

# Budget Message



June, 2015

Honorable Mayor and City Council Members:

## iNNOVating the Future

### Budget

I would like to start this year's budget message with a thank you to the staff who does the heavy lifting during this budget process. The entire Finance team worked to simplify the process, especially Finance Director Carl Johnson, Senior Budget Analyst Jessica Dorey and Assistant City Manager Victor Cardenas. The budget team met and worked with all the Department Directors and their team members as we looked at this budget line by line with this new City Manager who questioned and attempted to learn why and how we do what we do.

Innovative might not be the first thing that comes to mind when reading a budget letter. Not to worry, innovative does not refer to how we spend, account for or invest the funds we receive. Innovating plays in to the "what" and "how" we deliver the services and projects that are funded by this budget.

In accordance with the Government Financial Officials Association (GFOA) guidelines, this document does include the organizational strategic goals and strategies that address short and long term concerns and issues. The City of Novi has taken on and continues many planning processes which all must be processed and prioritized by staff and committees with guidance from and final approval by the Novi City Council.

Many of the short term factors are being driven by decisions at the state and federal levels as unfunded mandates continue to drive up cost. In the short term, we will have to be innovative in addressing some of these rising costs in health care and funding the defined benefit (DB) pension system.

Another short-term issue continues to be investment into infrastructure. Coming out of the recession that was the last decade, we, like most organizations, had to defer some maintenance in order to continue to deliver the level of services the community expected.

The budget for 2015/2016 is balanced.

General Fund (GF) revenues, including transfers, are \$31,240,612, which is up 2.0%. GF Expenditures are \$31,240,612, which is down .8 % from the 2014/2015 budget.



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Any good organization should live financially within its means. Annual expenditures for operations should remain within the amount of revenue brought in and this budget does that. The City of Novi has been very conservative on operational spending which has allowed for approximately 1.5 million dollars in Capital Improvement Plan (CIP) spending and an additional \$500 thousand on vehicles, service improvements and other capital related items in the 2015/2016 budget year. The budget is still balanced and the City of Novi's projected fund balance (FB) for 2015/2016 is \$8,621,500 or 27.4% of annual expenditures. This is 3.4 % better than the City Council goal of 18% to 22%.

## Infrastructure

We continue to invest and maintain our water and sewer systems. Investment into our Neighborhood Road Rehabilitation, Repaving and Reconstruction Program is also spelled out in this budget as we increase our spending for this program by more than \$400,000 per year over what we were spending in past years. This trend will continue for the next several years.

The Department of Public Services' (DPS) Engineering Division has aggressively pursued and received several infrastructure grants since it was folded into DPS five years ago. Most of this Federal funding has gone toward making road improvements, but Engineering has also received grants for storm water projects and wastewater system improvements.

A total of \$4.31 million in infrastructure grants has been awarded to the City of Novi since 2009, an average of \$860,000 per year. This is funding that would have otherwise been drawn from the General Fund in order to get critical infrastructure projects completed. By leveraging Federal/State funding we are therefore maximizing our residents and business tax dollars.

The DPS has been successfully leveraging innovative winter maintenance technologies over the past several years. One enhancement that has been a proven productivity multiplier is the addition of wing plows to the heavy dump truck fleet. A wing plow is a side-mounted, hydraulically articulated blade, which so far has been deployed on four of the City Novi's large snow plow trucks (with another three to be installed this summer to be ready for next winter).

Wing plows add an extra 7-foot wide swath of clearing capability, which means a plow operator can reduce roadway clearing time by a factor of at least one-third. The fleet of wing plows saves roughly 13 hours of operator time for each winter storm event. Over the course of an average winter season, this equates to an annual savings of nearly \$16,000. More importantly, DPS crews can clear Novi's streets that much faster for residents and businesses thanks to this innovation.

There are three road jurisdictions in the City of Novi: local and major roads owned and maintained by the City of Novi, roads owned by the Road Commission for Oakland County, and highways owned and operated by the Michigan Department of Transportation (MDOT). After the State of Michigan collects taxes and fees for roads, the State removes funding in eight different categories for special funding ranging from Rail Road crossings to critical bridge funding. Then, the State of Michigan splits the remaining dollars via the Public Act51 formula. Here is the breakdown of that funding:

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- The State Trunk Line Fund receives 39.1%
- County Road Commissions receive 39.1%
- Cities and villages receive 21.8%.

The City of Novi plans to spend \$10,426,254 on road maintenance and construction in 2015/2016. Operational cost (cleaning, minor repair, maintenance snow removal etc.) normally is about 26% of Novi Road Funding.

## Taxable Value

We are seeing a faster than anticipated growth in the City of Novi's State Equalized Value (SEV) and Taxable Value (TV) and we believe this trend will continue. Residential properties continue to lead in Novi's growth. Quality homes, a safe community, open space, trails, good schools and location all play a crucial role in Novi's development. We are witnessing the SEV grow by 13.4% and TV at 5.2%. Our commercial and industrial properties have only seen a slight growth at 2.9% SEV growth which is only about 1.9% actual TV growth. The overall TV average shows all properties taxable value increase of 4.39%.

In 2014, Novi was fortunate to add over 50 million dollars in new construction to the 2015 assessment roll. It's important not to fall into the illusion that this growth is sustainable in the long run. We will eventually be challenged with the same quandary that aging communities face when they run out of large tracts of developable land. Over the last ten years, we have seen a shift to development of smaller parcels and of larger parcels that were not previously considered "low hanging fruit". For the most part, the easy stuff has already been developed.

Many communities have three stages of life: Growth, Equilibrium, and Decline. Where we are is open to debate, but our team seems to view us as still in, or near, the end of the growth cycle. Decisions we make today are important to our continued growth in a smart and innovative way. The City of Novi is still a desirable destination to live and work and as such, values are high and recovery is quicker than most surrounding communities. There were over 1,100 transfers of ownership during 2014 that caused uncappings for 2015.

## Enterprise Funds

The City has three enterprise funds. These funds are designed as such that they should be able to operate and be sustainable on the revenues generated by the fund. These funds are Water/Sewer, Meadowbrook Commons Sr. Living facilities, and Novi Ice Rink. All three funds are meeting their prescribed goals of budgeted revenues exceeding expenditures.



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## City Debt

Citywide debt continues to be low and we should see two bonds being paid off in the next two years. Other long term financial issues are being addressed.

## Retirement Cost

Many communities struggle to balance their budgets and defer a large cost driver until later. The City of Novi has done a great job of addressing both areas financially. The City of Novi has been focusing on addressing the Other Post-Employment Benefits (OPEB) (i.e. health care costs for retired City employees) liability which is now 100% funded and have now shifted resources to address the Defined Benefit (DB) Pension which currently sits close to 69% funded. We have increased our DB pension contributions by an additional \$100,000 per year in our commitment toward closing the unfunded gap.

## Parks and Recreation

We have completed a Capital Improvement Plan that, due to funding constraints, does not address some of the large expenditures in the next fiscal year. The City must lay the groundwork for enhancing some of the parks and amenities that could upgrade the user's experience, as well as continue to drive more economic development.

Construction of a new restroom/pavilion and additional amenities at Pavilion Shore Park will enhance one of newest parks in the park system and responds to our resident's needs/requests.

Investment in rehabilitating our existing fields and facilities (especially ITC and Power) ensures we will continue to be recognized as a premiere destination for local, state and national tournaments, providing positive economic impact to our retailers, restaurants and hotels.

Programs are monitored annually for participation numbers and cost. This process helps maintain relevant programming for our citizens.

## Public Safety

This budget maintains Police and Fire staffing levels while ensuring the teams are properly equipped and trained. The data driven model and management team has done a great job of focusing the given resources where we receive the greatest impact.

The Novi Police Department has experienced success with its Data Driven Approach to Crime and Traffic Safety (DDACTS) initiative over the past 17 months. Overall, Novi Police have identified three primary areas made up of 5 zones within Novi to combat crimes and traffic crashes. DDACTS is a national law enforcement policing model supported by a partnership with the Department of Transportation's Highway Traffic Safety Administration. This policing philosophy integrates location-

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based crime and traffic crash data to establish effective and efficient methods for deploying law enforcement resources.

Using geo-mapping technology to identify areas through temporal and spatial analysis, that have high incidences of crime and crashes, DDACTS employs targeted traffic enforcement strategies.

First implemented in September 2013, this is Novi's first effort to reduce the frequency of Larceny, Burglary, & Motor Vehicle Theft. Since its inception, the Novi Police Department has successfully reduced those targeted crimes by 68%

An important component of our overall community risk reduction program, the Novi Fire Department continues to grow our effective company based fire inspection program. In lieu of a traditional single role fire prevention inspector, all career firefighters are classified as Fire Protection Officers and certified to conduct fire inspections, plan reviews and field acceptance tests on fire protection systems within our community. With 21 state and NFPA certified Fire Protection Officers the Novi Fire Department conducted 2923 fire inspections and reviewed 335 plans in the past year. The Fire Department continues the popular child safety seat inspection program and performed 243 installations in 2014. Prevention, education and community involvement will continue to be hallmarks of our fire service.

Both the Police and Fire facilities will continue to be studied as both face facility issues that will impact our yearly CIP budgets. As a new manager I would like to get my head around some of the opportunities we face that can be addressed in an innovative way to ensure these services are delivered at the highest possible levels.

## Community Development

We are continuing the process we started in the 2014/2015 budget year of redesigning both the physical locale and other factors that affect the environment and personnel in how we deliver in economic development, planning and development and inspection services. This focus will help us continue to grow and not plateau as previously mentioned.

These changes will be challenging as we must "re-build this air plane while still flying it". We will look at other tools that the City of Novi may not have used in the past but are available for quality growth and development. These changes that affect regulatory or legislative processes will have to work through with city council to ensure a positive financial impact to the city.

## Personnel

Our people are the backbone of the programs and services we deliver. We have added three positions; two full-time positions which will eliminate four part-time positions each and one position that is to come out of dedicated funds. In addition, the City will be eliminating two additional full time positions that are being folded into other operations and not replaced.



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Over the past four years we have had a turnover of over 50% of administrative staff. If the economy continues its pattern of growing, gaining and retaining quality personnel will be a challenge for us and all other forms of local government. We are working with Human Resources (HR) to improve on proactive HR issues that gain us a quality employment pool, continued training and mentoring, and innovative approaches to benefit delivery systems as costs continue to escalate and State/Federal laws continue to impact offerings and cost.

I am pleased to present this budget to the Novi City Council for consideration and adoption. This budget represents a steady foundation based on solid financial data and strategy for the next few years. As we look into the bright future this community has to offer, we hope our innovations will inspire others to new heights.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Peter E. Auger'.

Peter E. Auger  
City Manager