

Dollars and Sense:

How the City of Houghton Spends Your Money

2011 Citizen's Guide to
The City of Houghton's Financial Health

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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 state 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 state 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 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.
- **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

How Taxpayer Money is Spent: Government Revenues and Expenditures

The numbers below represent the total revenue the City received in 2009 and 2010 for our Governmental Funds.

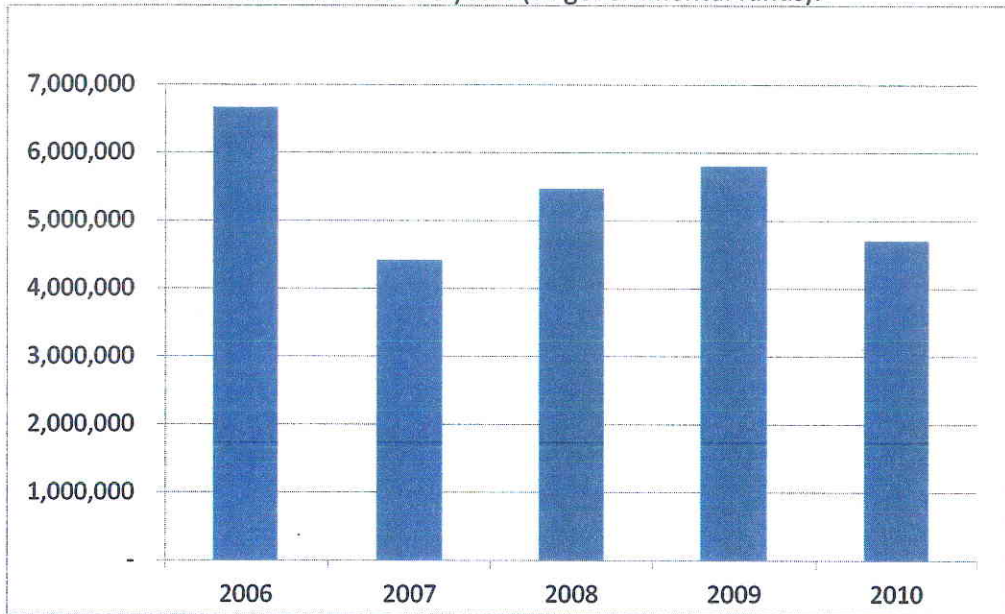
A major portion of the tax increase was due to a reduction in the TIFA tax capture which added \$100,000 of revenue to the City's General Fund. The other tax increases are due to the inflation factor, new construction, and uncapping due to property ownership change.

In 2009 the City of Houghton had an exceptionally large amount of federal grant money which was used for the Downtown Historic Streetscape Project. The reduction in State Revenue was due to the Revenue Sharing cuts by the State. Other revenue was up in 2009 which included a loan for a new fire truck and the downtown building owner's share of the façade renovations downtown.

Revenues: (all governmental funds)

	<u>2009</u>	<u>2010</u>	<u>% change</u>
Taxes	\$ 1,379,133	\$ 1,530,579	11%
Licenses & permits	5,715	9,420	65%
from Federal Govt.	1,215,077	699,825	-42%
from State Govt.	1,829,631	1,575,230	-14%
Charges for services	742,697	743,404	0%
Fines & forfeitures	9,369	8,183	(0)
Interest	43,045	22,751	-40%
Other revenue	<u>579,151</u>	<u>118,367</u>	-80%
Total revenue	<u>\$ 5,803,818</u>	<u>\$ 4,707,759</u>	-19%

Total Revenue over last five years (all governmental funds):

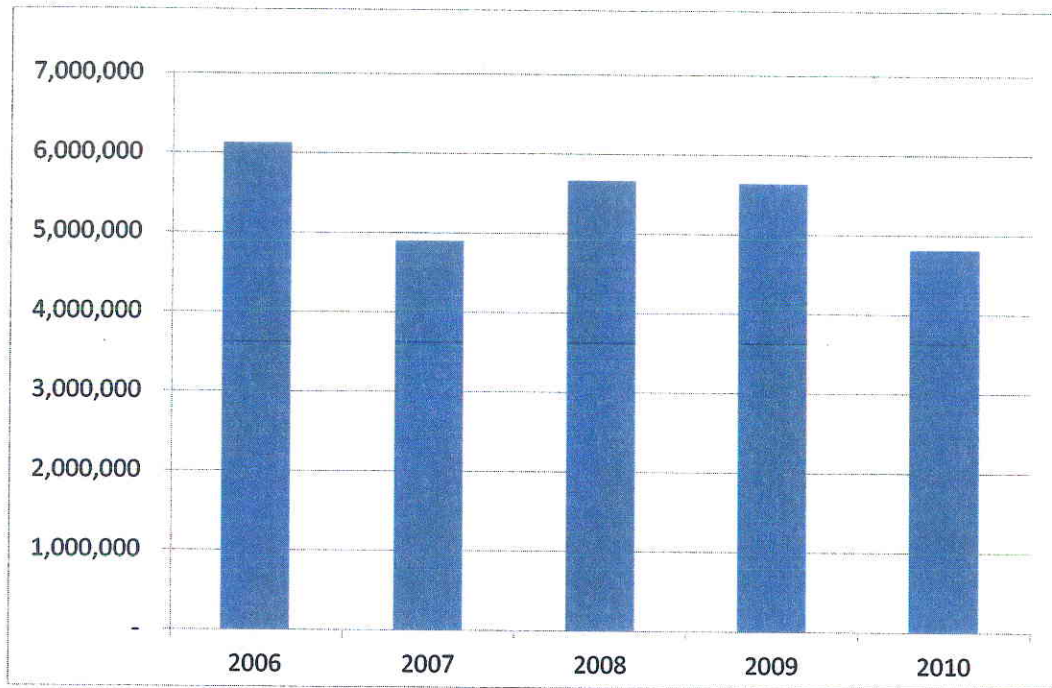


The numbers below represent the total expenses the City incurred in 2009 and 2010 for our Governmental Funds.

Expenditures. (all governmental funds)

	<u>2009</u>	<u>2010</u>	<u>change</u>
General government	588,983	649,399	10%
Police & fire	517,418	590,184	14%
Roads	1,015,989	732,885	-28%
Other public works	1,995,936	1,171,085	-41%
Community & economic development	16,200	15,800	-2%
Recreation & culture	280,762	266,456	-5%
Capital outlay	269,402	250,778	-7%
Debt service	305,101	332,701	9%
Unallocated fringes & insurance	702,291	742,864	6%
Net Interfund transfers	<u>(53,442)</u>	<u>62,510</u>	-217%
Total expenditures	<u>5,638,640</u>	<u>4,814,662</u>	-15%

Total expenditures over last five years (all governmental funds):



The City of Houghton's Fiscal Health

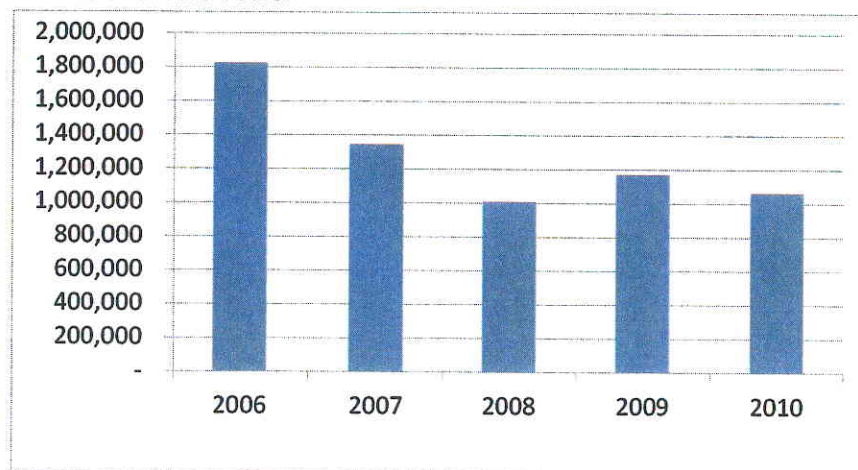
RESERVES AND MAJOR FUND BALANCES

One of the key measures of a government's fiscal health is the size of the fund balance. Fund balance is needed to provide cushion against unexpected revenue downturns or emergency expenses. Also, a healthy fund balance is needed so that governments do not have to borrow for day-to-day cash flow purposes.

The City of Houghton's total fund balance for the year 2009 was 30% of total general fund expenditures and in 2010 it was 24% of the total general fund expenditures.

Compared to the prior year			
	<u>2009</u>	<u>2010</u>	<u>% change</u>
Revenue	5,803,818	4,707,759	-19%
Expenditures	5,638,640	4,814,662	-15%
Surplus (shortfall)	165,178	(106,903)	-165%
Fund balance, by component:			
Reserved	5,554	5,554	0%
Undesignated	1,116,092	1,059,189	-9%
total fund balance	1,171,646	1,064,743	-9%

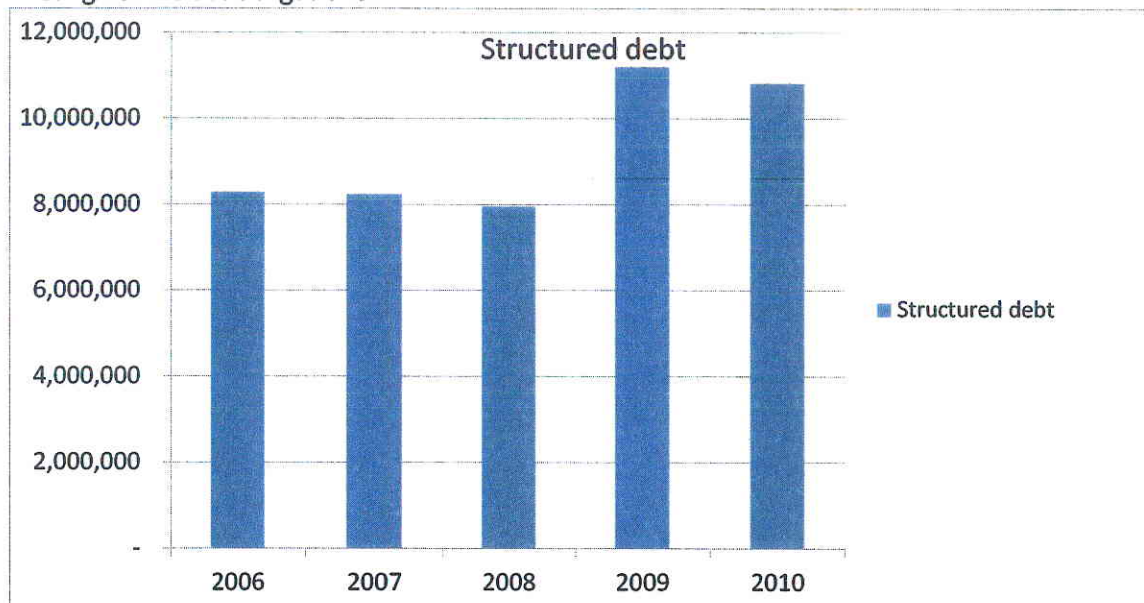
Fund Balance over Five Years:



DEBT LEVEL

The City of Houghton sometimes issues long-term debt (bonds) for expensive capital improvement projects like water and sewer improvements. The City's debt increased in 2009 due to the extensive work done on the Downtown Streetscape project. About 8 million dollars of this debt is in the water and sewer funds.

4. Long Term Debt obligations:



PENSION AND OTHER RETIREE BENEFITS

Poorly funded retirement systems are among the biggest challenges facing state and local governments throughout the country. Experts agree that retirement systems should be at least 80% actuarially funded to ensure they are able to meet their promises to provide defined benefit pensions.

A portion of City of Houghton employees are covered under a defined contribution retirement plan. The City of Houghton incurs no long term liabilities under this program.

A separate portion of City of Houghton employees are covered under a defined benefit retirement plan. This plan is structured so that the City does not pay over a specific percentage of wages. Any contributions necessary in excess of that amount are the responsibility of the employees. As of December 31, 2010, the City's Defined Benefit Retirement Plan was \$326,392 overfunded.

City employees that reach 80 points (age + years of service) will get \$200 per month for health care.

The City of Houghton employs 29 full-time employees and approximately 18 part-time employees. This is a slight decrease from prior years as not all retirees have been replaced.