

**REGULAR MEETING OF THE COUNCIL OF THE CITY OF NOVI
WEDNESDAY, APRIL 3, 2024 AT 7:00 P.M.**

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

PLEDGE OF ALLEGIANCE

ROLL CALL: Mayor Fischer, Mayor Pro Tem Casey, Council Members Gurumurthy, Heintz, Smith, Staudt, Thomas

ALSO PRESENT: Victor Cardenas, City Manager
Tom Schultz, City Attorney

APPROVAL OF AGENDA:

CM 24-04-38 Moved by Thomas, seconded by Smith; MOTION CARRIED: 7-0

To approve the agenda as presented.

Roll call vote on CM 24-04-38

Yeas:	Casey, Gurumurthy, Heintz, Smith, Staudt, Thomas, Fischer
Nays:	None

PURPOSE OF SPECIAL MEETING: 2024 - 2025 CITY OF NOVI BUDGET

1. Proposed 2024-25 Budget

City Manager Cardenas thanked the Council for their engagement since receiving the budget. He said the theme of the budget was "Building Community Together" and it has a Lego theme. He explained that before it got to Council, staff from all departments brought everything together for Council's early budget input discussion. Next is this budget meeting and then consideration of the budget at the first meeting in May. He said there are different pieces that go into building the budget, including the CIP program, National Citizen Survey, the Master Plan, and several other documented master plans. He said we're governed and guided by three buckets that help with the goals, which are invest, operate, and build. He said this was a balanced budget. He said he knew Council has always been very interested in and stress the important of fund balance. He said in 2024 they are estimating a rollover of \$1.7 million. He said Council is always interested in personnel and explained they were proposing an additional employee to be an accreditation assistant that would be shared between Public Safety, Public Works, and Parks, Recreation & Cultural Services. That person will oversee the accreditations throughout the community. He said this budget was created under the guidelines set forth by the City Council and it is within the parameters of fund balance established by City Council, which is within 22%-25%. He said the staff was ready for any questions.

2. City Council Discussion and Decisions Regarding the Plan Priorities

Mayor Fischer said they will follow the same process as in years past and start with a first round where each Council Member can speak about the budget at a high level and

share initial thoughts. He explained the first round would not have any motions and the second round they can dive into specific questions of staff and proposed changes to the budgets with motions.

Mayor Pro Tem Casey thanked the staff for their work. She said they've been talking as a Council about some big ticket items that will lead to other conversations they'll need to have as a Council. There is a need for library funding to make sure they are giving the library the funds they need to operate based on the higher resident count over the last few years. They've been talking about transformative projects like 12 Mile Road widening and repair, Public Safety buildings, Beck Road, ITC, and the possibility of a community center. All of those things are conversations they need to have as a Council and as a community to understand what the needs are and so they can make some forward plans and momentum. She also spoke about the tree fund and said they're starting to see a marked decrease in fund balance projected over the next few years. The tree fund is primarily funded from developers who build developments and can't replant so they pay into the tree fund. She said they need to be conscious of the fact that they are seeing a decrease in fund balance. If that continues to be the way that the tree fund continues to operate, they'll have to talk about how that looks and how to continue to fund tree plantings in the city.

Member Thomas said she appreciated the level of detailed information about what the funds are and how everything should function. She said she was a little concerned that we didn't receive some of the backup they had in the past, like the breakdown of details. She said sometimes when you look at some of the big buckets, you want to know what comprises it and she would appreciate that level of detail. She said the library caught her eye and watching the fund balance go down is scary. She wanted to make sure they're paying close attention and don't put it off too long. The library is the gem of the community, it's a communal place where people get together. She said she would like more information on the tree fund to know where tree fund costs are going and to make sure the personnel head counts are appropriated correctly. She said it looks like we don't get a lot of grants, however, we are a more affluent community. She wanted to make sure that the city is paying attention and applying for grants that are appropriate.

Member Heintz thanked staff for their hard work in putting the budget together. He said he appreciated the detail and definitions in the budget because he's going through this for the first time. He said he was interested in saving money where we can so we can spend money when we want to. He said he was trying to be fiscally responsible and was looking forward to continuing to learn that process. He wondered if there were different visuals that could be helpful in understanding how money is shifted from categories.

Member Gurumurthy thanked the staff for the time and effort in putting the budget together and helping her catch up to speed. She said they just finished the goal setting and they identified short-term and long-term goals. She wanted to make sure they were looking at making sure they have a budget planned and keeping that in mind. She said she understood there are things we cannot plan in the budget right now, but they should always keep it in mind moving forward. She said they've asked for quarterly updates with

respect to goals. She said one of the goals is about the strategic plan and the future of Novi. She was interested in finding a way to save a recurring amount as an emergency fund for the strategic plan. Then when they are ready to do it and the plan is clarified, they will have that money ready. She said there are opportunities to set some goals like reducing the cost of something by 5% and she wanted the group to find innovative ways.

Member Smith said it's a lot of work to put the budget together and appreciated the opportunity to ask questions because that makes it a better process. He said we have some big items coming up like roads, parks, possibly a community center, and public safety improvements. He said they want to get feedback from the residents on what direction to go because they are ultimately paying the bills.

Member Staudt said he's been on Council for 17 years and he's seen good, bad, horrible, and great times. He said they're in a really good position for great times right now. He said he starts with fund balance as his guide to the health of the city and that's something they're going to have to work on in this budget. He said they need to know what's in the second and third year of the budget because that's a guide for staff to know what Council's expectations are.

Mayor Fischer thanked staff for their hard work. He said he starts with fund balance in the general fund because he considered that to be a very good indicator of the operations of the city. He said he was very concerned about the trends in this budget, and he's analyzed it quite a bit. He said he felt like we're starting to walk away from some of the historically sound policies and practices. He wanted to talk about high level policies that he would like to see implemented and changed in this budget year to make sure they are headed back on the right track. He said he had concerns about the financial policies that were implemented in this budget and the trends he's seen. He said he heard this was a balanced budget, that our revenues equal expenditures, but that isn't true in this budget year. There is a shortfall of a million dollars. He said he heard that we're in our target range, but realistically this is the first time he could remember being in the target range because they are usually above it. He said people might ask what's the issue with being in the target range. He said once you start looking at the historical number, you see that causes a bit of an issue. He said he wanted to talk about the general fund and a potential change in how they view it. He said Council has an obligation to be very transparent with residents. With the general fund being kind of the operating fund, it's important to see how that expense looks like it's in isolation as far as how we're running the city versus our one-time expenditures and capital. It's all combined into one fund right now and that can vary greatly. In the last couple years, they've had \$2 million of capital and \$4.5 million of capital and then it falls down to \$3 million of capital and that variation is unfair. He said he wanted to create a new fund where we move the capital expenditures of the general fund and the Parks and Rec fund into that new capital fund. He explained that right now it's like we put our whole paycheck into a checking account and we pay our utilities and grocery bill every week, but we also try to save for a new roof every 10 years in that checking account. He said in most households, you have a savings account that you put some money away and you pile it up so you're ready for that roof every 10 years. He views the general fund and the Parks and Rec fund currently

as our checking accounts and this new capital fund as the savings account. It will allow us to plan properly and save up for those items but also align with our CIP Plan. He said if you've ever tried to understand the rollover process, he understood that it would actually make that process easier as the rollovers are typically capital, and they would all be held in one fund. He asked Finance Director Johnson if this was a common practice and if he's seen it in other municipalities. Finance Director Johnson said it's a matter of preference. There's no accounting rules or regulations that state you must do it one way or the other. He said it eliminates the variability of the one-time expenditures, which is an advantage. He explained the confusion with the rollovers is that there are supply chain issues and it's taking years to buy some of the significant equipment like large dump trucks and fire trucks. So, what's happening is that Council is approving a budgeted amount in this fiscal year, but not getting a bill for it for two years. That leads to confusion because they approved it last year, then they roll it over, and it's re-budgeted the next year. This would eliminate the need to continue to roll it over. They would take the money that was set aside to fund it and put it into the account by itself and the account would only have the monies that were appropriated for it and the related expenses. He said in the years where we don't spend the money, it would just sit there and not distort the general fund's budget. He explained that if they want it done this year, it would be a substantial change, but wouldn't impact the net budget. They would have to remove all of those capital expenditures out of the general fund, and the Parks and Rec fund, from every page of the budget and move it to the new fund. It would substantially change the budget document, but they could do it. Mayor Fischer said he talked about the rollovers being in that fund and he thought they could call that an already spent fund balance, but they could also have unassigned fund balance in case they were to come under. It was the concept of being able to build up some sort of fund balance for future capital expenditures in that fund or transfer from other fund that they wanted to build up a fund. Finance Director Johnson said that was correct and there's nothing that says you must keep only the amounts for what's budgeted. To the extent you have a purchase planned in the future and you want to start putting money aside, you definitely can. Mayor Fischer said they weren't looking at changing dollar amounts in the budget. It's just trying to split this from a transparency perspective.

CM 24-04-39 Moved by Fischer, seconded by Smith: MOTION CARRIED: 7-0

Approval to direct staff to create a capital fund and to move over the expenditures from the Parks and Rec fund and the general fund into the newly created capital fund.

Member Thomas wanted to clarify if this was something they wanted in the budget now or can it wait until July 1st, because Finance Director Johnson said it's a pretty substantial process. Mayor Fischer said he didn't have a preference. He said you get to the same point, but to not do the heavy lifting at this point, he was fine with it being done after the budget process and have it noted in the subsequent changes section that they intend to do that. Finance Director Johnson said after the budget meeting, they could put together a summary to show what it would look like. The budget document would stay the same, but there would be an amendment that comes forward to Council that they

could do before year end.

Member Heintz asked if there were any other ramifications or impacts to a change like this. He said the total balance would be the same, but he wanted to make sure there weren't other impacts. Finance Director Johnson said they'll be taking \$1 million from the general fund and \$3-4 million from Parks and Recreation fund and transfer that out of those funds so there would be no net impact.

Member Staudt said to be clear, this was almost like operating on a cash basis for that account. As money comes in and money's expended, it will go up and down. Finance Director Johnson said yes, once you appropriate it, you spend it. The general fund would show you budgeted for \$1.3 million of capital and once the invoices come in, that's when it gets paid. Member Staudt said he loved the idea and supported it.

Roll call vote on CM 24-04-39

**Yeas: Gurumurthy, Heintz, Smith, Staudt,
Thomas, Fischer, Casey**

Nays: None

Mayor Fischer said he wanted to dive into the fund balance and discuss the trends he has seen. He said the fund balance fell into the low end of the target range through the recommended budget projected years and that was not something he has ever supported. He said he created a chart that shows the last seven years' budgets. If you look at the actual percentages of the fund balance, the majority of the time it's been well into the thirties. Sometimes it's dipped into the high twenties, but it's never been below 25%, which is the maximum recommended in the target allocation. To get a budget that is below the 25% and then spends down to the low end of 22%-23% by the end of the projected years is rather concerning and something he would not support. He said he knows people will say it's in the target range and we should be ok, but he wanted to go back and figure out where we've been over the last couple years. Since 2020, tax revenues are up \$4.6 million every year and revenue sharing is up \$2.5 million every year, so we're bringing in \$7.1 million every year that we didn't have in 2020. He said he knew there were things that offset that, but we're still bringing \$6.5 million more in 2024 than in 2020. He said we had a census adjustment of \$1.5 million and we had Covid funds come in at almost \$5 million yet the recommended budget from the City Manager has fund balance less than the recommended budget in FY 17/18. Putting that in perspective, we have a recommended budget of \$10.2 million for fund balance on \$44 million of expenditures this year versus \$10.5 million recommended fund balance on \$33 million of expenditures back in FY 17/18 and that was concerning to him. He said he got his old budget books out to try and figure out what was going on. He said we always project out a couple years and in the 2023 budget book for FY 24/25, it was assumed that we would spend \$928,810 this budget year. When we got this budget book of all the changes that have happened in the last 265 days, we somehow decided to once again assume we would need \$928,810 and he didn't think that was a coincidence. We know we saw a \$700,000 revenue increase from last year's projection to this year's projection, so our revenue went up and we decided to spend that \$700,000. The first thing he would say is when we see new revenue come in or one-timers come in, we should be attacking

debt. We should be attacking fundamental issues with our fund balance when we're actually spending more than we're bringing in. He said he didn't think we were doing that anymore. Next, he said he wanted to talk about the concept of a balanced budget now that we've parked the \$700,000 of extra revenue. There have been a couple comments about pull aheads. We had \$1 million in the budget at one time for cameras and we got an amendment to go ahead and pull them in FY 22/23 from FY 23/24. He asked for someone to explain more about the pull ahead meaning and what ended up happening with that \$1 million. Finance Director Johnson said that was for body cameras for the Police and it was budgeted in out years. It was not in the current fiscal year's budget when it was approved by Council. When that happens, you add a million dollars to the expense, that's pulling forward budget items that are budgeted in the future into the current fiscal year. He said when that happens, it falls off the budget request. If you looked at last year's budget, that would now disappear when the budget comes out. It opens up that million in the out year because it was pulled forward. He said more than \$3 million was pulled forward over the past two years. The assumption at the time was those pull forwards were use of fund balance. So again, it was an expense brought forward and we spent more than we brought in that year. Then we create a new budget and estimate what the revenues will be and for the expenditures, historically that match those. With those million dollars pulled forward and spent a year earlier, there was a million available and then the budget would've had new items added or if costs increased on the existing ones. He said one way or another, what's been happening is that there wasn't an excess million in the subsequent year's budget. It was presented to Council where revenues and expenses were equal, just using fund balance every time one of those items were pulled forward. There was never any excess left, it was reprogrammed to some other expenditure. Mayor Fischer asked if the City of Novi's policy is that a pull ahead is use of fund balance. Finance Director Johnson said yes, according to accounting rules, because there's no revenue for it. Mayor Fischer asked how that was different than any other budget rules or cash accounting rules. Finance Director Johnson said when it's pulled forward, if there's no revenue to match it, the only revenue source for it is the use of fund balance with the anticipation that you spend those funds in the following year where it was budgeted. Mayor Fischer said you don't see the good news the next year. Finance Director Johnson said historically, we've reprogrammed those funds. Mayor Fischer said for example, let's say we have \$10 million of fund balance today. If for the next 10 years, staff presented a pull ahead of \$1 million in each budgeted year, you would deplete the fund balance given your current policies and how you apply them. Finance Director Johnson said that's not a policy of ours because it contradicts the other policy that says the fund balance minimum is 22%, so we would not allow that to happen. He said in the years that we pull something forward, we'd be mandated to not fall below our policy limit. Mayor Fischer said absent the 22% floor, the way you pull ahead and spend it from fund balance but don't anticipate putting it back in fund balance, it would go away in 10 years. Finance Director Johnson said yes, but that's not the reality of what would happen. Mayor Fischer said illustratively, that's literally what we are doing by pulling ahead and deciding to still spend \$10 million the next year. Finance Director Johnson said that's what's been done the last two years, but he didn't recall doing that in the previous 8 years. Mayor Fischer said now that the policy was clear to him, he didn't think that was a sound policy. He said when he looked through the minutes, it was clear

to him by the maker of the motion that it was not to be put in the FY 23/24 budget. If we're going to use fund balance this year, we expect the fund balance to come back in subsequent years.

CM 24-04-40 Moved by Fischer, seconded by Staudt: MOTION CARRIED: 7-0

Approval to change the definition of a balanced budget to be that revenues equal expenses and staff must account for prior pull ahead items so that fund balance is not impacted by prior pull-ahead items.

Member Staudt said let's go one step further with this. We had pull aheads but we also had two years of million dollar shortfalls in revenue, which caused us to have a million dollars applied against fund balance in two years. He said when we know that we're going to have a million-dollar reduction in fund balance, why would we pull something ahead. He said that's double dipping, not just taking the amount we're pulling ahead and reducing fund balance. Now we also have a million-dollar allocation of fund balance because we made a bad estimate in the budget. Finance Director Johnson said it was a matter of timing. When the interest rates rose substantially and development stopped, it was subsequent to pulling forward some of that stuff. Staff monitors this and amended the budget downward for revenue but it came out worse than they thought. He gave an example that this past year, he went down a million dollars in projected revenues and we're currently running ahead on revenue. They address those things as they come up, but a lot of those things were unplanned. Member Staudt said they were unplanned but they're now in a position to fix it.

Member Gurumurthy said the example was very helpful. If we pull ahead \$1 million for this year, then next year they want to get it back. She asked how that would be identified in the budget. Finance Director Johnson said historically the motion sheets may not have been specific enough, so they will identify if something is being pulled forward and ensure the next budget shows a surplus.

Member Heintz said in his mind, if he incurs an unexpected expense, he wouldn't try to recoup that expense immediately in the following year, but over the next 2 or 3 years. He questioned if there is value in having that flexibility to rebuild.

Mayor Fischer said Council has flexibility all the time and can use fund balance if there's some sort of emergency need. He said we have been doing a three-year budget for many years so they can see what's on the horizon for 3 years. When something is in year 2 or year 3 and they pull it ahead, they had anticipated that it would get spent somewhere and fund balance has always reflected that. He wanted to be able to say if they approve the three-year budget and fund balance is \$10 million, then they pull something ahead, that year 3 still has fund balance at \$10 million. He said his understanding of the current policy is that when we pull that ahead and we're at \$10 million, they present a new budget and say expenses equal revenues, you used fund balance last year of a million dollars and you're now at \$9 million. He didn't want to do

that, and he didn't think it was a fiscally responsible way of viewing pull aheads. That's the reason for the change. Finance Director Johnson said pull aheads were a recent phenomenon and he didn't see them as a frequent occurrence going forward. He gave an example from last year when the heated gutters were pulled ahead from year 3. If you looked at the budget, the general fund said net revenues over expenditures by \$66,000 in year 2 and 3. If they agree with the Mayor's policy, then the budget next year would start at \$66,000 to the good. Historically, the City Manager's proposed budget would have this opening of \$66,000 and try to find another capital item to move forward with. The fund balance was always deemed to be sufficient and they pass a balanced budget on an annual basis, but the pull aheads have really impacted that. Mayor Fischer said he was leading to an interesting point he was going to make. Last year's budget showed bad news of \$900,000 this year but the good news of \$66,000 next year. All of a sudden, this year they kept the bad news of \$900,000 and wiped away the good news of \$66,000 in this proposed budget. He said those are the things that were not sound in his mind and we need to correct that quickly. Finance Director Johnson said to address the \$900,000, the motion was to remove it from the CIP Fund and use general fund balance. Mayor Fischer said the point was moving the \$900,000 with no effort made to absorb it despite \$700,000 of more revenue. It should not be going that way.

Member Smith said he wholeheartedly supported this and it makes it more clear what's going on. He said it was a more natural way for him to think about it and if he was going to spend this year, he wouldn't re-spend the next year. He said it gives them the flexibility to add things when they need to. If they have to react to something, like having the possibility to buy park land, they still can.

Mayor Pro Tem Casey said she wanted to read the policy to make sure she what the change was. She said she agreed with making the change. She said pull aheads were relatively new and they come from Council. They are decisions that they make as a Council to look at what's been budgeted and they say they want to accomplish that sooner. She said the gap was if they are taking something from year 2 or 3 and pulling it forward, they expect that money to still be available, but not spent. They are pulling it out of fund balance for today and putting it back into fund balance in a future year.

Roll call vote on CM 24-04-40

**Yeas: Heintz, Smith, Staudt Thomas, Fischer,
Casey, Gurumurthy
Nays: None**

Mayor Fischer asked Finance Director Johnson if he would quantify the FY 22/23 pull aheads and the FY 23/24 pull ahead dollar amounts. He said we know at least \$800,000 was pulled in FY22/23, which was then quicksand. He asked what we have pulled into FY 23/24; he thought it was about \$545,000. Finance Director Johnson said he would have to verify. Mayor Fischer said we have \$700,000 of revenue that came in that we didn't account for and we had at least \$800,000 of pull ahead that we probably shouldn't have spent. He asked if the \$200,000 for senior transit was included in the budget. Finance Director Johnson said yes, it was in the Parks and Recreation fund. Mayor Fischer asked about the \$250,000 for the senior department that was added to the budget last year

from the general fund. Finance Director Johnson said that was in the current budget and is not assumed to go forward. Mayor Fischer confirmed that it was a one-timer, and they expect that to fall to fund balance. Finance Director Johnson confirmed that was correct. Mayor Fischer said last year they did a couple things that used up fund balance in the amount of \$812,000, which included \$500,000 for the Field of Honor, \$250,000 for the senior department, and around \$60,000 for the pull ahead from Member Smith. He assumed the \$500,000 was still in the budget and available. Finance Director Johnson said the \$500,000 was amended at the last Council meeting as part of the second quarter budget amendment in January. Mayor Fischer said about a year ago the Council allocated \$500,000 for a project and it was decided to be used for other capital items in January. Finance Director Johnson said that was correct. Mayor Fischer asked if he thought that was clearly delineated in the budget amendment. Finance Director Johnson said he thought he wrote it clearly. Mayor Fischer said he saw \$500,000 and the transfer from the capital improvement plan, but he saw no reference to any budgeted item. He thought if they had any idea that they were funding something with a different capital item without having a discussion on whether or not they wanted to stop that capital item, he didn't think they recognized what was happening in that budget amendment. He said he found that to be less than transparent and he was frustrated that they went ahead and spent that basically unbeknownst to Council. Finance Director Johnson said in the future he would do a verbal presentation about the details. Mayor Fischer said it would be a good idea to look at the presentation of how the budget amendments are shown to maybe show clearer charts on fund balance impacts and all of those funding mechanisms.

Mayor Fischer said this budget shows \$10 million in fund balance, which is 23% and on the low end of their fund balance range. He would not be able to support that. He said they've talked about \$700,000 of incremental revenue that came in and got eaten up. They've talked about \$800,000 of pull aheads that somehow got eaten up. He said the \$250,000 should flow to the bottom line. The \$500,000 for the Field of Honor that was pushed aside and used. He said that adds up to about \$2 million of funds that Council probably thought was in their back pocket. He was asking the City Manager to go back and instead of showing a \$1 million reduction in the fund balance, he would like to see \$1 million increase to fund balance by finding different structural and/or projects that can be delayed or canceled. He said it wasn't their job to line item or tell the City Manager how to do his job other than to give direction that this is not a financially sound budget that he would support. It's their job to set the budget policies and priorities. He said he wouldn't mind seeing some structural items that get pushed to FY25/26. He encouraged the administration to look at the chart he created. There are 7 types of budget and projections they have approved as a Council. They were approved with varying degrees of ideologies and backgrounds. He said the reason he wanted to go first was because when they get into the second round, they start talking about pulling ahead items and he didn't think he could support bringing anything into the current year showing that we're already spending a million dollars more than we're bringing in. He would like staff to come back with something more in line with what they've seen in the past. Then at the next meeting he would be more willing to hear rationale for different projects that they may want to move around.

Member Staudt said they've lost a million dollars in two years because of fund balance and bad estimates. He asked what would prompt him to not recover that million dollars and instead run them into additional fund balance deficit. He said they've had consecutive years where we're drawing down the fund balance and they put the salt dome in as an item which further reduces the fund balance. Having the fund balance at 23% leaves it at the bottom of the range and gives them no flexibility. He said he wants 30% so they have flexibility when they think it's appropriate. He asked the City Manager to provide an explanation of the logic behind this. City Manager Cardenas said that's a big question with many different factors. He said they've talked many times about the fund balance policy in terms of what those parameters are, which has guided them into this process. He said the salt dome wasn't something that was just brought up this fiscal year. It was brought to Council and the CIP Committee last year. Council members gave direction to take that money out of the fund balance and not the capital improvement fund. That can be seen in the CIP Committee meeting minutes from 2023. He said all of these things that have been done were with notification. He agreed they could have spelled it out better in the motion sheet and there is room for improvement. Those documents are full of a lot of numbers and literature that could be improved upon. He said he wholeheartedly understood that fund balance had been something the Council has been hawkish on, but they stayed within the guidelines they've been given. He said he hoped that since he began the position, he's been extremely forthcoming and presents information to Council with much more tenacity than year's past. He added they will continue to make improvements. He stated he heard the direction from Council that we need to be on the higher end of the policy, and they will do everything they can to reduce some of the capital and reduce some other structural spending to satisfy Council. Member Staudt said he was the one who hounded fund balance up from 17% in 2007 and the 23%-25% range, but that was never with the idea they would be in that range and spend down to it. It was always a worst-case scenario. He said we're in the best of times and maybe it's time to readjust that. He said they are the ones who decide how the money's spent, and they have no flexibility when it's at 23%. He said he wants to be clear that when they pass the budget, he'd like to see another million dollars in the next budget for fund balance and maybe another million after that. He said he wants to see it where they are at 30% or higher. He said when he was making decisions about fund balance several years ago, and the rollovers, little did he know that we were out \$2 million because of estimates that were wrong. He said maybe he should have noticed it, but he trusts the administration to tell them important things. It should have been very clear that we are a million dollars down in our estimates. He said looking at the fund balance, this was going to be a painful year. Once they get an audit, maybe they'll get good news that they can add more to the fund balance and look at some of the other projects. He said it's easy to figure out expenditures, but it's harder to figure our revenue especially when it's variable. He said he wants to see a minimum of a million dollars increase in fund balance and he won't vote for a budget that doesn't have that.

Member Thomas said there were some new Council members and she wanted to have some things explained. She asked the Finance Director to explain the general idea of fund balance and what the purpose of having fund balance is. Finance Director Johnson

said under the accounting rules, the fund balance is basically a rainy-day fund. It represents the City's savings account. Every year we collect our revenues and make expenses, and whatever is left over falls to fund balance. The general rule of thumb is a minimum of 15% because anything less impacts cash flow. Having more than 15% is a comfortable range, but in a city this size, you don't want to be at the 15% range. He said he believed our range was increased to 23%-25% because we have been running around 30%. It is for one-time items or significant events, like Covid, where we are impacted on the revenue side and can't cut the budget fast enough. It can be used and appropriated as the Mayor and Council see fit. Member Thomas asked how that impacts the city. Finance Director Johnson said if the bond ratings came to the city and you're at 15%, they would say that's low, and you may not get AAA bond rating. Some agencies rate differently though. Member Thomas asked if he knew what other communities had for fund balance. Finance Director Johnson said they can vary depending on the community and what their plans were. Member Thomas said looking at the budget, she saw a minimum of 22% and a maximum of 25% and she wondered where those numbers come from. Finance Director Johnson said that is the Council policy that was adopted by the Mayor and Council in the past. Member Thomas said there have been a lot of great points made so far, but she wanted to point out that they are staying within the guidelines that Council set. She said there are things that need to be addressed, but she didn't want to beat people up for being within the guidelines. She said if Council thinks those guidelines are insufficient, maybe they need to change the guidelines. If they are over the maximum in fund balance, they might be losing opportunities for the community. Moving forward, if they try to cut \$1 or \$2 million, she understands why they want to do that, but she wasn't sure they should cut beyond the max that was set by Council. She said she was concerned because in talking to members of the community, there is concern about roads deteriorating and she wanted to be sure they were cognizant of what's being cut. She said if they do want the fund balance to be higher, she wants to understand the reason behind it. She wants to make sure that the people who are paying into the city are getting their money's worth and that aren't just hoarding the money. They should use it to improve the lives of the people who live here. The people of Novi expect a certain level of service and we should make sure that we are providing that as much as we can while staying fiscally responsible. She reiterated that they have a minimum and a maximum and we're within that. If those guidelines are out of place, they should be changed. Finance Director Johnson clarified that the recommendation so far was that they don't want revenues to equal expenditures, but to reduce expenditures by another million dollars in the operating fund. Member Thomas asked if that still put them within the range. Finance Director Johnson said it would bring it to 28% if they cut \$2 million. Mayor Fischer said that would still be lower than what they had last year. Member Thomas said she understood that, but questioned if it made sense to be above the max. She said maybe it does, but they should clarify that. Mayor Fischer said they've had those conversations before. He asked the administration for the general ledger detail. Finance Director Johnson said he would provide that the next day. Member Thomas said no matter where you cut, it's going to hurt something or you're going to lose something you were planning on. She said her point was they want to be careful and make sure they aren't cutting something important or anything necessary to the continued functioning of the city and its current level of service.

Member Heintz said they could try to see about opportunities for building back at a slower pace. He said he understood being fiscally responsible, but the idea of reducing a budget by \$1 or \$2 million was hard to comprehend. What's going to be either pushed out, cut, or reduced. He said knowing what would be removed or reduced would be helpful to know if it would be less impactful to do a smaller amount over time. Mayor Fischer suggested they do what they've done in the past and have the City Manager go back, sharpen the pencil, and make a proposal. The Council would receive all of the information with the impact of each proposed change. They would be able to discuss it at the next budget meeting. They'll see each individual line item. Member Heintz said he'd hate for that to have an impact on goals they've discussed recently.

Member Smith said he agreed they need to keep an eye on fund balance and also agreed they need to see the details on what's proposed to be cut. From there they can make decisions to see if they can actually get to \$2 million the next year.

Mayor Pro Tem Casey said this has been a sensitive topic for many years. She remembered during Covid they were at 32% when it first started, and they purposefully let the fund balance grow so there was plenty of cushion because they didn't know what would happen with Covid. She said at that point she was comfortable keeping fund balance that high because they didn't know what would happen. She expected to see it start to get back down towards the normal numbers. She said there may have been conversations amongst Council that they'd like to see it higher, but the documentation, what they show the public, and what they've asked staff to hold it is 22% - 25%. If they want to talk about increasing it and maintaining a higher level, that would be a good conversation to have, but staff is doing what they've asked them to do. She said she'll be clearer in the upcoming year to see what we can do to cut out some expenses to start adding more to fund balance, but they don't generally put things in the budget that aren't necessary and important things to do for the community. Those cuts might come in and be harder than they thought. She said the salt dome has been on the CIP for quite some time. It's something they've been planning for, and it needs to get addressed. They could consider moving it out another year or two, but trying to go too deep to the bone too fast worried her in terms of what the trade-offs would be. She was looking forward to seeing the list of projects and maybe there's a balance they can reach. She said she doesn't like having too high of a fund balance. She knew it gave them many opportunities and they have taken advantage of those opportunities in the past. She said she is cautious when it gets up to 28% or higher because she wonders what trade-offs they are making on a current basis to have a fund balance that high. She said she wants to be cautious on how they plan for the future.

Member Gurumurthy said it's not easy to benchmark and compare our city because there are many variables. She would like to compare what percentage other cities have in fund balance as a minimum and maximum.

Member Staudt said he was there when they started building fund balance up when they were hit with an economic disaster. They had two choices. They could use a portion

of the fund balance or lay people off and they laid a lot of people off. It's not a coincidence that they had a 30% fund balance, it was thought out. As a result of having a significant fund balance, they were in great shape when Covid hit. They didn't have to lay off employees or reduce services dramatically. He said they don't know when the next crisis will be, and they should be prepared for it. There are two ways. They use fund balance or cut expenses. He said he's been accused of hoarding money, but they do it because they have a vision. It's a rainy-day fund for when things get tough, and they want to be in a position to not lay off staff and not cut back services. He said experience may not teach you anything, but in this case, it's taught him the better they can protect the employees, the better they can protect the services. He said there was never a max and the 25% wasn't meant to be a max. He said if they have to creep back up slowly, that's great, but he wanted whatever they could afford to keep, and he didn't think they would be cutting too many services to get back there.

Mayor Fischer said he thought they were getting caught up on the percentage. He financial experts say to have 3 to 6 months of emergency savings in case you get laid off. A 25% fund balance is 3 months of our operating expenses which is \$11 million. 33% would be \$14.5 million. A few million dollars is a lot of money, but not in the grand scheme of savings. He said he didn't want to have a discussion on the percentage because they were really talking about whether or not they are saving \$1 million. He said it made more sense to him to err on the side of caution and save \$1 million. He said more importantly, it's the trend they were seeing that's the problem. He said they are at the highest earnings, and they have nothing to show for it in the fund balance. The structural problem is that they are spending more than they're bringing in and driving fund balance to the bare minimum.

AUDIENCE COMMENT:

Keith Elliot, 1988 Austin Dr., was present to highlight concerns about the deteriorating water quality around Shawood Lake. He said it's a beautiful resource that we are losing little by little over time. He said the wildlife activity has declined due to the muck in the shallow areas which is promoting the growth of aquatic weeds. He said some of the causes are fertilizer runoff and the amount of biomass in the lake. He said they've spent lots of time and money to try and mitigate the issue. Since the City of Novi owns the majority of Shawood Lake and the fact that it has a shoreline along Lakeshore Park, he believed the city should help improve the water quality of the lake. He said they've investigated dredging and chemical treatments, but it's expensive and requires repetition. He said there may be a potential solution that is environmentally friendly and significantly less expensive than dredging and could reverse the deterioration of the lake by decreasing the excess nutrients using beneficial bacteria and aeration. He said it deserves to be reviewed.

ADJOURNMENT – There being no further business to come before Council, the meeting was adjourned at 8:41 P.M.

Cortney Hanson, City Clerk

Justin Fischer, Mayor

Transcribed by Alyssa Craigie,
Administrative Assistant

Date approved: April 22, 2024