

Guide to Local Unit Finances

How City of Kalamazoo Spends Your Money

2013 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. **Structured debt** includes the bonds issued by the City for capital improvements and general obligations.
- **Defeasance.** A provision that voids a bond or loan when the borrower sets aside cash or bonds sufficient enough to service the borrower's debt.
- **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.
- **Reserved/Restricted funds.** Some funds are considered to be "reserved" or "restricted" for a specific purpose, and cannot be spent for anything else.

Table of Contents

<i>Welcome</i>	1
<i>How Governments Use Your Money</i>	2
<i>Where Citizen Dollars Go</i>	2
<i>Services That Governments Provide</i>	2
<i>How Taxpayer Money Is Spent:</i>	
<i>Government Revenues and Expenditures</i>	4
<i>Kalamazoo's Fiscal Health</i>	9
<i>Reserves and Major Fund Balances</i>	9
<i>Debt Levels</i>	11
<i>Pension and Other Retiree Benefits</i>	12
<i>How This Report Was Developed</i>	14
<i>Data Sources and Notes</i>	14
<i>Other Sources and Links</i>	14

Greetings,

The City of Kalamazoo is proud to present this 2013 Citizen's Guide to the City of Kalamazoo's Financial Health. This report pulls together data from the City's budget, audited financial reports, as well as internal and external sources regarding the community's physical, educational, and economic health. This report presents the fiscal position of the City's governmental funds, and demonstrates its capacity to meet its public service delivery demands.

Under the leadership of 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. The redesign of the Statutory Revenue Sharing formula to the Economic Vitality Incentive Program (EVIP) requires the City to show accountability and transparency, promote consolidation of services, and provide an unfunded accrued liability plan for public viewing. 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 encouraged to be aware of the facts surrounding these issues and to make informed judgments about the 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.

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 Citizens, 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 2013, the City of Kalamazoo is budgeted to collect \$135 million in revenues to provide services to its residents. Property tax collections would provide \$35 million of these resources, the Federal Government would distribute \$8.0 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. Revenues from 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. The financial information in the Citizen's Guide focuses on the Governmental funds, and eliminates the City's Enterprise funds, which account for the business type activities for Water and Wastewater services, which charge user fees to cover expenses.

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

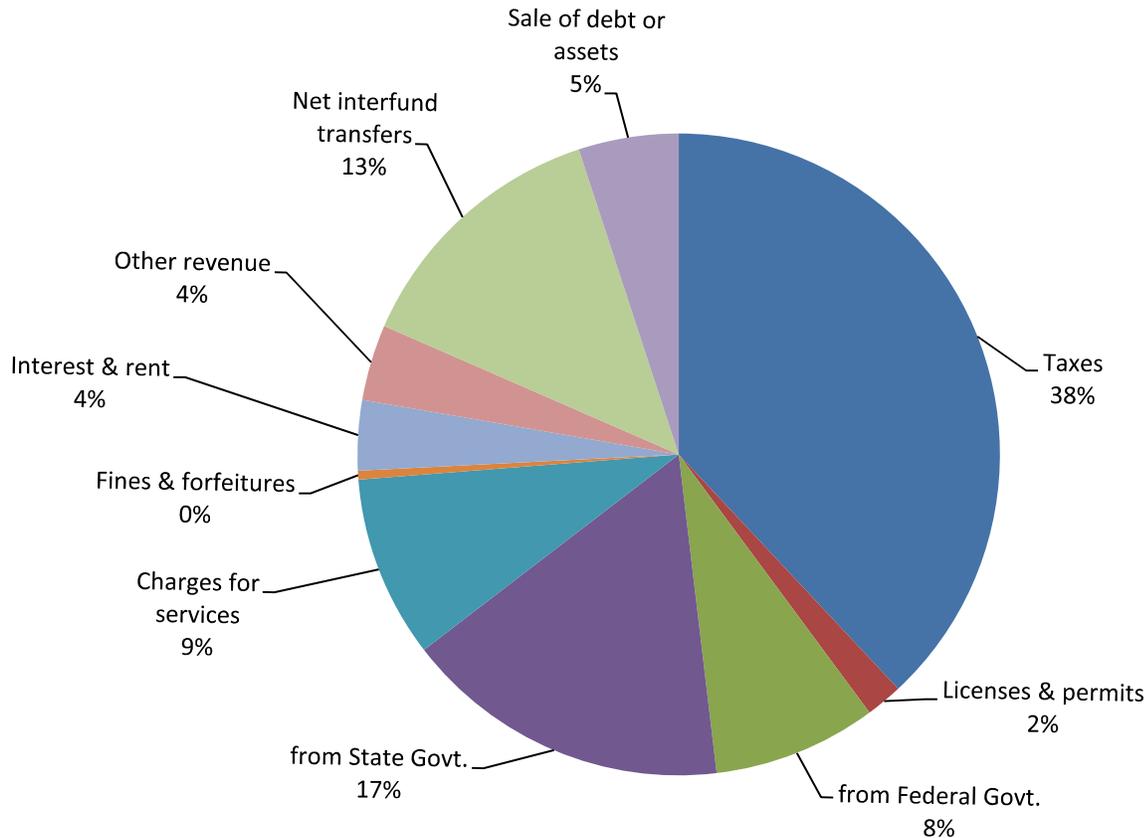
The Transportation Department provides the citizens of Kalamazoo County with public transportation services that are dependable, convenient, safe, cost effective, and accessible for everyone.

GOVERNMENTAL FINANCES:

REVENUES:

FIGURE 1

Percentage of City Revenues 2012



The two largest revenue sources, Property Taxes 37% (\$32 million), and Intergovernmental Contributions comprised of 8% Federal Government (\$7.2 million), and 17% State Government (\$14.5 million) represents 62% of all governmental resources. Charges for services are 9% (\$8.0 million) and include governmental administration fees, computer and recreation fees, tax collection fees, and parking enforcement.

FIGURE 2

City Revenue Comparative Years

Revenues	2008	2009	2010	2011	2012	2011/2012 % change
Taxes	\$ 37,072,363	\$ 37,543,646	\$ 36,581,845	\$ 36,083,123	\$ 33,492,191	-7.18%
Licenses & permits	1,948,439	1,768,304	1,863,728	1,895,004	1,639,342	-13.49%
from Federal Govt.	2,917,011	414,226	5,883,016	12,470,402	7,246,121	-41.89%
from State Govt.	17,287,269	16,141,700	15,506,301	14,691,525	14,508,017	-1.25%
Charges for services	4,450,097	4,471,218	4,740,692	9,291,817	8,085,421	-12.98%
Fines & forfeitures	409,826	414,524	401,099	782,793	385,567	-50.74%
Interest & rent	(316,469)	3,568,087	2,652,732	1,982,858	3,107,116	56.70%
Other revenue	5,626,951	3,306,262	3,724,016	3,490,778	3,371,070	-3.43%
Net interfund transfers	8,405,462	5,759,473	10,496,777	16,291,542	11,821,576	-27.44%
Sale of debt or assets	10,129,781	10,487,885	2,923,053	13,055,167	4,431,550	-66.06%
Total Revenues	\$ 87,930,730	\$ 83,875,325	\$ 84,773,259	\$ 110,035,009	\$ 88,087,971	-19.95%

Property tax revenues decreased by roughly 7.18% in 2012 as compared to 2011. Overall, the City has experienced a decline in property tax revenues of nearly \$4.1 million since 2009, primarily due to a decline in commercial and residential property values.

In 2011 the City received over \$4 million from the Federal Government, American Recovery and Reinvestment Act for community improvements, which was followed by a 42% decrease in 2012 as the expenditure of funds progressed.

State revenue received from Statutory Revenue Sharing has been reengineered by the State and relabeled the Economic Vitality Incentive Program, resulting in decreased revenue as a percent of the General Fund balance since fiscal year 2001. This now comprises 17% of total revenues compared to 28% ten years ago.

The fiscal year 2012 increase in interest and rent revenue of over 56% is based on improved investment returns in the following City funds:

- Cemetery Perpetual Care Fund;
- Friends of Recreation Endowment Fund, and
- the Mayor's Riverfront Park Fund.

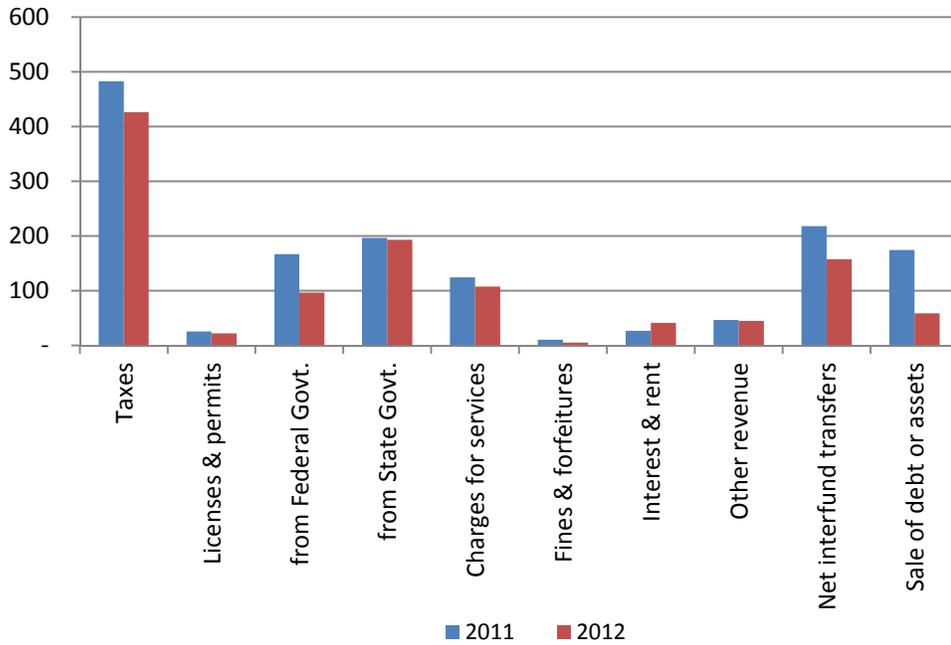
The reduction of interfund transfers of 27% is due to the reduction in transfers comes from savings in health care costs, which is due to years of successful and progressive bargaining with the City's employee labor unions.

Interfund transfers were also impacted by the City's consolidation of separate "Internal Service Funds" which delivered internal support services into the City's General Fund in 2011, which caused a one-time transfer of assets between City-owned funds.

The City sale of debt or assets is related to bond issuance for general operating expense and capital improvements. In 2011 the City refinanced existing bond issues totaling \$6.2 million to take advantage of improved interest rates. This additional activity in 2011 resulted in a 66% decrease in activity compared to 2012.

FIGURE 3

Revenue Sources per Capita – Comparison to Prior Year

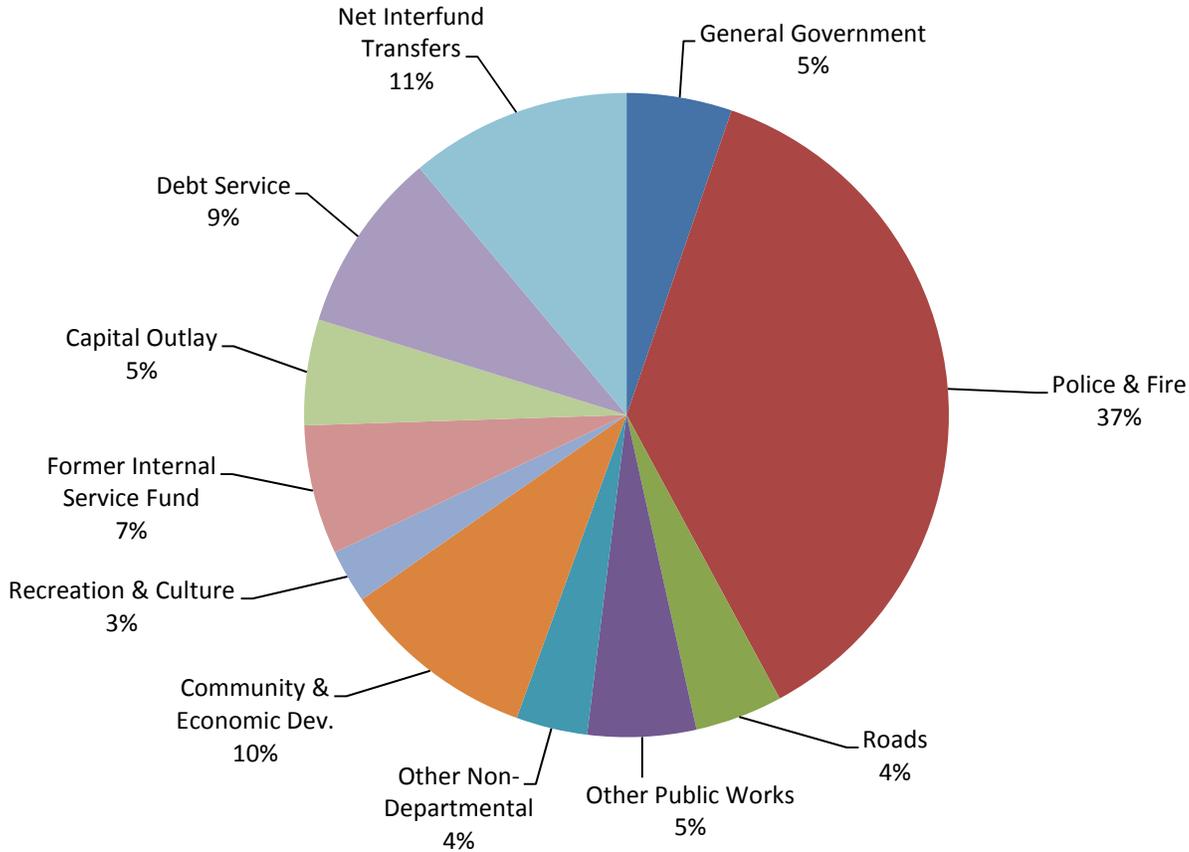


The primary source of revenue is property taxes with approximately \$400 collected per person to provide the City's services. Total revenue per capita decreased in 2012 to \$937 compared to \$1,472 in 2011.

EXPENDITURES:

FIGURE 4

Percentage of City Governmental Expenditures 2012



The major General fund expenditure for the City is Public Safety 37% (\$32.4 million). The other major categories are Inter-fund Transfers 11% (\$9.7 million), Community & Economic Development 10% (\$8.6 million) and Debt Service 9% (\$8.0 million).

FIGURE 5

Expenditures Five Year Comparison

Expenditures	2008	2009	2010	2011	2012	2011/2012 % Change
General Government	\$ 5,952,428	\$ 6,527,509	\$ 5,853,234	\$ 4,640,111	\$ 4,654,254	0.30%
Police & Fire	33,161,947	33,772,603	34,149,759	34,542,754	32,398,957	-6.21%
Roads	3,606,130	3,678,616	4,046,838	4,375,229	3,869,631	-11.56%
Other Public Works	5,613,667	5,842,290	5,148,512	5,222,183	4,775,382	-8.56%
Other Nondepartmental	3,710,457	2,590,843	2,761,908	2,560,728	3,161,774	23.47%
Community & Economic Dev.	5,707,657	4,007,212	7,468,795	14,178,952	8,595,413	-39.38%
Recreation & culture	2,826,297	2,598,827	2,806,451	2,806,755	2,359,247	-15.94%
Former Internal Service Fund	-	-	-	6,320,611	5,724,022	-9.44%
Capital Outlay	9,651,717	3,296,773	8,060,498	7,178,944	4,659,366	-35.10%
Debt service	13,964,659	11,727,343	7,846,718	16,319,532	8,028,465	-50.80%
Interfund transfers (net)	8,986,823	8,153,189	9,812,957	9,391,473	9,754,933	3.87%
Total Expenditures	\$ 93,181,782	\$ 82,195,205	\$ 87,955,670	\$ 107,537,272	\$87,981,444	-18.19%

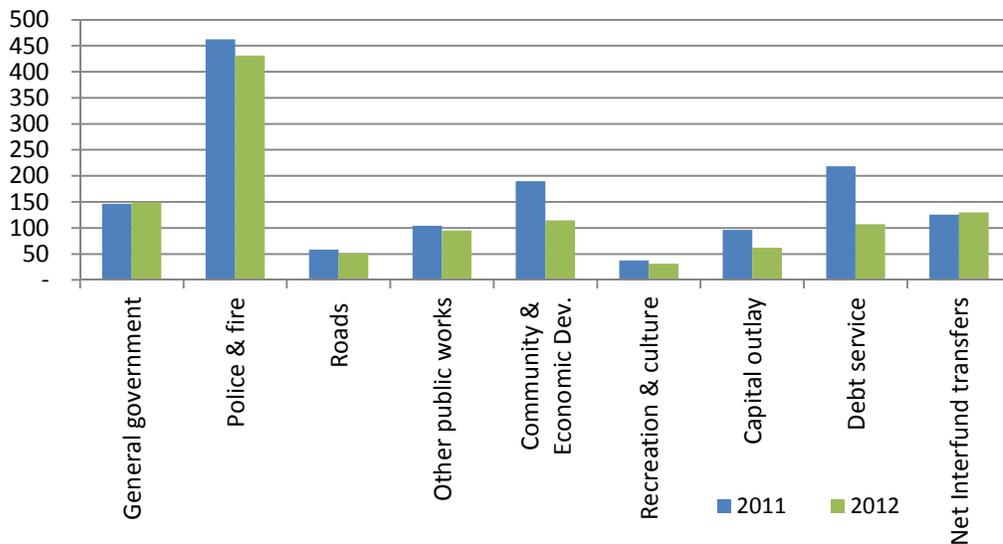
As of the end of fiscal year 2012 Police and Fire represents \$32.4 million and over 23% of the City's expenditures. The other Nondepartmental expense includes street lighting, and governmental fees.

At the end of fiscal year 2011 the City eliminated several so-called Internal Service Funds delivering internal support services such as information technology, engineering, citywide facility maintenance, and equipment maintenance; these were added as departments within the General Government.

In fiscal year 2011 the City refinanced over \$8.0 million of previous bond issues, taking advantage of improved interest rates. This created a spike in debt service expense for 2011 and the subsequent 51% decrease in 2012, as the refinancing amounts were shown as debt service expenses in 2011. The City's regular annual debt service in 2012 is \$8.0 million for principal, interest, and fiscal charges due.

FIGURE 6

Government Spending per Capita Prior Year Comparison

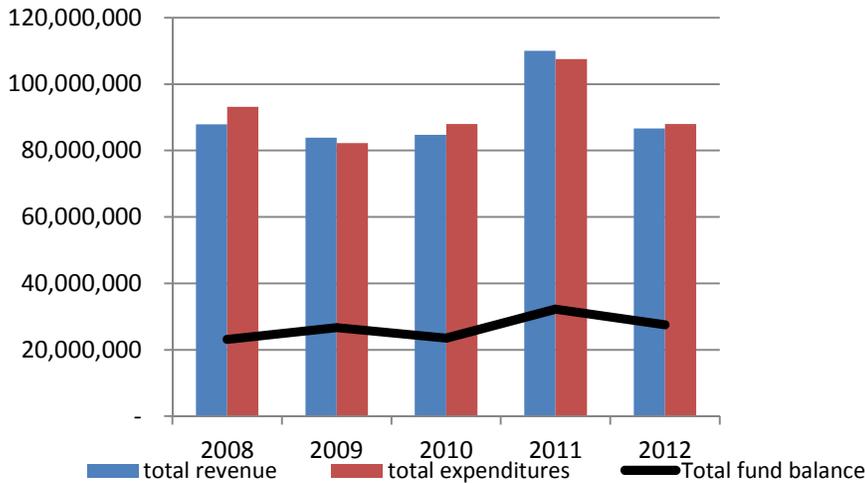


The majority of government spending is for police and fire protection with approximately \$430 dollars spent per Citizen in 2012 compared to \$480 per Citizen in 2011. Total expenditures per capita are \$1,172 for 2012 compared to \$1,439 in 2011.

FUND BALANCES:

FIGURE 7

Governmental Fund Balance



As of the end of 2012 fiscal year, the City's Governmental funds reported a combined fund balance of \$27.6 million. Approximately 12.9% or \$3.6 million of the fund is available for spending at the government's discretion ("unassigned fund balance"). The Unassigned fund balance represents 4% of the total annual revenues of \$86.6 million.

FIGURE 8

Governmental Fund Five Year Comparison

	2008	2009	2010	2011	2012	2011/2012 % change
Revenue	87,930,730	83,875,325	84,773,259	110,035,009	86,615,573	-21%
Expenditures	93,181,782	82,195,205	87,955,670	107,537,272	87,981,444	-18%
Surplus (shortfall)	(5,251,052)	1,680,120	(3,182,411)	2,497,737	(1,365,871)	-155%
Fund balance, by component:						
Nonspendable	-	-	-	14,253,624	9,324,851	-35%
Restricted	10,167,496	13,102,891	12,515,382	7,509,890	8,419,230	12%
Committed	2,810,510	3,027,063	3,778,353	5,165,439	2,756,697	-47%
Assigned	-	-	-	-	3,503,397	0%
Unassigned	10,147,991	10,563,305	7,217,161	5,325,787	3,557,092	-33%
Total Fund Balance	23,125,997	26,693,259	23,510,896	32,254,740	27,561,267	-15%

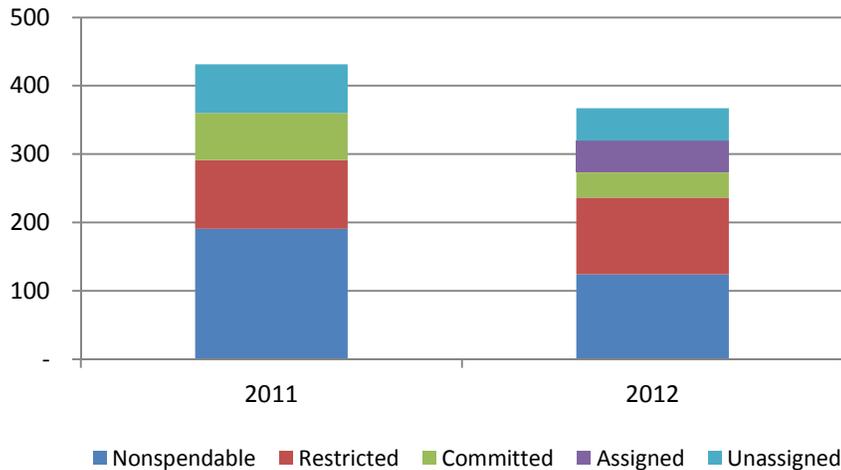
The total Fund balance is comprised of five categories based on the extent to which a government is bound to observe constraints imposed upon the resources reported in each fund.

- The Non-spendable component includes assets that are not available in spendable form or expected to be converted to cash, such as inventory, prepaid expenditures and long-term receivables. It also includes funds that are legally or contractually required to be maintained intact as a permanent fund.
- Restricted funds include amounts to be used for a specific purpose, including the cemetery perpetual fund, Act 51 road monies, friends of recreation endowment, and grants/donations. The constraints are externally imposed and required to be set aside by creditors, grantors or legislation.
- Committed and Assigned funds are amounts set aside for a specific purpose by the City Commission. These funds are used for capital projects, economic development programs, and subsequent year's expenditures.
- The remaining amount of unassigned funds represents the amount in the General Fund that is remaining after all restrictions, commitments, and assignments have been made.

The decrease in the Nonspendable fund balance of \$4.9 million or 35% is attributed to the collection of notes receivable. A portion of the Committed fund balance is now listed as Assigned accounting for the 47% decrease. The Unassigned fund balance decrease of \$1.7 million or 33% for the current year, and \$6.6 million over the past five years is reflective of the City's strategy to deliver stable service levels, while reducing the cost of government services.

FIGURE 9

Governmental Fund Balance Per Capita – Compared to Prior Year

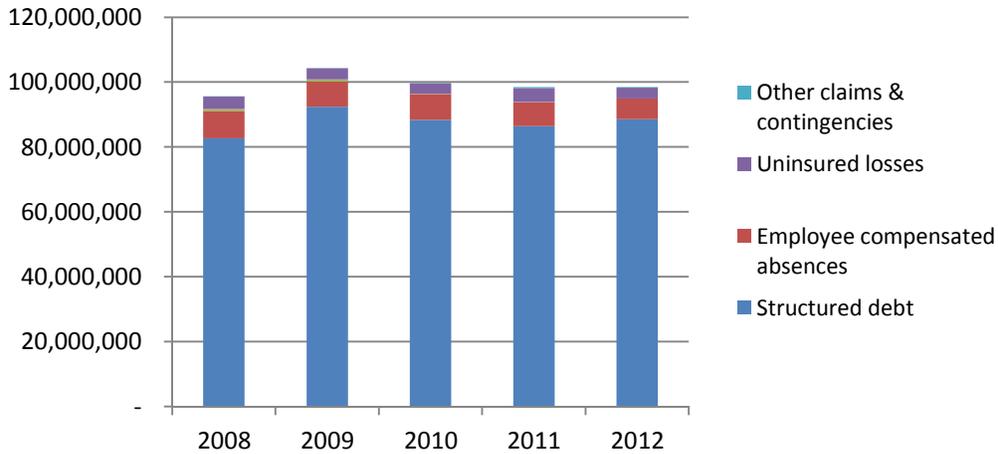


As of the close of the fiscal year 2012 the City's governmental funds had approximately \$27.6 million or \$367 per citizen. The Unassigned funds are approximately \$3.6 million or \$47 per citizen, a decrease of 33% from 2011.

DEBT LEVELS

FIGURE 10

Long Term Obligations



The long term debt of the City is dedicated to infrastructure and equipment. The City's balance of bonded debt (structured debt) increased by \$3.1 million during the current fiscal year for a total of \$88.6 million. The City also issued \$4.4 million and \$6.1 million in General Obligation Bonds and Revenue Bonds, respectively, and made scheduled bond principal payments totaling \$7.4 million. The City also issued refunding bonds in the amount of \$5.37 million, which defeased (eliminated due to bond provisions) \$5.35 million of bonded debt.

FIGURE 11

City Debt and Other Long Term Obligations per Capita

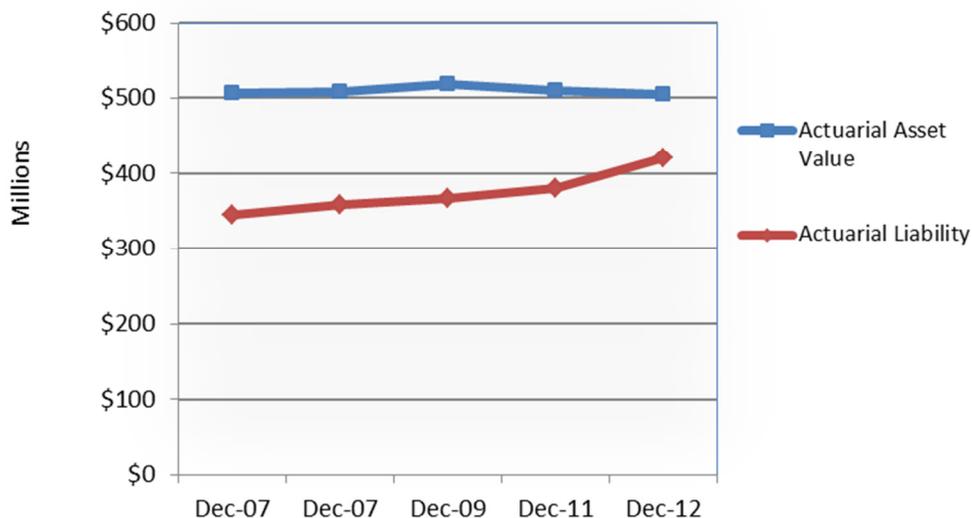


As of the end of fiscal year 2012 the City's total debt per capita is \$1,312 per citizen, with \$1,180 being structured debt. The amount of debt per capita is less than half the amount per capita for the State of Michigan which is \$2,646.

PENSION AND OTHER RETIREE BENEFITS

FIGURE 12

City of Kalamazoo Pension Funding Status



The pension system in the City of Kalamazoo is fully funded as indicated in the graph. As of the end of fiscal year 2012 the asset value is \$505 million compared to an estimated liability of \$421 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 13

City of Kalamazoo Annual Pension Costs

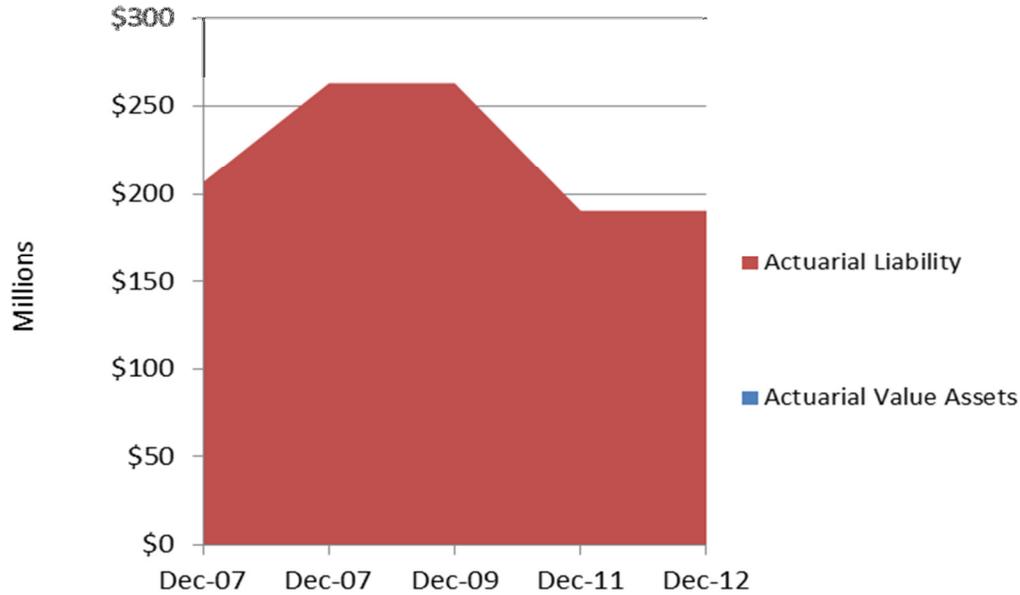
	As of December 31,		
	2010	2011	2012
Actuarial Value of Assets	\$ 518,339,022	\$ 509,931,421	\$ 505,234,953
Actuarial Value of Liability (AAL)	\$ 367,423,552	\$ 380,802,126	\$ 420,711,365
Overfunded AAL (OAAL)	\$ 150,915,470	\$ 129,129,295	\$ 84,523,588
Funded Ratio	141%	134%	120%
Annual Covered Payroll	\$ 43,007,800	\$ 42,305,663	\$ 36,538,969
Ratio of OAAL to Covered Payroll	350.9%	305.2%	231.3%

For the year ended December 31, 2012 the City's annual pension cost was \$-0-. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2011, using the individual entry age method. Significant actuarial assumptions used include (a) a 7.5% investment rate of return (b) projected salary increases of 4.0% per year compounded annually, attributable to inflation (c) additional salary increases ranging from 4.5% to 12% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The

actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five year period. When applicable, the unfunded actuarial liability is being amortized as a level percentage of payrolls annualized over a thirty year period on an open basis.

FIGURE 14

Kalamazoo Other Post Employment Benefit Funding Status



The City has implemented a policy to establish a 20% share of total health care costs for employees through collective bargaining with its five employee bargaining units, and also administratively with its non-bargaining employees. This initiative has generated cost savings of over \$17 million for the City since its inception in 2005.

The 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 trust fund for Other Post Employment Benefits (OPEB), in accordance with 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 implemented with actual required contributions based on significant actuarial assumptions, and actual reported monthly payroll.

As of the end of 2012 the total Actuarially Accrued Liability (AAL) of \$191 million for OPEB has been amortized to an Annually Required Contribution (ARC) of roughly \$13.8 million. The credit for current payments for retiree health care of \$6.8 million results in a net OPEB expense of \$6.9 million which is spread across the various activities of the City.

How This Report Was Developed

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.org/departments/management-services>