MEMORANDUM

TO: MAYOR FISCHER AND CITY COUNCIL

FROM: DANIELLE MAHONEY, ASSISTANT CITY MANAGER

SUBJECT: 5-YEAR COMPENSATION ANALYSIS - NARRATIVE

DATE: JUNE 18, 2026

Key Takeaways

- Compensation and benefit costs are rising faster than typical municipal revenue growth, a trend being experienced by local governments throughout the region and nation, not a Novi-specific issue. Novi remains in a strong financial position today, but the outlook reinforces the importance of proactive, multi-year planning.
- Personnel costs are projected to increase by approximately $6.0 million, or 16.2%, over the five-year period, growing from $36.7 million in FY27 to $42.6 million in FY31. Total compensation includes direct employee compensation (wages, overtime, and other earnings) as well as the City's associated benefit costs, including healthcare, retirement contributions, payroll taxes, and other employer-paid benefits.
- Wage compression within public safety classifications is a significant and current driver of this trend, and is a dynamic we are actively experiencing in ongoing labor negotiations. As regional competition for police, fire, and dispatch talent pushes up entry-level pay, the gap between newer and more tenured staff narrows, creating internal equity pressure that compounds cost growth beyond simple market adjustments.
- A parallel workforce risk - the experience gap created by a wave of upcoming retirements - adds both cost and operational pressure, as replacing tenured employees requires years of training and mentorship before institutional knowledge is recaptured.
- Staff has already begun addressing these pressures: the elimination of ten vacant positions following operational review generates approximately $1.1 million in ongoing annual savings, reducing projected cost growth from 16.2% to approximately 15.9% over the five-year period while maintaining current service levels.

- Sustaining service levels going forward will depend less on adding staff and more on adding organizational capacity - through technology, process improvement, and continued investment in the workforce and culture strategies advanced through Novi Drive (our high-performing organizational model).
- Projections assume current service levels and staffing models, with no major service expansions or staffing increases.

Background

As part of Council's FY2026 goal to develop a long-term compensation and benefits outlook, staff has prepared the attached five-year projection of personnel-related expenditures. The projection is intended to provide a planning framework for understanding future cost pressures, evaluating organizational sustainability, and supporting future policy and budget decisions.

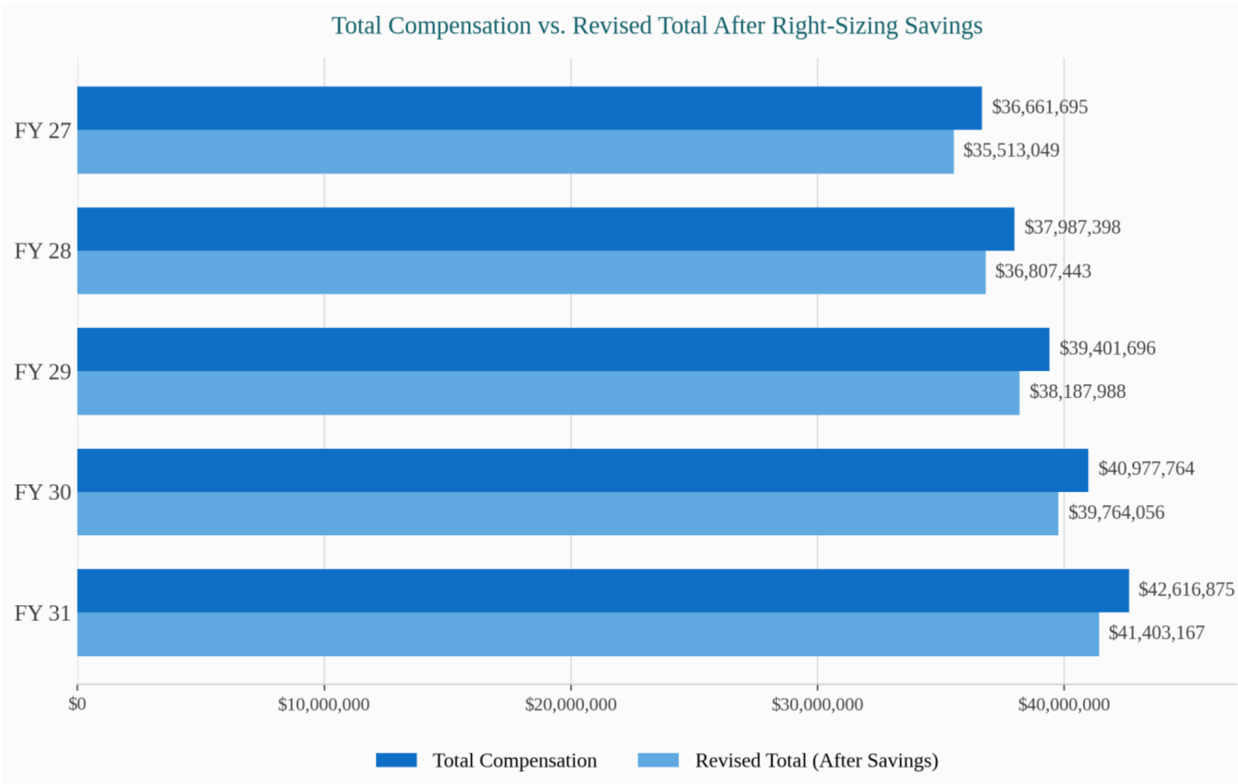
Much like the broader budget outlook presented in the City Manager's FY27 Recommended Budget and Budget Message, the challenge before us is not an immediate fiscal crisis, but rather a long-term structural pressure that requires proactive planning and disciplined decision-making. Novi remains in a stable financial position today, however, the five-year forecast makes clear that maintaining current service levels, compensation competitiveness, and operational expectations simultaneously will become increasingly difficult without adjustments.

This memo provides an overview of the City's projected total compensation for fiscal years 2027 through 2031, alongside the revised totals reflecting anticipated savings from right-sizing efforts across departments and funds, and explores the key drivers, assumptions, and strategic considerations Council should weigh as part of long-term workforce and financial planning.

Summary of Projected Personnel Costs

Personnel costs are projected to increase by approximately $6.0 million, or 16.2%, over the five-year period, growing from $36.7 million in FY27 to $42.6 million in FY31. This growth is primarily driven by wage increases, benefit cost inflation, retirement obligations, and continued workforce competitiveness pressures.

Right-sizing efforts are projected to reduce total compensation costs by approximately $1.15M in FY27, growing to $1.21M annually by FY31. Over the five-year period, this represents a cumulative savings of $5.97M relative to unadjusted total compensation projections. As a share of total compensation, savings remain in the range of 2.8% to 3.1% across the projection period.



Details by Fiscal Year

	FY 27	FY 28	FY 29	FY 30	FY 31
Total compensation	$36.66M	$37.99M	$39.40M	$40.98M	$42.62M
Revised total (after savings)	$35.51M	$36.81M	$38.19M	$39.76M	$41.40M
Savings	**-$1.15M (3.1%)**	**-$1.18M (3.1%)**	**-$1.21M (3.1%)**	**-$1.21M (3.0%)**	**-$1.21M (2.8%)**

Significant Driving Factors

Several factors are driving this trend, including continued healthcare inflation, pension and retirement cost increases, wage pressure within an increasingly competitive labor market, overtime demands in critical service areas, and the broader challenge of attracting and retaining high-quality employees in local government. These pressures are not unique to Novi and are being experienced across municipalities throughout the region and country.

Wage Compression

A significant factor contributing to the City's long-term compensation outlook - particularly within public safety - is the growing issue of wage compression. As labor market pressures have intensified, municipalities across the region have increasingly been required to raise starting wages and entry-level compensation packages to remain competitive in attracting police officers, firefighters, dispatchers, and other critical personnel. While these adjustments are often necessary from a recruitment standpoint, they can create internal compression challenges when newer employees begin to earn compensation levels increasingly close to those of more tenured staff or supervisory personnel.

Over time, this dynamic can create several organizational pressures: it can impact morale and retention among experienced employees who may feel that institutional knowledge, tenure, certifications, or specialized expertise is no longer adequately differentiated within the compensation structure; it can complicate developing future leaders if promotional steps carry insufficient financial distinction; and it can create ripple effects throughout bargaining units as the organization works to maintain internal equity and market competitiveness simultaneously. We are feeling the effects of this dynamic in current labor negotiations.

Strategies to address wage compression for Council consideration may include:

- Periodic compensation and classification studies focused specifically on compression analysis;
- Evaluating pay step structures and promotional differentials within public safety ranks;
- Considering targeted market or equity adjustments where compression risks are most significant;
- Continuing investments in non-compensation retention factors such as workplace culture, leadership development, wellness initiatives, and career development opportunities; and
- Taking a proactive, multi-year approach to labor forecasting to avoid larger corrective adjustments in future years.

Experience Gap and Retirement Wave

Like many public sector organizations, Novi is navigating a gradual but meaningful generational transition in the workforce. As experienced employees retire or near retirement eligibility, the organization faces the dual challenge of retaining institutional knowledge while recruiting and developing the next generation of public servants.

This dynamic creates both operational and financial pressure. Recruitment and onboarding costs increase, training timelines lengthen, and departments may temporarily operate with less experience depth. In public safety specifically, replacing a long-tenured employee is not an immediate one-for-one transition - it often requires years of training, mentorship, certifications, and field experience before the organization fully recaptures that expertise level.

Position Management and Vacancy Savings

A key assumption reflected in the attached projections is the elimination of ten vacant positions that were previously authorized but have since been removed following operational review. These adjustments generate approximately $1.1 million in annual ongoing savings and are reflected throughout the five-year outlook in the Revised Total column, reducing projected personnel cost growth from approximately 16.2% to 15.9% over the five-year period.

Importantly, these savings were achieved through vacancy management and organizational review rather than workforce reductions. As positions became vacant, departments evaluated workload impacts, service delivery requirements, process improvements, and organizational priorities before determining whether the positions remained necessary to support operations.

What the Projections Assume (and Do Not Assume)

The attached projections illustrate the City's current trajectory based on existing information and reasonable planning assumptions. They are not intended to predict future budgets with precision, nor do they reflect future policy decisions that may be made by Council.

The projections assume continuation of current service levels and staffing models, anticipated wage and benefit cost trends, and known contractual obligations where applicable. Actual results will vary based on future labor agreements, healthcare cost trends, staffing decisions, economic conditions, and Council priorities.

To provide additional context, the projections do not currently assume:

- Significant service expansions or new City programs;
- Major staffing increases beyond currently authorized positions;
- Significant economic downturns or reductions in taxable value growth;
- Major changes to healthcare plan design or employee cost-sharing structures; or
- Organizational restructuring, technology investments, automation initiatives, or other operational changes that could reduce future personnel cost growth.

As a result, the projections should be viewed as a baseline planning scenario. Future strategic decisions made by Council and Administration may either increase or reduce projected costs depending on community priorities, service expectations, workforce needs, and organizational improvement efforts.

The Shift from "Adding Staff" to "Adding Capacity"

Historically, organizational growth was often measured through staffing increases. Moving forward, the City needs to increasingly focus on expanding organizational capacity through process modernization, technology, automation, regional partnerships, and operational redesign rather than relying solely on additional personnel. We've already introduced this shift as part of the administration's strategy to address budget constraints in the coming years.

This does not eliminate personnel cost pressures, but it changes the conversation from "How many positions do we add?" to "How do we sustain service expectations in the most efficient and resilient way possible?" Investments in technology may require more upfront cost, but can help moderate long-term staffing growth and administrative burden over time.

Leadership and Culture Investments as a Fiscal Sustainability Strategy

An important component of the City's long-term workforce and financial sustainability strategy is continued investment in organizational culture, leadership development, and employee engagement. While these efforts are sometimes viewed separately from traditional budget discussions, they are increasingly tied to the City's ability to recruit, retain, and develop high-performing employees in a highly competitive labor market.

Across local government, compensation alone is no longer the sole driver of retention. Employees increasingly prioritize workplace culture, leadership quality, professional development, flexibility, trust, and overall organizational health. As a result, initiatives such as Novi Drive - our High Performance Organization (HPO) model - should be viewed not only as a culture initiative, but as a long-term fiscal sustainability strategy. Strong organizational culture and leadership help reduce costly turnover, strengthen succession planning, and increase the organization's ability to adapt during periods of operational or financial pressure.

Strategic Foresight: Connection to Novi 2050

This discussion also closely aligns with the broader objectives of the Novi 2050 Strategic Plan. One of the plan's core purposes is to help position the City to remain adaptable, resilient, and financially sustainable amid long-term demographic, economic, workforce, and service-delivery change. As part of that work, the City is evaluating not only what services and infrastructure the community may need over the next 25 years, but also what type of organization will be required to successfully deliver them.

In that sense, initiatives such as Novi Drive, innovation efforts, succession planning, and continuous improvement work are directly connected to the long-range vision of Novi 2050. Building a high-performing, future-ready organization is essential to the City's ability to respond to evolving community expectations, maintain service excellence, and navigate long-term fiscal and workforce pressures.

Recommended Next Steps

Rather than viewing these projections as a call for any single corrective action, staff recommends a balanced, multi-year approach focused on:

- Continuing to evaluate staffing models, organizational structure, and service delivery expectations to ensure resources remain aligned with Council priorities;
- Reaffirming our commitment to investments in retention, workplace culture, leadership development, and employee engagement to reduce turnover and long-term recruitment costs;
- Strategically leveraging technology, automation, artificial intelligence, and process modernization to increase organizational capacity and efficiency;
- Monitoring wage compression and compensation competitiveness through periodic market reviews and workforce planning efforts;
- Evaluating long-term healthcare and benefit plan strategies in partnership with employees and bargaining groups;
- Continuing to identify operational efficiencies, process improvements, and cost recovery opportunities where appropriate; and
- Incorporating long-range workforce and compensation planning into future budget development and strategic planning discussions.

Conclusion

Personnel costs will continue to represent one of the City's most significant operating expenditures over the next five years and beyond. While these costs reflect investment in the workforce that delivers critical services to residents and businesses, they also underscore the importance of continued organizational innovation, operational efficiency, workforce planning, and long-range financial stewardship.

The five-year compensation and benefits outlook should therefore not be viewed in isolation, but rather as one component of a broader long-term strategy focused on organizational sustainability, talent retention, service delivery, and the City's continued ability to lead in innovation and excellence well into the future. Addressing these pressures early and thoughtfully will better position the City to remain financially resilient while continuing to attract talented employees and deliver the high level of service the Novi community expects.