



CITY OF NOVI
Finance and Administration Committee Meeting
April 22, 2025, 5:00 p.m.
Mayor's Conference Room | Novi Civic Center | 45175 Ten Mile Road
(248) 347-0445

CALL TO ORDER: 5:13 p.m.

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

STAFF LIAISON: Victor Cardenas, City Manager
Carl Johnson, CFO

ALSO PRESENT: Danielle Mahoney, Assistant City Manager
Sabrina Lilla, Deputy Finance Director
Katherine Oppermann, Recording Secretary

APPROVAL OF AGENDA

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

APPROVAL OF MINUTES – December 17, 2024

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

PURPOSE OF THE MEETING

1. OPEB Study Results and Recommendations with AON
(AON Reps John Sullivan, Joe Romanies, Phil Kivarkis)

Mayor Fischer thanked the representatives from AON for joining the Committee today, they've received the information and are interested to hear AON go over their summary and recommendation. He also requested that they keep the information at more of a layman's level as they go review it.

Mr. Sullivan thanked the Mayor and introduced himself and his colleagues to the group. He stated that they are here today to go over the Asset Liability Study for the City of Novi OPEB plan. They have two documents, one more robust and the other a summary of key findings which they will be going over today.

Mr. Sullivan then proceeded to go over the [OPEB Study Results](#). As they have worked on it over the last few months the goals for the OPEB plan that they have been observing are to 1. Remain overfunded, 2. Minimize contributions, and 3. Reduce portfolio volatility. Their Key recommendations are:

1. Risk Tolerance
 - Currently 58% return-seeking (R-S) assets
 - 20-40% R-S assets is the zone of solutions that is expected to keep the Plan overfunded while minimizing contributions — 40% R-S is selected

from that range as a potential solution due to its alignment with the expected long-term actuarial assumed rate of return (6.00%)

2. Portfolio Diversification

- Public equities make up the current R-S portfolio
- Additional diversification – via return-seeking fixed income and open-end real assets – is expected to smooth the pattern of future returns and further reduce volatility

3. Contribution Policy

- Current policy is to amortize (gains)/losses over a declining period, eventually reaching immediate recognition
- Recommendation is to decrease the period down to 5 years and then create ladderized amortization bases to reduce contribution volatility

Mayor Fischer asked if we can accomplish these recommendations using the current investment managers we have and the investments they offer to which Mr. Johnson replied that yes, he believes so with Morgan Stanley. Mayor Fischer also briefly noted the plan to remove ourselves from MERS which Mr. Johnson agreed we can do that quickly. When we changed to the 50/50 investment model we were already aiming there and feels we have the instruments needed to get there.

Mayor Fischer asked if he could then expect an amendment to the OPEB Policy to go before council to which Mr. Johnson said yes. Mayor Fischer noted that this process was kicked off by wanting to reduce volatility as we've seen market fluctuations. Mr. Sullivan agreed that portfolio diversification would take Novi even further down the line of reducing risk and volatility than simply reducing R-S assets from about 8% to 7% and further reduces the probability of contributions by an additional 5%.

Mayor Fischer noted that one concern he has would be what kind of real estate investments we would be looking at. In his experience liquidity of assets can be an issue. Mr. Sullivan said that they wouldn't recommend any locked assets, and would look mainly at 1-3 years liquidity time frames. Mayor clarified that the allocation of open real estate assets would be 6%, Mr. Sullivan affirmed this.

City Manager Cardenas asked if we currently have any property assets. Mr. Johnson said no, but that Morgan Stanley has also been making that recommendation. He loves that AON has provided charts/models to run against and also noted his desire for a similar study to be done every 3-5 years to validate the choices and recommendations they have been making.

Mr. Sullivan then went over their recommendations for Contribution Policy. Following this, Mayor Fischer said that, to summarize, in most scenarios we don't expect a contribution increase but by running different scenarios and recognizing the potential of a black swan event these adjustments would smooth over our contribution expectation.

Mr. Sullivan stated that Given Novi's strong funding position, there can be a range of appropriate solutions that balances Novi's desire to (1) remain fully funded, (2) minimize contributions, and (3) minimize portfolio. He reviewed the suggested next steps and said that they (AON) look forward to a future working with everyone.

Mayor Fischer asked if anyone had anymore questions and, seeing none, asked Mr. Johnson if he had any concerns or differing opinions from what AON presented. Mr. Johnson said no, they are in agreement. Prior to this meeting they went through the full 80 pages and had a lot of discussion. He thinks AON has been very helpful. He and the Finance team will draft a updated OPEB policy and expects it will go before City Council next month.

Ms. Mahoney thanked Mr. Sullivan and the AON team, we look forward to continuing to work with them in the future.

Mayor Fischer asked, given the recommendation and staff approval, for an official motion from the Committee.

Motion to implement whatever is needed to update the OPEB policy following AON's recommendations and to bring it before Council for final approval.

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

2. Budget/Financial Policies

Mayor Fischer opened the topic by stating that he had made some budget comments that he would like to reiterate. The delivery date for the budget for Council's review in the past has been two full weekends. He would like a similar timeframe to be the expectation in the future. This should also have the side benefit of reducing the question bombardment on staff. He further stated that this year was a good budget, and that he appreciated the increase to the fund balance. He is hoping to do a benchmarking of other cities, both in and out of Michigan, on budget policies. He wants to be able to more closely examine the general fund and what departments are going up year-over-year as compared to others. It is incumbent to find offsets when there is a cost increase. Mr. Johnson noted that we do look, when we look at the 3-year budget. Year two is our beginning, each department looks at and determines what has changed (minus salary/fringes) and from Finance's end we look at trends and adjust up or down based on what they find. The 4% in this year's budget was highly unusual. Historically we go through that exercise, next we go to capital and determine priorities. We need guidance on items like firetrucks, or fund balance levels so if Council asks for that he will make it happen. Mayor Fischer expressed that he doesn't think we're far off but that he thinks Council needs to be part of the conversation on what line items go forward. It is his opinion that the budget comes to them baked and they want more input. Mr. Johnson agreed that the guidance should come from City Council at the early input budget session but noted that it is not typical that they get to that level of detail, that said he does not expect there should be any surprises in April. Mayor Fischer wants to ensure that the proper planning for long-term monetary strategies takes place, that we aren't spending ahead of planning. He agreed that a discussion should be had in February,

provided a sufficient skeleton is in place. Mr. Johnson affirmed that there will, it has to be.

Mayor Fischer requested that the Committee meet again in July to go over what we can find regarding budget strategies in other cities, and different targets they might have in budgets. Mr. Johnson agreed saying that all we need is overall guidance from Council and we will follow their will.

Councilmember Staudt expressed his concerns about capital fund/revenue being eaten up by personnel costs. He stated that he would like a spreadsheet of 2019 – 2027 showing employee costs to revenue expenses.

Mayor Fisher gave further direction to have date options for a July meeting out to the Committee members by next week.

AUDIENCE COMMENTS: None

ADJOURNMENT: 6:37 p.m.

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