

City of Muskegon, Michigan

Citizen's Guide to Local Finances



November 2016

Affirmative Action
(231)724-6703
FAX (231)722-1214

Assessor
(231)724-6708
FAX (231)726-5181

Cemetery
(231)724-6783
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



November 2016

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.

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/>

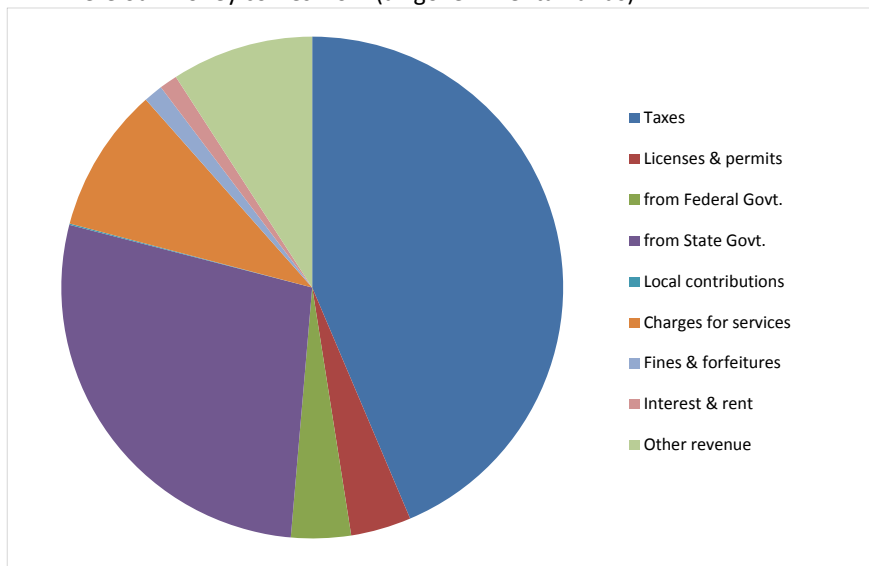
We hope that the *2016 Citizen's Guide to Local Finances* together with the City's performance dashboard enhances the City's transparency and public accountability. If you have any questions or comments, you can email them to finance@shorelinecity.com or call 231.724.6713.

Thank you.

City of Muskegon

City of Muskegon, 933 Terrace Street, P.O. Box 536, Muskegon, MI
49443-0536 <http://www.shorelinecity.com>

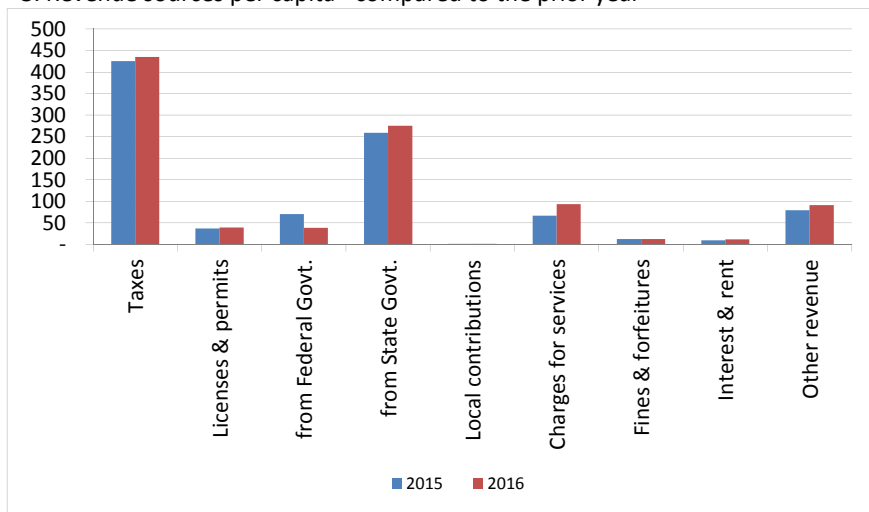
1. Where our money comes from (all governmental funds)



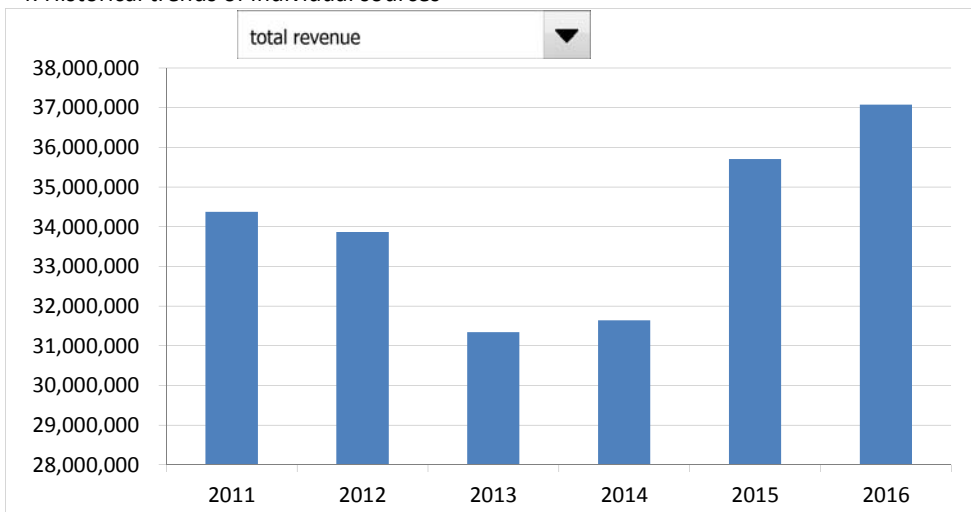
2. Compared to the prior year

	2015	2016	% change
Taxes	\$ 15,830,137	\$ 16,178,761	2%
Licenses & permits	1,361,721	1,443,144	6%
From Federal Govt.	2,613,304	1,423,894	-46%
From State Govt.	9,650,290	10,251,894	6%
Local contributions	38,000	36,000	-5%
Charges for services	2,468,889	3,468,938	41%
Fines & forfeitures	452,004	459,181	2%
Interest & rent	342,916	430,679	26%
Other revenue	2,945,059	3,387,583	15%
Total	\$ 35,702,320	\$ 37,080,074	4%

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

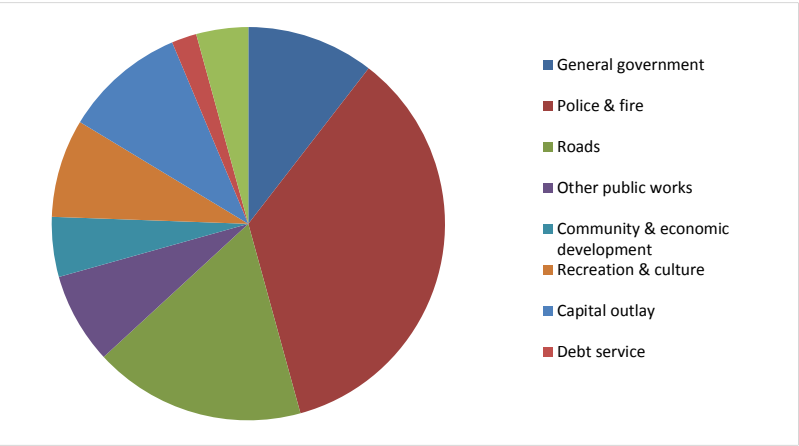


4. Historical trends of individual sources



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 increased between 2015 and 2016 primarily due to an increase in charges for services revenue and revenue from the State government, along with a slight increase in taxes collected.

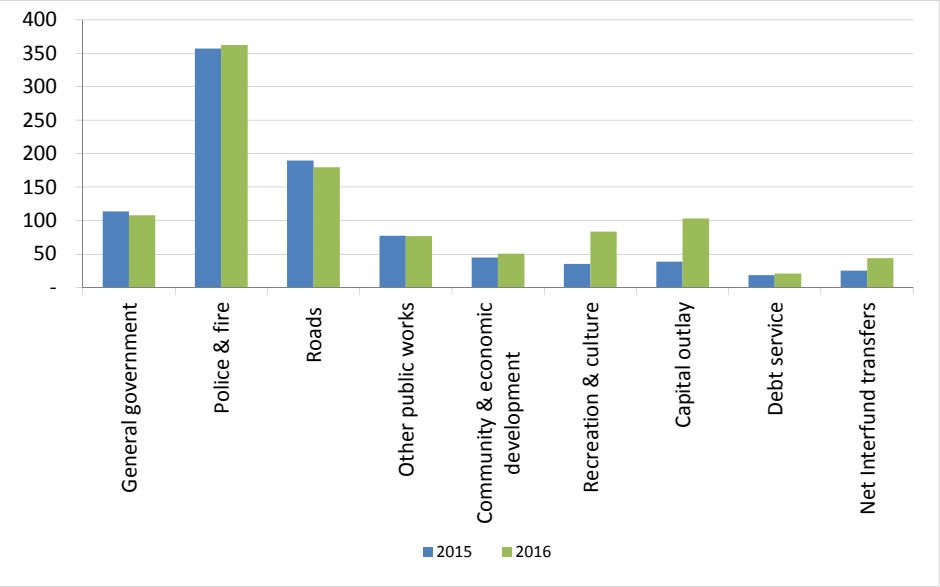
1. Where we spend our money (all governmental funds)



2. Compared to the prior year

	2015	2016	% change
General government	\$ 4,224,352	\$ 4,015,972	-5%
Police & fire	13,285,004	13,476,557	1%
Other public safety	-	-	n/a
Roads	7,065,775	6,678,017	-5%
Other public works	2,876,576	2,864,878	0%
Health & welfare	-	-	n/a
Community & economic development	1,670,825	1,878,328	12%
Recreation & culture	1,312,716	3,100,338	136%
Capital outlay	1,438,160	3,829,061	166%
Debt service	690,788	783,293	13%
Unallocated fringes & insurance	-	-	n/a
Net Interfund transfers	942,933	1,638,094	74%
total expenditures	\$ 33,507,129	\$ 38,264,538	14%

3. Spending per capita - compared to the prior year



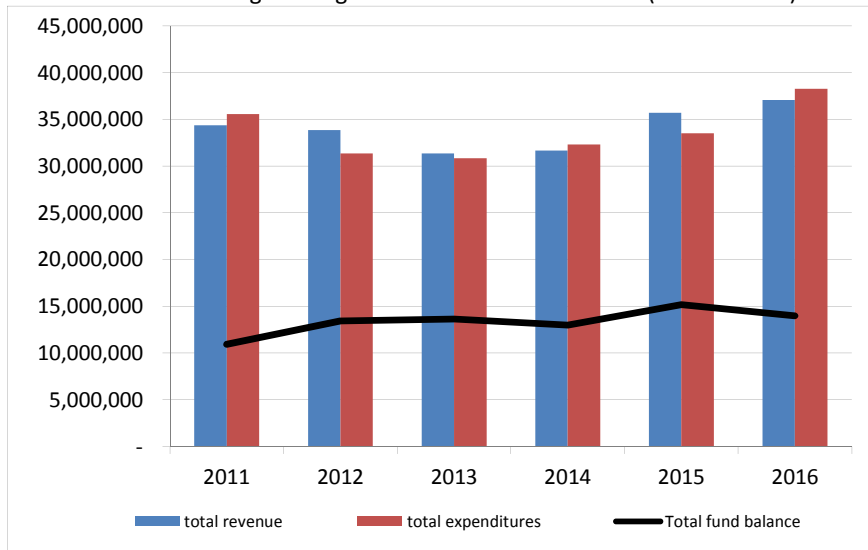
4. Historical trends of individual departments:



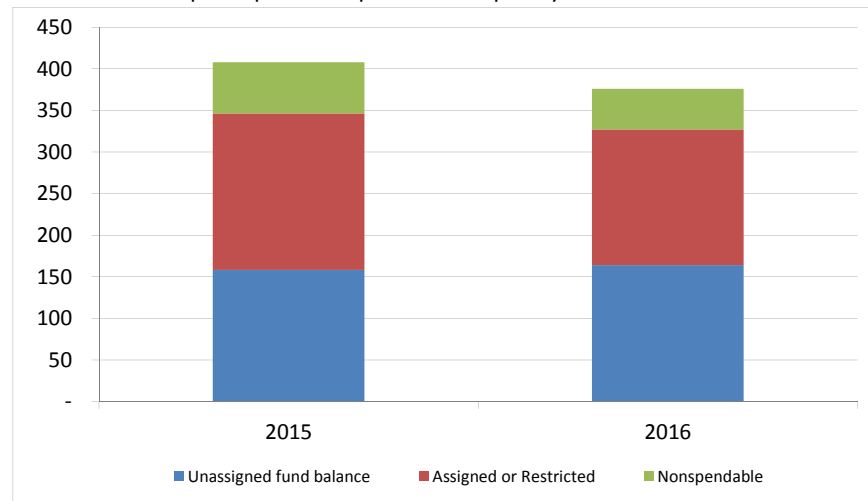
Commentary: The charts above summarize how the City spends its money. By far, the largest share of the expenditure pie goes to public safety (fire and police). Roads and other public works account for the second largest category of expenditure.

CITIZENS' GUIDE TO LOCAL UNIT FINANCES - City of Muskegon

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



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

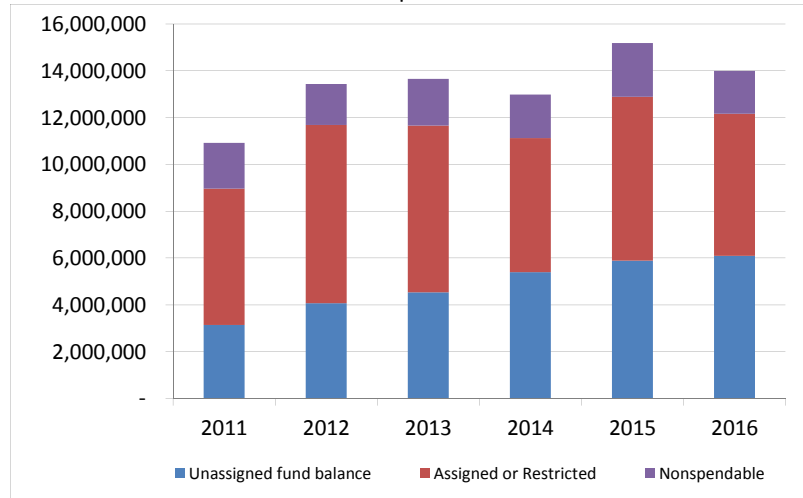


FINANCIAL POSITION

2. Compared to the prior year

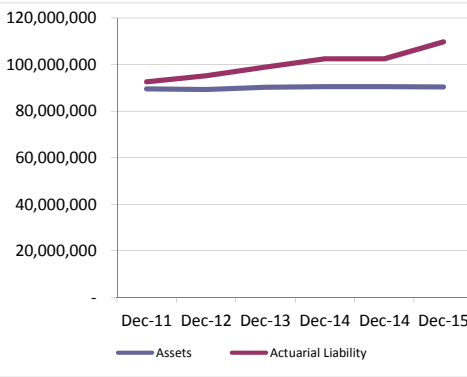
	2015	2016	% change
Revenue	35,702,320	37,080,074	4%
Expenditures	33,507,129	38,264,538	14%
Surplus (shortfall)	2,195,191	(1,184,464)	-154%
Fund balance, by component:			
Nondisposable	2,293,925	1,829,703	-20%
Assigned or Restricted	7,005,180	6,069,279	-13%
Unassigned	5,883,318	6,098,977	4%
total fund balance	15,182,423	13,997,959	-8%

4. Historical trends of individual components

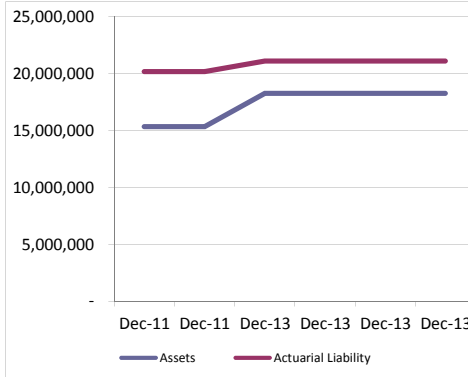


Commentary: The City's governmental fund balance position decreased 8% between FY15 and FY16. The decrease is attributable primarily to increased investment in capital projects, recreation and culture.

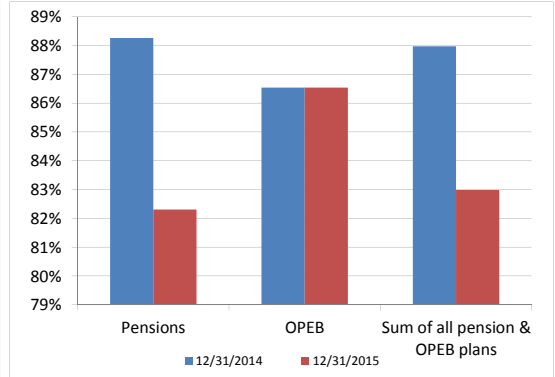
1. Pension funding status



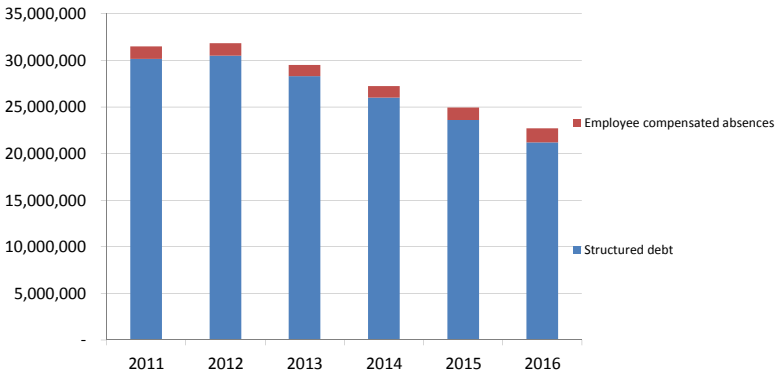
2. Retiree Health care (OPEB) funding status



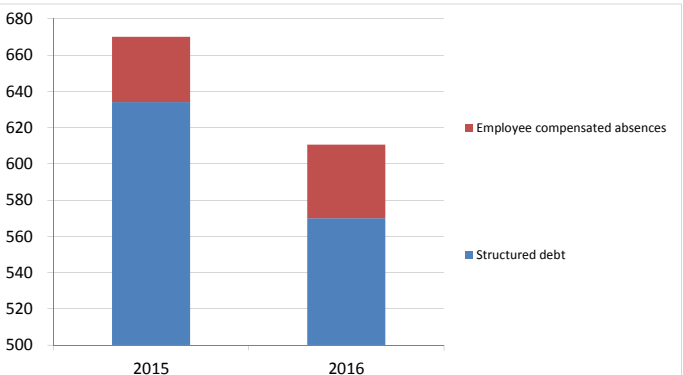
3. Percent funded - compared to the prior year



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 retirement plans. For many state and cities throughout the US, large unfunded liabilities are causing severe financial problems. As of the 12/31/15 actuarial valuation (most recent available), the City's pension system was 82% funded. As of the 12/31/13 OPEB actuarial valuation (most recent available), the City's retiree healthcare plan was 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 2015 and 2016 due to: refunding of existing debt at lower interest cost along with no new debt issued during the year with payments towards principal on existing debt.



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

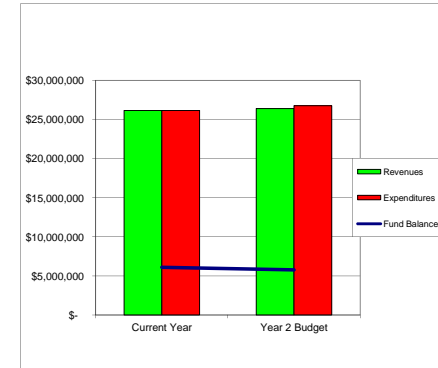
Figure 13. Characteristics of 10 Local Units with the Highest Funded OPEB Plans in the 30,001-200,000 Population Category.

Projected Budget Report

Local Government Name:	City of Muskegon
Local Unit Code:	612020
Current Fiscal Year End Date:	30-Jun-17
Fund Name:	General

	Current Year Budget (FY 2017)	<i>Estimated Annual Percentage Change Year 2</i>
REVENUES		
Property Taxes	\$ 7,092,000	1%
State Revenue Sharing	\$ 4,002,925	1%
Income Tax	\$ 8,850,000	1%
Fines & Fees	\$ 387,000	1%
Licenses & Permits	\$ 1,398,000	0%
Interest Income	\$ 12,000	2%
Grant Revenues	\$ 359,580	0%
Other Revenues	\$ 4,051,339	1%
Total Revenues	\$ 26,152,844	
EXPENDITURES		
Salaries & Benefits	\$15,939,861	2%
Operating Supplies	\$ 520,014	0%
Contractual Services	\$ 8,083,717	1%
Other Expenditures	\$ 127,449	1%
Special	\$ -	0%
Property & Liability Insurance	\$ 270,640	2%
Contingency	\$ 100,000	75%
Capital Outlays	\$ 430,174	0%
Debt Service	\$ 167,000	41%
Transfers to Other Funds	\$ 513,000	8%
Total Expenditures	\$ 26,151,855	
Net Revenues (Expenditures)	\$ 989	
Beginning Fund Balance	\$ 6,103,496	
Ending Fund Balance	\$ 6,104,485	

	Year 2 Budget (FY 2018)
REVENUES	
Property Taxes	\$ 7,162,920
State Revenue Sharing	\$ 4,042,954
Income Tax	\$ 8,938,500
Fines & Fees	\$ 390,870
Licenses & Permits	\$ 1,398,000
Interest Income	\$ 12,240
Grant Revenues	\$ 359,580
Other Revenues	\$ 4,091,852
Total Revenues	\$ 26,396,917
EXPENDITURES	
Salaries & Benefits	\$ 16,258,658
Operating Supplies	\$ 520,014
Contractual Services	\$ 8,164,554
Other Expenditures	\$ 128,723
Special	\$ -
Property & Liability Insurance	\$ 276,053
Contingency	\$ 175,000
Capital Outlays	\$ 430,174
Debt Service	\$ 236,138
Transfers to Other Funds	\$ 554,040
Total Expenditures	\$ 26,743,355
Net Revenues (Expenditures)	\$ (346,438)
Beginning Fund Balance	\$ 6,104,485
Ending Fund Balance	\$ 5,758,047



Comments on Key Forecast Assumptions

Property Taxes - assumes phaseout of operations at the City's largest property taxpayer - The BC Cobb electric generating plant have ceased. Expect property values to begin to grow modestly over the next several years.

State Shared Revenues - assumes slight growth as state economy picks up.

Income Tax - assumes no recession during forecast period as local economic forecast is stable to slight growth.

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 SmartZone bonds continue to grow. A subsidy for the DDA debt is also required.

SUMMARY

The City currently has healthy general fund balance and budget stabilization reserve. However, the closure of the Consumers Energy BC Cobb facility results in an annual property tax loss. State shared revenues seemed to have stabilized. 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 within 5 years.

City of Muskegon

DEBT SERVICE REPORT

June 30, 2016

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	6/30/2015	6/30/2016	Annual Interest Payable
Business-Type Activities Bonds and Loans Payable:							
Water supply system bonds	4/1/2010	\$ 5,995,000	3.25%	05/01/16	685,000	-	-
(\$65,728 unamortized premium)			4.00%	05/01/17	710,000	710,000	90,725
			4.00%	05/01/18	740,000	740,000	62,325
Type of debt: revenue bond			4.25%	05/01/19	770,000	770,000	32,725
Revenue pledged: water system net revenues					2,905,000	2,220,000	185,775
Drinking Water State Revolving	3/2/2004	\$ 13,900,000	2.13%	10/01/15	685,000	-	-
Fund			2.13%	10/01/16	695,000	695,000	155,709
			2.13%	10/01/17	710,000	710,000	140,781
Type of debt: state loan			2.13%	10/01/18	725,000	725,000	125,534
Revenue pledged: water system net revenues			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
					8,360,000	7,675,000	843,998
TOTAL BUSINESS-TYPE ACTIVITIES BONDS AND LOANS PAYABLE					\$ 11,265,000	\$ 9,895,000	\$ 1,029,773

City of Muskegon

DEBT SERVICE REPORT

June 30, 2016

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	6/30/2015	6/30/2016	Annual Interest Payable
Governmental Activities Bonds and Loans Payable:							
Capital improvement bonds of 2003 (sidewalks)	3/1/2003	\$ 1,575,000	4.05%	06/01/16	150,000	-	-
					150,000	-	-
Type of debt: limited G.O. bond							
Revenue pledged: special assessments, general revenues							
Capital improvement bonds of 2006 (fire station, recreation) (\$10,465 unamortized discount)	10/24/2006	\$ 5,400,000	4.00%	10/01/15	70,000	-	-
			4.00%	10/01/16	70,000	70,000	1,400
			4.00%	10/01/17	70,000	-	-
			4.00%	10/01/18	70,000	-	-
Type of debt: limited G.O. bond			4.00%	10/01/19	295,000	-	-
Revenue pledged: general revenues			4.00%	10/01/20	305,000	-	-
			4.00%	10/01/21	315,000	-	-
			4.00%	10/01/22	315,000	-	-
			4.00%	10/01/23	320,000	-	-
			4.00%	10/01/24	340,000	-	-
			4.00%	10/01/25	345,000	-	-
			4.00%	10/01/26	345,000	-	-
			4.10%	10/01/27	345,000	-	-
			4.10%	10/01/28	350,000	-	-
			4.10%	10/01/29	350,000	-	-
			4.20%	10/01/30	350,000	-	-
			4.20%	10/01/31	350,000	-	-
			4.20%	10/01/32	350,000	-	-
					4,955,000	70,000	1,400
Capitla Improvement bonds refunding	3/8/2016	\$ 4,815,000	4.00%	10/01/16	-	-	164,947
			2.00%	10/01/17	-	70,000	166,100
			2.00%	10/01/18	-	65,000	164,750
Type of debt: limited G.O. bonds			3.00%	10/01/19	-	290,000	159,750
Revenue pledged: general revenue			3.00%	10/01/20	-	295,000	150,975
			3.00%	10/01/21	-	305,000	141,975
			3.00%	10/01/22	-	300,000	132,900
			4.00%	10/01/23	-	300,000	122,400
			4.00%	10/01/24	-	320,000	110,000
			4.00%	10/01/25	-	325,000	97,100
			4.00%	10/01/26	-	325,000	84,100
			4.00%	10/01/27	-	325,000	71,100
			4.00%	10/01/28	-	325,000	58,100
			4.00%	10/01/29	-	325,000	45,100
			4.00%	10/01/30	-	325,000	32,100
			4.00%	10/01/31	-	320,000	19,200
			4.00%	10/01/32	-	320,000	6,400
					-	4,535,000	1,726,997
Capital improvement bonds of 2011 (streets)	9/30/2011	\$ 2,000,000					
			2.98%	09/01/15	190,000	-	-
			2.98%	09/01/16	195,000	195,000	34,941
Type of debt: limited G.O. bond			2.98%	09/01/17	200,000	200,000	29,055
Revenue pledged: gas tax, general revenues			2.98%	09/01/18	210,000	210,000	22,946
			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
					1,460,000	1,270,000	117,115
State of Michigan environmental assessment loan	6/18/2010	\$ 500,000					
			2.00%	03/18/16	18,199	-	-
Type of debt: state loan			2.00%	03/18/17	18,563	18,563	1,530
Revenue pledged: general revenues			2.00%	03/18/18	18,934	18,934	1,159
			2.00%	03/18/19	19,313	19,313	780
			2.00%	03/18/20	19,699	19,699	394
					94,708	76,509	3,863
TOTAL GOVERNMENTAL ACTIVITIES BONDS AND LOANS PAYABLE					\$ 6,659,708	\$ 5,951,509	\$ 1,849,375
TOTAL PRIMARY GOVERNMENT BONDS AND LOANS PAYABLE					\$ 17,924,708	\$ 15,846,509	\$ 2,879,148

City of Muskegon

DEBT SERVICE REPORT

June 30, 2016

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	6/30/2015	6/30/2016	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 (\$19,776 unamortized premium)	3/22/2011	\$ 2,045,000	3.50%	06/01/16	300,000	-	-
			3.75%	06/01/17	310,000	310,000	24,826
			4.00%	06/01/18	330,000	330,000	13,200
Type of debt: limited G.O. bond							
Revenue pledged: DDA tax increments, general revenues					940,000	640,000	38,026
Local Development Finance Authority Smartzone Refunding Bonds (\$197,524 unamortized premium)	3/20/2012	\$ 4,100,000	2.00%	11/01/15	335,000	-	-
			3.00%	11/01/16	345,000	345,000	104,425
			3.00%	11/01/17	355,000	355,000	93,925
Type of debt: limited G.O. bond							
Revenue pledged: LDFA tax increments, general revenues							
			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
TOTAL DISCRETELY PRESENTED COMPONENT UNIT BONDS AND LOANS PAYABLE					3,520,000	3,185,000	498,950
					\$ 5,460,000	\$ 4,825,000	\$ 536,976
TOTAL REPORTING ENTITY BONDS AND LOANS PAYABLE					\$ 23,384,708	\$ 20,671,509	\$ 3,416,124