



CITY OF NOVI
Finance and Administration Committee Meeting
July 7, 2025, 5:30 p.m.
Mayor's Conference Room | Novi Civic Center | 45175 Ten Mile Road
(248) 347-0445

CALL TO ORDER: 5:30 p.m.

ROLL CALL: Mayor Fischer, Mayor Pro Tem Casey, Councilmember Staudt

STAFF LIAISON: Victor Cardenas, City Manager

ALSO PRESENT: Danielle Mahoney, Assistant City Manager
Jeff Much, PRCS Director
Sabrina Lilla, Deputy Finance Director
Tina Glenn, Assistant Treasurer
Thomas Schultz, City Attorney
Regina Swick, Graduate Management Analyst
Kenneth Mittelbrun, Morgan Stanley Senior Investment Mgmt. Consultant

APPROVAL OF AGENDA

Motion: Casey; Seconded: Staudt; Approved: 3:0

APPROVAL OF MINUTES – April 22, 2025

Motion: Casey; Seconded: Staudt; Approved: 3:0

PURPOSE OF THE MEETING

1. Investment Report/Update

City Manager Cardenas introduced Mr. Mittelbrun from Morgan Stanley who leads/facilitates the City of Novi investments for retiree healthcare and invited him to begin his presentation.

Mr. Mittelbrun thanked the group and stated that he was here to provide a summary on where the City was and where the City is now in terms of investment. In a snapshot, the City made the change to the Investment Policy, it was executed and is now in line with the allocations for Domestic Equity, International Equity, Fixed Income, Cash/Equivalents, and Alternatives within the expected margin of variance of 1%. Mayor asked if the new target had ranges, to which Mr. Mittelbrun replied yes, the ranges were put in so that it be reassessed every few years and determined if the City wishes to increase/decrease without necessitating the need for a change to policy.

They went over the Global Investment Committee (GIC) Asset Allocation models, particularly the Tactical line which was the market growth model 4 that Morgan Stanley had already been following prior to Investment Policy changes. Because we

were already funded/overfunded they had already been working to scale the risk back. He then moved to the Income Capital Preservation Portfolio (Model 2) which they are now using. He noted that the difference between their model and the one presented by the outside consultants, AON, was that they model 20% alternatives to AON's 10%. They manage under Public Act 314 which caps them at 15%, though they are currently starting at 10%.

He then went over the one-page Investment Summary, which he likes to review quarterly. It shows the history of the account from inception in 2003, and the gains made since that date. The account started with \$750,000 when the State dictated that municipalities start funding retirements, and with substantial contributions over the years. Mayor Fischer asked why the chart appeared to show invested capital reducing as if we had taken out invested capital between 2014 and 2022? Mr. Mittelbrun explained that it was because last year \$400,000 was taken out to make expense payments, therefore net invested capital shows all withdrawals for benefit services. Mayor Fischer then asked about the jump in 2022, when it goes from 2mil to 15mil. Mr. Mittelbrun said that when the account was fund a chunk went to Morgan Stanley, a chunk to UBS, and a smaller piece to MERS. This came from replacing UBS and placing all the funds here. As part of their service each year they take the MERS statement and add it on top of the Morgan Stanley statement to make sure they are in compliance with Investment Policy and Public Act 314. He also noted that the allocation for cash/equivalents is at 0% at Morgan Stanley with the idea that the next 5-6 years of expenses will be coming out of the MERS account to reduce that number, therefore the cash doesn't need to be in hand and can be invested in fixed-income. Mr. Mittelbrun's last slides showed the large graph for allocation and a bit more "in the weeds" shows exactly the US large growth vs large value vs midcaps vs international. Again in summary, the snapshot shows where we were, what we said we needed to do to rebalance, we have rebalanced, from a long term view of the portfolio it is right in line or above the mandate of what they are supposed to be doing, they will continue to monitor that and make adjustments for tactical asset allocation. He then asked the Committee if they had further questions.

Councilmember Staudt said that, as an accountant, this all adds up and he has no questions at this time. Mayor Fischer asked that, as the alternatives go for real estate, what more specific investments are included in that class? Mr. Mittelbrun said that in a perfect world they would have all these different types of alternatives, they have started with private credit (fixed income), real estate, and private equity as the main categories. They could expand that in future years if desired, adding more diversification or less depending on the market. Mayor confirmed that at this stage they were not in commodities, etc. Mr. Mittelbrun added that if they wanted to add, for example, 2% today then it would likely be in the private equity area where you do secondaries investment and co-investment – two different ways that work in conjunction. He did also add in the packet there is a "quilt chart" of different asset classes in the world, a model of how diversified portfolios offer a "smoother ride", and how Morgan Stanley measures up against competitors. Mayor Pro Tem Casey said everything looked good to her. Mayor Fischer agreed that they were all set and thanked Mr. Mittelbrun for the quick implementation of the changed allocations. The Committee had felt strongly as a group that they needed to reduce that volatility

and move the risk profile, this is what they were trying to accomplish. Mr. Mittelbrun thanked the group for having them.

2. Ice Arena Deep Dive

City Manager Cardenas provided the Ice Arena finances/revenues, noting that they include depreciation.

Councilmember Staudt asked how they determine where the revenue goes now that the bond is done. Deputy Finance Director Lilla said that it would go to the fund balance and can go to anything for the ice arena. Mr. Cardenas confirmed that Council makes the choice if they want to keep it there to build a "war chest" towards expected CIP expenditures. Councilmember Staudt was concerned that it goes only towards the "depreciating asset" of the ice arena and can't be used towards anything else, even PRCS programs. Mr. Cardenas said that it could be transferred out if they so choose. Ms. Lilla added that by doing so they would then be potentially losing out on money for future capital, maintenance, or building repairs that need to happen (such as the parking lot and HVAC). Councilmember Staudt is of the opinion that, for those very reasons, they should get rid of the ice arena.

Mr. Cardenas then went over the debt service chart and overall cash flow. They had asked Suburban to put together a report (regarding their programs, what they generate as far as participants and leagues) which they supplied and had been provided to Council. Mayor Fischer asked how much Suburban is paid, Ms. Lilla stated they are paid \$137,000. Mayor then asked if they retain program revenue, Ms. Lilla said that they have built in targets so if they do a certain amount of revenue, they get a small bonus (a few thousand). Mr. Muck noted that they don't always hit that. Ms. Lilla confirmed that they don't keep any of the revenue, just the fiscal year amount (\$137,000). Mayor Fischer said that number seemed low to him given the staffing. Mr. Cardenas and Mr. Muck said that staffing as well as maintenance is not paid out of that amount, it is paid out of operations. Ms. Lilla noted that any large-scale projects are done by the City, typically under CIP, and smaller projects come directly from the operating budget which is managed by Suburban. The City has done the gutters, the roof, some lighting, etc.

Mr. Cardenas then went over a breakdown of the arena users, including ice skaters, adult leagues, etc. He also showed the comparison of use fees for Novi and other local arenas. He asked if there was anything else the Committee had questions on.

Councilmember Staudt reiterated that he thinks the ice arena is going to be a continuous drain on reserves from this point on, and that it is just getting more worn and depreciated. The City paid the bond, as was their responsibility to taxpayers but he thinks that they do not have a responsibility for other repairs like the HVAC, and parking lot but they have found themselves in the business of that. He asks why they would simply return revenue to the building as it gets more worn. They briefly discussed the last reserve study which had been done in 2018 but noted that prices have changed since then. Councilmember Staudt asked if they know the value of the ice arena as it stands today, Mr. Cardenas said that Suburban had valued it at

about 3-4 million. Councilmember Staudt voiced his concerns once more and asked PRCS Director Muck why they were in the business of managing an ice arena. Mr. Muck said that were in a long history of it, since the City decided that wanted to go into it 25 years ago. Councilmember Staudt said he would like to see a really thought out projection of how much revenue the City will have to put aside versus how much we expend, he thinks they will cross at some point. It was also briefly discussed what would constitute a full building refresh versus what is already done/being done/scheduled.

Mayor requested a "quick sell" of why we want to keep and maintain the building. Mr. Muck said that no PRCS professional would want to give up an asset, and noted the potential PR hit that it could induce. Mayor said that PR would be Council's to manage in such a situation, saying that he would have no problem explaining why they would give up \$500,000 dollars of debt payment each year because they couldn't find a way to extract value from it and return that amount to the PRCS department. It is an asset we can't get value out of. Councilmember Staudt suggested the building could instead be leased, which would generate revenue the City could use elsewhere, and the lessee would handle improvements and repairs. Mr. Muck said that he hears what they are saying and that he is not advocating that the City keep the ice arena no matter what as it will depreciate, he would be interested in the option of leasing it. Mr. Muck asked if any enterprise funds could be used towards PRCS programs? City Attorney Schultz said that no, it has to stay with the ice arena - that is the concept of an enterprise fund in a nutshell. Mayor asked how much programming PRCS does at the ice arena? Mr. Muck said essentially none, it is all done by Suburban outside of occasional events and taking campers there. Mr. Muck asked it, now that the bond is paid off, if it has to stay an enterprise fund? Mr. Schultz said no, the bottom line is really that we're not supposed to make money off of things. Councilmember Staudt asked what the capital expenditures equals, noting that government accounting is hard to follow, wanted the 581. Mayor said that you can go through the budget and add all revenues and expenses plus capital that would be the 581. Mayor Pro Tem Casey said that she appreciates the topic being raised, she is listening and learning. She wants to know that we have control of fixing issues since it will always be Novi's Ice Arena even if the ownership or name would be changed. Councilmember Staudt thinks that selling or leasing the building would be a great deal, but that the sale may be a philosophical issue. Mayor Fischer agreed that it is a debate worth having.

The Committee briefly discussed the possibility of adjusting ice rates, as well as comparative rates from area ice arenas considering private vs. public ownership. City Manager Cardenas asked if the Committee would like an appraisal of the building? Mayor suggested that there is a lot to be investigated and answer as next steps prior to their next meeting on the topic. Why have we never sold naming rights? Is there an option, now that debt has fallen off, to be packaged together with the PRCS fund (no longer enterprise) so revenue can be used beyond the arena? Selling the arena? Anything is an option and on the table. Mr. Cardenas said that we'll find answers and look for flexibility. Councilmember Staudt would like to know what the leasable value of the building is. They should be deriving value from the asset, not just dumping it in a fund.

AUDIENCE COMMENTS: None

ADJOURNMENT: 6:30 p.m.

Motion: Casey; Seconded: Fischer; Approved: 3:0