

**City of Northville  
CITY COUNCIL  
WORK SESSION MINUTES  
February 8, 2018**

Mayor Roth called the work session meeting to order at 7:00 p.m. in the Northville City Hall Council Chambers, 215 West Main Street, Northville, Michigan.

**CALL TO ORDER/ROLL CALL**

**Present:** Mayor Ken Roth, Mayor Pro Tem Nancy Darga (arrived 7:08p.m.), Councilmembers Sam Ekong, Patrick Giesa, and Marilyn Price

**Absent:** None

**Also**

**Present:** City Manager Patrick Sullivan, City Clerk Dianne Massa, Finance Director/Treasurer Sandi Wiktorowski, Jaymes Vettraino of Vettraino Consulting, John Kaczor of Municipal Analytics, Cheryl Gregory of Spalding DeDecker, and one citizen.

**CITIZEN COMMENTS**

None

**APPROVAL OF AGENDA**

**Motion Ekong, seconded by Price** to approve the agenda as presented. **Motion carried unanimously.**

**FINANCIAL PLANNING CONSULTING SERVICES WORKSHOP**

In October 2017, City Council approved a proposal for the Financial Planning Consulting Services project to the team of Vettraino Consulting, and Municipal Analytics. The scope of work is to analyze the areas that Staff identified as concerns, provide different funding mechanisms and their long-term impact, and deliver a comprehensive report to City Council.

The project goals were to identify and analyze significant future capital costs, liabilities, and other expenditures; identify revenue options; develop a model that integrates identifiable expenditures and revenue data; and provide an analysis to assist the City in its consideration of investment and revenue generating options.

Phase 1 (Preliminary Assessment and Refining of Objectives) of this project is complete. Jaymes Vettraino of Vettraino Consulting, and John Kaczor of Municipal Analytics were present to introduce their findings from Phases 2 and 3 (Analysis of Current and Projected Conditions with Available Data; Development of Additional Data and Analysis) and to facilitate a discussion with City Council regarding prioritization of fiscal options. Cheryl Gregory of Spalding DeDecker was present to respond to questions pertaining to streets.

It was explained that the Northville Financial Model is a custom Model, developed specifically for Northville, utilizing Administration's budget forecasts. It can be used for longer-term financial planning, allow for early warning of potential challenges, and test impact of policy ideas. It is not a static report and, instead, is a tool that will be updated throughout this process, and for future use. The Model is not a budget or a plan. Outcomes are expected to change based on external variables and City Council decisions.

*(Councilmember Darga arrived)*

The presentation outlined the preliminary findings. During the presentation and dialogue, the Consultants used the financial projection tool to test different scenarios and their financial impact.

#### General Fund Millage:

- The Base Financial Model assumes the City will continue to levy the maximum millage allowed, adjusted by the Headlee rollback. The Base Model does not include a Headlee override, but has been developed to test this policy option.
- Multiple millage options were considered. The City's legal counsel confirmed that a Headlee override vote is required for any change to the General or Street millage.
- Discussion ensued on the General Fund millage options, the assumptions used for tax analysis and growth, and the impact of a Headlee override on various budget scenarios. The City would need to consult with the bond attorney for ballot language options.
- Explanation of the mechanics of Headlee was given and how it impacts the City's millage levy capacity.
- Other types of millages the City may levy that are not subject to Headlee include Debt, Garbage, and Library.

#### Street Improvements:

- The City's engineering firm developed a 10-year capital projects plan for the street network. The goal is a Network OCI (Overall Condition Index) of 5.75.
- Scenarios to achieve that goal include: 1) Increasing the streets millage to generate an annual \$950,000 (1 mill additional millage); and 2) Bond debt of \$3M for street investment (voted millage of 1.4 mills).
- Further explanation was given regarding the process and parameters used to rate street conditions, the average OCI for roads in Michigan, how PASER ratings and other tools are used to analyze road conditions, deterioration curves, and integrating this rating with "miles driven per road."
- The goal is to reconstruct certain roads and rehabilitate fair condition roads to slow the overall rate of road deterioration.
- The Street Capital Improvement Model accounts for design, construction, project administration costs, contingency, and inflation. The Model also accounts for three water main projects as there is a cost savings to doing those upgrades as part of the street improvements.
- Given was further explanation of the algorithm parameters and the software program used in each Model to determine the funding needed.
- Council should consider discussion about the quality of utility road cut repairs, delay repaving roads when new construction projects are proposed, consider an ordinance to restrict road cuts for a specified period after a road is reconstructed (to preserve road).
- A request for the report to include a map with color segments and OCI ratings to give a view of what that type of road looks like. Maps must show the immediate benefit of doing many roads at once to get to the 5.75 OCI.
- A request was made to include a color-coded street map to show good/fair/poor road ratings and how the map changes each year as more streets are improved or rehabilitated.

Pension Liability:

- The State of Michigan requires a 60% funding for pension liability, and the City meets that funding requirement (currently at 61%).
- MERS calculates the City's pension funding obligation, and the impact additional funding may have. The analysis recommends the City request calculations from MERS on the impact of funding the pension at a 90% and 100% level. The Base Model includes a funding scenario at 95%.
- Pension bond debt is an option to reach 100% funding. If bonds are issued, it is recommended that funding be less than 100% to stop the residents from questioning "why" there is a MERS bill when the City bonded to fund the pension 100%.
- Pension bonds are not a voted bond. The debt has a fixed payment obligation that must be repaid. A budget contingency is also suggested in case MERS sends a revised bill. This scenario has happened to other municipalities that bonded to fund at 100% only to have MERS revise the Actual Required Contribution (ARC), which reduced the funding level below 100%.
- There is a potential that the debt payment, contingency and required contribution to fund the pension to the 90/100% level could be less than the City's recent contribution level of \$1.3M per year.
- The second option is to continue to self-fund by paying the ARC and continuing to apply additional payments. It is possible to reach 100% funding by continuing to pay the ARC and applying additional contributions. There is concern the ARC could increase enough to not allow the City to make the additional contributions.
- Explanation of ARC and how MERS determines the City's ARC funding level was given. The ARC will always be there even if the pension is 100% funded, as it is an annual cost. Once funded 100%, City would need to decide if it should overfund the pension (i.e. 125%).
- A need for further analysis of bonding versus additional contributions, and which option will ultimately save the City the most money. Not bonding leaves flexibility to move that money elsewhere if needed. Taking on debt eliminates flexibility due to the monthly payment for the length of the bond. Which scenario saves the most money?
- What must be determined is what amount of debt load is appropriate for a city the size of Northville.
- The City has 10 years to get to 100% funding, then its payment obligation greatly reduces. Surplus funds could go to OPEB (Other Post-Employment Benefits) or another obligation.
- City Council will need to decide its strategy and goals, and adopt a policy to meet those goals.
- It was recommended that City Council adopt a formal pension funding policy.

Other Post-Employment Benefits (OPEB):

- The State of Michigan requires a 40% minimum funding level for OPEB, and the City meets that funding requirement (currently at 43%).
- OPEB funding is a lower priority. There is no benefit to the City to make double-payments to OPEB to be 100% funded in ten years.
- The recommendation is to continue funding OPEB to meet its ARC until the law changes the minimum obligation. There is more flexibility with OPEB funding and this is seen as less critical than the pension liability. Focus should remain on the unfunded pension liability provided OPEB remains funded above 40%.
- Additional City funds could focus on the Pension (funding or bond repayment) or other priorities.
- After the pension bond is paid, the debt service expenditures could be redirected to significant overfunding of OPEB annual requirements.
- Explanation was given on the current number of active employees that will receive retiree healthcare. Although the plan closed in 2008, there are still active employees that will receive retiree benefits. The City improved its OPEB liability when it moved its retirees from Blue Cross to United American (reduced the OPEB liability by 2/3's).

- Analysis is needed for the option of rebalancing the City's portfolio and taking additional funds marked for OPEB and applying it to the unfunded pension liability. This could bring the pension closure rate down to six years or allow for a bond that could be paid back earlier.
- It was recommended that City Council adopt an OPEB formal funding policy.

Water and Sewer Fund – Rates and Capital Improvement Projects (CPI):

- The Base Model includes a high-level rate analysis. Smoothing of rates over five years may be more favorable than setting rates based on cash needs each year. The fixed charge component of the rate should be set to recover a higher portion of fixed costs.
- Recommended rates include CIP costs, operation and maintenance costs, and a 5% water rate increase from Great Lakes Water Authority.
- The Base Model also includes funding for three significant water and sewer infrastructure projects as projected by the City. Contingency is included as the original water mains may be wood or clay. The projects would coordinate with the streets infrastructure plan.
- The City should look at funding these improvements through water and sewer rates. Bonding does not make sense in this case. A formal rate study is recommended.
- Smoothing water and sewer rates reduce rate spikes and are preferred by the consumer. Rates should be adopted using a five-year projection. The rates include the CIP costs, operation and maintenance costs, and a 5% water rate increase from the Great Lakes Water Authority.
- The potential liability for the MDEQ Final Abatement Order for the regional sewer system project was not factored in. \$2M is the potential liability discussed 10 years ago. The current cost is likely higher. There have been 10 years of discussion and nothing has happened or been decided. Why charge rate payers when there isn't an obligation.

Water and Sewer Fund - Meter Replacement :

- Meter replacement programs are most effective when done all at once, instead of using a phased-in approach, particularly in cases of technology updates and water loss correction.
- The projected meter replacement costs are estimated at \$1M, based on the data included in the water liability study. A \$1M 10-year bond would have an annual debt service payment of approximately \$115,000.
- The current water and sewer rates include a meter replacement fee that generates \$100,000 annually. The current meter replacement fee would cover most of the bond payment. It was recommended the City consider issuing rate-supported revenue bonds for the meter replacement project.
- It will take one to two years to implement a full meter replacement, including getting debt financing in place, ordering meters and technology, and moving forward with replacement. The calculations should line up with the current meter replacement fee funding plan that is already part of the water and sewer rate structure.
- The meter replacement fee should remain as a permanent fee as meters last about 12-14 years before needing to be replaced.
- New meters should show a reduction in the City's overall water loss.
- It was pointed out that residents will see their measured water use going up. An education campaign and public relations piece is needed. New technology will allow consumers to be more in tune with their water usage. People will adjust their water consumption.
- Using complicated formulas or past-use averaging to ease the impact of increased measured water use was discouraged. Newer meters will be more accurate. DTE faced similar issues when the smart meters were installed.

Fund Balances and General Capital Improvement Plans (CIP):

- The Base Model includes CIP provided by the City. The Parking Fund and Public Improvement Fund are being saved for very specific reasons. Those amounts are included in the funding scheme.

- The City should continue to plan and account for these two significant projects. Depending on time, these funds could be used to internally finance capital projects and avoid debt finance.
- It was requested the report include analysis on the Cemetery Perpetual Care Fund.

Parking Program:

- The City's parking enterprise is accounted for in multiple funds. The Parking Fund is used to save for and complete capital projects. Operational revenues and expense are accounted for in multiple funds.
- The parking system is one of the few potential revenue generating operations of the City. It is estimated the City/Downtown Development Authority (DDA) is investing at least \$100,000 per year on the parking system.
- The Parking Fund is an enterprise fund. The capital improvement projects and all related costs to parking should be accounted for in this fund so that everyone is aware of the cost for parking.
- Recommendations include accounting for all revenue, operations enforcement, maintenance, and capital investment in one single fund, to truly understand the cost of this service.
- City Council should have a policy discussion and decision on parking to determine if this is a service it wants to continue to offer and supplement, or should a fee-based system be considered.
- Administration and the DDA believe there is a need for significant capital maintenance in the parking decks. A study of the condition and estimate of capital maintenance is needed.
- The current fund balance of the Parking Fund could be significantly impacted by the capital needs of the parking decks.
- A comment noting the DDA is concerned with accounting for all parking revenue, which includes DDA revenue, and all expenses into one Parking Fund. The DDA and City Council should have an agreement on the Parking Fund, and how it will be funded and used.

Other Items:

- Significant operational adjustments and efficiencies were made using the recommendations of the 2010 Citizens' Budget Committee.
- An updated cost allocation formula for calculating overhead will be provided. It is a more complex process than what the City currently uses, but will provide greater transparency and justification of charges. This is an opportunity to bring more money back to the General Fund from the Enterprise Funds.
- The General Fund currently budgets DPW and Police services for "civic events." All related special events costs should be accounted for on a real case basis. City Council should have a policy discussion on cost recovery for special events and how much the City wants to supplement the costs of non-profit and for-profit special events.
- Other funding options not included in the Base Model include: 1) All fees should be reviewed and adjusted every one to three years, 2) Increase cemetery fees to come closer to covering costs, 3) Special assessment to fund public safety, and 4) Levy a storm water drainage district charge to fund storm water utility. These are not recommendations, but rather point out other revenue powers the City has.
- Consider partnering with a third party for City lighting and energy reduction.
- Review dispatch costs and consider adding other partners. Is the City paying too much for its dispatch service? The City should solicit a proposal from Oakland County for dispatch services.
- The Model does not include the potential impact of economic development projects as none were close to completion. As the projects come to fruition, the Base Model should be adjusted.

Additional Discussion:

City Council requested analysis of the General Fund balance. Is it at an appropriate level? What would be the impact if it was reduced?

City Council also requested analysis of the bond and millage options versus expenses. What is the return on investment, dollar for dollar, for each of these investments? What provides the biggest bang for the buck?

It was also request that the report include sustainability options. The Consultants noted that an energy coalition will be one of the recommendations.

The Consultants will come back with a draft report for Council review and comment. They were open to a second meeting if needed. Once Council comments are incorporated into the draft, a final report will be presented at a Council meeting.

Final comments from the Consultants noted that, overall, the City is in a good position compared to most communities. Headlee and tax limitations are the largest hurdle. Roads have a debt option and payback. The pension is already being overfunded. The City could continue to overfund or fund at a lower level. The Water and Sewer fund can fund a water meter replacement program. Data will lead to a pension or roads question.

City Council comments questioned if a \$1M road debt is reasonable. It was pointed out that this is half of what was presented to the voters in 2015. Additional comments from Council noted that more discussion is needed. If City Council decides to go to the voters, the entire Council needs to support the measure. It cannot follow the path of the failed 2015 millage proposal. There needs to be a citizens' campaign to support and advocate any ballot proposal. City Council and Administration will need to work together to advocate. The City should follow the lead of the school district's recent success in getting a \$100M bond passed by the voters.

**Mayor and Council Comments** None

Being no further business to come before Council, the meeting was adjourned.

**Adjournment: 9:45 p.m.**

Respectfully submitted,

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Dianne Massa, CMC  
City Clerk

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Ken Roth  
Mayor

Approved as submitted: 3/5/18