

Dollars & Sense:

How the City of St. Clair Spends Your Money

2016 Citizen's Guide to
City of St. Clair Financial Health

Created by
Michael E. Booth

KEY TERMS

There are a few key terms that may be helpful when reading this report. They include:

- **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.
 - **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 City 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. The City follows an October 1 – September 30 fiscal year.
 - **Fund balance.** Once all the bills for the year have been paid out of a certain fund, whatever is left over is called the fund balance. When a fund balance is less than zero, you'll see the number shown with parentheses around it. Deficits cause fund balances to decrease, while surpluses cause them to increase.
 - **Public budget gap.** A novel measure, similar to the deficit, used to measure the extent to which a government is falling short of covering its current and long-term obligations in a fiscal period. The budget gap takes into account the budget deficit, as well as any new obligations that the government has failed to cover such as **employee pensions or retiree health care**.
 - **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

Greetings,

All St. Clair residents have a vested interest in the economic future of the City. This report is intended to provide citizens with an assessment of the financial health of St. Clair. Taxpayers deserve to know what their tax dollars are buying which will then allow them to have a voice in making sure desired services are provided. This report provides information on:

- Sources of City Revenues
- Services provided across the City
- Future obligations for employee healthcare and pensions

For this report, data was used from the most recently audited financial statements as of September 30, 2015. What does the data show? Largely, we have found the following:

- St. Clair's property values have decreased leading to a decrease in tax revenues collected by the City. Since fiscal year ended September 30, 2008 property tax revenues, for the General Fund, have decreased by \$806,168. However, 2015 tax revenues increased by \$53,641 when compared to 2014.
- Service levels have not been cut. However, maintaining current service levels may prove to be difficult going forward.
- St. Clair's overall population has decreased.

Once you have read this report you are invited to make your voice heard. Bring your ideas to the City's management and/or council. Only by working together can we make the necessary changes to ensure St. Clair's future is bright.

Sincerely,

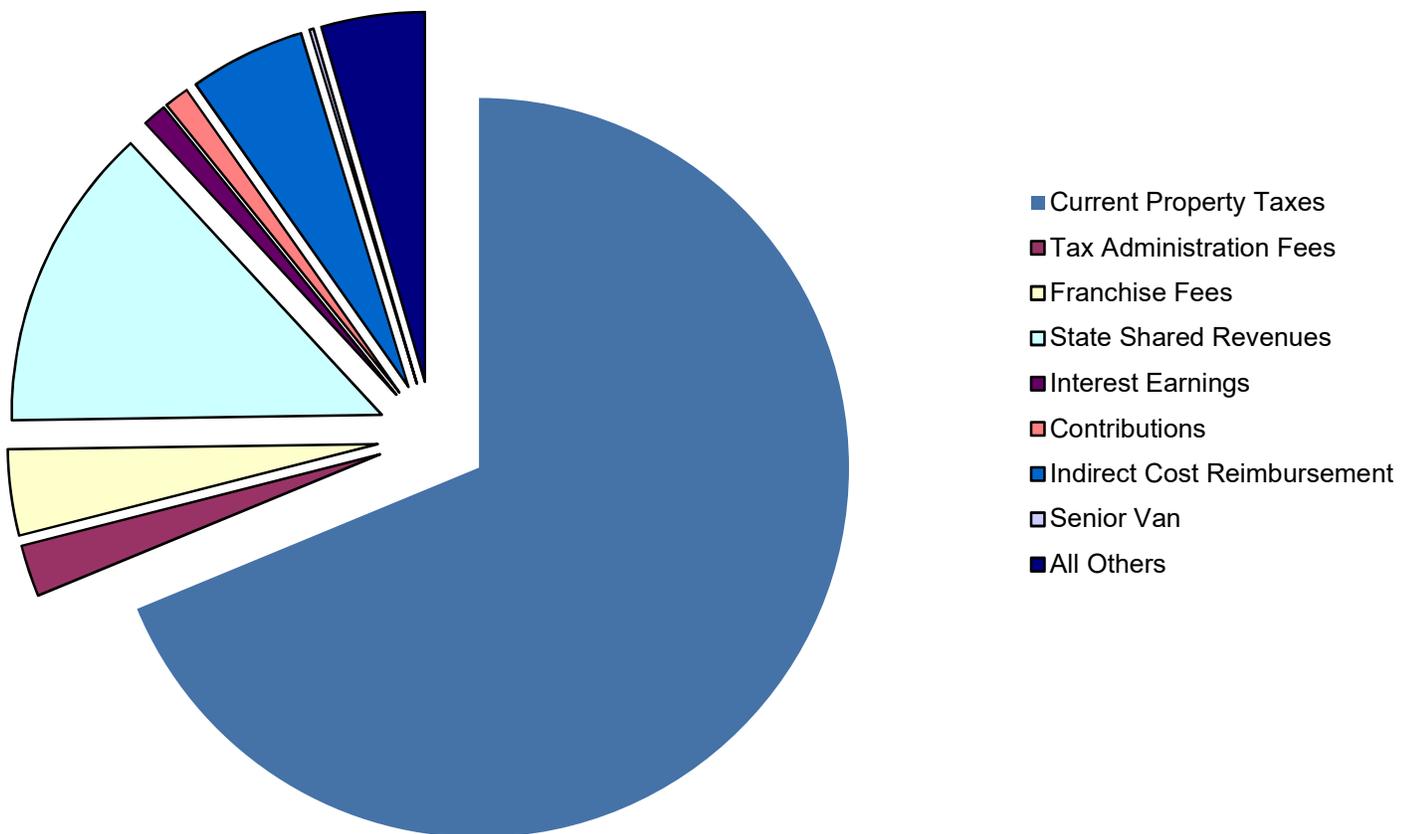
Michael E. Booth

WHERE CITIZEN DOLLARS GO

What benefits do you receive in exchange for the tax dollars you pay? Figure 1 shows that in FY 2015, the City of St. Clair received revenue from the following sources:

- Property taxes (Residents)
- Revenue Sharing - State
- Interest & Rent
- Licenses & Permits
- Fines & Forfeits
- Service Charges

Figure 1 - Where City Receives Money (general fund) – St. Clair

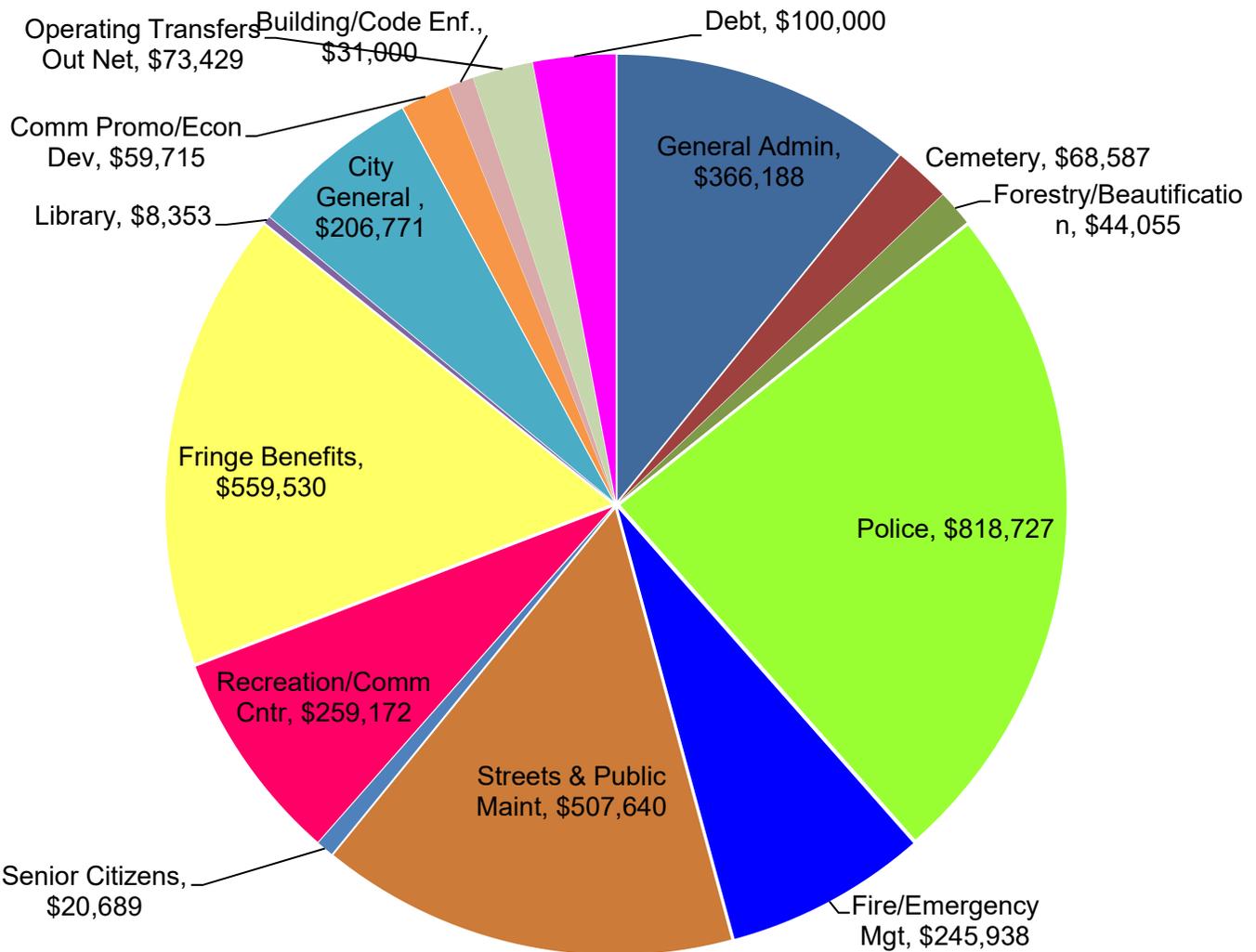


SERVICES PROVIDED BY CITY

Where does this money go? Figure 2 highlights that, in general, the City collects money from taxes, fees, etc. and uses these funds to coordinate delivery of public services, including, but not limited to:

- General Government
- Police & Fire
- Public Works
- Roads (Major & Local Streets)
- Health & Welfare (Senior Van)
- Community & Economic Development (Planning & Zoning)

Figure 2 – Where City Spends Money (general fund) – St. Clair



How Taxpayer Money is Spent: Government Revenues & Expenditures

GOVERNMENT BUDGETS

Many governmental units in Michigan spend more than they receive. To illustrate, consider that in FY 2015 the total of all state and local governments (including public schools) were projected to receive \$85.3 billion in revenues but spend some \$87.3 billion. During the period of 2005 to 2014 the City of St. Clair had a shortfall during the FY's 2006 & 2011. For each year experiencing a deficit the shortfalls were covered by excess revenues received in the preceding years. The City's FY 2015 governmental fund revenues and expenditures in plain and simple terms were:

| | |
|---------------|----------------------|
| City Received | \$5,722,580 |
| City Spent | <u>(\$5,349,653)</u> |
| Difference | <u>\$372,927</u> |

Revenues

Figure 3 provides a breakdown of the dollars moving into the City. In particular, the chart provides details of changes that transpired between the 2014 and 2015 FY's. Property taxes which accounted for 56.3% of the revenues, during 2015, increased by \$89,378 when compared to the prior year. Money received from the State of Michigan via revenue sharing/gas taxes decreased by (\$35,950). Charges for services increased to \$327,145. This was an increase of about 3 percent over the previous year. A decrease (\$12,756) occurred for interest/rental income. This change was a result of lower market interest rates. Other revenues decreased by (\$90,607). \$50,000 insurance recovery during 2014 was the primary difference between 2014 and 2015.

Figure 3 – Comparative Revenue 2014 vs. 2015 (all governmental funds) – St. Clair

| | <u>2014</u> | <u>2015</u> | <u>% change</u> |
|----------------------|---------------------|---------------------|-----------------|
| Taxes | \$ 3,129,594 | \$ 3,218,972 | 3% |
| Licenses & permits | 284,737 | 295,897 | 4% |
| from State Govt. | 1,009,886 | 973,936 | (4%) |
| Local contributions | 4,668 | 0 | - |
| Charges for services | 318,220 | 327,145 | 3% |
| Interest & rent | 121,793 | 109,037 | (11%) |
| Transfers In | 585,237 | 676,515 | 16% |
| Other revenue | <u>211,685</u> | <u>121,078</u> | (43%) |
| Total | <u>\$ 5,665,820</u> | <u>\$ 5,722,580</u> | 1% |

Expenditures

Figure 4 provides a breakdown of the dollars utilized by the City in providing services to residents. In particular, the chart provides details of changes that transpired between the 2014 and 2015 FY's. Public works, which accounted for the largest increase in expenditures, increased by \$90,497 or 10%. This increase to expenditures was driven by a \$61,750 increase to road maintenance (asphalt repairs made during Oct/Nov 2014). For answers to changes within other categories please contact City administration.

Figure 4 – Comparative Expenditures 2014 vs. 2015 (all governmental funds) – St. Clair

| | <u>2014</u> | <u>2015</u> | <u>% change</u> |
|------------------------|-------------------------|-------------------------|---------------------|
| General government | \$ 775,341 | \$710,238 | (8%) |
| Police & fire | 1,359,030 | 1,337,403 | (2%) |
| Public works | 939,532 | 1,030,029 | 10% |
| Health & welfare | 24,153 | 20,689 | (14%) |
| Community & Econ Dev | 21,511 | 29,333 | 36% |
| Recreation & culture | 521,751 | 535,064 | 3% |
| Capital outlay | 11,073 | 49,240 | 345% |
| Debt service | 629,862 | 643,176 | 2% |
| Fringe/insurance/Other | 425,859 | 352,052 | (17%) |
| Transfers Out | <u>593,086</u> | <u>642,429</u> | 8% |
| Total expenditures | <u>5,301,198</u> | <u>5,349,653</u> | .9% |

NUMBER OF GOVERNMENT EMPLOYEES

The City of St. Clair's total employee count has decreased 14.6% from 2007 to 2015. Further, the number of full time employees has decreased 22.5% during the same period.

Employment City of St. Clair

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total Employees* | 130 | 137 | 122 | 118 | 116 | 114 | 109 | 110 | 111 |
| Full Time Employees | 40 | 40 | 38 | 37 | 36 | 33 | 33 | 31 | 31 |

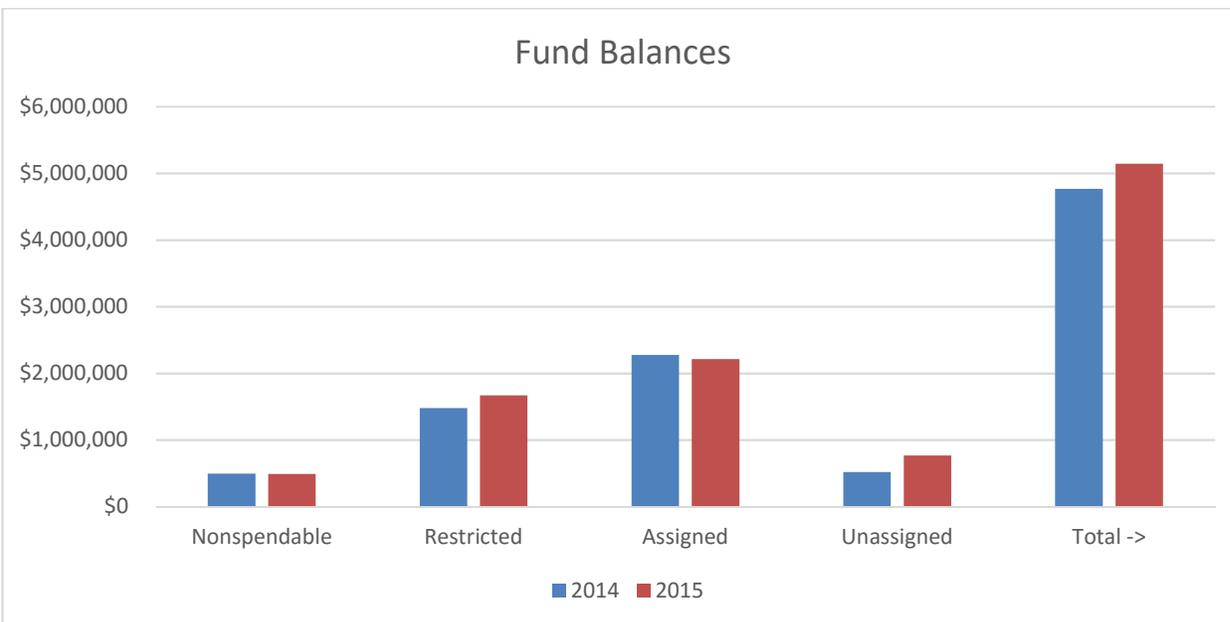
*Includes Seasonal Employees

St. Clair's Fiscal Health

RESERVES & MAJOR FUND BALANCES

In recent years, many governmental units have drawn down their financial reserves or depleted their savings to support current spending levels. As indicated earlier the City, other than in FY's 2006, & 2011 when money was used to fund the previous years' projects, has done a good job of keeping expenses in check (reference figure 5). During 2015 the unassigned fund balance increased by \$246,642 to a total of \$766,927. The unassigned balance is available to cover expenses that arise.

Figure 5 – Fund Balance Reserves (all governmental funds) – St. Clair



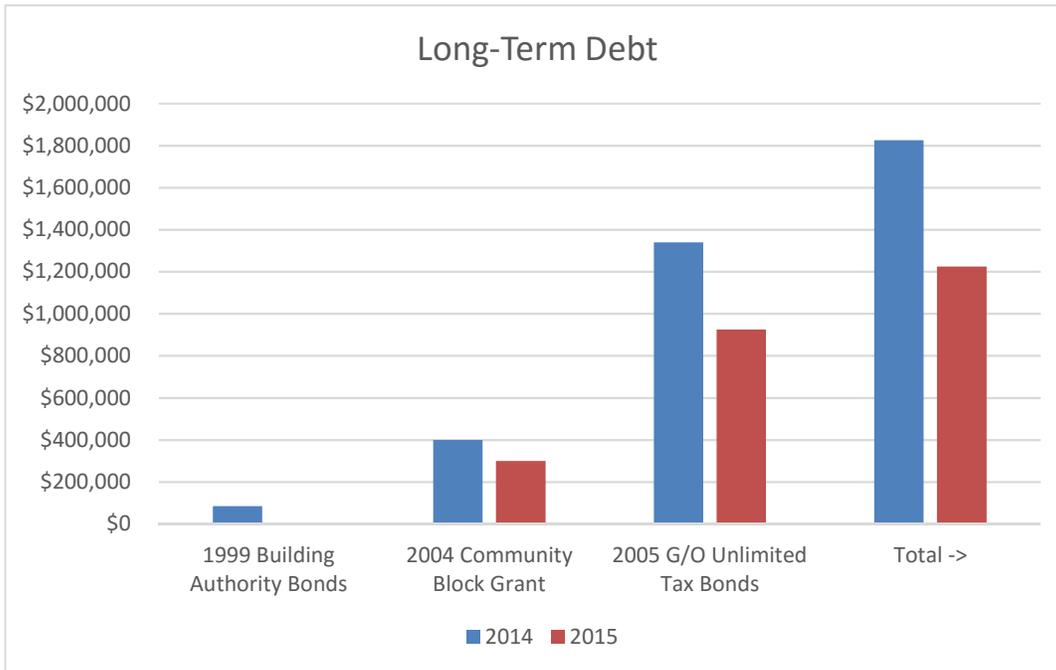
DEBT LEVELS

Local Governments can take on short and long-term debt. Typically, they would take on short-term debt to cover cash-flow needs. As the City of St. Clair has fund reserves there is no need to secure short term debt to cover operating activities.

Long-term debt is generally secured to pay for larger projects (new city hall, street reconstruction, etc.). The City of St. Clair has issued long-term debt to cover some larger projects. Governmental Fund debt obligations at September 30, 2015 were as follows (reference figure 6):

- 1999 Building Authority Bonds (City Hall Construction – Paid off Nov-2014)
- 2004 Community Development Block Grant (Industrial Park – Balance \$300,000) Matures Aug-2018
- 2005 General Obligation Bonds (Street Bonds – Balance \$925,000) Matures Nov-2016

Figure 6 – Long Term Debt (all governmental funds) – St. Clair



PENSION & OTHER RETIREE BENEFITS

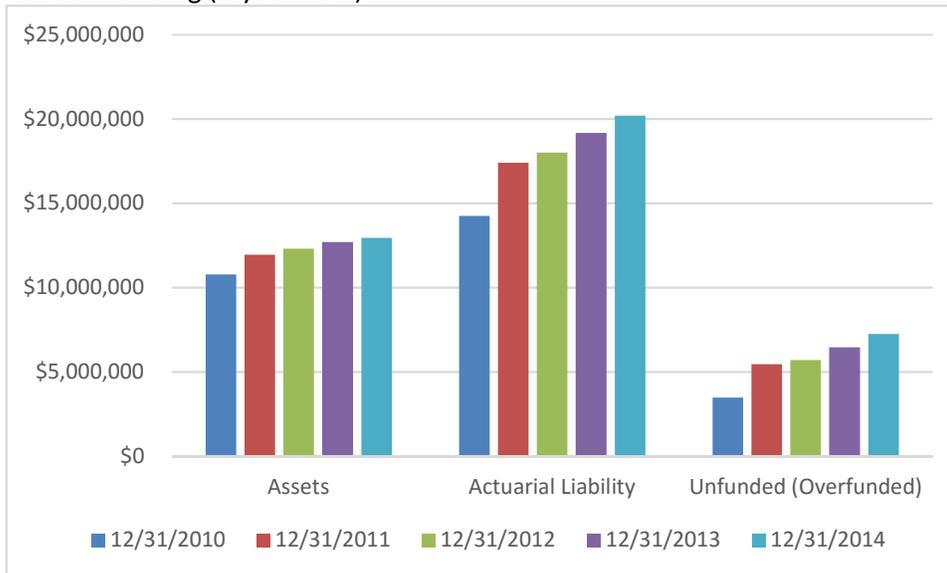
The City of St. Clair, by paying the required annual contributions, has a pension plan that is not fully funded. City employees who meet certain requirements, such as years of service and/or age, receive a pension upon retirement.

City of St. Clair Pension Benefits

Pension benefits are funded by contributions from the City and employees. The pension system provided by the City is Offered by the Municipal Employees Retirement System (MERS). MERS is an independent public corporation. The City, at December 31, 2014, had a pension plan that had an unfunded pension liability of \$7,245,253 (64% funded, reference figure 7). Funding levels decreased from the prior year with a new unfunded pension liability of \$6,464,154 (66 % funded). Next year’s results will show funding levels of less than 60% as assumptions used in establishing the unfunded liability have changed. Thus, moving forward the City will need to continue to look for additional changes that will assist with increasing our funding levels.

Figure 7 – Pension Funding Status – St. Clair

Pension Funding (5-year view)



Retiree Health Care Benefits

Retirees may also have the option to enroll in a health care program. Most retirees, who are eligible for health care benefits upon retirement, are required to pay twenty (20) percent of their monthly premium. Retiree Health Care benefits are pay-as-you-go, meaning they are not pre-funded. Unlike pensions, these benefits are not guaranteed by the City by means of a trust fund. Further, once a retiree is Medicare eligible they are no longer eligible for coverage from the City.

The City, within the General Fund, has reserved funds for retiree health coverage. However, the funds have not been set aside in a trust meaning they could be used to support other obligations. The City's obligation at December 31, 2014 was \$3,642,565 while the reserve, at September 30, 2015, was only \$926,174. The obligation decreased \$305,447 when compared to the prior year. Favorable changes to insurance contributions obtained in recent employee contracts will have further positive impacts on this outstanding obligation.

PUBLIC BUDGET GAP

A deficit is the extent to which expenses exceed revenues in a given year. As established the City does not run operating deficits. However, the City has unfunded obligations that are not recognized in their surpluses. These partially funded pensions and retirement health benefits that are not recognized as liabilities in the financial statements would cause the surplus situation into a deficit. This situation is known as a public budget gap. At September 30, 2015, the City had \$10,887,818 of pension/retiree health benefits that were not funded. This was an increase of \$475,652.

How This Report Was Developed

The goal of this report is to provide the public with as much information as possible on the revenues, expenditures, and other financial activities of the City government.

DATA SOURCES & NOTES

This report can be found at www.cityofstclair.com. Click on Department/Finance/EVIP. Also, copies can be obtained from the City Clerk's office. For additional information about the City and/or the State governments please refer to www.michigan.gov/treasury. To obtain audit data, for the City, click on local government services. Then click on local unit audit reports. Audit reports are available for the FY's 2003->2015.

- Data was obtained from the CAFRs of the MERS pension system
- U. S. Census information was used to supply population numbers
- For the City, our fiscal year runs from October 1 to September 30

