S&P Global Ratings

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Research Update:

Novi, MI Series 2026 Unlimited-Tax GO Bonds Assigned 'AAA' Rating; Outlook Stable

April 8, 2026

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Overview

- S&P Global Ratings assigned its 'AAA' rating to Novi, Mich.'s $32.615 million series 2026 unlimited-tax general obligation (GO) bonds.
- At the same time, we affirmed our 'AAA' long-term rating on the city's GO bonds outstanding.
- The outlook is stable.

Rationale

Security

The city's full-faith-and-credit unlimited-tax GO pledge secures the series 2026 bonds and the GO debt outstanding.

The series 2026 bonds are the first of three issuances of a total $120 million approved by voters in August 2025. These issuances will be used for construction of two new fire stations along with renovations to existing fire stations.

Credit highlights

The 'AAA' rating reflects our view of Novi's strong economic metrics, healthy reserves, and below-average debt burden.

The city has generated positive operating results in recent years, contributing to a healthy reserve position. A reported deficit result in fiscal 2024 is attributable to a transfer to the city's public improvement fund for unspent capital. Results for fiscal 2025 (June 30) indicate a general fund surplus of $942,000. This surplus brought available reserves to $12.2 million, representing 27.2% of general fund revenue. The city anticipates a positive result of approximately $400,000 in fiscal 2026 and in preliminary drafted budget projections, expects a surplus of $200,000 in fiscal 2027. Preliminary multiyear financial plans for fiscal 2028 and beyond indicate potential deficits; however, management is evaluating revenues and expenditures to achieve balanced results. Given the city's track record of outperforming budgets, we anticipate the trend will continue.

The city is approximately 30 miles northwest of Detroit in Oakland County. Local income metrics are well above national averages. The city's top taxpayers and employers have remained stable in recent years, and ongoing residential and commercial development suggests potential for future growth.

For more information on our view of Michigan municipalities, see "U.S. Local Governments Credit Brief: Michigan Counties And Municipalities Means And Medians," March 3, 2025.

The 'AAA' rating further reflects our view of the following:

- Economic metrics are above average, and the city has experienced steady growth in both assessed and market values in recent years, while the market value per capita is strong at $193,401.
- The city has a track record of positive operating results, coupled with a focus on maintaining healthy reserves, which remains a key credit strength. Management expects this trend will continue. In addition, enterprise funds remain healthy, with cash on hand and debt service coverage that we consider sufficient.
- Financial management policies and practices are robust and conservative, with regular budget monitoring through quarterly budget amendments and regular reviews of budget-to-actual performance. The city adheres to a formal fund balance policy to maintain at least 25% of expenditures in reserve, with a formalized target of 28%-30%. The city also maintains formal investment and debt management policies, along with a detailed five-year capital plan and a three-year financial plan, with the general fund projected out an additional two years. Management is also taking measures to mitigate cyber risk.
- The city's fixed-cost profile is low, which contributes to its financial flexibility. The city plans to issue the rest of the voter-approved $120 million in two additional series through 2028. In addition, the city's pension funded ratio is weak at 63.4% as of fiscal 2025; however, annual contributions remain in line with our expectations for minimum funding progress. For information regarding retirement liabilities and costs, see "Pension Spotlight: Michigan," Aug. 22, 2023.
- For more information on our institutional framework assessment for Michigan municipalities, see "Institutional Framework Assessment: Michigan Local Governments," Sept. 9, 2024.

Environmental, social, and governance

We view the city's environmental, social, and governance factors as neutral in our credit rating analysis.

Rating above the sovereign

Novi's GO debt is eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," Nov. 19, 2013, the city has a predominantly locally derived revenue source, with 59.7% of governmental activity revenue from property taxes and another 26.9% from locally derived program revenues as of fiscal 2025. Therefore, the city maintains independent taxing authority and treasury management from the federal government.

Outlook

The stable outlook reflects our expectation that Novi will maintain balanced financial operations and healthy reserves throughout the two-year outlook period.

Downside scenario

We could lower the rating if the city's operational performance declines, leading to a deterioration in the reserve position, or if the debt burden increases beyond expectations.

Novi, Michigan--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	1.5
Economy	1.0
Financial performance	2
Reserves and liquidity	1
Management	1.0
Debt and liabilities	2.50

Novi, Michigan--key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita % of U.S.	132	--	132	134
County PCPI % of U.S.	128	--	128	129
Market value ($000s)	13,116,468	12,213,423	11,198,966	10,537,270
Market value per capita ($)	193,401	180,086	165,128	155,826
Top 10 taxpayers % of taxable value	8.0	8.4	8.6	9.1
County unemployment rate (%)	3.6	3.6	3.6	2.9
Local median household EBI % of U.S.	132	--	132	132
Local per capita EBI % of U.S.	143	--	143	141
Local population	67,820	--	67,820	67,622
Financial performance				
Operating fund revenues ($000s)	--	44,821	42,874	39,411
Operating fund expenditures ($000s)	--	43,532	43,149	41,349
Net transfers and other adjustments ($000s)	--	(347)	(2,086)	(25)
Operating result ($000s)	--	942	(2,361)	(1,963)
Operating result % of revenues	--	2.1	(5.5)	(5.0)
Operating result three-year average %	--	(2.8)	(1.2)	3.2
Reserves and liquidity				
Available reserves % of operating revenues	--	27.2	26.8	35.6
Available reserves ($000s)	--	12,210	11,484	14,012
Debt and liabilities				
Debt service cost % of revenues	--	2.0	2.0	2.0
Net direct debt per capita ($)	503	57	92	130
Net direct debt ($000s)	34,116	3,861	6,226	8,785
Direct debt 10-year amortization (%)	32	100	100	--
Pension and OPEB cost % of revenues	--	7.0	7.0	8.0
NPLs per capita ($)	--	722	724	720
Combined NPLs ($000s)	--	48,982	49,091	48,698

Novi, Michigan--key credit metrics

	Most recent	2025	2024	2023

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List	
New Issue Ratings	
US$32,615,000 Novi, Michigan, 2026 Unlimited Tax General Obligation Bonds, dated: Date of Delivery, due: May 1, 2051	
Long Term Rating	AAA/Stable
Ratings Affirmed	
Local Government	
Novi, MI Unlimited Tax General Obligation	AAA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.