Flood Damage Prevention," to add Article IV, "Illicit Discharge Elimination Program," to Regulate Non-Stormwater Discharge. **FIRST READING**

CM 19-11-189 Moved by Staudt, seconded by Casey; CARRIED UNANIMOUSLY

Approval of Ordinance No. 19-195, an Ordinance to Amend the City of Novi Code of Ordinances, at Chapter 12, "Drainage and Flood Damage Prevention," to add Article IV, "Illicit Discharge Elimination Program," to Regulate Non-Stormwater Discharge. FIRST READING

Roll call vote on CM 19-11-189

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

Nays: None

Absent: Crawford

AUDIENCE COMMENT: None

COMMITTEE REPORTS: None

MAYOR AND COUNCIL ISSUES:

1. Appointments to Council Committees

Mayor Gatt appointed Member Casey, Member Fischer, and Member Crawford to the Capital Improvement Program. He appointed Member Breen, Member Fischer, and Member Casey to the Commission Interview Committee. He appointed Mayor Pro Tem Staudt, Member Fischer, and Member Casey to the Consultant Review Committee. He said the Mayor serves on the Ordinance Review Committee and appointed Pro Tem Staudt, Member Crawford, and Member Fischer as the alternate. He said the Mayor serves on the Rules Committee and appointed Mayor Pro Tem Staudt and Member Casey as well. He appointed Mayor Pro Tem Staudt and Member Breen to the Parks, Recreation and Cultural Services Grant Citizen Advisory Committee. He appointed Member Fischer and Member Mutch to the Pathway and Sidewalk Prioritization/Walkable Novi. He appointed Member Mutch to SEMCOG with Member Breen as the alternate. He appointed Member Casey as the Council Liaison to the Youth Council, with Member Breen as the alternate.

Mayor Gatt made a motion to appoint the following people to the Community Recreation Center Committee: Mayor Gatt, Mayor Pro Tem Staudt, who will serve as the Chair, Member Breen, Kim Capello, Jim Perris, PRCS Commissioner Jay Dooley, in addition to staff representatives from the City Manager's Office, Public Works, Planning Department, Community Relations, Integrated Solutions, Finance, and the Fire Department.

