

Dollars and Sense

How City of Kalamazoo Spends Your Money

2012 Citizen's Guide to
City of Kalamazoo's Financial Health
Presented by
Kenneth P. Collard, City Manager

KEY TERMS

- **Budget deficit/surplus.** If there is less money received than paid out in a given fiscal year, there is a budget **deficit** or shortfall. If there is more money received than paid during the fiscal year, a budget **surplus** exists.
- **Debt.** Just like a homeowner takes out a mortgage, governments can borrow money to pay for certain types of projects. The state has both short-term debt (paid back within the fiscal year) and long-term debt. Debt can be either **general obligation** debt, meaning that the state pays back the debt with regular tax collections and other revenues, or **special revenue** debt, which is paid off over time with revenue from specified sources beyond the usual taxes and service fees.
- **Fiscal year (FY).** The 12-month period of time during which budgets are allocated or finances are planned. Most households have a fiscal year that runs from January 1 to December 31 (that's the period for which we pay personal income taxes in April), while state government uses an October 1 - September 30 fiscal year. Some local units of government, including public schools, use a July 1 - June 30 fiscal year, while others operate on a typical calendar year.
- **Fund balance.** Once all the bills for the year have been paid out of a certain fund, whatever is left over is called the fund balance. When a fund balance is less than zero, you'll see the number shown with parentheses around it. Deficits cause fund balances to decrease, while surpluses cause them to increase.
- **Public budget gap.** A novel measure, similar to the deficit, used to measure the extent to which a government is falling short of covering its current and long-term obligations in a fiscal period. The budget gap takes into account the budget deficit, as well as any new obligations that the government has failed to cover such as **employee pensions or retiree health care**.
- **Reserved/Restricted funds.** Some funds are considered to be "reserved" or "restricted" for a specific purpose, and cannot be spent for anything else.

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Greetings,

The City of Kalamazoo is proud to present this 2012 Citizen's Guide to the City of Kalamazoo's Financial Health. This report pulls together data sources from the City's budget and audited financial reports, as well as internal and external data sources regarding the community's physical, educational and economic health, as well as its capacity to support the fiscal health of the City and its public service delivery demands.

Under the leadership of our new Governor Rick Snyder, this report has been developed and implemented as a way for citizens to better understand the City's scope of activities, financial obligations, and fiscal health. Citizens have a rightful expectation that the City will do everything it practically can to maintain high-quality public services, while minimizing the requirements for financing these services in the form of taxes and fees on citizens.

Citizens are invited to be aware of the facts surrounding these issues and to make informed judgments about the proper fiscal direction of the City, in the context of prioritizing service delivery. It goes without saying that the proper translation of these issues and the relevant data maximizes the opportunity for citizens to be knowledgeable and engaged, even if engagement comes only by making an effort to be intelligently informed.

This report is also vital in the translation of information and perspective for decision-makers in Lansing. For example, the Governor and the Legislature will soon contemplate the redesign of Statutory Revenue Sharing, which for many years has been a State Budget line item split up among local governments by formula. Governor Snyder will unveil in March his administration's proposed new criteria for distributing these funds. This report will undoubtedly assist his administration and our legislators in understanding the potential impacts of any proposed changes.

It goes without saying that the Citizen's Guide, having been promoted by the Governor's Office, is an ideal tool to communicate our financial and public service priorities effectively to the Governor's Office and to our legislative partners.

I am grateful for the support of City staff and the City Commission in making this report possible.

Sincerely,

Kenneth P. Collard, P.E.-ICMA
City Manager
City of Kalamazoo

WHERE CITIZEN DOLLARS GO

In 2012, the City of Kalamazoo is budgeted to collect \$133 million in revenues to provide services to its residents. Property tax collections would provide \$34 million of these resources, the Federal Government would distribute \$14.7 million in the form of block grants and transportation funds, and the State of Michigan would return \$21.5 million in the form of state revenue sharing, gas & weight taxes, transportation funds and other miscellaneous grants and reimbursements. Licenses, permits and fees are generated to offset most of the cost of building and housing inspections and recreational programming, to cite the most prominent examples. User charges and fees are also collected to provide utility and transportation services.

SERVICES THAT THE CITY OF KALAMAZOO PROVIDES

Police and Fire protection

The Mission of Kalamazoo Public Safety is to provide a safe community for our citizens. The mission includes the maintenance of order, the promotion of fire prevention and crime prevention programs, the investigations of crimes leading to the apprehension of perpetrators, the recovery of property and the providing of emergency medical services.

Street maintenance and improvements

The Public Services Department provides a variety of street repair and maintenance activities including pothole patching, street resurfacing and construction, repair of hazardous or deteriorated drainage structures, shoulder grading, replacement of curb and gutter and 24 hour Major Street bare pavement response during snow and ice season events, storm sewer repair and maintenance, pavement painting and marking, replacement of street signs, and maintenance of traffic signals.

Parks and Recreation

The vision of the City of Kalamazoo Parks and Recreation is to create a community of neighborhoods where people live, work and play. This is done by being good stewards of the environment, providing dynamic parks, trails, and recreation programs for all citizens, and by promoting youth development initiatives in support of healthy families.

Community Planning

The Planning Division is responsible for the implementation and enforcement of the city's zoning ordinance and administers citywide land use policy. The division has recently completed the master land use document, Plan Kalamazoo, and will work to implement the ideals put forth in the document.

The Division works with the Planning Commission, the Historic District Commission, Historic Preservation Commission, Site Plan Review Committee, the Downtown Design Review Committee and our city's neighborhood associations as technical support and as a professional planning resource. Our goal is to make a reality the collective community wisdom that went into the creation of Plan Kalamazoo and to continue to improve the quality of life for all stakeholders.

Economic Development

The Economic Development Department implements programs and provides services integral to achieving the goals of the city's Economic Development Strategic Plan. Staff assists in the retention, growth and attraction of business and industry by building relationships with employers, and by anticipating/responding to their needs. Staff's expertise in the use of incentives such as gap financing, tax exemptions and tax credits, land assembly and linkages to workforce development resources is utilized to preserve/enhance tax base and create jobs in the city. The division works with federal, state and local development organizations/agencies to address community reinvestment, job creation, job retention, brownfield redevelopment and riverfront redevelopment. The division provides staffing support to the Brownfield Redevelopment Authority, Economic Development Corporation and Local Development Finance Authority.

Solid Waste

The Public Services Department provides a variety of solid waste collections including fall leaves, brush, monthly bulk trash collection and residential recycling collection. Also provided is the opportunity for residents to dispose of freon-bearing appliances and household hazardous waste. Activities performed also improve the appearance and cleanliness of City streets through street sweeping and clean-up of scattered illegal dumpsites.

Public Works

The Public Services Department provides a variety of Public Works services, including sidewalk replacement, maintenance of the City's urban forest, and maintenance of the City's Central Business District.

Utilities (Wastewater and Water)

The Public Services Department provides an environmentally sound, convenient and continuous wastewater disposal service to the public by adequately transporting and treating the wastewater generated in 17 municipalities throughout the Kalamazoo area. Service is provided at a reasonable cost, making certain that the customers receive highly responsive service, quality potable drinking water and wastewater treatment that meets and exceeds existing standards and provides a safe and clean environment.

Cemeteries

The Public Services Department provides a variety of cemetery services including burials, grave maintenance and restorations, and landscape maintenance within Riverside and Mountain Home Cemetery.

Transportation

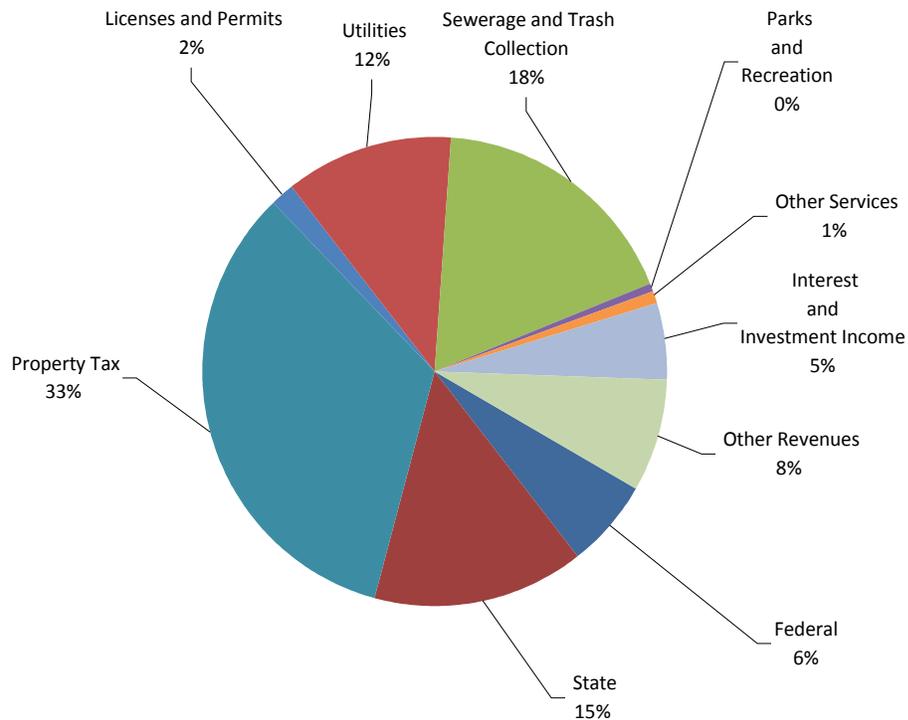
The Transportation Department provides the citizens of Kalamazoo County with public transportation services that are dependable, convenient, safe, cost effective, and accessible for everyone.

GOVERNMENT BUDGETS

Revenues:

FIGURE 1

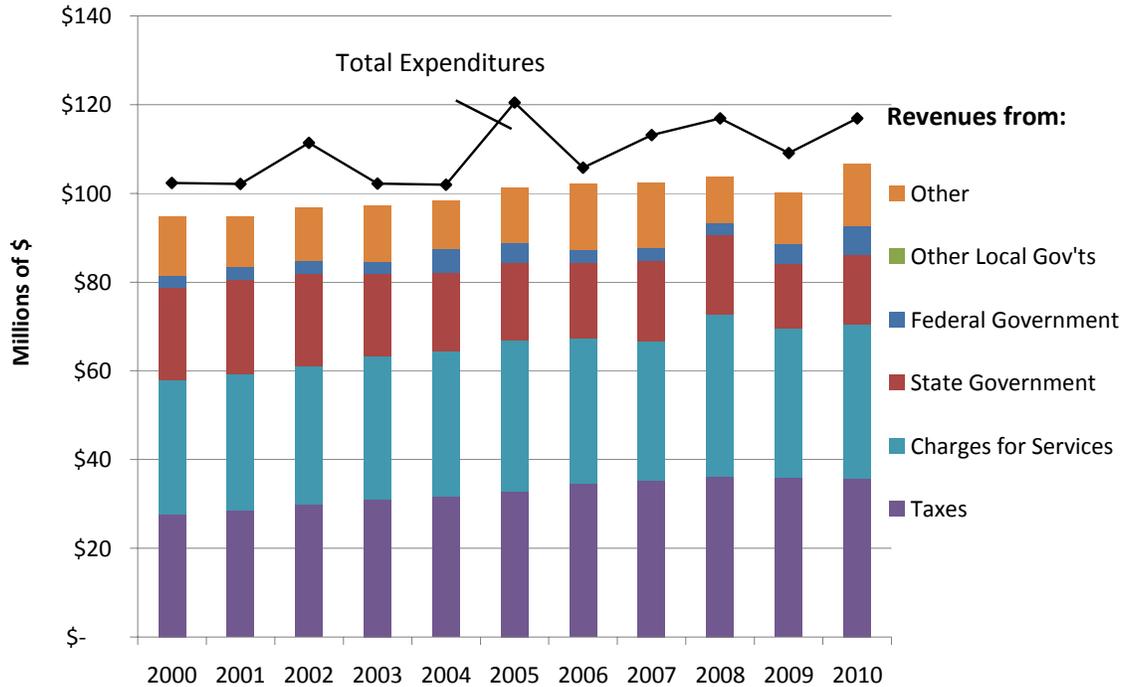
Kalamazoo Revenues, Current Year



The two largest revenue sources, Property Taxes (\$34 million) and Intergovernmental Contributions (State - \$10.5 million and Federal - \$17.7 million) and represent 54% of all estimated resources (see Figure 1). Charges for Services include licenses and permits (\$1.9 million), utilities (\$12.5 million), sewer and solid waste (\$19.2 million). These account for 32% of municipal revenues. The balance of 13% comes from recreation fees, other services, interest and investments and other revenues.

FIGURE 2

Kalamazoo Revenues and Expenditures, 2000 to Current Year



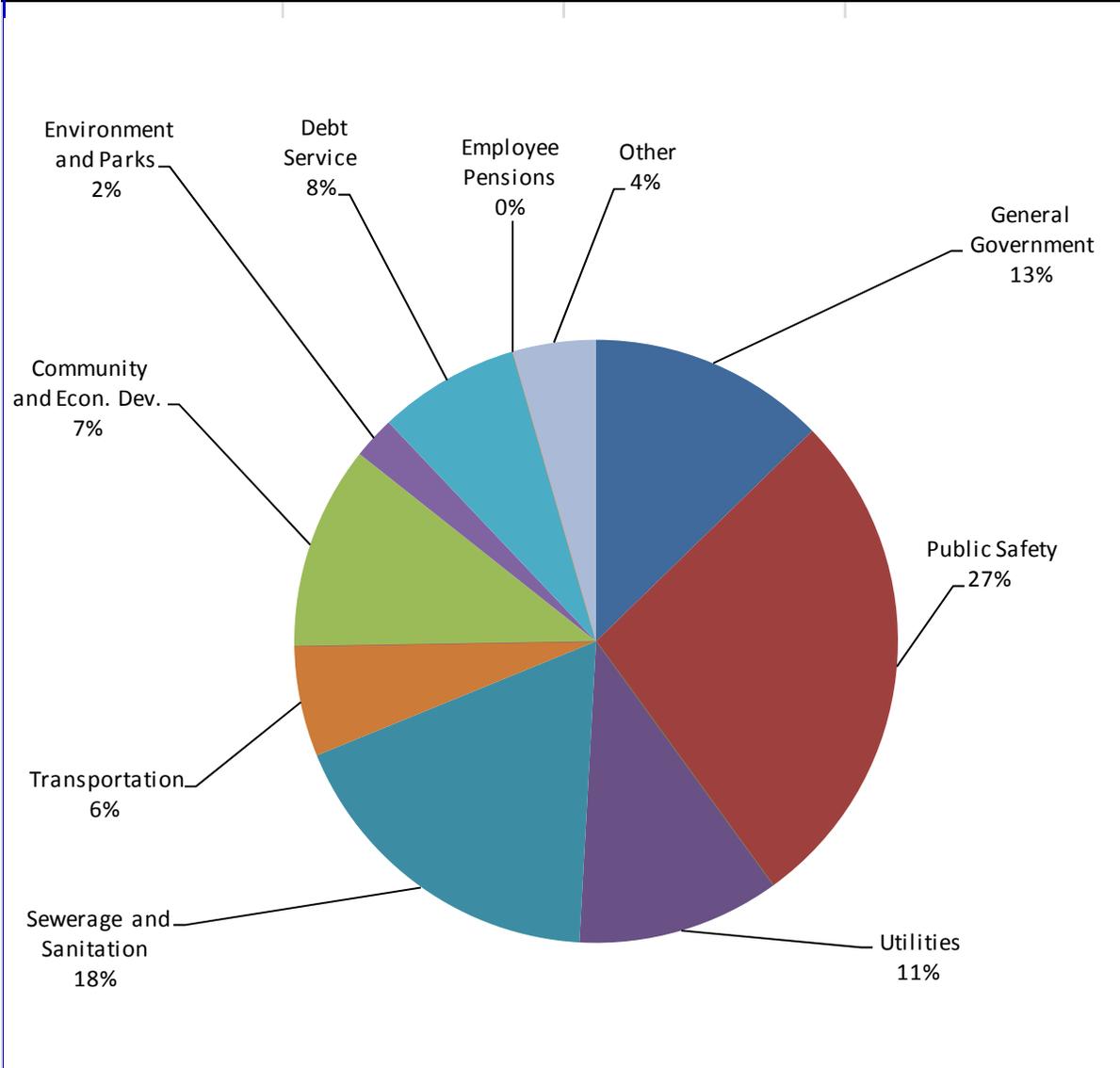
The identified gap in Figure 2 exists because general capital improvements are paid for with bond issuances that are not counted as revenue in this presentation, but rather are considered to be “Other Financing Resources.”

Expenditures are split between the following areas: General Government (\$16.5 million), Public Safety (\$35.5 million), Utilities –Water and Transit services (\$14.1 million) Sewerage and Sanitation (\$23.3 million), Transportation Infrastructure (\$7.7 million) Community and Economic Development (\$14.1 million), Environment, Parks and Recreation (\$2.9 million), Debt Service (\$9.9 million) and Other Expenditures (\$5.8 million).

Expenditures.:

FIGURE 3

Kalamazoo Expenditures, Current Year



Public Safety (Police and Fire) is the largest segment of municipal expenditures representing 30% of the City's expenditures in FY 2011, following closely by sewerage and sanitation at 22% (including wastewater treatment and solid waste operations), and the water utility at 12%.

NUMBER OF GOVERNMENT EMPLOYEES

Personnel	CURRENT - 2011	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total employees (fire, police, admin):	772	950	936	871	872	851	853	848	834	822	782
Total wages:	\$ 45,535,233	\$45,977,594	\$43,258,746	\$43,839,349	\$45,852,621	\$46,663,508	\$45,958,892	\$46,591,670	\$47,404,273	\$47,307,137	\$46,978,199
Total benefits:	\$ 20,258,849	\$11,176,277	\$12,536,846	\$12,070,566	\$15,516,597	\$15,314,804	\$14,720,659	\$16,891,354	\$18,682,056	\$19,572,480	\$18,466,525
TOTAL COMPENSATION:	\$ 65,794,082	\$57,153,871	\$55,795,592	\$55,909,915	\$61,369,218	\$61,978,312	\$60,679,551	\$63,483,024	\$66,086,329	\$66,879,617	\$65,444,724
AVERAGE COMPENSATION:	\$ 85,225	\$ 60,162	\$ 59,611	\$ 64,190	\$ 70,378	\$ 72,830	\$ 71,137	\$ 74,862	\$ 79,240	\$ 81,362	\$ 83,689
AVERAGE WAGES	\$ 58,983	\$ 48,397	\$ 46,217	\$ 50,332	\$ 52,583	\$ 54,834	\$ 53,879	\$ 54,943	\$ 56,840	\$ 57,551	\$ 60,074
AVERAGE BENEFITS	\$ 26,242	\$ 11,765	\$ 13,394	\$ 13,858	\$ 17,794	\$ 17,996	\$ 17,258	\$ 19,919	\$ 22,401	\$ 23,811	\$ 23,614

Personnel	CURRENT YEAR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total employees (fire, police, admin):	782	935	950	936	871	872	851	853	848	834	822
Total wages:	\$ 46,978,199	\$ 41,990,921	\$ 45,977,594	\$ 43,258,746	\$ 43,839,349	\$ 45,852,621	\$ 46,663,508	\$ 45,958,892	\$ 46,591,670	\$ 47,404,273	\$ 47,307,137
Total benefits:	\$ 18,466,525	\$ 10,497,728	\$ 11,176,277	\$ 12,536,846	\$ 12,070,566	\$ 15,516,597	\$ 15,314,804	\$ 14,720,659	\$ 16,891,354	\$ 18,682,056	\$ 19,572,480
TOTAL COMPENSATION:	\$ 65,444,724	\$ 52,488,649	\$ 57,153,871	\$ 55,795,592	\$ 55,909,915	\$ 61,369,218	\$ 61,978,312	\$ 60,679,551	\$ 63,483,024	\$ 66,086,329	\$ 66,879,617
AVERAGE COMPENSATION:	\$ 83,689	\$ 56,138	\$ 60,162	\$ 59,611	\$ 64,190	\$ 70,378	\$ 72,830	\$ 71,137	\$ 74,862	\$ 79,240	\$ 81,362

DIFFERENCE IN PUBLIC AND PRIVATE SECTOR COMPENSATION

FIGURE 4

Average Employee Compensation in Michigan

	Wages	Benefits	Total Compensation	Total Employment	Avg. Compensation
Private Sector			\$ 355,374,501,000	5,143,146	\$ 69,097
State Government	\$ 8,573,814,660	\$ 2,419,170,340	\$ 10,992,985,000	144,921	\$ 75,855
Local Governments	\$ 16,274,251,332	\$ 6,005,240,668	\$ 23,374,085,000	311,657	\$ 74,999
Kalamazoo	\$ 45,535,233	\$ 20,258,849	\$ 65,794,082	772	\$ 85,225

Avg. Annual Compensation (in nominal \$):

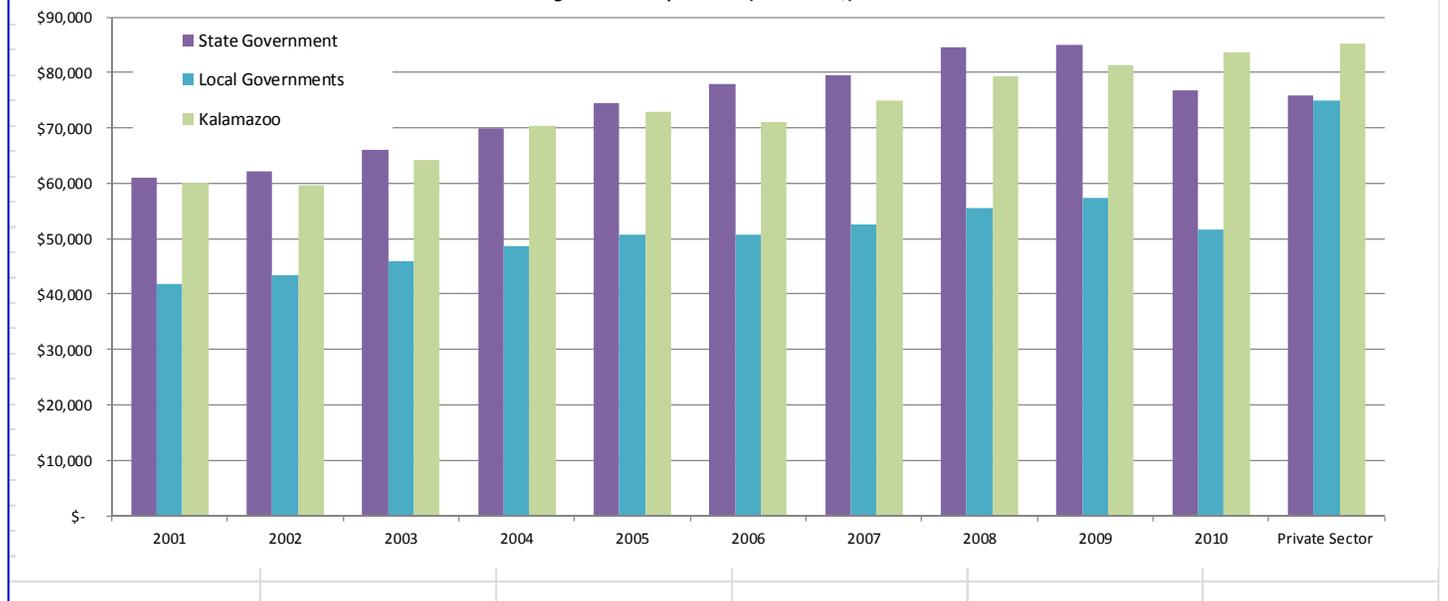
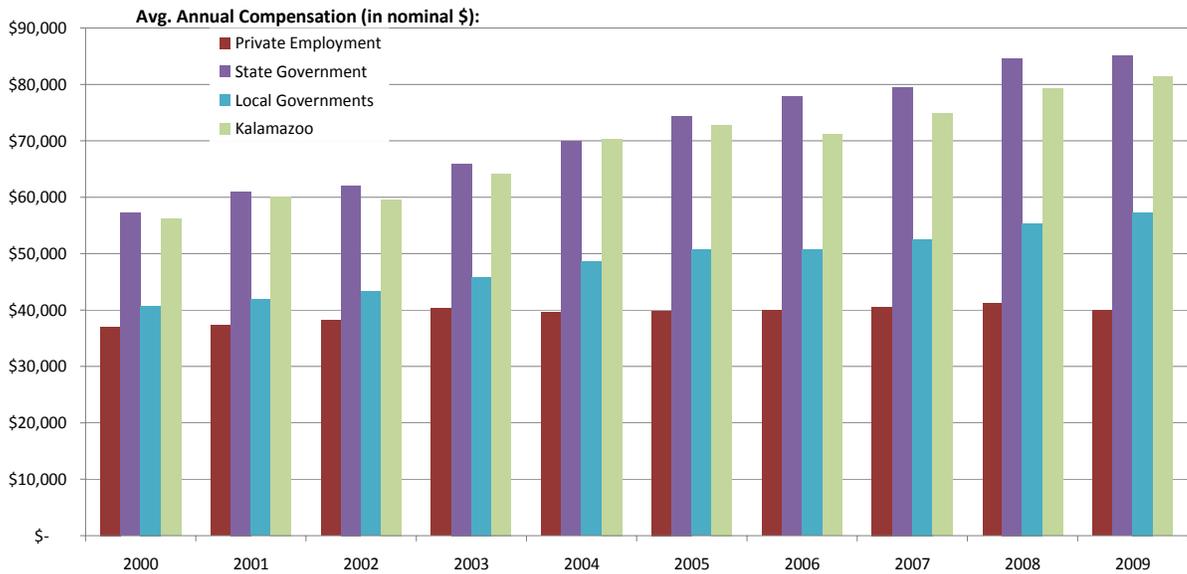


FIGURE 4**Average Employee Compensation in Michigan**

	Wages	Benefits	Total Compensation	Total Employment	Avg. Compensation
Private Sector, 2009	n/a	n/a	\$ 171,914,760,000	4,299,412	\$ 39,986
State Government, 2009	\$ 2,763,466,647	\$ 1,634,877,477	\$ 4,398,344,124	51,699	\$ 85,076
Local Governments, 2009	n/a	n/a	\$ 23,374,085,000	407,693	\$ 57,333
Kalamazoo, Current Year	\$ 46,978,199	\$ 18,466,525	\$ 65,444,724	782	\$ 83,689

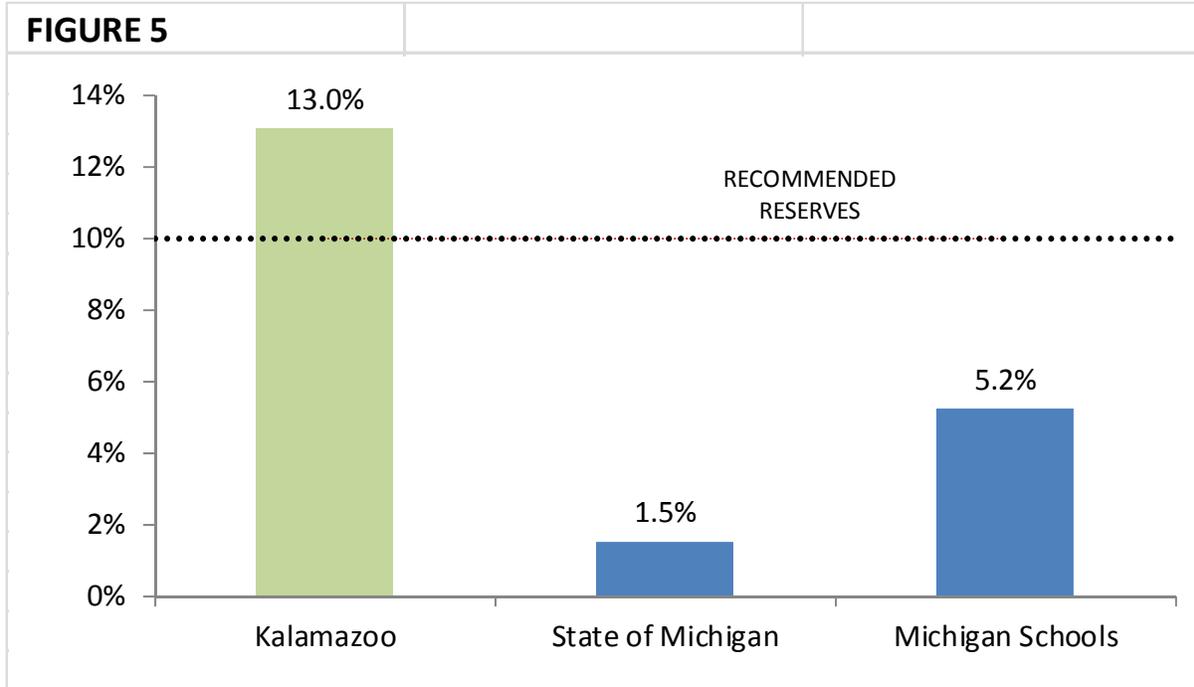


See Source notes on "Instructions A-D" tab for private sector, state government, and local government compensation sources.

The average total compensation of the City of Kalamazoo employees over the past 10 years has increased an average of 4% per year.

Over the past 6 years, the City has implemented a policy to establish a 20% share of total health care costs for employees through collective bargaining with its 5 employee bargaining units, and also administratively with its non-bargaining employees. This initiative has been an overwhelming success, generating cost savings of over \$17 million for the City from FY 2005 through FY 2010 for providing self-insured employee health care.

RESERVES AND MAJOR FUND BALANCES



The City of Kalamazoo fund reserves are significantly more than the state of Michigan's reserves, representing three months of expenditures in reserves or 15% of net equity.

Based on the recent volatility of property taxes and other revenues, reserves have been scaled to smooth the transition to the "new normal" through permanent structural rebalancing. Roughly 3/4^{ths} of the City's reserves are used for ongoing operations and capital reinvesting in enterprise activities (wastewater, water and transportation).

DEBT LEVELS

FIGURE 6

Kalamazoo Long-Term Debt, 2000-2010

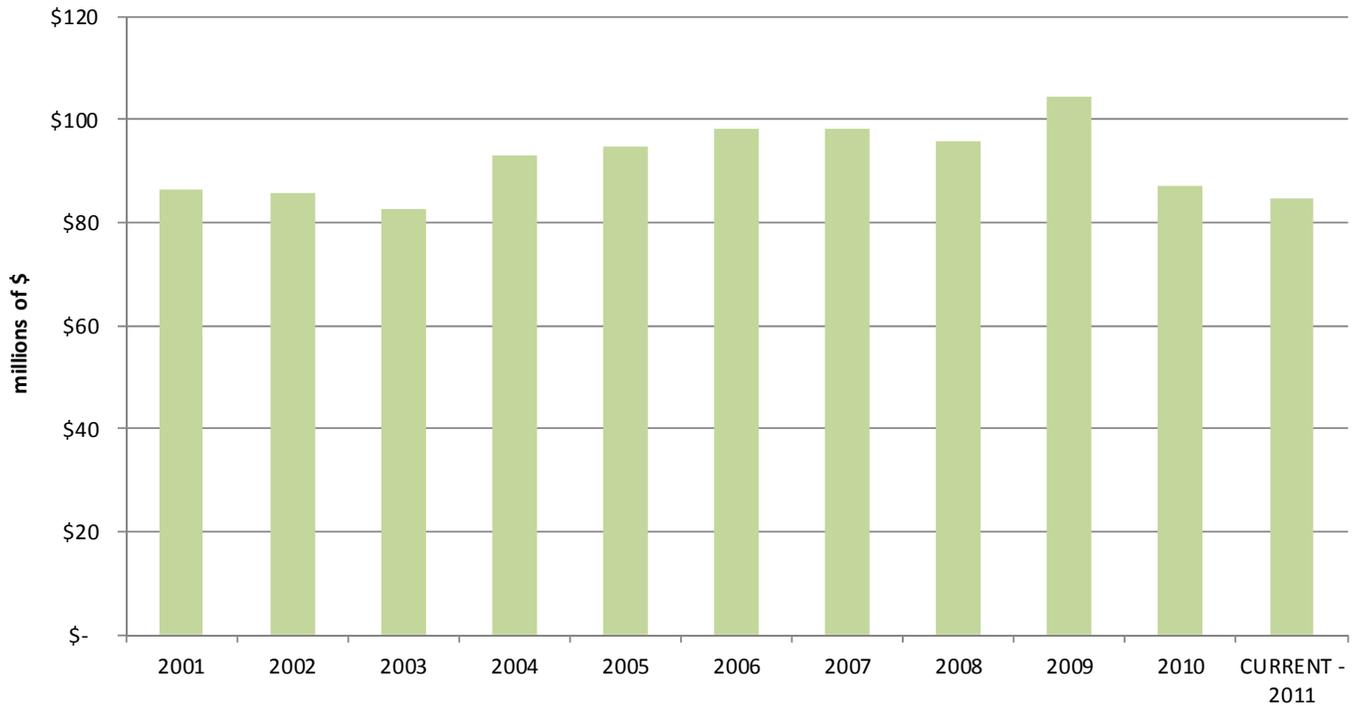
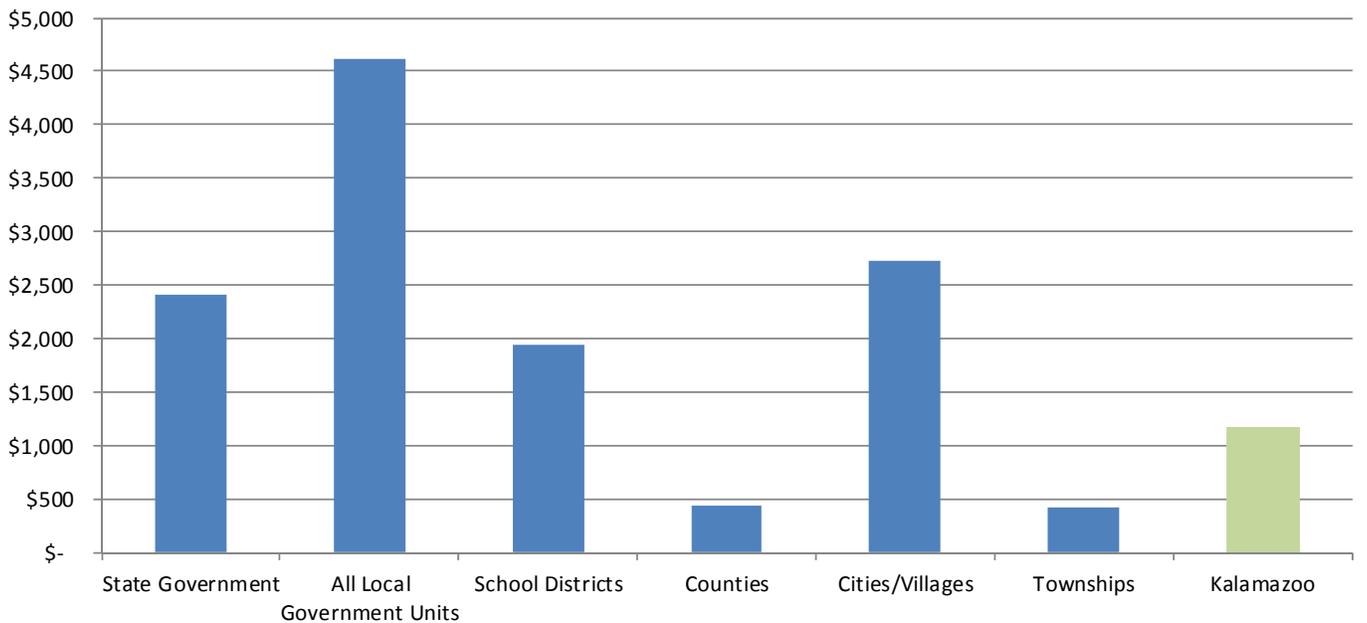


FIGURE 7

Debt Per Capita



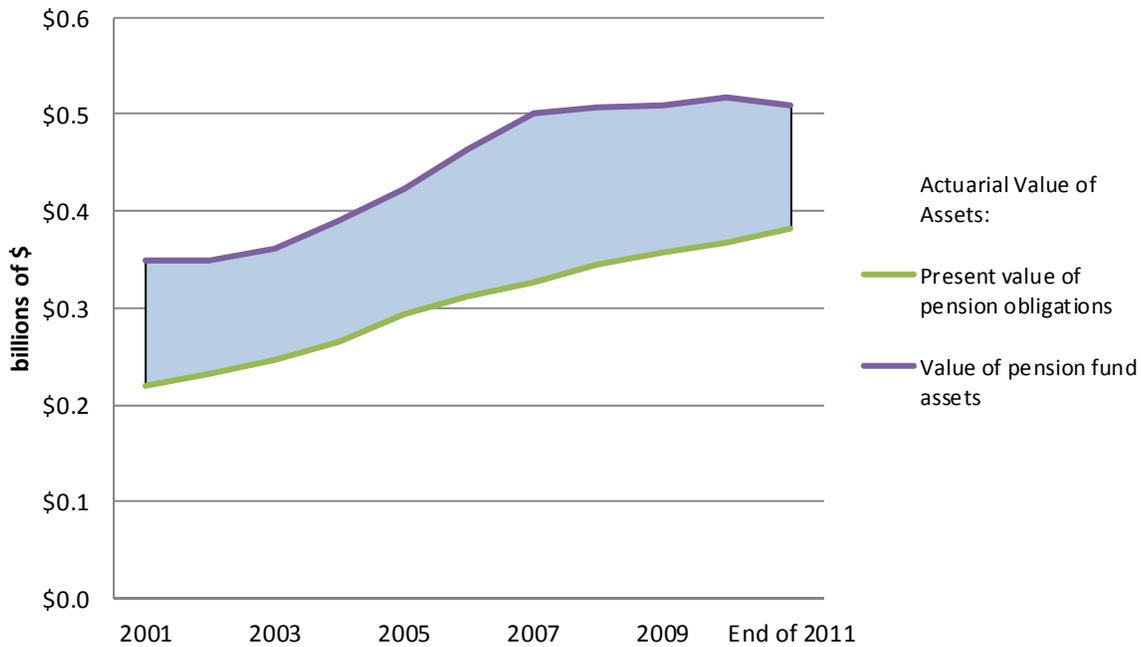
The long term debt used by the City of Kalamazoo is mostly dedicated to infrastructure and equipment (roads, busing, wastewater, water and public spaces), and is paid with existing tax collections and fees for services.

Another type of debt known as “Revenue Bonds” are issued for enterprise activities like water, wastewater, busing and golf courses that generate revenues through user fees, Tax Increment Finance Authorities (such as the Downtown Development Authority) or Special Assessment Districts, which tax individual properties for projects that benefit them directly. The amount owed by Kalamazoo’s citizens is close to half of the state average for cities and villages.

PENSION AND OTHER RETIREE BENEFITS

FIGURE 8

Kalamazoo Pension Fund Status



Percent of Full Pension Funding...

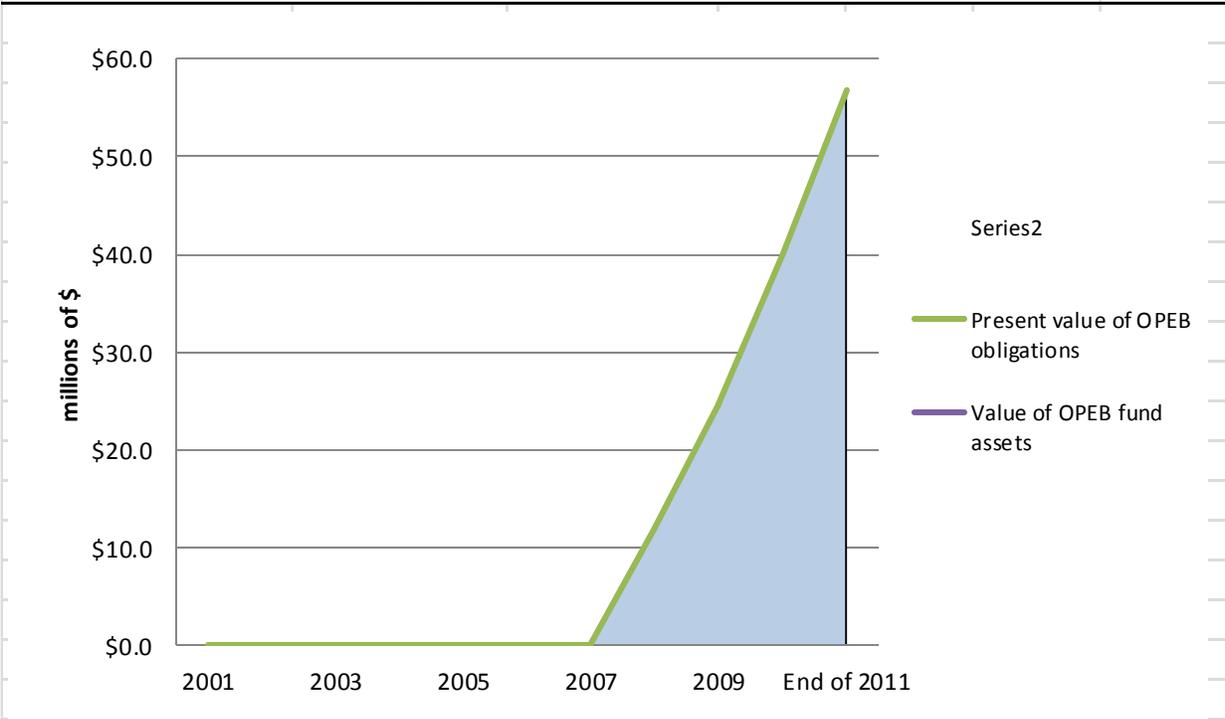
Last Year	133.9%
Last 5 Years	143.1%
Total Unfunded Pension Liabilities	\$ (129,129)

The pension system in the City of Kalamazoo is fully funded as indicated in the graph. The Pension Trust Fund realized its nadir in March 2009, when its assets were valued at \$283 million. A sustained recovery has resulted in a December 31, 2011 balance of \$510 million, as compared to an estimated liability of \$380 million, making the City’s pension system one of the top-funded systems in the State.

The pension fund is managed by the Retirement Investment Committee, a group of prominent investment expert volunteers. The pension system’s investments have performed incredibly well since the Committee’s inception in 1982, averaging over 12% real rate of return. Since 1997, the city has made no contributions to the retirement investment pool and has been able to control costs by adopting new strategies for retirement benefits offered to new hires and strict limitations on benefit enhancements at the bargaining table with labor groups.

FIGURE 9

Kalamazoo Other Post-Employment Benefit (OPEB) Fund Status

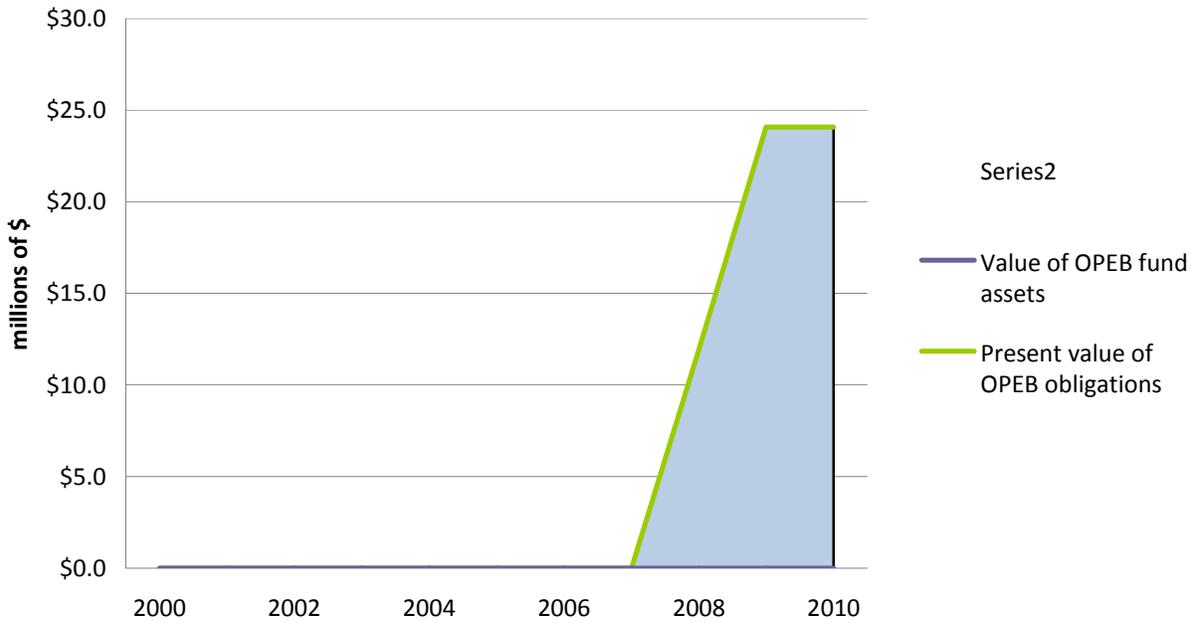


Percent of Full OPEB Funding...

Last Year	28.5%
Last 5 Years	32.7%
Total Unfunded OPEB Liabilities	\$ 56,790,113

FIGURE 9

Kalamazoo Other Post-Employment Benefit (OPEB) Fund Status



Percent of Full OPEB Funding...

Last Year	35.9%
Last 5 Years	35.4%

Total Unfunded OPEB Liabilities **\$ 24,075,242**

Over the past 6 years, the City has implemented a policy to establish a 20% share of total health care costs for employees through collective bargaining with its 5 employee bargaining units, and also administratively with its non-bargaining employees. This initiative has been an overwhelming success, generating cost savings of over \$17 million for the City from FY 2005 through FY 2011 for providing self-insured employee health care.

In 2008, City staff completed a plan that would have utilized some overfunding from the Pension Trust Fund in order to help pre-fund a retiree health care (re: OPEB) trust fund, in accordance with a provision of federal law. Unfortunately, the severe downturn in the Pension Trust Fund in 2008 rendered any effort to utilize Pension assets unworkable for the foreseeable future. Accordingly, more traditional methods of financing OPEB have been pursued.

The City is currently planning to set aside \$250 thousand of General Fund cash reserves in 2011 into an irrevocable "Section 115" trust for Retiree Health Care, to be invested in pension-style investments, in addition to \$400 thousand set designated in 2010. This account is being created at this time. An application for tax-exempt status with the IRS has been filed, and we are awaiting approval.

PUBLIC BUDGET GAP

FIGURE 10

Deficits and Budget Gaps in Kalamazoo, 2001-2010

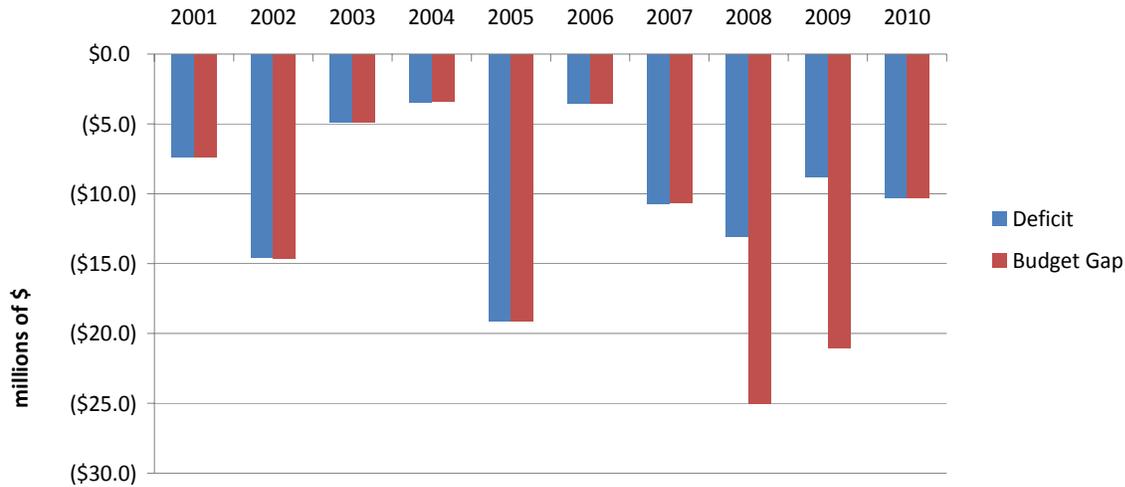
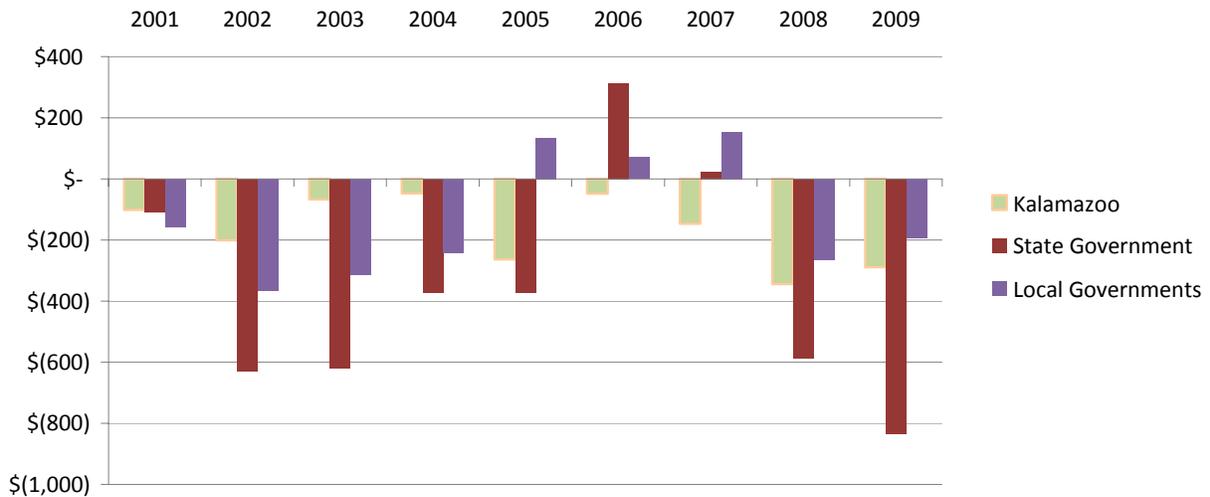


FIGURE 11

Per Capita Budget Gap in Kalamazoo vs. Local & State Government in Michigan, 2001-2009



The identified gap in Figure 2 exists because general capital improvements are paid for with bond issuances that are not counted as revenue in this presentation, but rather are considered to be “Other Financing Resources.”

The city has maintained its credit rating signifying acceptance in the credit markets of sustainable fiscal responsibility and management through structural adjustments, the use of reserves, cost containment, strategic investment and efficiency improvement in operations and services.

This report is offered for the purpose of enabling a civic spirit and for building a common understanding between the public, their elected City servants, and the administration. Achieving these objectives will lead to better decision-making and the greater fulfillment of the City's strategic vision.

DATA SOURCES AND NOTES

The City's audited financial statements were the basis for the data included in this report. These statements can be reviewed on the City's web site at the following location:

http://www.kalamazoo-city.org/portal/government.php?page_id=116