

Citizen's Guide to Local Finances



October 2015

Affirmative Action
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FAX (231)722-1214

Assessor
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FAX (231)726-5181

Cemetery
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FAX (231)726-5617

City Manager
(231)724-6724
FAX (231)722-1214

Civil Service
(231)724-6716
FAX (231)724-4405

Clerk
(231)724-6705
FAX (231)724-4178

Comm. & Neigh.
Services
(231)724-6717
FAX (231)726-2501

Engineering
(231)724-6707
FAX (231)727-6904

Finance
(231)724-6713
FAX (231)724-6768

Fire Department
(231)724-6792
FAX (231)724-6985

Income Tax
(231)724-6770
FAX (231)724-6768

Info. Technology
(231)724-4126
FAX (231)722-4301

Inspection Services
(231)724-6715
FAX (231)728-4371

Leisure Services
(231)724-6704
FAX (231)724-1196

Mayor's Office
(231)724-6701
FAX (231)722-1214

Planning/Zoning
(231)724-6702
FAX (231)724-6790

Police Department
(231)724-6750
FAX (231)722-5140

Public Works
(231)724-4100
FAX (231)722-4188

Treasurer
(231)724-6720
FAX (231)724-6768

Water Billing
(231)724-6718
FAX (231)724-6768

Water Filtration
(231)724-4106
FAX (231)755-5290

MUSKEGON



West Michigan's Shoreline City
www.shorelinecity.com

October 2015

Dear Citizens:

This *Citizen's Guide* is published in accordance with the requirements of the City, Village, and Township Revenue Sharing/County Incentive Program (CVTRS). We have used state-recommended reporting templates in preparing the Guide. Because of the required timeframe for submission, it is not possible to include audited financial data for the most recently completed fiscal year - June 30, 2015.

The following information is included in this *Citizen's Guide*:

1. Summary of revenues including historical trends and description of sources;
2. Summary of expenditures including historical trends and description of uses;
3. Summary of the city's financial position and fund balance levels;
4. Summary of long-term debts including pension and retiree healthcare legacy costs;
5. Projected budget report of revenues and expenditures including the current fiscal year and a projection for the immediately following year (including assumptions used) and,
6. Debt service report containing a detailed listing of the city's debt service requirements, including the issuance date, issuance amount, type of debt instrument, a listing of all revenues pledged to finance debt service by debt instrument, and a listing of the annual payment amounts.

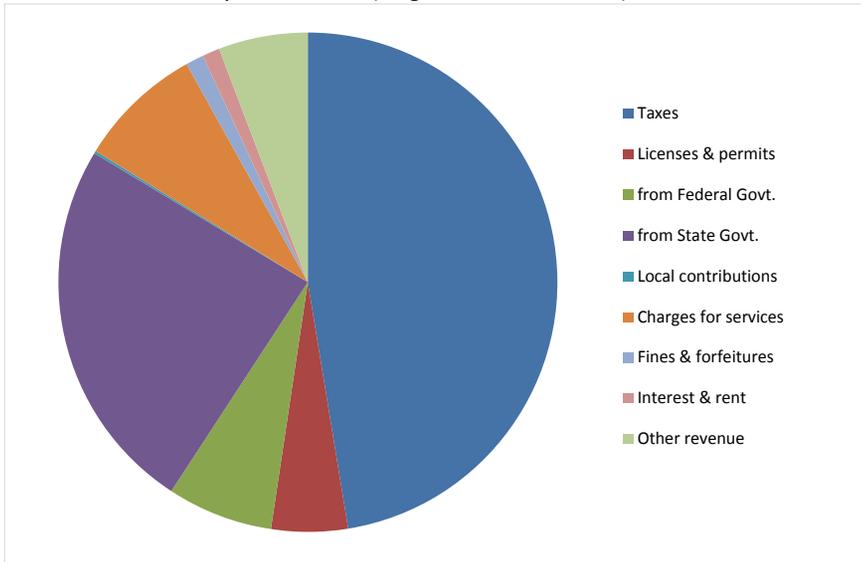
Also in accordance with CVTRS, the City has published and updated on its website an interactive performance measurement dashboard that monitors performance trends in four key areas: *Fiscal Stability, Economy, Quality of Life, and Public Safety*. The City's Dashboard can be accessed at: <http://www.muskegon-mi.gov/city-of-muskegon-dashboard/>

We hope that the *2015 Citizen's Guide to Local Finances* together with the City's performance dashboard enhances the City's transparency and public accountability. If you have any questions or comments, you can email them to finance@shorelinecity.com or call 231.724.6713.

Thank you.

City of Muskegon

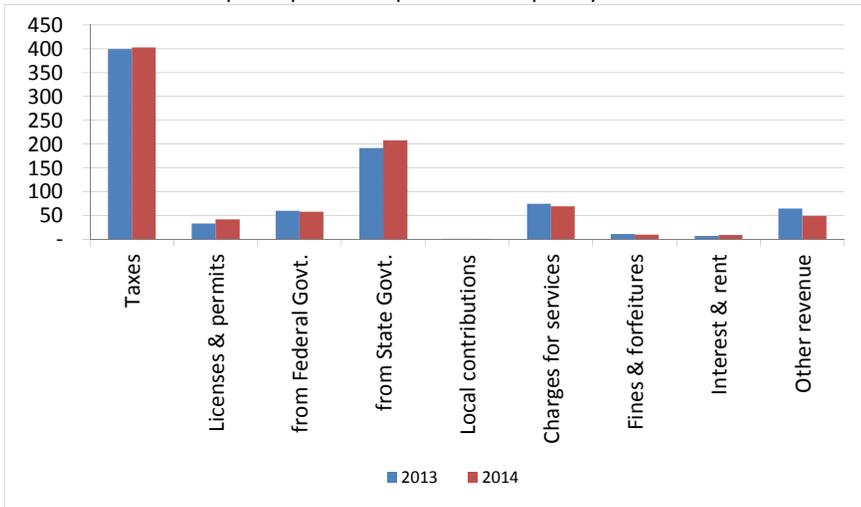
1. Where our money comes from (all governmental funds)



2. Compared to the prior year

	2013	2014	% change
Taxes	\$ 14,862,898	\$ 15,002,879	1%
Licenses & permits	1,238,284	1,570,137	27%
From Federal Govt.	2,229,112	2,164,496	-3%
From State Govt.	7,124,442	7,730,569	9%
Local contributions	50,000	50,000	0%
Charges for services	2,769,227	2,569,335	-7%
Fines & forfeitures	405,021	370,716	(0)
Interest & rent	267,397	352,153	0
Other revenue	2,400,871	1,835,265	-24%
Total	\$ 31,347,252	\$ 31,645,550	1%

3. Revenue sources per capita - compared to the prior year



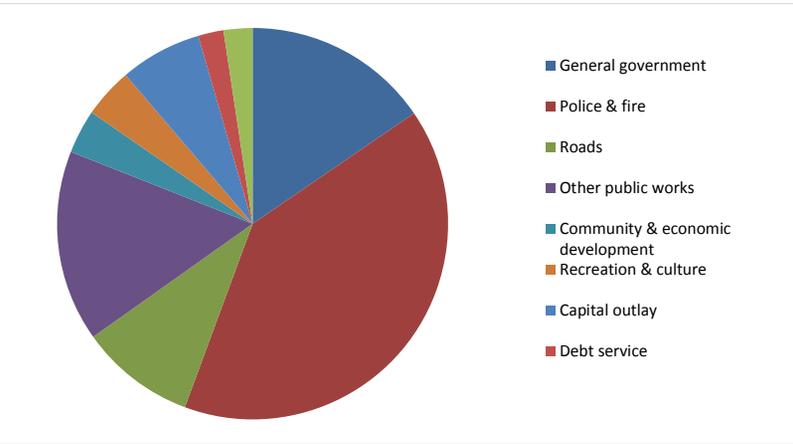
4. Historical trends of individual sources



Commentary: The City of Muskegon receives most of its income from local taxes - property and local income taxes. Revenues from the state - in the form of general revenue sharing and gas tax receipts earmarked for street maintenance - are the second biggest source of income. Total revenues slightly increased between 2013 and 2014 primarily due to an increase in revenue from the State government, along with increases in licenses and permits and taxes collected.

NOTE: In 2010 the City changed its fiscal year from a 12/31 year-end to a 6/30 end date. Thus, figures shown above for 2010 represent a shortened six-month transition

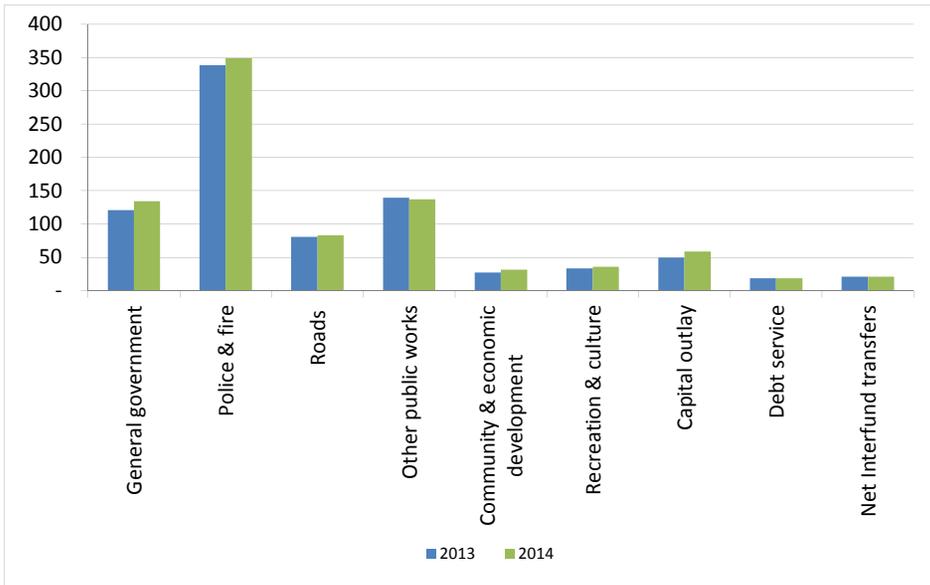
1. Where we spend our money (all governmental funds)



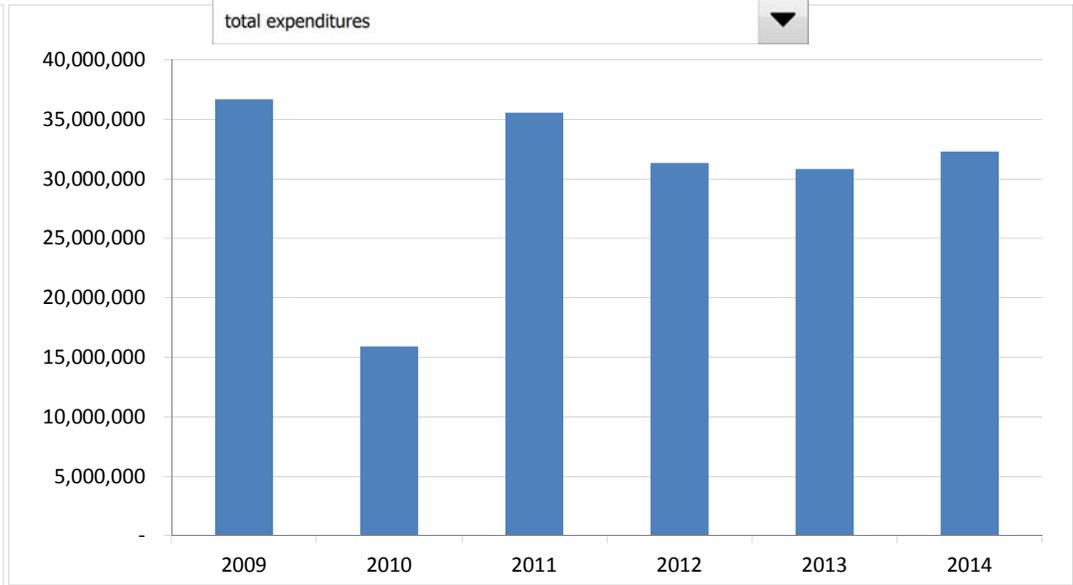
2. Compared to the prior year

	2013	2014	% change
General government	\$ 4,504,172	\$ 4,990,275	11%
Police & fire	12,589,616	12,987,898	3%
Other public safety	-	-	n/a
Roads	2,996,380	3,086,722	3%
Other public works	5,196,653	5,109,671	-2%
Health & welfare	-	-	n/a
Community & economic development	1,001,715	1,171,291	17%
Recreation & culture	1,231,545	1,330,851	8%
Capital outlay	1,851,483	2,185,683	18%
Debt service	687,765	680,904	-1%
Unallocated fringes & insurance	-	-	n/a
Net Interfund transfers	784,275	771,081	-2%
total expenditures	\$ 30,843,604	\$ 32,314,376	5%

3. Spending per capita - compared to the prior year



4. Historical trends of individual departments:

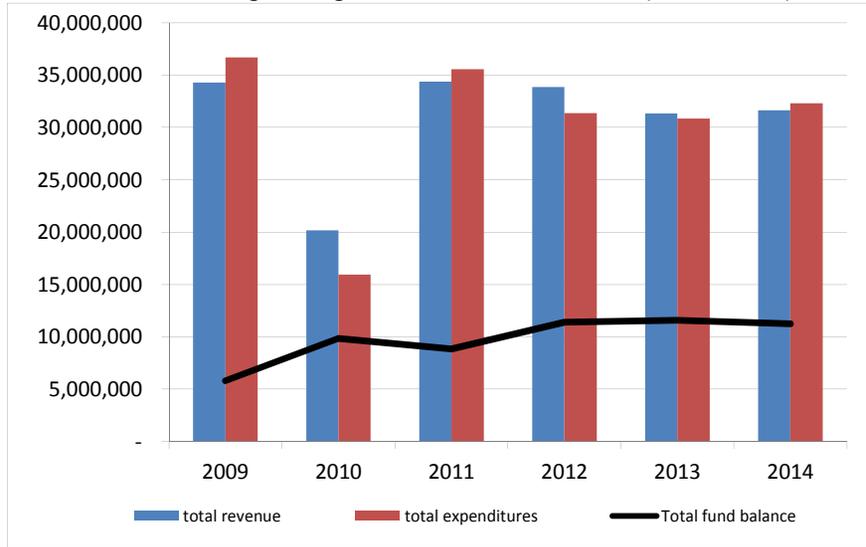


Commentary: The charts above summarize how the City spends its money. By far, the largest share of the expenditure pie goes to public safety (fire and police). Roads and other public works account for the second largest category of expenditure.

NOTE: In 2010 the City changed its fiscal year from a 12/31 year-end to a 6/30 end date. Thus, figures shown above for 2010 represent a shortened six-month transition period (i.e. 1/1/10 through 6/30/10). This should be taken into account when making year to year comparisons.

CITIZENS' GUIDE TO LOCAL UNIT FINANCES - City of Muskegon

1. How have we managed our governmental fund resources (fund balance)?

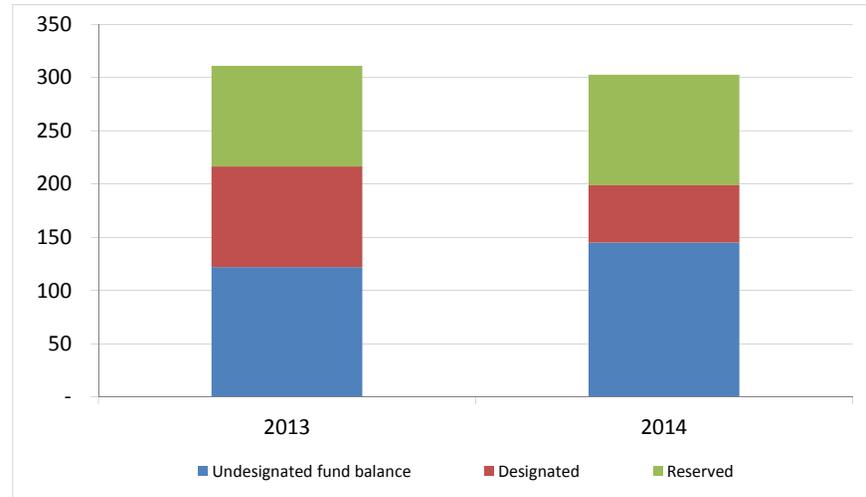


FINANCIAL POSITION

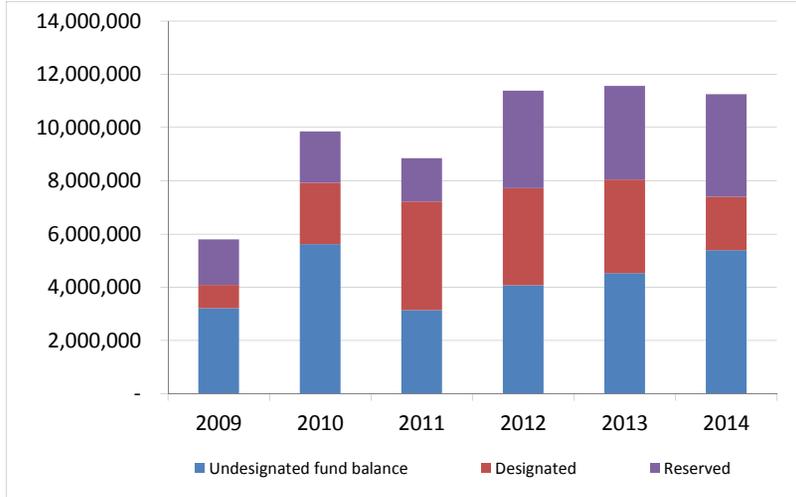
2. Compared to the prior year

	2013	2014	% change
Revenue	31,347,252	31,645,550	1%
Expenditures	30,843,604	32,314,376	5%
Surplus (shortfall)	503,648	(668,826)	-233%
Fund balance, by component:			
Reserved	3,516,330	3,862,248	10%
Designated	3,520,695	2,000,436	-43%
Undesignated	4,531,674	5,395,091	19%
total fund balance	11,568,699	11,257,775	-3%

3. Fund balance per capita - compared to the prior year



4. Historical trends of individual components



Commentary: The City's governmental fund balance position decreased 3% between FY13 and FY14. The decrease is attributable primarily to the impact of increased costs for goods and services in a sluggish economy.

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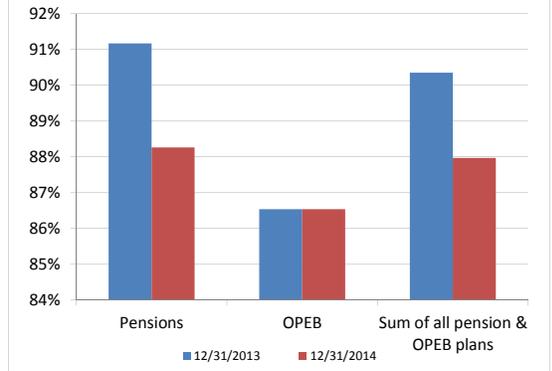
1. Pension funding status



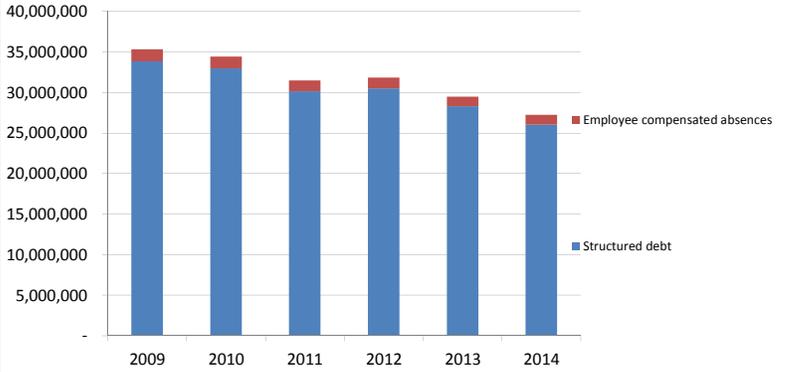
2. Retiree Health care (OPEB) funding status



3. Percent funded - compared to the prior year



4. Long Term Debt obligations:



5. Debt & other long term obligations per capita - compared to the prior year



Commentary: The City is fortunate to have comparatively well-funded retirement plans. For many state and cities throughout the US, large unfunded liabilities are causing severe financial problems. As of the 12/31/14 actuarial valuation (most recent available), the City's pension system was 88% funded. As of the 12/31/13 OPEB actuarial valuation (most recent available), the City's retiree healthcare plan is 87% funded.

A March 2013 study ("*Funding the Legacy - The Cost of Municipal Workers' Retirement Benefits to Michigan Communities*") reported that Muskegon had one of the 10 best funded OPEB plans in Michigan for communities in the 30,000 to 200,000 population range. It is worth noting that the study was based on 12/31/09 OPEB valuations - at which time Muskegon's funding level was 55%. The 12/31/13 valuation showed the funding level stood at an even better 87%.

The City's long-term debt load from borrowing for things like streets, fire stations and water plant improvements is comparatively low and trending downward. Per capita "structured debt" declined between 2013 and 2014 due to: no new debt issued during the year with payments towards principal on existing debt.

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Characteristics of the 10 local units with highest funded status in the 30,001-200,000 population category are shown in Figure 13. Characteristics of 10 Local Units with the Highest Funded OPEB Plans in the 30,001-200,000 Population Category.

These units demonstrate progressive efforts to confront the OPEB liability: closing the plan to new hires, introducing employee and/or retiree cost participation, implementing a healthcare savings plan (HCSP), and benefitting from investment earnings on plan assets. Though this cursory analysis doesn't explain why these units began prefunding,

the overall characteristics indicate strong management and oversight.

How does OPEB prefunding compare to defined-benefit pension funding?

Pensions are a natural benchmark for OPEB because of the similarities noted earlier. Pensions in the cities that also provide OPEB are funded overall at 86 percent (see Figure 14, Funded Status of Pension Plans). Of the 284 local units in this OPEB analysis, 247 provide a defined benefit pension plan.

Local Unit Name	County	OPEB Liability	OPEB Liability Funded Status	OPEB DB Plan Status	Some Level of OPEB Cost Participation Disclosed?	Offers HCSP?	Administrator?
Kentwood	Kent	\$ 1,708,613	109%	Open	yes		no
Portage	Kalamazoo	4,138,629	107%	Open	no		yes
Troy	Oakland	89,952,000	67%	Open	yes		yes
Macomb Township	Macomb	16,794,869	64%	Open	no		no
Farmington Hills	Oakland	74,937,594	59%	Open	yes		yes
Rochester Hills	Oakland	3,475,690	59%	Closed	no	yes	yes
Muskegon	Muskegon	24,024,000	55%	Open	no		yes
Novi	Oakland	19,936,733	46%	Both	yes	yes	yes
West Bloomfield							
Charter Township	Oakland	54,464,291	41%	Both	no		no
Livonia	Wayne	153,223,000	39%	Both	yes	yes	yes

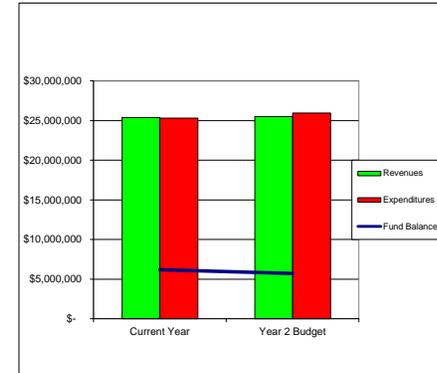
Figure 13. Characteristics of 10 Local Units with the Highest Funded OPEB Plans in the 30,001-200,000 Population Category.

Projected Budget Report

Local Government Name:	City of Muskegon
Local Unit Code:	612020
Current Fiscal Year End Date:	30-Jun-16
Fund Name:	General

	Current Year Budget (FY 2016)	Estimated Annual Percentage Change Year 2
REVENUES		
Property Taxes	\$ 7,389,000	-1%
State Revenue Sharing	\$ 4,011,659	1%
Income Tax	\$ 7,830,000	1%
Fines & Fees	\$ 402,000	0%
Licenses & Permits	\$ 1,391,000	1%
Interest Income	\$ 12,000	0%
Grant Revenues	\$ 84,862	0%
Other Revenues	\$ 4,279,632	1%
Total Revenues	\$ 25,400,153	
EXPENDITURES		
Salaries & Benefits	\$15,314,573	3%
Operating Supplies	\$ 532,309	1%
Contractual Services	\$ 7,776,198	1%
Other Expenditures	\$ 113,174	1%
Special	\$ -	0%
Property & Liability Insurance	\$ 256,811	1%
Contingency	\$ 200,000	25%
Capital Outlays	\$ 220,944	0%
Debt Service	\$ 271,000	0%
Transfers to Other Funds	\$ 633,046	8%
Total Expenditures	\$ 25,318,055	
Net Revenues (Expenditures)	\$ 82,098	
Beginning Fund Balance	\$ 6,103,496	
Ending Fund Balance	\$ 6,185,594	

	Year 2 Budget (FY 2017)
REVENUES	
Property Taxes	\$ 7,315,110
State Revenue Sharing	\$ 4,051,776
Income Tax	\$ 7,908,300
Fines & Fees	\$ 402,000
Licenses & Permits	\$ 1,404,910
Interest Income	\$ 12,000
Grant Revenues	\$ 84,862
Other Revenues	\$ 4,322,428
Total Revenues	\$ 25,501,386
EXPENDITURES	
Salaries & Benefits	\$ 15,774,010
Operating Supplies	\$ 537,632
Contractual Services	\$ 7,853,960
Other Expenditures	\$ 114,306
Special	\$ -
Property & Liability Insurance	\$ 259,379
Contingency	\$ 250,000
Capital Outlays	\$ 220,944
Debt Service	\$ 271,000
Transfers to Other Funds	\$ 683,690
Total Expenditures	\$ 25,964,921
Net Revenues (Expenditures)	\$ (463,535)
Beginning Fund Balance	\$ 6,185,594
Ending Fund Balance	\$ 5,722,059



Comments on Key Forecast Assumptions

Property Taxes - assumes phaseout of operations at the City's largest property taxpayer - The BC Cobb electric generating plant scheduled to shut down in April 2016. Expect property values to begin to grow within the next 3 years.

State Shared Revenues - stable with slight growth as state economy rebounds.

Income Tax - assumes modest growth with no recession during forecast period.

Salaries & Benefits - assumes very modest wage increases but growing increases in pension and health insurance costs.

Capital Outlays - likely to decrease due to competing cost pressures.

Transfers - the General Fund subsidy to retire the DDA bonds and SmartZone bonds will grow.

SUMMARY

The City currently has healthy general fund balance and budget stabilization reserve. However, Consumers Energy has announced the closure of the BC Cobb facility which will result in significant annual property tax loss. State shared revenues seemed to have stabilized and are slightly increasing. On the expenditure side it is assumed that the mix of general fund operations remains stable. Additional transfers to other funds will be needed to help cover Smartzone and DDA debt service. It is assumed that wage growth can be kept at modest levels; however, significant cost pressures are anticipated from pension and/or healthcare. Without significant new revenues or cutbacks in staff/service levels, the forecast is for future annual operating deficits that could exhaust the City's fund balance reserves over the next 6 to 7 years.

City of Muskegon

DEBT SERVICE REPORT

June 30, 2015

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	6/30/2014	6/30/2015	Annual Interest Payable
Business-Type Activities Bonds and Loans Payable:							
Water supply system bonds (\$44,368 unamortized premium)	4/1/2010	\$ 5,995,000	3.50%	05/01/15	\$ 660,000	\$ -	\$ -
			3.25%	05/01/16	685,000	685,000	112,988
			4.00%	05/01/17	710,000	710,000	90,725
Type of debt: revenue bond			4.00%	05/01/18	740,000	740,000	62,325
Revenue pledged: water system net revenues			4.25%	05/01/19	770,000	770,000	32,725
					<u>3,565,000</u>	<u>2,905,000</u>	<u>298,763</u>
Drinking Water State Revolving Fund	3/2/2004	\$ 13,900,000	2.13%	10/01/14	\$ 670,000	\$ -	\$ -
			2.13%	10/01/15	685,000	685,000	170,372
			2.13%	10/01/16	695,000	695,000	155,709
Type of debt: state loan			2.13%	10/01/17	710,000	710,000	140,781
Revenue pledged: water system net revenues			2.13%	10/01/18	725,000	725,000	125,534
			2.13%	10/01/19	745,000	745,000	109,916
			2.13%	10/01/20	760,000	760,000	93,925
			2.13%	10/01/21	775,000	775,000	77,616
			2.13%	10/01/22	790,000	790,000	60,988
			2.13%	10/01/23	810,000	810,000	43,988
			2.13%	10/01/24	825,000	825,000	26,616
			2.13%	10/01/25	840,000	840,000	8,925
					<u>9,030,000</u>	<u>8,360,000</u>	<u>1,014,370</u>
TOTAL BUSINESS-TYPE ACTIVITIES BONDS AND LOANS PAYABLE					<u>\$ 12,595,000</u>	<u>\$ 11,265,000</u>	<u>\$ 1,313,133</u>

City of Muskegon

DEBT SERVICE REPORT

June 30, 2015

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	6/30/2014	6/30/2015	Annual Interest Payable
Governmental Activities Bonds and Loans Payable:							
Capital improvement bonds of 2003 (sidewalks)	3/1/2003	\$ 1,575,000	4.00%	06/01/15	\$ 145,000	\$ -	-
			4.05%	06/01/16	150,000	150,000	6,075
					<u>295,000</u>	<u>150,000</u>	<u>6,075</u>
Type of debt: limited G.O. bond							
Revenue pledged: special assessments, general revenues							
	10/24/2006	\$ 5,400,000	4.00%	10/01/14	\$ 70,000	\$ -	-
			4.00%	10/01/15	70,000	70,000	199,945
			4.00%	10/01/16	70,000	70,000	197,145
Capital improvement bonds of 2006 (fire station, recreation) (\$9,564 unamortized discount)			4.00%	10/01/17	70,000	70,000	194,345
			4.00%	10/01/18	70,000	70,000	191,545
			4.00%	10/01/19	295,000	295,000	184,245
			4.00%	10/01/20	305,000	305,000	172,245
Type of debt: limited G.O. bond			4.00%	10/01/21	315,000	315,000	159,845
Revenue pledged: general revenues			4.00%	10/01/22	315,000	315,000	147,245
			4.00%	10/01/23	320,000	320,000	134,545
			4.00%	10/01/24	340,000	340,000	121,345
			4.00%	10/01/25	345,000	345,000	107,645
			4.00%	10/01/26	345,000	345,000	93,845
			4.10%	10/01/27	345,000	345,000	79,873
			4.10%	10/01/28	350,000	350,000	65,625
			4.10%	10/01/29	350,000	350,000	51,275
			4.20%	10/01/30	350,000	350,000	36,750
			4.20%	10/01/31	350,000	350,000	22,050
			4.20%	10/01/32	350,000	350,000	7,350
					<u>5,025,000</u>	<u>4,955,000</u>	<u>2,166,863</u>
Capital improvement bonds of 2011 (streets)	9/30/2011	\$ 2,000,000	2.98%	09/01/14	\$ 185,000	\$ -	-
			2.98%	09/01/15	190,000	190,000	40,677
			2.98%	09/01/16	195,000	195,000	34,941
			2.98%	09/01/17	200,000	200,000	29,055
Type of debt: limited G.O. bond			2.98%	09/01/18	210,000	210,000	22,946
Revenue pledged: gas tax, general revenues			2.98%	09/01/19	215,000	215,000	16,614
			2.98%	09/01/20	220,000	220,000	10,132
			2.98%	09/01/21	230,000	230,000	3,427
					<u>1,645,000</u>	<u>1,460,000</u>	<u>157,792</u>
State of Michigan environmental assessment loan	6/18/2010	\$ 500,000	2.00%	03/18/15	\$ 17,842	\$ -	-
			2.00%	03/18/16	18,199	18,199	1,894
			2.00%	03/18/17	18,563	18,563	1,530
Type of debt: state loan			2.00%	03/18/18	18,934	18,934	1,159
Revenue pledged: general revenues			2.00%	03/18/19	19,313	19,313	780
			2.00%	03/18/20	19,699	19,699	394
					<u>112,550</u>	<u>94,708</u>	<u>5,757</u>
TOTAL GOVERNMENTAL ACTIVITIES BONDS AND LOANS PAYABLE					<u>\$ 7,077,550</u>	<u>\$ 6,659,708</u>	<u>\$ 2,336,487</u>
TOTAL PRIMARY GOVERNMENT BONDS AND LOANS PAYABLE					<u>\$ 19,672,550</u>	<u>\$ 17,924,708</u>	<u>\$ 3,649,620</u>

City of Muskegon

DEBT SERVICE REPORT

June 30, 2015

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	6/30/2014	6/30/2015	Annual Interest Payable
Discretely Presented Component Unit Bonds and Loans Payable:							
Downtown Development Authority promissory note to Muskegon County	8/10/1989	\$ 1,000,000	0.00%	08/30/19	\$ 1,000,000	\$ 1,000,000	\$ -
					1,000,000	1,000,000	-
Type of debt: intergovernmental note Revenue pledged: DDA tax increments							
Downtown Development Authority refunding bonds (\$15,175 unamortized premium)	3/22/2011	\$ 2,045,000	3.25%	06/01/15	\$ 285,000	\$ -	\$ -
			3.50%	06/01/16	300,000	300,000	35,326
			3.75%	06/01/17	310,000	310,000	24,826
			4.00%	06/01/18	330,000	330,000	13,200
					1,225,000	940,000	73,352
Type of debt: limited G.O. bond Revenue pledged: DDA tax increments, general revenues							
Local Development Finance Authority Smartzone Refunding Bonds (\$162,646 unamortized premium)	3/20/2012	\$ 4,100,000	2.00%	11/01/14	\$ 320,000	\$ -	\$ -
			2.00%	11/01/15	335,000	335,000	112,950
			3.00%	11/01/16	345,000	345,000	104,425
			3.00%	11/01/17	355,000	355,000	93,925
			4.00%	11/01/18	375,000	375,000	81,100
			4.00%	11/01/19	390,000	390,000	65,800
			4.00%	11/01/20	395,000	395,000	50,100
			4.00%	11/01/21	245,000	245,000	37,300
			3.00%	11/01/22	255,000	255,000	28,575
			3.00%	11/01/23	265,000	265,000	20,775
			3.00%	11/01/24	275,000	275,000	12,675
			3.00%	11/01/25	285,000	285,000	4,275
					3,840,000	3,520,000	611,900
TOTAL DISCRETELY PRESENTED COMPONENT UNIT BONDS AND LOANS PAYABLE					\$ 6,065,000	\$ 5,460,000	\$ 685,252
TOTAL REPORTING ENTITY BONDS AND LOANS PAYABLE					\$ 25,737,550	\$ 23,384,708	\$ 4,334,872