MEMORANDUM

CITY OF NOVI
cityofnovi.org

TO: HONORABLE MAYOR AND CITY COUNCIL MEMBERS
CC: LEADERSHIP GROUP
FROM: CARL JOHNSON, JR., CFO
SUBJECT: FINANCIAL REPORT AS OF JUNE 30, 2023
DATE: AUGUST 24, 2023

Mayor and Council –

As required by the City's Charter, please see the 60 Financial Report

- Victor

The City's Charter specifies in Section 4.7 (City Manager) that a report be produced within 60 days from fiscal year end, June 30th, highlighting year-to-date revenue and expenditure activity. The following correspondence fulfills the aforementioned provision with data through the fourth quarter ending June 30, 2023 (see attached report for budget-to-actual by category by fund information). While the attached report has not been audited, City Administration is confident that most of the material activity is properly recorded and represents a sound estimate where the final audited numbers will reflect later this year.

GENERAL FUND

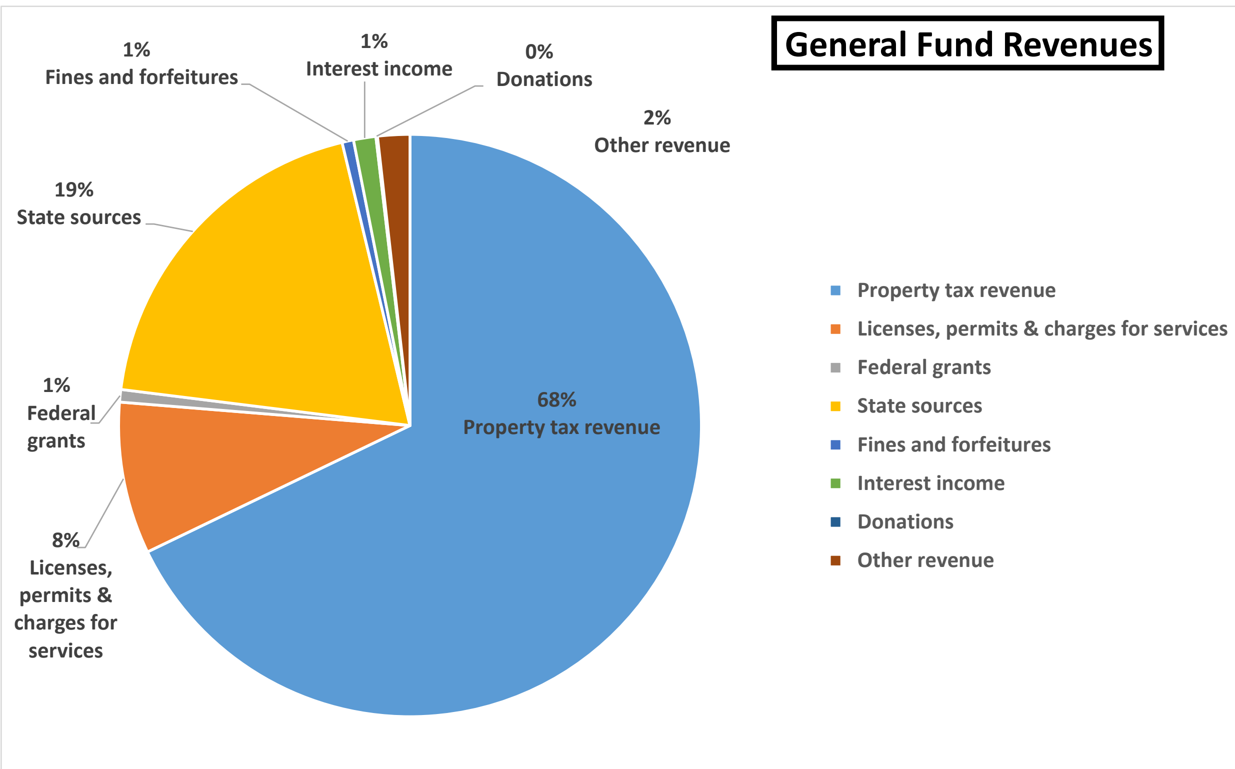
The Fiscal Year 2022-23 General Fund amended budget reflects expenditures exceeding revenues (decrease of fund balance) of $3,836,354. Fund balance was originally budgeted to decrease by $424,850. The table below summarizes the changes from the original adopted budget to the amended budget:

FY 2022-23
General Fund

MEETING date	Budget Description / BA Description	$ Amt	Increase/Decrease FB
	Beginning FB 7/01/22	16,409,153.57	n/a
	adopted budget (FB decrease) - PD VEHICLES	(360,000.00)	(360,000)
	adopted budget (FB decrease) - PD VEHICLE	(30,000.00)	(30,000)
	adopted budget (FB decrease) - POLICE DRONE	(35,000.00)	(35,000)
	adopted budget (FB increase) - PLUG	150.00	150
	Ending FB 6/30/23	$ 15,984,303.57	n/a
9/12/2022	rollover ba 2023-1	(2,040,575.00)	(2,040,575)
11/14/2022	Active Mobility Plan (formerly Non-motorized Master Plan Update)	(50,534.00)	(50,534)
11/14/2022	PD Building Generator & Technology including concrete pad	(55,395.00)	(55,395)
2/6/2023	Incar Cameras & Body Cameras	(875,000.00)	(875,000)
4/17/2023	3rd Qtr BA 2023-4 : storm response for City Council Initiiative	(225,000.00)	(225,000)
6/26/2023	4th Qtr BA 2023-5: storm response for City Council Initiative	(165,000.00)	(165,000)
	Amended Budget Ending FB 6/30/23	$ 12,572,799.57	$ (3,836,354)

Revenues

Currently, total General Fund revenues through the fourth quarter are $39,539,081, which is lower than prior year revenue by approximately $852,000 and $1.2 million less than budget. Property taxes increased by approximately $1.0 million from the prior year due to an increase in taxable value but remained consistent with prior year by being 66% of budgeted revenues compared to last year's 64%. Building revenues are lower than prior year by approximately $300,000 and are more than $1 million less than budget. The shortfall in building revenue is primarily due to the overall slowdown in building in the area caused by the significant rise in interest rates, inflation, and continued supply chain issues. Cable franchise fees are also lower by about $50,000 compared to last fiscal year. The final ARPA federal grant payment was recorded last year in the amount of $2.5 million so federal grants exceed the current year mostly for this reason. Interest income increased by approximately $760,000 over last year. The amended budget of $40,739,058 exceeds actual revenue activity by almost $1.2 million as of June 30, 2023, mostly due to the reasons previously mentioned.

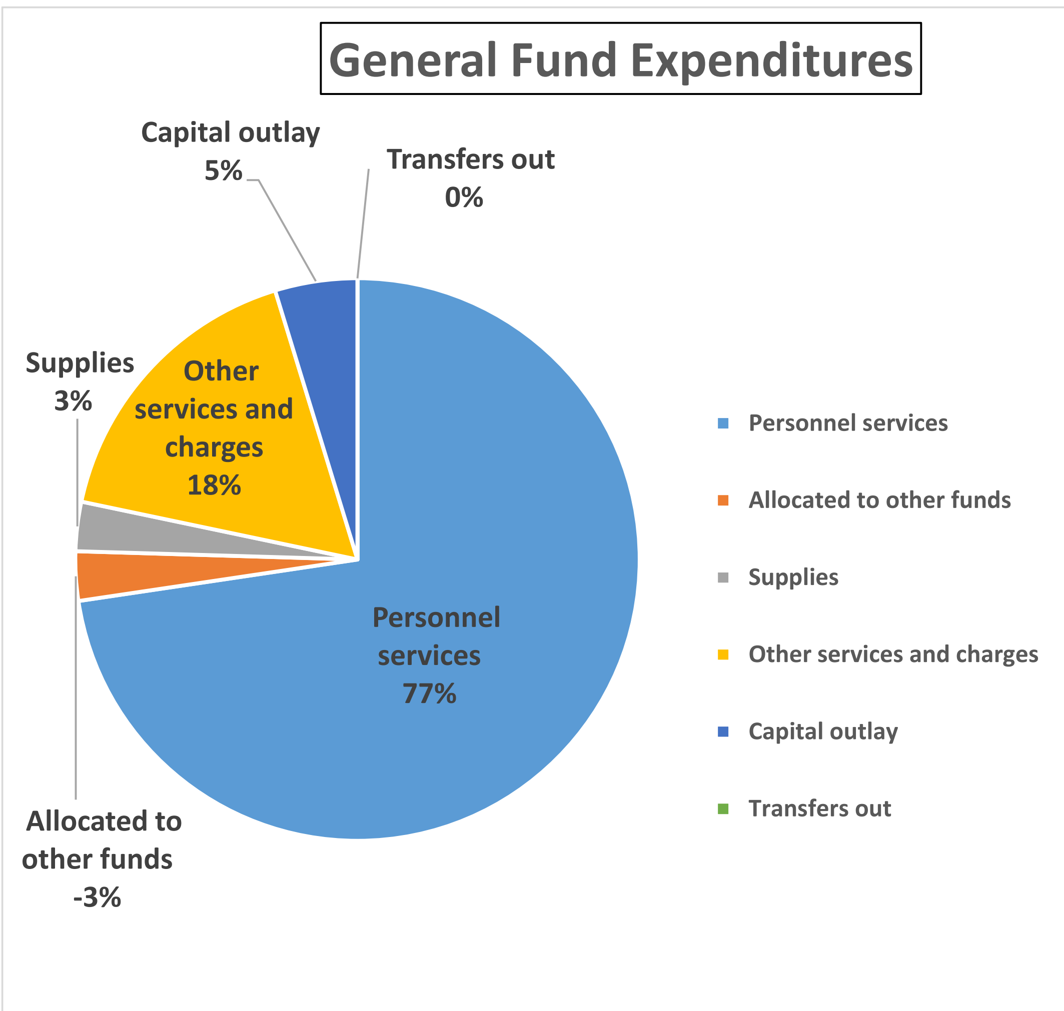


Expenditures

Currently, total General Fund expenditures through the fourth quarter total $41,449,784 representing 93% of the $44,575,415 General Fund amended expenditure budget. Total expenditures are under the final amended budget by approximately $3.125 million. The favorable variance is made up of two specific pieces: budget rollovers and favorable department budgets. Expenditure rollovers total approximately $3.0 million of the favorable variance and represents contracts/commitments the City has entered into that were not completed as of June 30, 2023, and will require a budget rollover amendment for the FY 2023/2024 fiscal year. The remaining variance of approximately $125,000 represents actual savings within each department. Every department, in total and within each budget category, is under their expenditure final budget which is an outstanding accomplishment!

Overall, total expenditures and transfers out of the General Fund increased from the June 30, 2022, total of $37,657,226 by approximately $3,792,558.

Fund Balance for the General Fund is estimated to be $14,498,451 on June 30, 2023, which is a decrease of $1,910,703 from last year's fund balance of $16,409,154. Estimated fund balance to current year expenditures ratio is 35.0% which keeps fund balance within council set limits. The Fund balance estimate on June 30, 2023, does not include the rollover amendment needed in FY 23/24 of $3.0 million which would drop fund balance to approximately $11,498,451 or 27.7%.



SPECIAL REVENUE FUNDS

The various special revenue funds' revenues and expenditures are on track to come in within budget through the fourth quarter ended June 30, 2023, with the following items of note:

Major, Local, & Municipal Street Funds

Overall, Act 51 revenues came in $560,000 higher than prior year due to effects of the census adjustment and increased funding by the State. The Major Street Fund spent $4.5 million less than the budget mostly due to timing of construction projects. The unspent budgets will be included in the budget rollover and expensed during fiscal year 2023-24 as projects continue towards completion. The Major Street Fund did not require a transfer in from the Municipal Street Fund due to the timing of the construction projects and the fund is expected to be in line with City Council fund balance policies as of June 30, 2023. The Local Street Fund does not require the full amount of the transfer in from Municipal Street Fund because of the timing of construction projects as well. Most of the capital expenditure budget variance is related to the 2023 NRP that was started ahead of schedule prior to July 1, 2023. The Local Street Fund is expected to be in line with City Council fund balance polices as of June 30, 2023.

The Municipal Street Fund also had capital expenditure budget variance due to timing of construction projects in the amount of approximately $1.0 million which will be rolled over into fiscal year 2023-24. The Municipal Street Fund is expected to be in line with City Council fund balance policies as of June 30, 2023.

Parks, Recreation, & Cultural Services Fund

The Parks, Recreation, & Cultural Services Fund's combined program revenue and older adult program revenue is anticipated to come in approximately $298,000 higher than prior fiscal year reflecting significant increases in program registrations. Overall, the net revenues over expenditures will increase fund balance by $588,000. Fund balance on June 30, 2023, is estimated to be approximately $1.79 million or 55.8% of the expenditure budget.

Drain Fund

Overall, revenues and expenditures remain consistent with prior year with revenues coming in at $2.7 million and expenditures at $2.2 million. Due to the timing of the budgeted construction projects, the fund will not require any of the budgeted $2.5 million transfer in from the Drain Perpetual Maintenance Fund. Expenditures of approximately $2,940,000 will be rolled over to fiscal year 2023/2024 fiscal year for contracts/commitments the City has entered that were not completed as of June 30, 2023.

Tree Fund

As a result of higher interest rates, inflation, and continued supply chain issues, tree revenues continue to be lower than budget, however; higher than last fiscal year's revenue by approximately $147,000. Last fiscal year tree revenues totaled $24,965 and this fiscal year revenues are at $172,057 (down from pre-COVID levels of $300-500,000 annually). Fund balance is estimated to decrease approximately $437,000 from $2,960,698 on June 30, 2022, to $2,523,352 on June 30, 2023.

Forfeiture Fund
Similar to last fiscal year, the Forfeiture Fund did not receive sufficient forfeiture revenues to cover their budgeted capital expenditures. However, due to supply chain issues, several vehicles were not received by June 30, 2023, so a transfer from the General Fund was not needed. The vehicle budgets will be rolled over into fiscal year 2023-24. A significant number of forfeiture cases with millions of possible forfeitures continue to be held up by the court system. These revenues are anticipated to cover future expenditures once released, in the meantime, the General Fund will continue to contribute funds annually to the extent expenditures exceed revenues.

Community Development Block Grant (CDBG)
The revenues and expenditures are under budget due to timing of receipts and payments at fiscal year-end. The fund annually shows a deficit due to the timing of the reimbursements from Oakland County but does not require a formal deficit elimination plan with the State.

Rubbish Collection, Library, Library Contribution, and Street Lighting (West Oaks, West Lake, & Town Center) Funds
The revenues and expenditures are in line with the final amended budget with no significant items of note.

DEBT SERVICE FUND

2008 Library Construction Debt Fund
The Library Construction Debt was refinanced in fiscal year 2016 and is the only remaining debt service fund. The final principal payment is scheduled for October 2026 (fiscal year 2026-2027). Revenues exceed budget due to County Chargebacks being less than anticipated and due to receipt of local stabilization for personal property reimbursement.

CAPITAL PROJECT FUNDS

The capital project funds' revenues and expenditures are on track to come in within budget through the fourth quarter ending June 30, 2023, with the following items of note:

Special Assessment Revolving Fund
The Special Assessment Revolving Fund had no capital activity as of June 30, 2023, as it continues to receive repayment of prior years' interfund borrowings with the CIA Fund.

Capital Improvement Program (CIP) Fund
The Capital Improvement Program (CIP) Fund was created in FY 2015-16 to record the revenues and expenditures related to the voter approved tax levy; collections began on July 1, 2017.

During fiscal year 2022-23, approximately $2.9 million was spent towards the following: Bosco Property land acquisition, design of the City Splash Pad, Pedestrian Tunnel Replacement project at Lakeshore Park, and updated plans for ITC Community Sports Park. The balance of the interfund borrowing as of June 30, 2023, from the Water and Sewer Fund was reduced to $2.8 million from $4.272 million. Interest payments on interfund borrowings totaled $96,651 as of June 30, 2023.

Gun Range Facility Fund

The Gun Range Facility Fund offsets current and future capital purchases with incoming operating revenues (operating costs remain in the police department within the General Fund). Total revenues exceed the amended budget; rental revenue is $12,000 more than the amended budget and $31,400 less than last fiscal year's revenues. The following capital-related items were completed during the fiscal year: rubber berm replacement in the amount of $24,000, unexpected wall and floor repair work in the amount of $15,000, replacement of the entire filtration control panel (since the controller is no longer supported by the manufacturer and also since parts/access to repair the software problem with the unit are not readily available) in the amount of $13,000, and the warranty for the MILO Range Training Simulator in the amount of $8,200.

PEG Cable Capital Fund

In September 2019 regulations changed requiring PEG revenue to be used only towards capital purchases, hence; the City created this fund in 2020. The PEG Cable Special Revenue Fund closed as of June 30, 2022, and operating expenditures are recorded in the General Fund within the Studio VI Department. PEG revenue is slightly lower than budget through June 30, 2023. The fund spent $20,000 towards the design of a new broadcast studio.

PERMANENT SERVICE FUND

Drain Perpetual Maintenance Fund

The Drain Perpetual Maintenance Fund is the City's only permanent fund. There were no tap-in fee revenues collected as of June 30, 2023, compared to $4,289 last fiscal year. A transfer to the Drain Fund from the Drain Perpetual Maintenance Fund is not needed as of June 30, 2023 (see Drain Fund).

(An adopted budget is not required, per the State Budget Act, for permanent service funds and the information is primarily presented for informational purposes only.)

ENTERPRISE FUNDS

The enterprise funds' revenues and expenditures are anticipated to be in-line with budget through the fourth quarter ending June 30, 2023, with the following items of note:

Ice Arena Fund

As of June 30, 2023, the Ice Arena program revenues are up $109,000 compared to the prior year. Activity continues to resume back closer to levels not seen since the onset of the COVID-19 pandemic. Capital projects not completed by June 30, 2023, include the dehumidification unit, smoke/fire detection replacement, and roof restoration. These projects were reprioritized to be completed next fiscal year so they will be rolled over into fiscal year 2023-24 in the amount of approximately $315,000.

Senior Housing Fund
The Senior Housing Fund operating revenues increased by approximately $23,000 similarly to the increase of $24,584 from last fiscal year. Operating expenditures increased about $87,000 compared to last fiscal year mostly related to management contract (salary and fringe benefits) increases and increased costs of contractual services. The roof replacement project for the main building, senior center, and all nine ranches was completed as of June 30, 2023, in the amount of $857,000. The window replacement project for the main building and ranches was approximately 75% complete as of June 30, 2023, and will be rolled over into fiscal year 2023-24 as well as the outdoor fitness area flooring project and pickleball court project.

Water and Sewer Fund
The Water and Sewer Fund has significant construction projects ongoing which will require a rollover budget amendment of approximately $13.0 million. The three largest projects which require budget rollovers are the Asbestos-Cement Water Main Replacement project in the amount of approximately $1.5 million, the Prestressed Concrete Cylinder Pipe (PCCP) Water Main Repairs in the amount of approximately $1.5 million, and the Sanitary Sewer Upgrades-Lanny's Influent and Drakes Bay Effluent in the amount of approximately $6.2 million.

Operating revenue increased by approximately $900,000 from last year primarily due to an increase in rates and a slight increase in consumption. Capital contributions from developers tapping into the system are also up in the amount of $380,000 compared to last fiscal year. Overall, total revenue for the fund increased $2.9 million from fiscal year 2021-22.

(An adopted budget is not required, per the State Budget Act, for enterprise funds and the information is primarily presented for informational purposes only.)

INTERNAL SERVICE FUND

Self-Insurance Health Care Fund
The City created a Self-Insurance Fund in January 2020 to track the costs associated with the healthcare program provided to employees. The Fund pays HAP healthcare costs for employees and allocates the costs to the various departments and funds based on illustrative rates. The fund balance is expected to decrease by approximately $365,000 due to a $1.0 million claim deductible which was a carry-over case from fiscal year 2021/2022. The net reserves in this fund are specifically to pay the rare large claims.

(An adopted budget is not required, per the State Budget Act, for internal service funds and the information is primarily presented for informational purposes only.)

FIDUCIARY FUND

Retiree Healthcare Benefits Fund
The Retiree Healthcare Benefits Fund reflects a net investment gain in the amount of $3.2 million compared to the prior year's $5.7 million loss. The fund will have net increase in fund

balance of approximately $1.6 million as of June 30, 2023. As stated last year, the most recent actuarial report shows an increase to the funded ratio from 112.4% on June 30, 2019, to 125.5% on June 30, 2021, and recommends no Employer contribution for fiscal years ending June 30, 2023, and June 30, 2024. Retiree insurance exceeded budget by approximately $64,000 through June 30, 2023, and increased $216,000 from last year.

(An adopted budget is not required, per the State Budget Act, for fiduciary funds and the information is primarily presented for informational purposes only.)

COMPONENT UNITS

The component units' revenues and expenditures are anticipated to be in-line with budget through the fourth quarter with the following items of note:

Economic Development Fund

The Economic Development Fund had FY 2022-23 expenditure activity in the amount of $10,000 for an Oakland County VTM sponsorship and received a transfer from the General Fund of $50,000.

Corridor Improvement Authority (CIA) Fund

The Corridor Improvement Authority (CIA) Fund borrowed in prior years approximately $3.9 million from the Special Assessment Revolving Fund to pay for the majority of the $4.9 million NW Ring Road project (balance funded out of the Major Street Fund). During fiscal year 2022-23 the CIA repaid approximately $434,000 of the loan principal and paid interest expense on the borrowing of $91,800. The principal and debt service interest payments will continue to be paid over the life of the loan with annual property tax revenues.

(An adopted budget is not required, per the State Budget Act, for component units and the information is primarily presented for informational purposes only.)

This summary reflects actual June 30, 2023, balances for all funds as of August 24, 2023. The balances are not "final" as year-end adjustments and account reconciliations are still being performed but should be materially correct. The State of Michigan requires all municipalities to have an independent audit performed (majority annually) to verify all financial data is materially accurate and properly disclosed. The independent auditors hired by the Mayor and City Council are scheduled to perform the annual audit beginning September 18, 2023, with a final report anticipated by the end of October 2023. All balances will be deemed "final" by the Finance Department no later than early September prior to the auditor's arrival.