

***Guide to Local Unit Finances***

*How City of Kalamazoo Spends Your Money*

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**2014 Citizen's Guide to  
City of Kalamazoo's Financial  
Health**

Presented by

James K. Ritsema, 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 City 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 City 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.
- **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. The City of Kalamazoo's Fiscal Year is on a calendar year (January 1 – December 31).
- **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.

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## *Welcome*

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Greetings,

The City of Kalamazoo is proud to present this 2014 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,

James K. Ritsema  
City Manager  
City of Kalamazoo

### **OVERVIEW**

The financial information in the Citizen's Guide focuses on the Governmental funds. The City has other funds known as Enterprise funds, which handle Water and Wastewater services, as well as Transportation. These business-type activities are not shown here as they cover their costs through use charges. The City's audited financial reports provide the information in this report.

### **WHERE CITIZEN DOLLARS GO**

In 2014, the City of Kalamazoo is budgeted to collect \$75 million in revenues to provide services to its residents. Property tax collections would provide \$33 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 \$9.3 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.

### **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.

#### ***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.

## ***Public Services***

The Public Services Department provides a variety of services to operate and maintain the City's facilities and infrastructure. Services of the department include:

### ***Street maintenance and improvements***

Street repair and maintenance activities includes 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.

### ***Solid Waste***

Solid waste services include collections of 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***

Public Works services include sidewalk replacement, maintenance of the City's urban forest, and maintenance of the City's Central Business District.

### ***Utilities (Wastewater and Water)***

Utilities provide 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***

Cemetery services include 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.

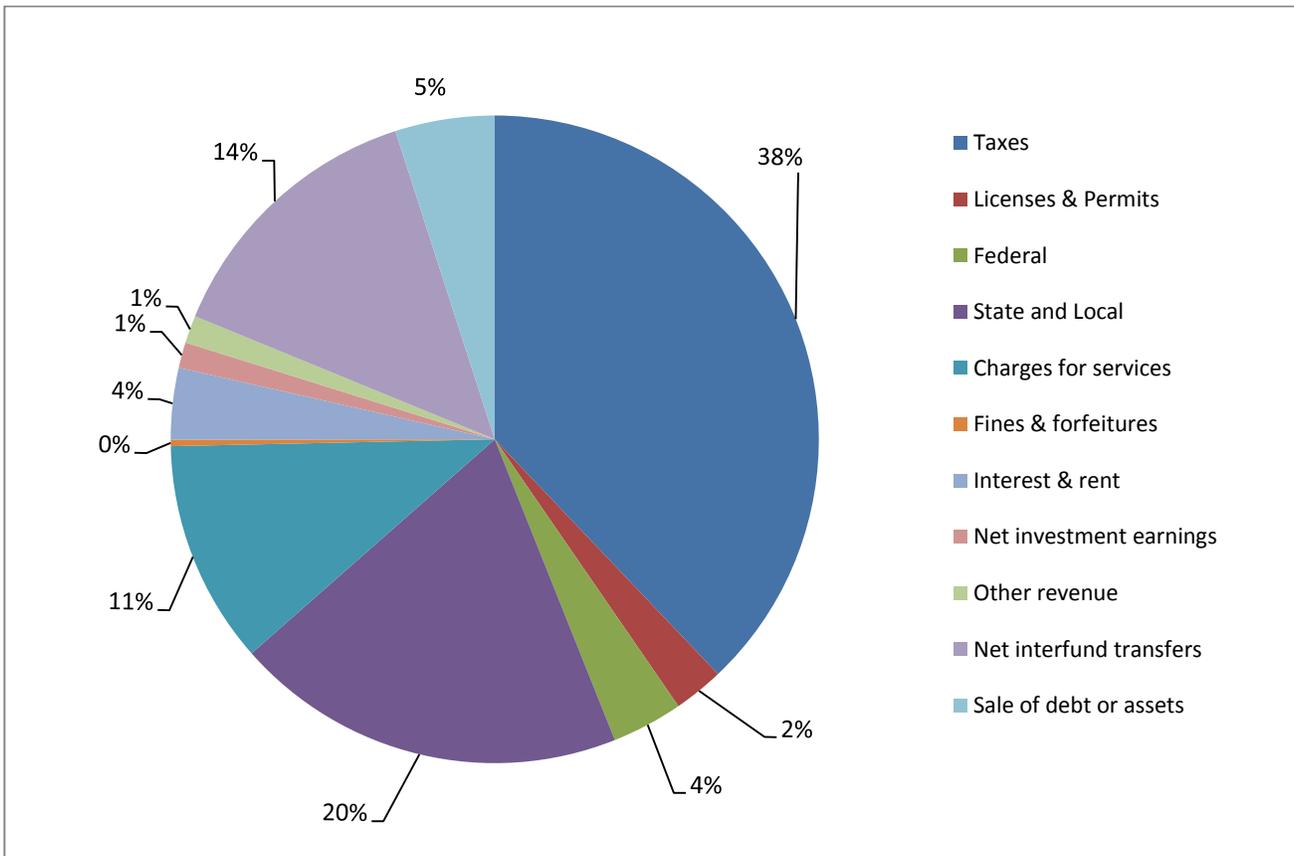
*How Taxpayer Money is Spent:  
Government Revenues and Expenditures*

**GOVERNMENTAL FINANCES:**

**REVENUES:**

Revenues are the resources collected by the City to support its operations. The following charts and graphs provide additional information on the sources of the City’s governmental revenues.

**FIGURE 1**  
**Percentage of City Revenues 2013**



Property Taxes are the City’s largest revenue source making up 38% or \$31 million of the total revenues. State and local revenues contribute 20% of total revenues or \$16 million. Together, these represent 58% of total revenues.

Charges for services include building and housing inspections, parks and recreation user fees, governmental administration fees, tax collection fees, and parking reinforcement. Together, charges for services represent 11% or \$9 million of the City’s revenues.

Net Interfund Transfers (14%) are a transfer of resources between “funds” of the City, which are basically offset by expenses transfers. In 2013, governmental funds transferred in \$11.4 million and transferred out \$10.5 million. The balance of \$900 thousand represented a rebate of savings from the City’s Insurance Fund into the General Fund.

**FIGURE 2**  
**City Revenue Comparative Years**

Revenues	2009	2010	2011	2012	2013	2013/2012
						% change
Taxes	\$ 37,997,860	\$ 35,071,496	\$ 35,163,954	\$ 32,665,097	\$ 31,172,950	-4.57%
Licenses & permits	1,770,824	1,867,123	1,897,096	1,641,248	2,060,482	25.54%
Federal	1,403,034	3,658,875	12,855,483	7,637,415	2,914,185	-61.84%
State and Local	17,747,680	18,811,352	15,385,807	14,783,681	16,077,952	8.75%
Charges for services	5,289,988	5,622,676	10,318,577	9,022,197	9,173,002	1.67%
Fines & forfeitures	326,755	296,200	642,680	280,426	262,385	-6.43%
Interest & rent	3,989,784	3,429,583	3,304,621	3,219,392	2,936,162	-8.80%
Net investment earnings	1,207,786	780,472	(370,143)	688,741	1,053,215	52.92%
Other revenue	1,699,387	1,668,632	1,474,703	1,902,634	1,129,797	-40.62%
Net interfund transfers	8,772,072	10,646,777	16,291,542	11,821,576	11,376,270	-3.77%
Sale of debt or assets	4,546,154	2,923,053	5,003,404	4,431,550	4,080,115	-7.93%
<b>Total Revenues</b>	<b>\$ 84,751,324</b>	<b>\$ 84,776,239</b>	<b>\$ 101,967,724</b>	<b>\$ 88,093,957</b>	<b>\$ 82,236,515</b>	<b>-6.65%</b>

Property tax revenues decreased by approximately 4.57% in 2013 as compared to 2012. Overall, the City has experienced a decline in property tax revenues of nearly \$6.8 million since 2009, primarily due to a decline in commercial and residential property values.

Licenses & permits increased by 25.54% or \$419 thousand as compared to 2013 due to improvements in enforcements, rental inspections, cable TV license fees, and permits.

In 2011 the City received over \$8 million from the Federal Government, American Recovery and Reinvestment Act for community improvements, which was followed by an additional \$4 million in 2012. The grant programs were concluded in 2012, leading to a 61.84% decrease in federal revenues in 2013.

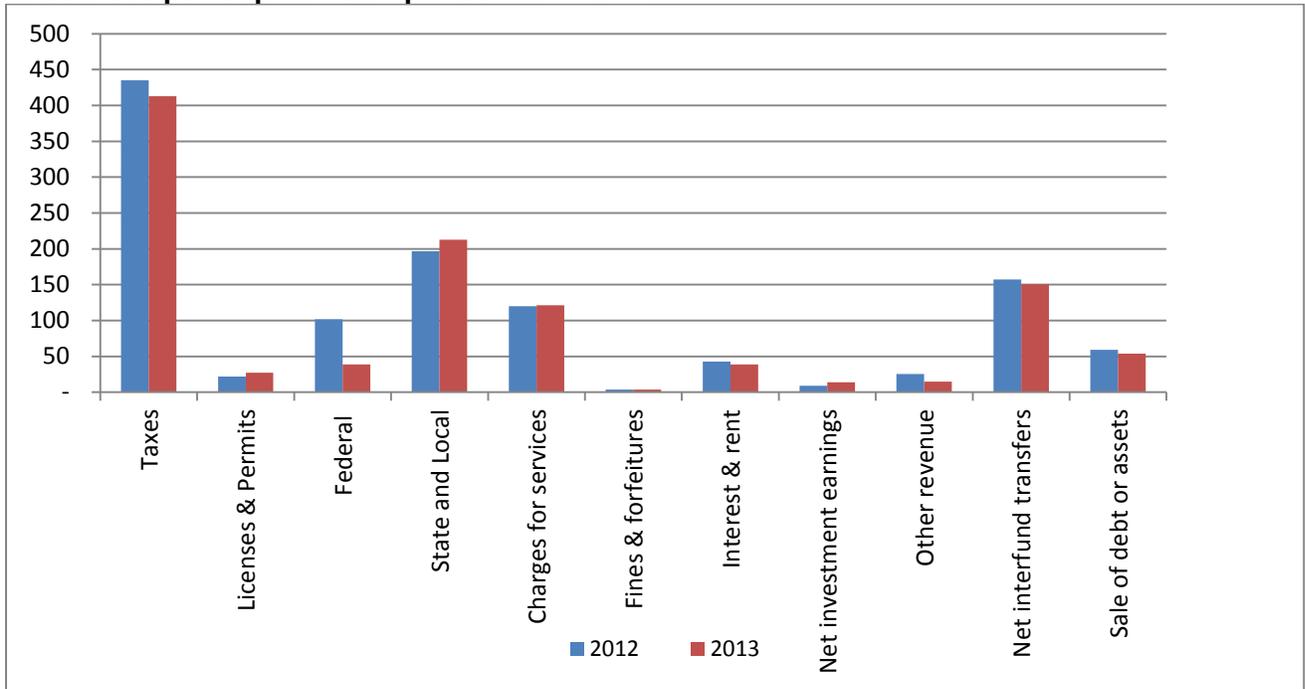
State revenue received from Statutory Revenue Sharing has been reengineered by the State and relabeled the Economic Vitality Incentive Program, resulting in decreased revenue as a percent of the General Fund balance since fiscal year 2001. This now comprises 17% of total General Fund revenues compared to 28% ten years ago. State Revenue Sharing did increase in 2013 as compared to 2012, adding approximately \$310 thousand back to the General Fund. In addition, Fire reimbursement revenues (which are State grants meant to pay for the cost of keeping fire protection at a “ready to serve” level for State facilities located in the City) increased by \$207 thousand, Gas and Weight Tax and other streets revenues increased \$582 thousand, and State and local grants and contributions on capital projects increased \$437 thousand,

The fiscal year 2013 increase in net investment earnings of over 53% is based on improved investment returns in the Cemetery Perpetual Care Fund, the Friends of Recreation Endowment Fund, and the Mayor’s Riverfront Park Fund.

Interfund transfers in 2011 were approximately \$5.6 million higher than in 2010 and \$4.5 million higher than 2012. The transfers were impacted in 2011 by the City’s consolidation of separate Internal Service Funds into the City’s General Fund, which caused a one-time transfer of assets between City-owned funds.

The City sale of debt or assets is related to bond issuances for capital improvements. The sale of bonds in 2013 was down 8% as compared to 2012 as a result of variations in planned capital projects. Sale of bonds in governmental funds supports the capital improvements in the City’s Capital Improvement program, Major Streets, and Local Streets.

**FIGURE 3**  
**Revenue Sources per Capita – Comparison to Prior Year**

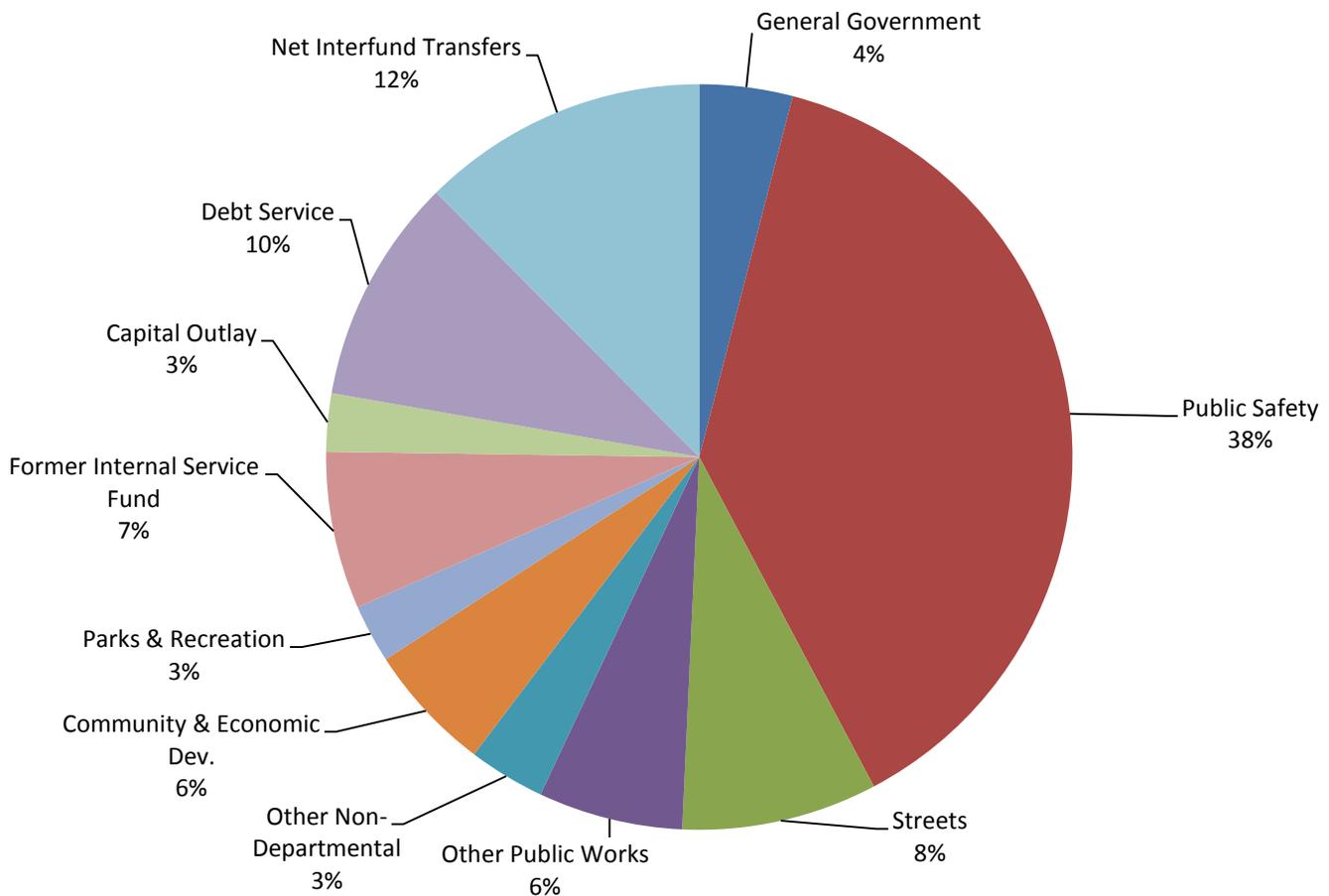


The primary source of revenue is property taxes with approximately \$400 collected per person to provide the City's services. Federal revenues per capita varies from year to year based on the awards of various federal grants. Total revenue per capita decreased in 2013 to \$1,089 compared to \$1,173 in 2012.

**EXPENDITURES:**

Expenditures are the consumption or disbursement of funds used in support of the City's operations. The following charts and graphs provide additional information on the sources of the City's governmental expenditures.

**FIGURE 4**  
**Percentage of City Governmental Expenditures 2013**



Public Safety is the City's largest governmental expenditure, consisting of 38% or \$32.2 million of governmental activities. The City spends approximately 8% of its resources on streets and an additional 6% of other public works. Community and Economic development can vary from year to year because the activities are heavily supported by federal programs. In 2013, these activities represented 6% of expenses.

Debt service represents 10% or \$8.3 million of expenses in 2013. This represents the payment of the City's debt obligations for principal and interest on outstanding bonds.

As discussed in Figure 1, Net Interfund transfers represent the transfer of resources between City funds. In 2013, governmental funds transferred out \$10.5 million to support other fund operations or fund debt service payments.

**FIGURE 5**  
**Expenditures Five Year Comparison**

Expenditures	2009	2010	2011	2012	2013	2013/2012
						% Change
General Government	\$ 7,300,485	\$ 7,169,369	\$ 4,100,769	\$ 3,875,163	\$ 3,398,338	-12.30%
Public Safety	34,409,853	34,804,767	35,476,959	32,805,831	32,188,577	-1.88%
Streets	6,530,863	8,191,630	7,710,563	6,854,998	7,143,870	4.21%
Other Public Works	3,985,528	3,789,607	5,846,543	5,389,963	5,278,694	-2.06%
Other Non-Departmental	2,590,843	2,761,908	2,560,728	3,161,774	2,793,985	-11.63%
Community & Economic Dev.	5,584,371	7,763,530	14,182,010	8,562,088	4,682,899	-45.31%
Parks & Recreation	2,598,348	2,806,451	2,806,755	2,359,248	2,129,592	-9.73%
Former Internal Service Fund	-	-	6,083,859	5,724,022	5,750,260	0.46%
Capital Outlay	1,869,810	2,861,401	3,408,241	1,338,386	2,123,126	58.63%
Debt Service	8,041,889	7,846,982	8,267,767	8,028,365	8,261,467	2.90%
Net Interfund Transfers	8,272,072	9,962,957	9,009,217	9,887,596	10,485,854	6.05%
<b>Total Expenditures</b>	<b>\$ 81,184,062</b>	<b>\$ 87,958,602</b>	<b>\$ 99,453,412</b>	<b>\$ 87,987,433</b>	<b>\$84,236,662</b>	<b>-4.26%</b>

The City implemented an early retirement incentive (ERI) program in the years 2012 and 2013. Reductions as a result of this program can be seen in the various governmental activities, particularly in general government, public safety, public works, and parks and recreation.

As of the end of fiscal year 2013 Public Safety represents \$32.2 million and 38% of the City's expenditures. Public Safety expenditures continued to decrease with various cost savings measures and the City's ERI program.

Community and Economic Development expenditures are down in 2013 as compared to 2012 due primarily to a change in Federal grant programs. While federal resources declined approximately 62%, the Community, Planning, and Development department was able to reprogram some reserved funds to only reduce expenditures by 45%.

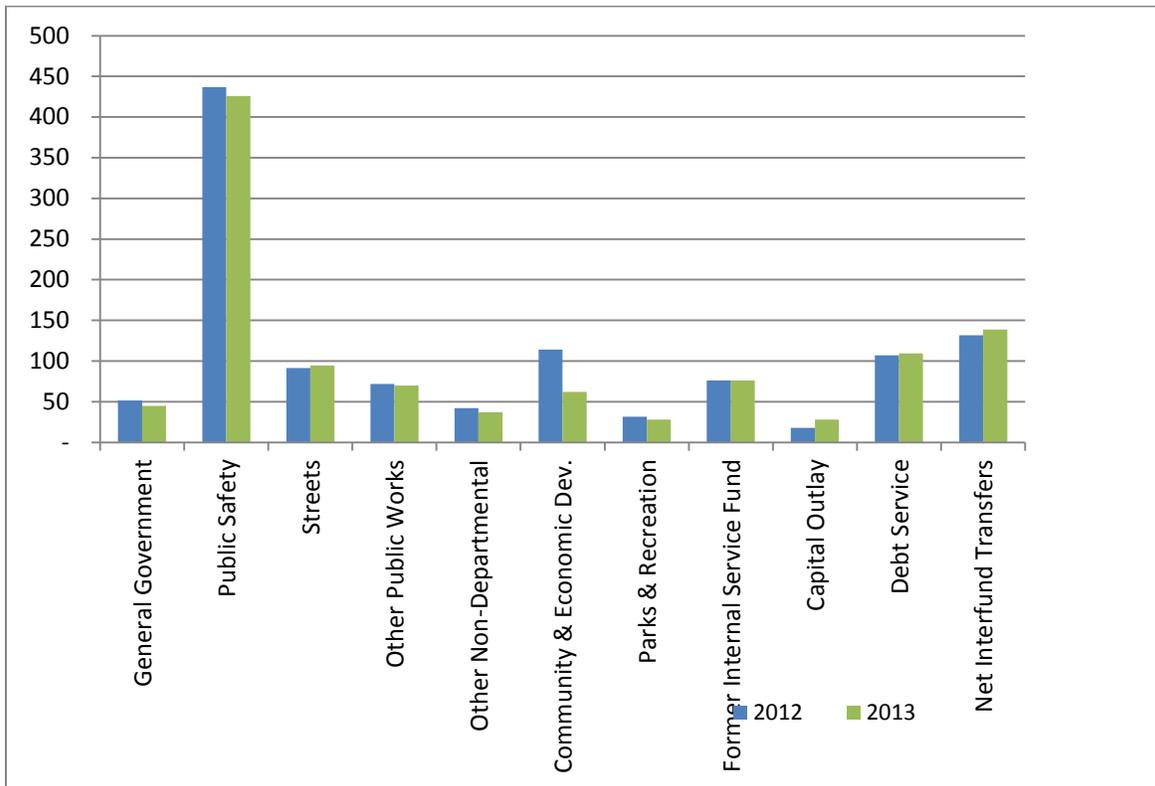
Streets spending increased 4% in 2013 as compared to 2012 due to increased maintenance and construction activities.

Other non-departmental expenditures includes expenditures that support the City rather than a specific department or program and includes the cost of street lighting electricity. The 12% decrease is due to a reduction in street lighting and parking enforcement services.

At the end of fiscal year 2011 the City eliminated several 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.

Debt service increased approximately 3% in 2013 as compared to 2012 for the City's outstanding debt obligations.

**FIGURE 6**  
**Government Spending per Capita Prior Year Comparison**



The majority of government spending is for public safety with approximately \$426 dollars spent per Citizen in 2013 compared to \$437 per Citizen in 2012. Total expenditures per capita are \$1,115 for 2013 compared to \$1,172 in 2012.

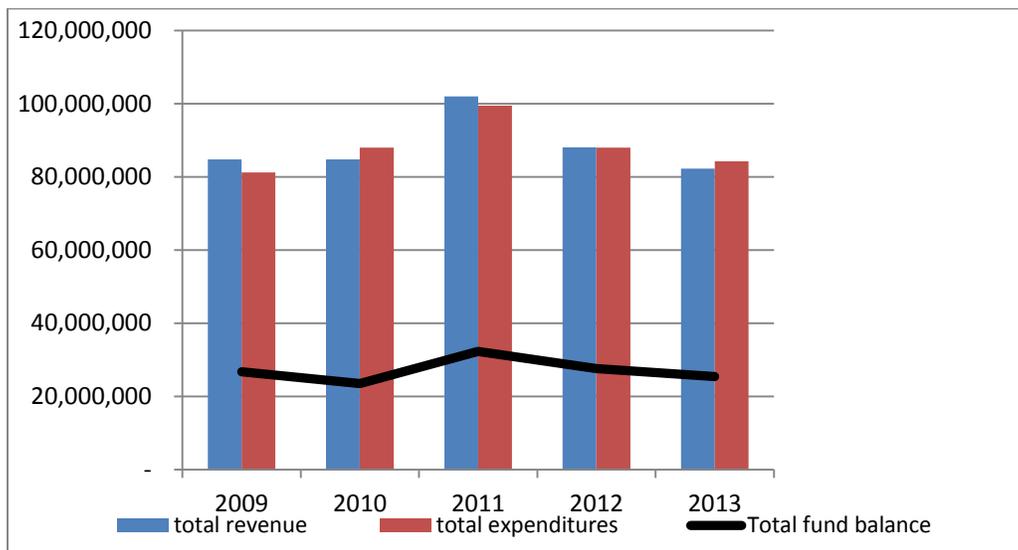
**FUND BALANCES:**

Fund balances are the unspent resources of the governmental funds. Revenues increase fund balance and expenditures decrease the fund balance.

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.

**FIGURE 7**  
**Governmental Fund Balance**



As of the end of 2013 fiscal year, the City's Governmental funds reported a combined fund balance of \$25.3 million. Approximately 15.4% or \$3.9 million of the total fund balance is available for spending at the government's discretion ("unassigned fund balance"). The Unassigned fund balance represents 4.8% of the total annual revenues of \$82.2 million.

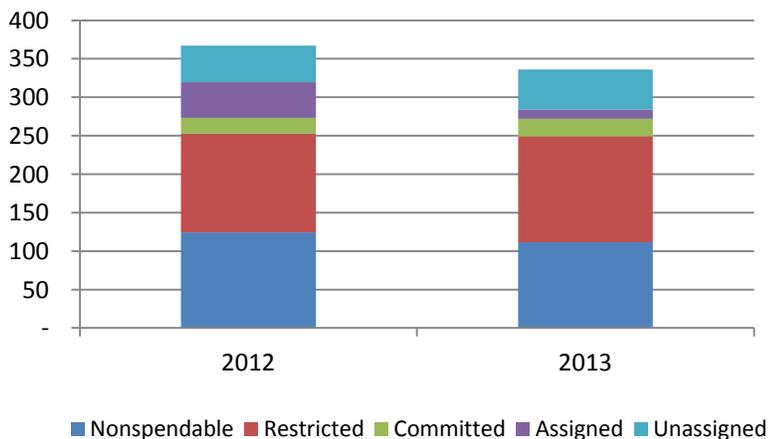
The peak in fund balances noted in 2011 is due to the consolidation of separate internal service funds into the City's general fund. The consolidation of the internal service funds added approximately \$2.5 million of additional reserves to the Governmental funds in 2011.

**FIGURE 8**  
**Governmental Fund Five Year Comparison**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013/2012 %</u> <u>change</u>
Revenue	84,751,324	84,776,239	101,967,724	88,093,957	82,236,515	-7%
Expenditures	81,184,062	87,958,602	99,453,412	87,987,433	84,236,662	-4%
<b>Surplus (shortfall)</b>	<b>3,567,262</b>	<b>(3,182,363)</b>	<b>2,514,312</b>	<b>106,524</b>	<b>(2,000,147)</b>	<b>-1978%</b>
Fund balance, by component:						
Nonspendable	13,102,891	12,515,382	14,253,624	9,324,851	8,412,446	-10%
Restricted	7,914,654	5,387,051	9,788,564	9,630,830	10,419,028	8%
Committed	3,027,063	3,778,353	2,886,765	1,545,097	1,710,413	11%
Assigned	-	-	-	3,503,397	922,527	-74%
Unassigned	2,648,651	1,830,110	5,325,787	3,557,092	3,921,706	10%
<b>Total Fund Balance</b>	<b>26,693,259</b>	<b>23,510,896</b>	<b>32,254,740</b>	<b>27,561,267</b>	<b>25,386,120</b>	<b>-8%</b>

The decrease in the Nonspendable fund balance of \$912 thousand or 10% is attributed to the collection of notes receivable and advances. The 8% increase in Restricted fund balances is primarily due to an increase in restricted balances for the Cemetery Perpetual Care fund as result of favorable investment performance. Committed fund balances increased 11% primarily due to Economic Development Programs. The assigned fund balance is the amount set aside in General Fund for the subsequent year's expenditures. The 74% decrease is due to the plan to use less reserves in the 2014 Budget than used in 2013. The Unassigned fund balance had a 10% increase in 2013 as compared to 2012.

**FIGURE 9**  
**Governmental Fund Balance Per Capita – Compared to Prior Year**

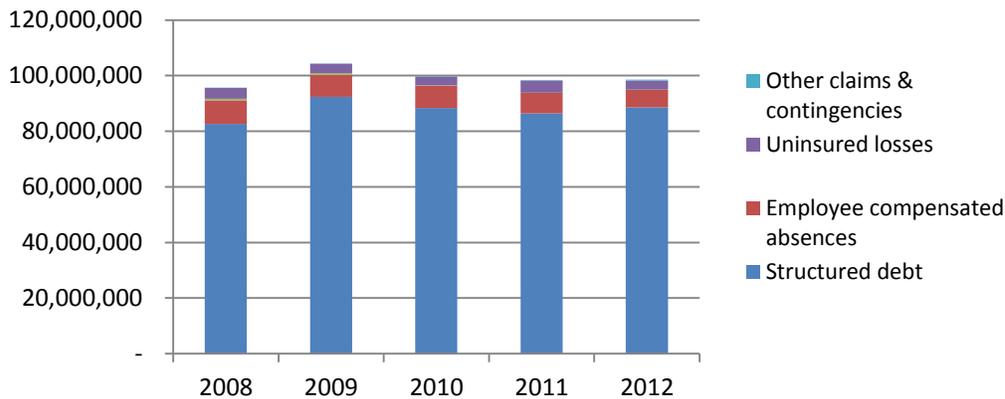


As of the close of the fiscal year 2013 the City's governmental funds had approximately \$25.4 million or \$336 per citizen. The Unassigned funds are approximately \$3.9 million or \$52 per citizen, an increase of 10% from 2012.

## DEBT LEVELS

The debt of the City is made up of funds borrowed in the form of bonds, commitments to employees for compensated absences such as sick leave or vacation, and other uninsured closes or claims.

**FIGURE 10**  
**Long Term Obligations**

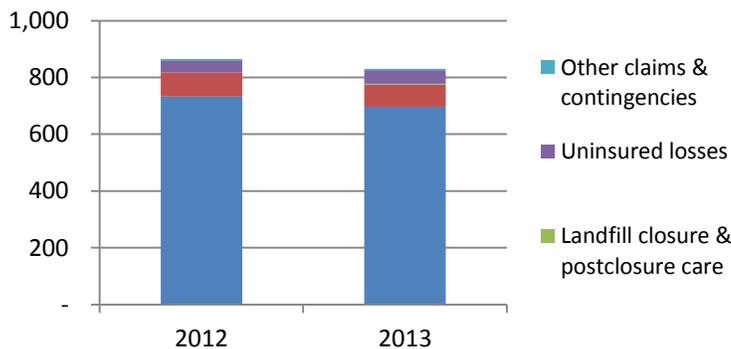


The City's long term obligation at December 31, 2013 totaled \$64.7 million. More than 84% of the obligations or \$52.6 million is Structured Debt dedicated to infrastructure and equipment. The City's balance of bonded debt (structured debt) decreased by \$2.8 million in 2013 as compared to 2012. In 2013, the City issued \$4.0 million General Obligation Bonds and made scheduled bond principal payments totaling \$5.9 million.

Employee compensated absences represent accrued sick, vacation, and other leave time employees have earned, but have not used. At the end of 2013, the City owed employees \$5.9 million for these balances, down \$502 thousand from 2012.

The City self-insures for health care, workers' compensation, and various other claims and liabilities. Estimated uninsured losses include both reported and unreported claims. At the end of 2013, these obligations totaled \$3.7 million, an increase of \$435 thousand from 2012.

**FIGURE 11**  
**City Debt and Other Long Term Obligations per Capita**



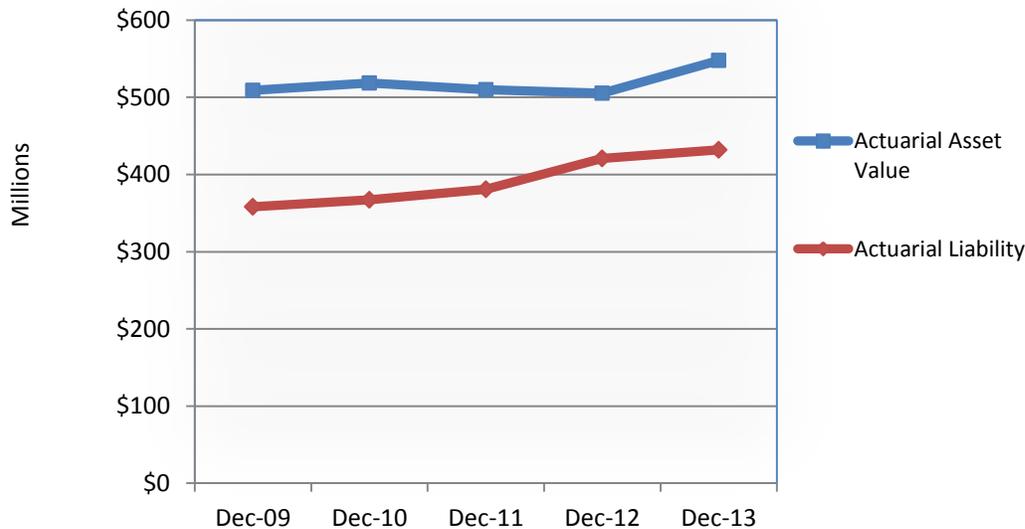
As of the end of fiscal year 2013 the City's total debt per capita is \$831 per citizen, with \$696 being structured debt.

## **PENSION AND OTHER RETIREE BENEFITS**

The City provides its employees with a defined pension benefit upon retirement from the City. Employees are required to contribute between 1.0 to 6.5% of annual compensation to the System.

The City also provides retiree health care benefits to employees hired prior to 2008. These benefits are referred to as OPEB, or Other Post-Employment 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 2013 the asset value was \$547 million compared to an estimated liability of \$432 million, making the City's Pension System one of the top-funded systems in Michigan.

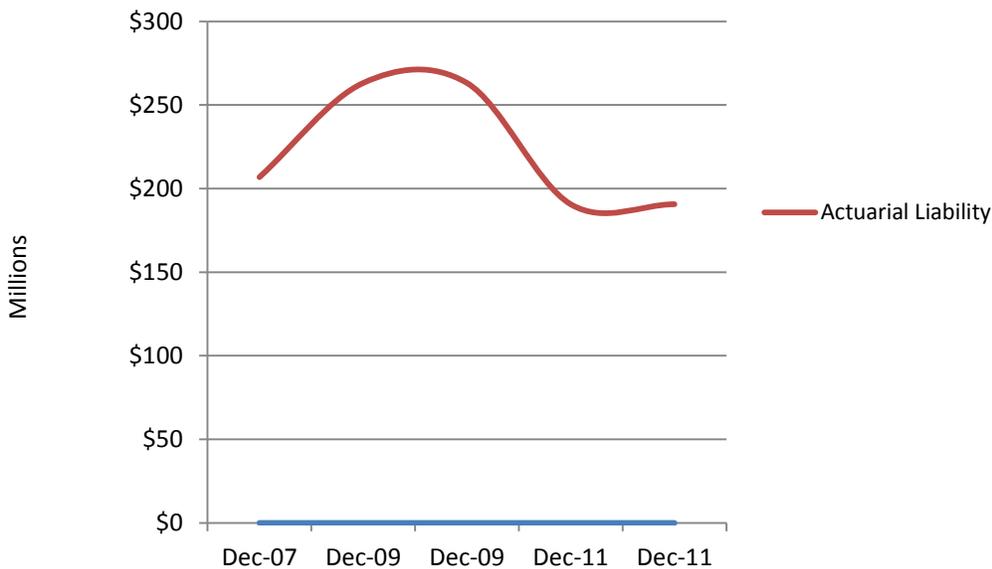
The Pension System's investments are managed by the Retirement Investment Committee, a group of prominent investment expert volunteers. The pension system's investments have performed incredibly well since the Committee's inception in 1982, averaging over 12% real rate of return. Due to its well-funded status, since 1997, the city has not been required to make contributions to the Pension System. However, the City has made voluntary contributions of \$905,746 in 2013 and 2012 as a commitment to make the Pension System whole for a pay out of Early Retirement Incentives.

**FIGURE 13**  
**City of Kalamazoo Annual Pension Costs**

	As of December 31,		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Actuarial Value of Assets	\$ 509,931,421	\$ 505,234,953	\$ 547,923,629
Actuarial Value of Liability (AAL)	\$ 380,802,126	\$ 420,711,365	\$ 432,148,526
Overfunded AAL (OAAL)	\$ 129,129,295	\$ 84,523,588	\$ 115,775,103
Funded Ratio	134%	120%	127%
Annual Covered Payroll	\$ 42,305,663	\$ 36,538,969	\$ 36,331,892
Ratio of OAAL to Covered Payroll	305.2%	231.3%	318.7%

For the year ended December 31, 2013 the City’s annual pension cost was \$-0-. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2013, 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.

**FIGURE 14**  
**Kalamazoo Other Post-Employment Benefits (Retiree Health Care)**



The City has achieved a long-standing goal whereby active employees pay for 20% of their total health care costs. This has been accomplished through collective bargaining with employee bargaining units, and also administratively with non-bargaining employee policies. This initiative has generated cost savings of over \$17 million for the City since its inception in 2005 and over \$4 million per starting in 2013.

The total Actuarially Accrued Liability (AAL) of \$191 million for OPEB equates to an “Annually Required Contribution” (or ARC) of roughly \$13.5 million. The City put aside \$7.7 million to invest for future retiree health care benefits 2013.

## *How This Report Was Developed*

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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/portal/government>