

Guide to Local Unit Finances

How City of Kalamazoo Spends Your Money

**2017 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.

Table of Contents

Welcome 1
How Governments Use Your Money2
 Where Citizen Dollars Go2
 Services That Governments Provide2
How Taxpayer Money Is Spent:
 Government Revenues and Expenditures 4
Kalamazoo’s Fiscal Health9
 Reserves and Major Fund Balances9
 Debt Levels 11
 Pension and Other Retiree Benefits 12
How This Report Was Developed 14
 Data Sources and Notes 14
 Other Sources and Links 14

Welcome

Greetings,

The City of Kalamazoo is proud to present this 2016 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 City, Village, and Township Revenue Sharing (CVTRS) 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. These business-type activities are not shown here as they recover their costs through use charges. The City's audited financial reports provide the information in this report.

WHERE CITIZEN DOLLARS GO

In 2018, the City of Kalamazoo is budgeted to collect \$87.2 million in governmental fund revenues to provide services to its residents. Property tax collections would provide \$23.9 million of these resources, the Federal Government would distribute \$2.1 million in the form of entitlement and block grants, and the State of Michigan would return \$11.4 million in the form of state revenue sharing, gas & weight taxes, funds and other miscellaneous grants and reimbursements. Revenues from licenses, permits, and fees are generated to offset the cost of building and housing inspections, and recreational programming.

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 Central County Transportation Authority (CCTA) provides transportation services for the City and the surrounding area. The approved 0.75 mil property tax and Federal Government subsidies supports the fixed-route bus system. The millage is anticipated to collect an estimated \$3.5 million beginning in the summer of 2016 and will fund increased service hours, Sunday service for most of the bus routes and increased frequencies on some of the busiest routes allowing passengers quicker travel to destinations.

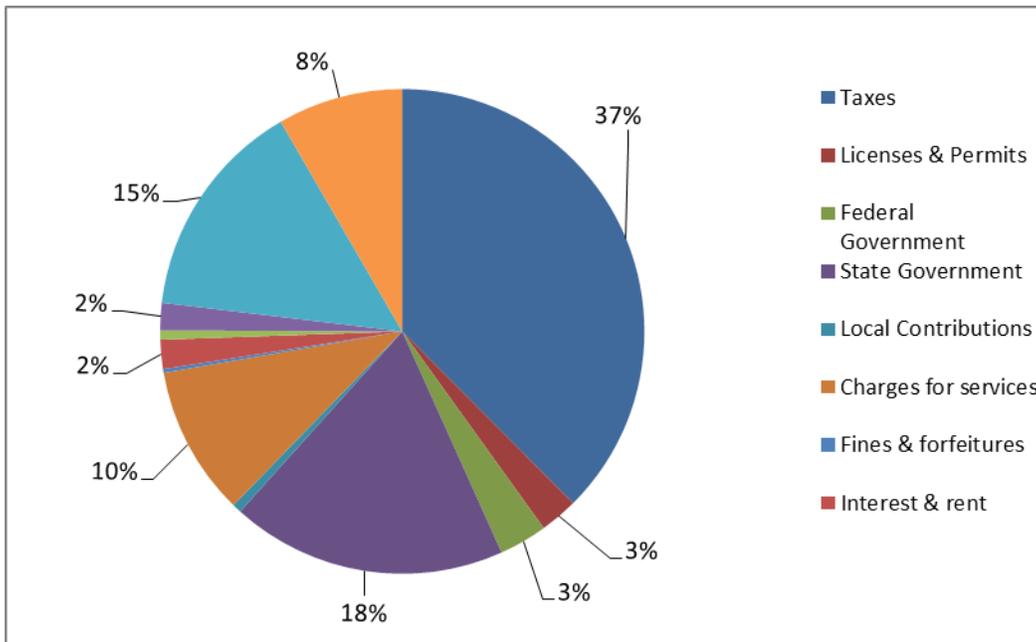
*How Taxpayer Money is Spent:
Government Revenues and Expenditures*

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 2016



Taxes are the City’s largest revenue source in FY2016 making up 37.53% and \$35.3 million in revenue. The second largest revenue source is State and Local government of 19.0% and \$17.9 million. Together these two sources are 56.5% of Governmental Fund revenues.

Charges for services include building and housing inspections, parks and recreation user fees, governmental administration fees, tax collection fees, and parking reinforcement. Charges for services represent 9.9% or \$9.4 million of the City’s revenues.

Net inter-fund transfers are a transfer of resources between “funds” of the City, which are primarily offset by expenses transfers. In 2016, governmental funds transferred in \$13.9 million and transferred out \$9.9 million. The balance of \$3.4 million includes a \$650 thousand transfer from the Economic Development to the General Fund as a refund of advances in previous years.

FIGURE 2
City Revenue Comparative Years

Revenues	2011	2012	2013	2014	2015	2016	2016/2015 % change
Taxes	\$ 35,163,954	\$ 32,665,097	\$ 31,172,950	\$ 31,922,256	\$ 32,258,838	\$ 35,378,011	9.67%
Licenses & permits	1,897,096	1,641,248	2,060,482	2,183,405	2,464,874	2,398,388	-2.70%
Federal	12,855,483	7,637,415	2,914,185	3,169,702	2,942,727	3,017,001	2.52%
State and Local	15,385,807	14,783,681	16,077,952	16,192,389	17,894,121	17,920,821	0.15%
Charges for services	10,318,577	9,022,197	9,173,002	9,571,894	10,283,027	9,413,201	-8.46%
Fines & forfeitures	642,680	280,426	262,385	529,900	222,239	232,173	4.47%
Interest & rent	3,304,621	3,219,392	2,936,162	2,568,116	2,064,308	1,832,803	-11.21%
Net investment earnings	(370,143)	688,741	1,053,215	191,328	(349,763)	585,136	267.29%
Other revenue	1,474,703	1,902,634	1,129,797	1,434,156	1,342,149	1,710,766	27.46%
Net interfund transfers	16,291,542	11,821,576	11,376,270	11,699,633	13,303,995	13,901,129	4.49%
Sale of debt or assets	5,003,404	4,431,550	4,080,115	5,531,930	88,985,189	7,886,106	-91.14%
Total Revenues	\$ 101,967,724	\$ 88,093,957	\$ 82,236,515	\$ 84,994,709	\$ 171,411,704	\$ 94,275,535	-45.00%

Property tax revenue increased in 2016 by 9.67% as compared to 2015. A portion of this increase is due to the city changing the methodology for recognizing property taxes from Non-GAAP (Generally Accepted Accounting Principles) to a GAAP basis. The city is still experiencing a slow recovery, and overall has experienced a decline in projected annual property tax revenues of over \$70 million since 2009 (over \$7 million annually on average), primarily due to a decline in commercial and residential property values.

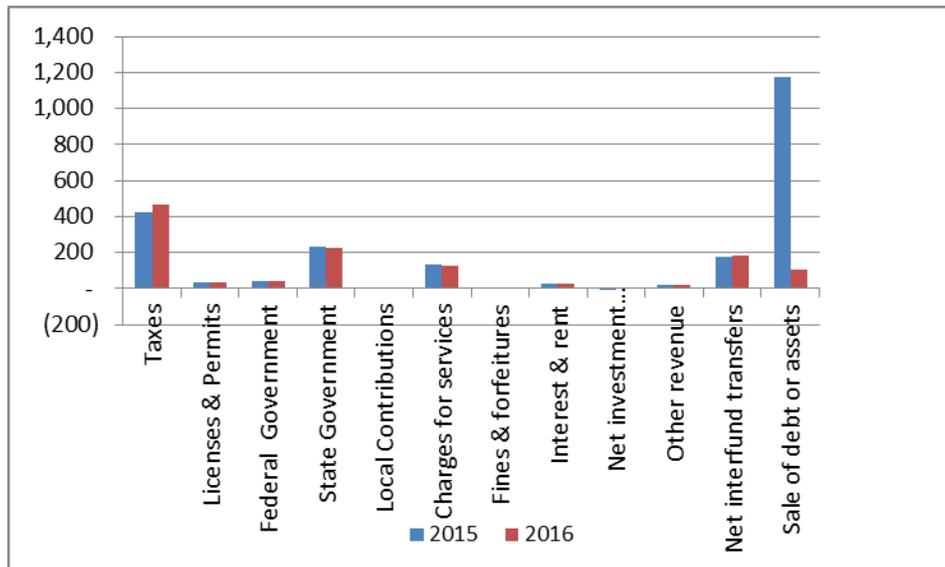
Licenses & permits decreased by 2.7% or \$66.4 thousand as compared to 2015 this is due to a slight decline in permits issued and the city will continue to improvement enforcements, rental inspections, cable TV license fees, and permits.

State payments known as the City, Village, Township Revenue Sharing (CVTRS) program increased by 1% from 2015 to 2016 with a total of \$8.5 million in payments. In addition, Fire reimbursement revenue (which is State funding 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 \$460 thousand in 2016 to \$1.3 million. There was also a \$156 thousand dollar increase in Street funding from the State in the form of Gas and Weight Tax payments.

The fiscal year 2016 increase in net investment earnings of 267% is based on the recovery of investment returns in the Cemetery Perpetual Care Fund, the Friends of Recreation Endowment Fund, and the Mayor's Riverfront Park Fund.

The City sale of debt or assets is primarily related to bond issuances for capital improvements to facilities, equipment and Major and Local street projects. The sale of bonds in 2016 decreased by 91.4% due to the sale of OPEB bonds of \$83 million in 2015 to stabilize the operating budget impacted by the rising cost of retiree healthcare.

FIGURE 3
Revenue Sources per Capita – Comparison to Prior Year



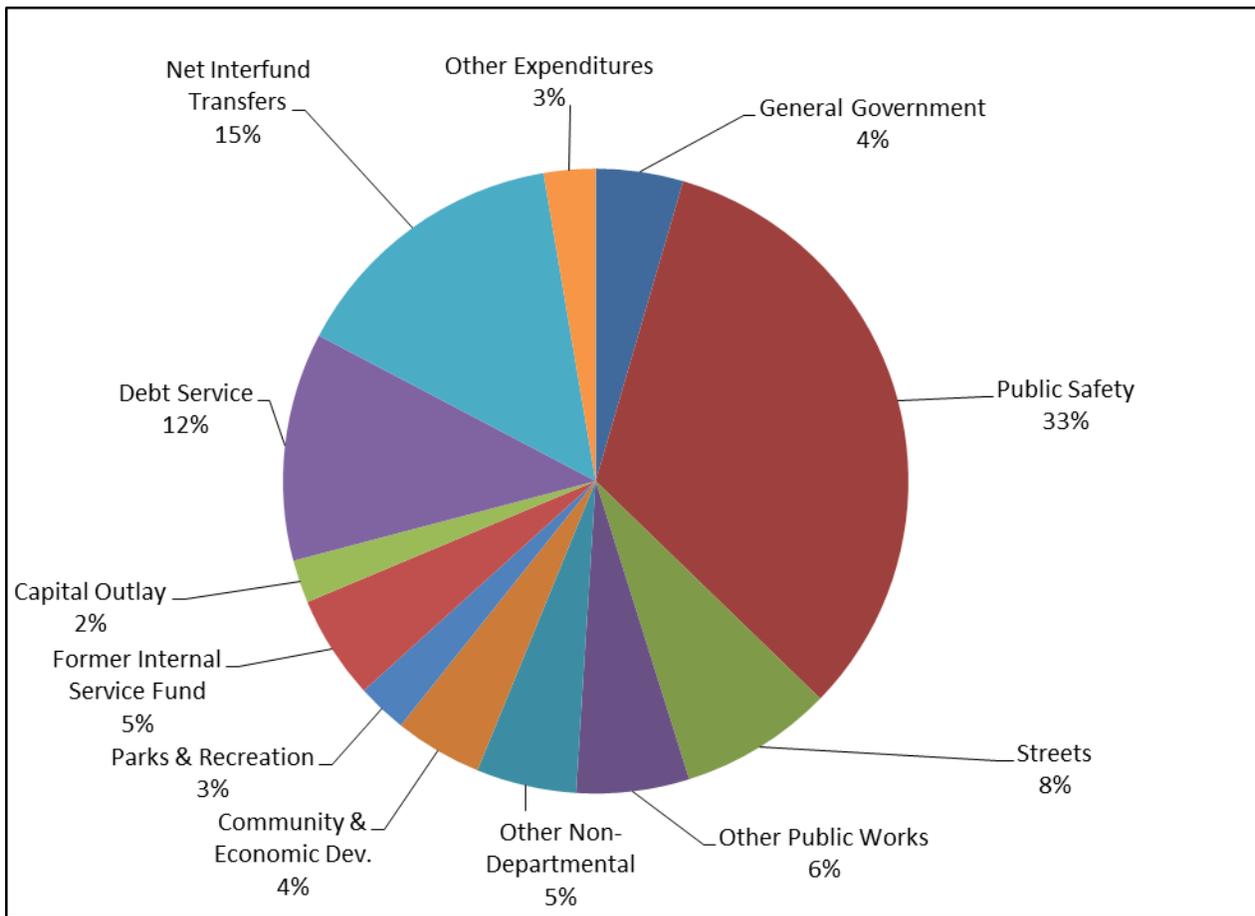
The primary source of revenue is property taxes with approximately \$465 collected per person to provide the City's services. State revenue varies from year to year depending on grants received for service programs, gas and weight tax, fire reimbursement and state revenue sharing. State and local revenue received was at the same level in 2016 as 2015 with per capita revenue of \$236.

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

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 2016



Public Safety expenditures accounted for the largest category in FY 2016 comprising 33% or \$30.5 million of governmental activities. The City spent \$7.3 million on streets and an additional \$5.4 million on other public works including forestry and sidewalks. Community and Economic development can vary from year to year based activities, and the programs being federally funded. In 2016, these activities represented \$4.2 million in expenses.

Debt service represents 12% or approximately \$11 million of expenses in 2016. This represents the payment of the City's debt obligations for principal and interest on outstanding bonds.

FIGURE 5
Expenditures Five Year Comparison

Expenditures	2012	2013	2014	2015	2016	2016/2015 % Change
General Government	\$ 3,875,163	\$ 3,398,338	\$ 3,399,912	\$ 3,693,256	\$ 4,207,765	13.93%
Public Safety	\$ 32,805,831	\$ 32,188,577	\$ 32,709,081	\$ 28,739,910	\$ 30,528,266	6.22%
Streets	\$ 6,854,998	\$ 7,143,870	\$ 6,841,434	\$ 6,062,550	\$ 7,379,742	21.73%
Other Public Works	\$ 5,167,369	\$ 5,469,373	\$ 5,586,386	\$ 4,124,324	\$ 5,438,515	31.86%
Other Non-Departmental	\$ 3,161,774	\$ 2,793,985	\$ 2,254,801	\$ 3,285,071	\$ 4,820,929	46.75%
Community & Economic Dev.	\$ 8,562,088	\$ 4,682,899	\$ 4,653,733	\$ 4,599,775	\$ 4,231,956	-8.00%
Parks & Recreation	\$ 2,359,248	\$ 2,129,592	\$ 2,222,040	\$ 2,103,538	\$ 2,412,924	14.71%
Former Internal Service Fund	\$ 5,724,022	\$ 5,750,260	\$ 5,829,702	\$ 4,922,814	\$ 5,009,750	1.77%
Capital Outlay	\$ 1,338,386	\$ 2,123,126	\$ 1,595,160	\$ 6,964,052	\$ 2,072,309	-70.24%
Debt Service	\$ 8,028,365	\$ 8,261,467	\$ 9,151,744	\$ 27,653,348	\$ 11,016,644	-60.16%
Net Interfund Transfers	\$ 9,887,596	\$ 10,485,854	\$ 9,389,594	\$ 9,929,674	\$ 13,631,118	37.28%
Other Expenditures	\$ -	\$ -	\$ -	\$ 66,965,712	\$ 2,491,300	-96.28%
Total Expenditures	\$ 87,764,840	\$ 84,427,341	\$ 83,633,587	\$ 169,044,024	\$ 93,241,218	-44.84%

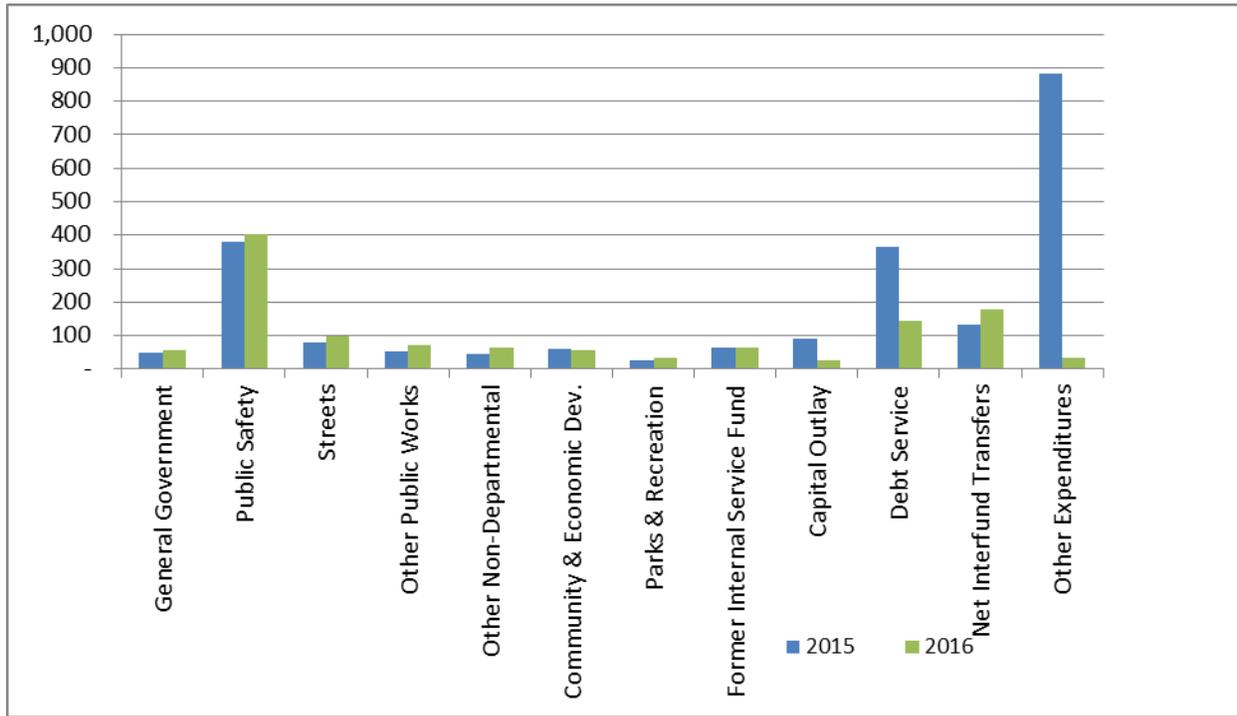
As of the end of fiscal year 2016 Public Safety represents \$30.5 million and 6.2% of the City's expenditures. Public Safety expenditures increased by \$1.8 million primarily in salaries and overtime. The spike in expense during 2015 was due to the sale of \$89 million in bonds to fund the OPEB trust and stabilize the city's retiree healthcare costs.

Community and Economic Development expenditures decreased by 8% to \$4.2 million due to staffing vacancies, while streets spending increased 21.7% in 2016 as compared to 2015.

Other non-departmental expenditures increased by \$1.5 million 46.7% compared to 2015. These expenditures support the City rather than a specific department or program and includes the cost of street light electricity, commission initiatives, and outside contractual services.

Debt service decreased by \$16.6 million and 60.2% due to the OPEB bonding which occurred in 2015. The other expenditures includes annual contribution by the governmental funds to the OPEB Trust to fund retiree healthcare.

FIGURE 6
Government Spending per Capita Prior Year Comparison



The majority of government spending per capita is for Public Safety with \$401 dollars spent per Citizen in 2016. Total expenditures per capita are \$1,226 for 2016 compared to \$2,227 in 2015. Government decreased overall by \$75.8 million in 2016 which is the net of the OPEB bonding in 2015 and nominal increases in operating expenses and salaries.

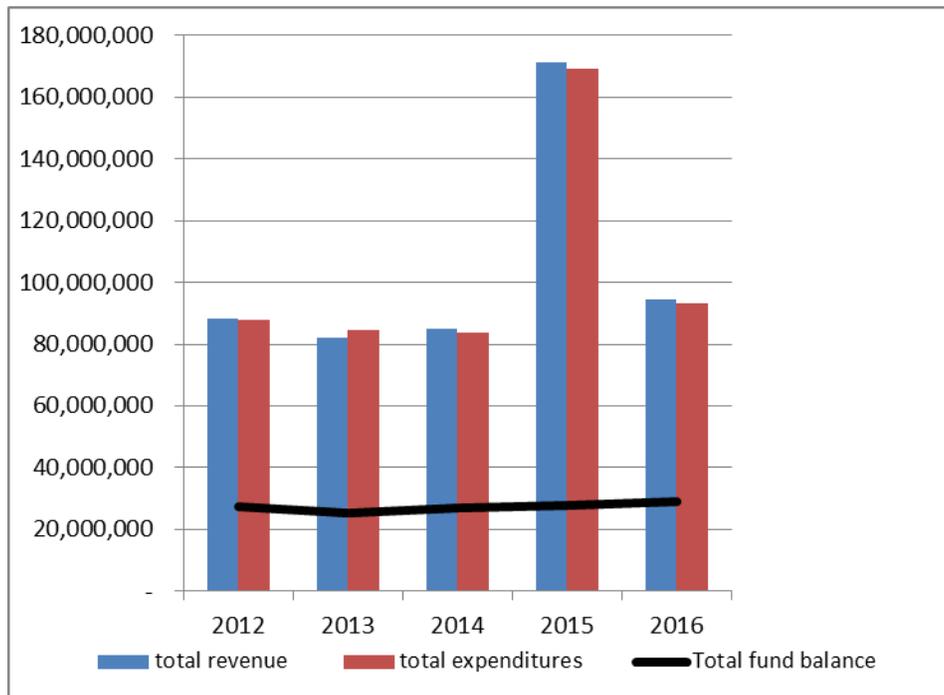
FUND BALANCES:

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 2016 fiscal year, the City’s Governmental funds reported a combined fund balance of \$28.9 million. Approximately \$6.9 million of the total fund balance is available for spending at the government’s discretion (“unassigned fund balance”). The peak in fund balance in 2015 is due to the OPEB bonding for retiree healthcare.

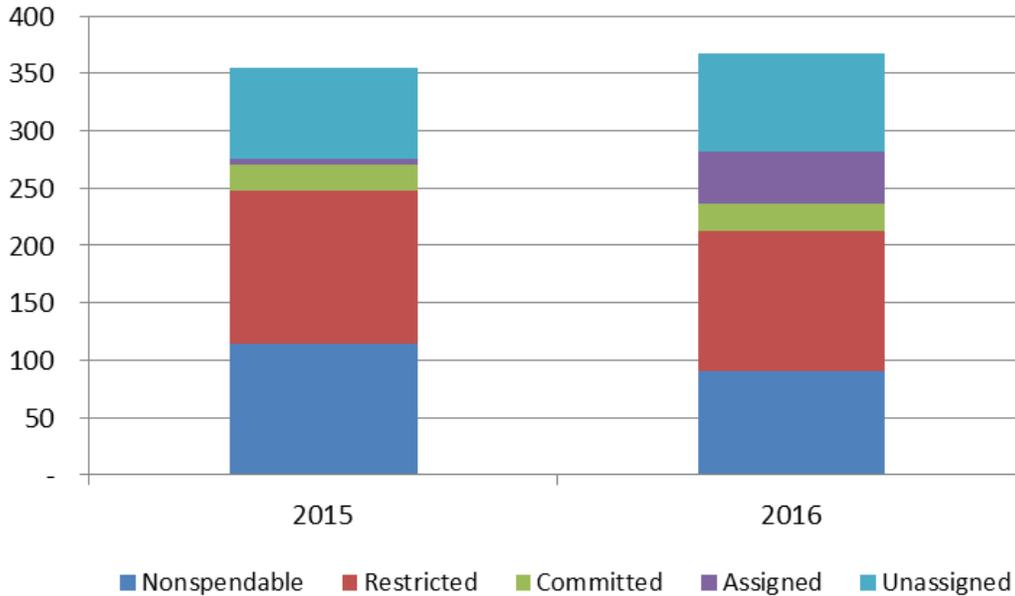
FIGURE 8

Governmental Fund Five Year Comparison

	2012	2013	2014	2015	2016	2016/2015 % change
Revenue	88,093,957	82,236,515	84,994,709	171,411,704	94,275,535	-45%
Expenditures	87,764,840	84,427,341	83,633,587	169,044,024	93,241,218	-45%
Surplus (shortfall)	329,117	(2,190,826)	1,361,122	2,367,680	1,034,317	-56%
Fund balance, by component:						
Nonspendable	9,324,851	8,412,446	8,626,327	6,841,619	6,961,277	2%
Restricted	9,630,830	10,419,028	10,133,623	9,337,109	10,320,453	11%
Committed	1,545,097	1,710,413	1,660,293	1,741,297	841,999	-52%
Assigned	3,503,397	922,527	403,248	3,459,061	2,703,090	-22%
Unassigned	3,557,092	3,921,706	5,975,442	6,533,218	8,120,863	24%
Total Fund Balance	27,561,267	25,386,120	26,798,933	27,912,304	28,947,682	4%

The increase in the Non-spendable fund balance of \$119 thousand or 2% is attributed to issuing new notes receivable in Economic Development. The 11% increase in restricted fund balances is due to incremental changes in restricted balances across the funds most noticeably in Cemetery Perpetual care and Capital Improvements. Committed fund balance decreased by 52% primarily due to finalizing Economic Development projects. The assigned fund balance is the amount set aside in General Fund for the subsequent year’s expenditures. The decrease is due to having less encumbered expenses compared to FY 2015. The Unassigned fund balance had a 24% increase in 2016 compared to 2015.

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

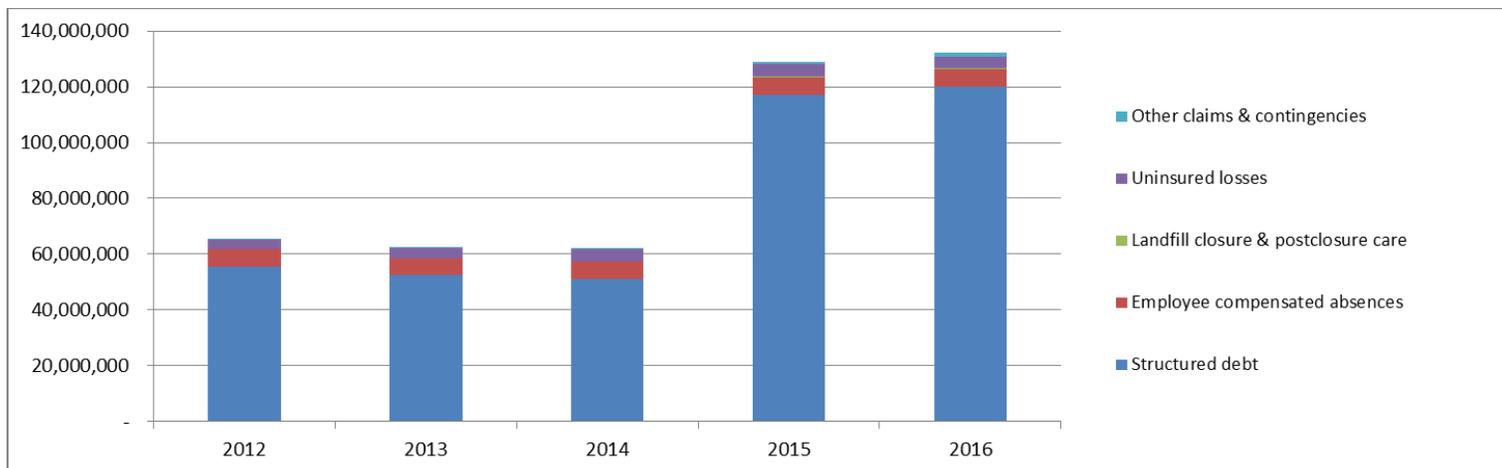


As of the close of the fiscal year 2016 the City's governmental funds had approximately \$28.9 million or \$381 per citizen. The Unassigned funds are approximately \$8.1 million or \$107 per citizen.

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



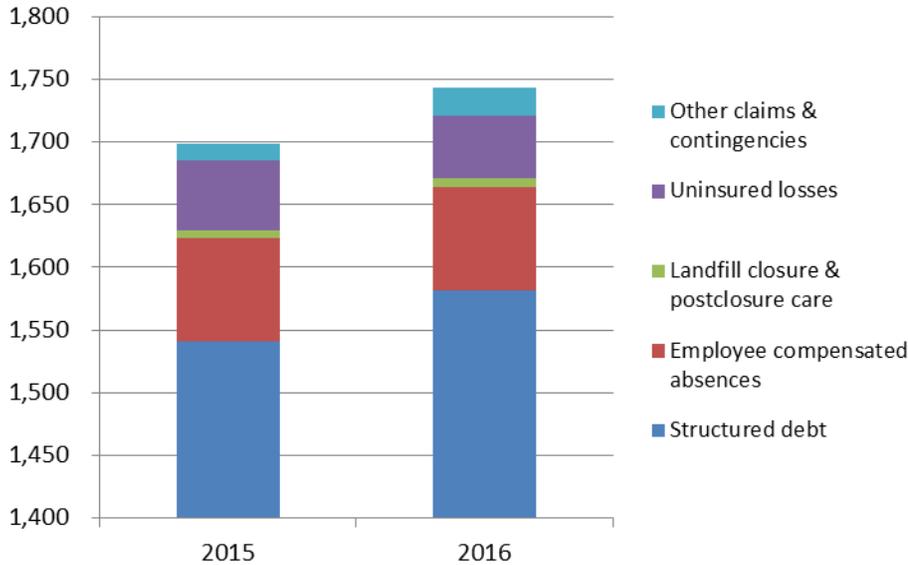
The City's long term obligation at December 31, 2016 totaled \$132 million. The City's balance of bonded debt (structured debt) increased by \$3.0 million in 2016.

Employee compensated absences represent accrued sick, vacation, and other leave time employees have earned, but have not used. At the end of 2016, the City owed employees \$6.3 million for these balances, with a decrease of \$35 thousand compared to 2015.

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 2016, these obligations totaled \$3.78 million representing a decrease of \$462 thousand from 2015.

FIGURE 11

City Debt and Other Long Term Obligations per Capita



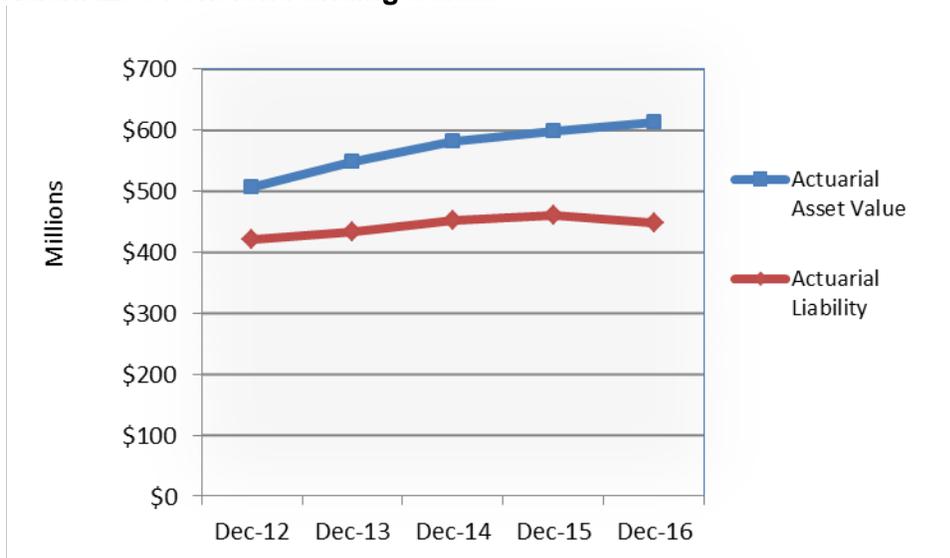
As of the end of fiscal year 2016 the City's total debt per capita is \$1,743 per citizen, with \$1,582 being structured debt.

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 2016 the asset value was \$613 million compared to an estimated liability of \$448 million, making the City's Pension System one of the top-funded systems in Michigan.

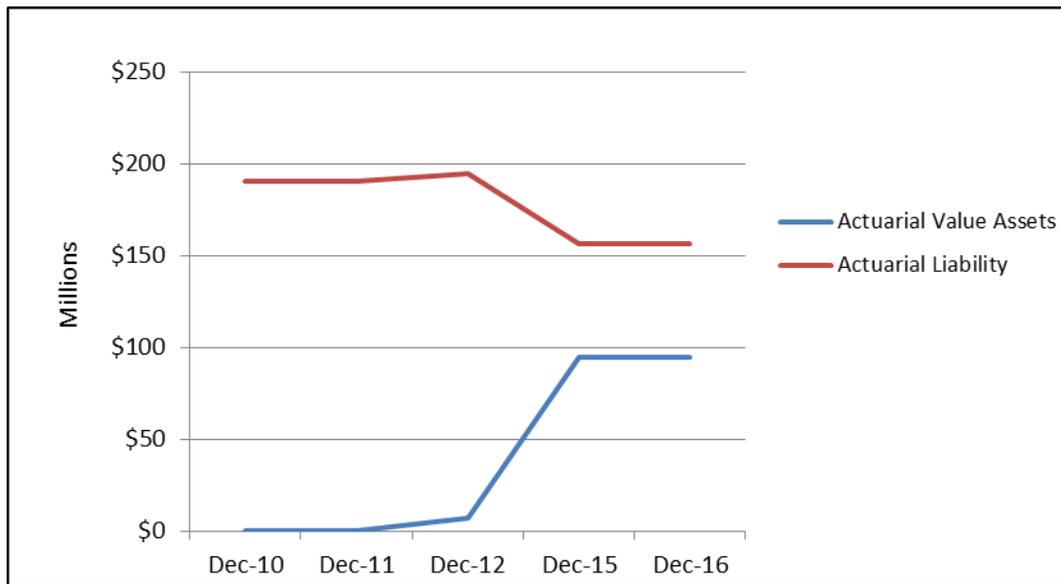
The Pension System's investments are managed by the Retirement Investment Committee, a group of prominent investment expert volunteers. The pension system's investments have performed incredibly well since the Committee's inception in 1982, averaging over 12% real rate of return. Due to its well-funded status, since 1997, the city has not been required to make contributions to the Pension System.

FIGURE 13
City of Kalamazoo Annual Pension Costs

	As of December 31, 2016			
	2013	2014	2015	2016
Actuarial Value of Assets	\$ 547,923,629	\$ 580,220,033	\$ 596,998,070	\$ 613,027,375
Actuarial Value of Liability (AAL)	\$ 432,148,526	\$ 452,381,149	\$ 460,133,623	\$ 448,065,551
Overfunded AAL (OAAL)	\$ 115,775,103	\$ 127,838,884	\$ 136,864,447	\$ 164,961,824
Funded Ratio	127%	128%	130%	137%
Annual Covered Payroll	\$ 37,509,463	\$ 37,198,788	\$ 37,291,474	\$ 38,760,334
Ratio of OAAL to Covered Payroll	318.7%	343.7%	367.0%	367.0%

For the year ended December 31, 2016 the City's annual pension cost was \$-0-. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2016, 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 4.0% 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 instituted a graduated plan to require all active employees to pay for 20% of their total health care costs. This has been accomplished through collective bargaining with employee unions, and also administratively with non-bargaining employee policies. This initiative has generated millions of dollars of cost savings.

The OPEB trust is 60% funded with assets of approximately \$95 million with an Actuarially Accrued Liability (AAL) of \$157 million. In January 2015 the City issued \$90 million of bonds to finance the City's retiree health care liabilities, and has committed to making annual fixed contributions of \$3.5 million to the City's OPEB Trust Fund to finance the balance of the liabilities over the next 30 years. The City has signed agreements with the union bargaining units to ensure that retiree health care benefits will be revisited periodically, and ensure the OPEB Trust Fund can afford to pay the cost of retiree health care without additional contributions from the City's operating funds.

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/portal/government>