CITY OF NOVI CITY COUNCIL
MAY 20, 2024

SUBJECT: Approval of Resolution to authorize Budget Amendment #2024-4

SUBMITTING DEPARTMENT: Finance

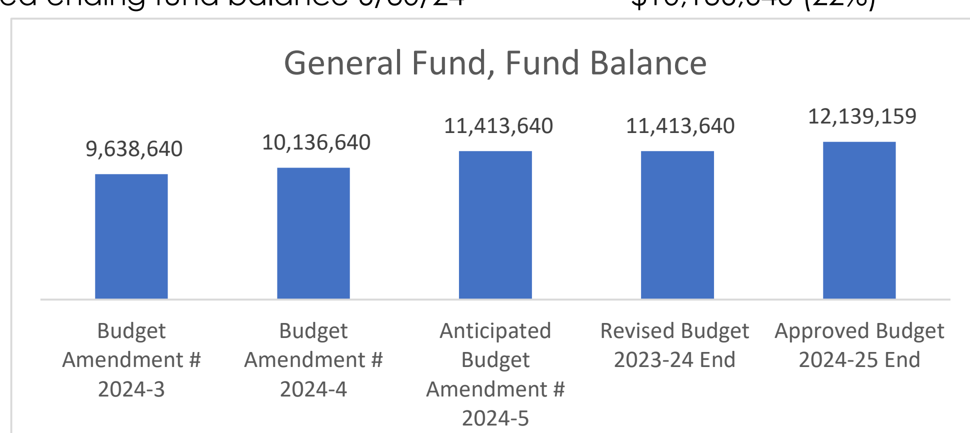
BACKGROUND INFORMATION:

The City's annual budget is adopted by the third Monday in May each year and is effective July 1st each year. The budget is adopted at a function level (vs. line item). In accordance with the State Budget Act, budget amendments are completed throughout the fiscal year to reflect the most current information available related to revenue and expenditure budgets. Budget amendments that have a positive or negative impact on fund balance or change the function total are prepared for Council approval. Amendments between line items within the same budget function (that do not have any impact on fund balance) are managed at the administration level. The amendments are based on actual and projected activity-to-date.
The third quarter budget amendment resolution and budget amendment details are attached. The following is a summary of the significant items proposed within this amendment:

GENERAL FUND

The following is a summary of the impact on fund balance for the proposed third-quarter budget amendment:

Beginning fund balance 6/30/23	$14,445,394
Amended budget through 3/31/24	($4,806,754)
Impact of proposed 3rd quarter amendment	$498,000
Projected ending fund balance 6/30/24	$10,136,640 (22%)



The proposed budget amendment reflects an increase to the General Fund fund balance of $498,000, with revenues increasing by $495,760 and expenditures decreasing by $2,240. The proposed amendment nets to zero except for the four items highlighted in blue in the attached detail. ***Heading to the final Budget Amendment in June, staff is confident that the remaining $1.277 million (or 26% of expenditures) anticipated to be added to fund balance will be realized through favorable revenue and expenditure variances***. The following are highlights of some of the significant items included in the proposed budget amendment:

Revenues:

- State Sources—An increase of $45,000 to reflect the State of Michigan Department of Treasury's current estimated distributions.
- State Sources—An increase of $27,000 reflects one-time State of Michigan training grants for police and fire.
- Property Taxes – Decrease of $50,000 for lower than anticipated penalties and interest for late payments.
- Fines and Forfeitures – Decrease of $76,000 as police ticket revenue
- Donations – Decrease of $19,700 for Winterfest donations falling short of budget estimate.
- Interest Income – Citywide, the City continued to see significant increases in realized and unrealized actual investment returns, resulting in an increase in investment income of $577,460.

Appropriations:

- City Manager (172) – Other services and charges – Decrease of $28,550 for training and entranceway grants less than anticipated.
- Clerk (215) - Personnel services and supplies – Increase of $37,750 for unfunded state election mandates, clerk midyear wage increase from council greater than budgeted and payout of PTO time for retired employee.
- Treasury (253) – Personnel Services – Increase of $16,000 for changes in staff annual insurance elections as well as an increase in temporary salaries due to coverage in the department when Treasury experienced a significant COVID-19 outbreak.
- Assessing (257) – Personnel Services – Decrease of $20,000 due vacancy savings from open assessor position.
- IS Park Maintenance (265.10) – Purchase of woodchipper was moved to Department of Public Works (441.30)
- Human Resources (270) – Personnel services – Increase of $7,400 for a final payout of PTO time for a staff member leaving employment. In addition, an increase of $23,000 in Other Services & Charges for recruitment services for all departments of the City.
- Police (301) – Personnel services – Increase of $30,000 for payout of leave time for retired employees. retirements and staff departures over budgeted amounts. In addition, the police department has experienced increased costs at the gun range for the new janitorial contract as well as increasing electrical

costs of $20,000. Prosecutor fees are also estimated to go over budget by $19,000 due to the number of cases the City has in the pipeline. Lastly, education and training need an additional $15,000 for the training of new employees. The City is receiving grant revenue to help offset the additional educational expense (see above). The vacancy savings from the police mechanic of $25,000 will be moved to DPW to offset their mechanics overtime costs while covering.

- Fire (336) – The Fire department continues to incur vehicle maintenance costs significantly over and above the original budget due to an aging fleet of fire trucks and requires a third amendment up of $50,000. Three new trucks are on backorder with estimated build times of 27-43 months. The fire department has continued its recruitment efforts for part-time staff with additional funding of $25,000 needed to cover these efforts. Conferences and uniforms also have proposed budget amendments totaling $9,500. Grant revenue will be used to help offset these costs.
- Community Development (371) – Personnel services – Increase of $60,000 related to change in employee elected insurance policies and incoming staff members receiving defined contribution versus retired staff being part of the defined benefit plan.
- Public Works (441's) – Personnel services and Allocated to other funds – Increase of $45,660 due to changes in employee elected insurance plans and final payout of PTO for employees who have left employment. A reduction in expense reimbursement of $100,000 from other funds. DPW charges the Major and Local Streets for time staff plows and maintains the roads. This year the City experienced a lite winter, therefore, less of DPW's time was spent on road related activities which lead to less of an allocation of charges out of the General Fund and less employee expense to the Major and Local Street funds.
- Community Relations and Economic Development (725 and 728) – Increase of $50,000 due to an increase in the cost of Engage put significantly over budget, as well as an additional $25,000 for cable production equipment needed for the new cable studio. An increase of $50,000 is also needed for severance payments paid to a former employee.
- Older Adult Services (757) – During the fiscal year 2023-2024 budget process, City Council suggested $250,000 as a placeholder for the creation of an Older Adult Services Department Director and staff. As the year progressed, it was determined that the positions would not be filled. The savings from these positions will fall to fiscal year 2023-2024 fund balance.
- Transfers to EDC (966) – In the current fiscal year, the EDC has no programs planned for the $50,000 annual levy; therefore, $25,000 of the budgeted transfer will be used to offset the costs of the Economic Development Department. The remaining $25,000 will be transferred to the Economic Development Department.

MAJOR, LOCAL, AND MUNICIPAL STREET FUNDS

The Major and Local Street funds have received slightly higher than anticipated State Act 51 revenue for the first nine months of the year and expect an additional $230,000 for the remainder of the year. Major Streets received funding from Oakland County for a cost participation for Bond Street construction of $127,457 and interest income continues to exceed expectations for the fiscal year in all three funds. Several projects within Major Street needed additional funding while Local Street Fund had projects that came in less than expected. Both the Major and Local Street Funds are budgeted to keep fund balance at exactly the minimum amount per council of 10% with any adjustments up or down running through the Municipal Street Fund which has a 44% fund balance as planned (the three-year budget has all three road funds at their 10% minimum fund balance by the end of fiscal 2027).

PARKS, RECREATION, AND CULTURAL SERVICES FUND

The budget amendment proposes a net $0 change to fund balance while maintaining the fund balance limit within levels set by City Council of 18%. Total revenue is predicted to increase by $102,385 a result of:

- Increase of $104,600 from a senior transportation grant from Oakland County
- $103,750 increase in programming revenues. Since COVID-19, Parks and Recreation has budgeted conservatively for revenues. Programs have rebounded over the last year since the pandemic.
- $66,935 increase in investment income.
- Decrease of $175,000 in General Fund Transfers In. The General Fund funds most capital outlay/improvements within the Parks Fund. The PEX senior transportation agreement negates the need for the purchase of two new transit vans in the Older Adult Services budget of $175,000, and therefore reduces the transfer in from the General Fund.

Total expenditures are proposed to increase by $102,385.

- $197,000 of increase in program expenditures due to increased participants to fund the various programs including, youth soccer, dance and theater programs, and older adult transportation, massage, and social activities (most offset by revenue above).
- $73,205 increase in capital outlay for the closing costs (boundary split, land survey, environmental fees, land swap management assistance fees, appraisal fee, and title insurance) of the Bosco field land swap with Novi Public Schools.
- As mentioned above, a $175,000 reduction in capital outlay for older adult senior transit vans.

FORFEITURE FUND

The forfeiture fund records all receipts and expenditures relating to federal, state, local and OWI forfeiture and legally restricted funds relating to narcotic trafficking, money laundering, state laws, and ordinances. The funds are difficult to predict as the federal government must process the funds based on cases and forfeited property. The City utilizes the available revenue to fund allowable police vehicles. A reduction in both revenues and expenditures of $150,000 is based on revenue collected to date and projections through the end of the year.

LIBRARY and LIBRARY CONTRIBUTION FUND

The library board has proposed the attached adjustments which are forwarded to the City to pass as presented.

COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)

CDBG contracts extend over two years. One year of revenues and expenditures is typically budgeted annually. In the current year, funds from two program years have been utilized to assist Novi residents; therefore, revenues and expenditures have been increased by $30,000 to reflect the current expenditures and related reimbursements.

OPIOID SETTLEMENT FUND

The proposed budget amendment is for the annual payments of opioid settlement funds of $12,700. The fund was established to track the funds received from the nationwide settlement reached in July 2021 to resolve all Opioids litigation brought by states and local political subdivisions against several major pharmaceutical distributors.

CAPITAL IMPROVEMENT FUND

The Capital Improvement Fund has a proposed fund balance increase of $700,000. The increase relates to the following:

- The City received a $200,000 State of Michigan grant for the splash pad at Bosco Fields.
- $500,000 of savings in the elimination of the Field of Honors project

CAPITAL IMPROVEMENT FUNDS

The remaining Capital Improvement Funds: Gun Range Facility, Special Assessment Revolving Fund, and PEG Cable Fund, have proposed increases in interest income due to the favorable economic conditions during this fiscal year. In addition, the PEG Cable Fund estimated an increase in studio renovations of $50,000 for the final punch list items to complete the studio.

ICE ARENA FUND

The Ice Arena budget proposed a net $0 change to fund balance. Program revenue is projected to increase $205,000 in youth hockey rentals and learn to skate programs. In addition, the fund projects an increase of $45,000 in interest income, cell tower revenue and miscellaneous income. Fund expenditures are expected to increase by

$250,000 due to flooring and heating repairs as well as rises in staffing levels and costs with the increase in activity during the fiscal year.

SENIOR HOUSING FUND

The Senior Housing Fund proposed budget increases fund balance by $103,000. The fund received a $150,000 grant for part of the cost of the installation of pickleball courts on the property. The fund is increasing expenditures by $65,000 for emergency sidewalk repairs damaged during the winter months and increased building maintenance costs.

WATER AND SEWER FUND

Net position is expected to increase by $3,802,400. Revenues are projected to increase by $800,000 due to higher than anticipated interest and penalties, sewer service charges and IWC charges. In addition, due to positive economic conditions during the fiscal years, interest in investments is estimated to increase $450,000. Expenditures are proposed to decrease $3,002,400 related to the elimination of the Asbestos Water Main Replacement Project in fiscal year 2024 due to the Oakland County Water Resource Commission's interceptor project costs being increased substantially in fiscal year 2025.

SELF INSURANCE – HEALTH CARE FUND

The Self Insurance Fund tracks health insurance claims through a HAP administered plan. Individual funds are charged premium based insurance rates called "illustrative rates" and the surplus at the end of the year remains in this fund and used to offset future insurance costs. Fees charged to other funds based on employee's selection of HAP insurance coverage during open enrollment is expected to increase by $200,000. In addition, interest on investments is estimated to be $50,000 more than originally planned.

RETIREE HEALTH CARE BENEFITS FUND

The Retiree Health Care Benefits Fund interest on investments is estimated to end the year $200,000 more than originally expected. Insurance costs also have increased from the original budget by $150,000 given the number of employees who have retired and are part of the plan.

RECOMMENDED ACTION: Approval of resolution to authorize Budget Amendment #2024-4.