



2016 Citizens' Guide to the City of Niles' Financial Health

Containing information for Fiscal Year 2015

(Publicly available 12/1/2016)

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. ***The City of Niles' fiscal year is October 1 – September 30.***
- **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.

Greetings,

I would like to share the official **Citizens' Guide to the City of Niles' Financial Health**. The City of Niles is known as "The City of Four Flags" for the four nations – France, England, Spain and the United States, whose flags have flown here. This is a city with a rich history dating back to 1691 when the French established a flourishing fur trade post. The population grew over the years as people were drawn to the area because of the great potential to acquire wealth through the lumber industry, manufacturing and agriculture. For over 300 years Niles has been a commercial hub in southwest Michigan.

This guide is designed to be friendly and informative by providing quick and accurate information regarding city services and financial activities.

The City of Niles, which is located in southwest lower Michigan, is the largest city by population in Berrien County. Our location presents our residents with many opportunities unavailable to most cities our size. Within a twelve-mile radius we have five colleges and universities, we are minutes from a major city, South Bend, Indiana, but are able to keep our "small" town atmosphere. Residents are also able to travel to downtown Chicago, 90 miles away, by direct interstates or direct train connections. Niles has affordable housing available and has a pro-business and development attitude with solid infrastructure to support growth.

Like most Michigan communities, Niles has been affected by the downturn in the national and state economies. With solid fiscal planning, Niles has weathered the fiscal impact of the recent economic conditions better than most cities in Michigan. The City prescribes to sound fiscal practices needed to operate within our means by decreasing costs and modifying services. The challenge has been to cut expenditures without sacrificing essential services.

I believe people choose to live in Niles because we have a solid history of providing essential services like fire protection, police services, street maintenance, sewer services, water distribution, and electric distribution. We must encourage fiscal discipline within the organization so essential services are not affected. It is possible that difficult decisions will have to be made concerning non-essential services.

The City of Niles operates on an approximate \$33 million dollar budget annually. Approximately \$14.5 million are general fund and special revenue fund dollars (i.e. governmental funds) raised through taxes (local, state, and federal), charges for services and other revenues. This guide will provide you information on how these revenues are collected and how this money is expended. The remaining \$18.5 million is accounted for in enterprise funds, which are operation funds in

which no taxpayer money is used. Enterprise funds provide for the operation of city services like water, sewer, electricity, cemetery, and the golf course. Special revenue funds include major and local streets, building safety, sewer maintenance, Dial-A-Ride transportation, and community development.

This guide provides you with financial data and narrative to help you understand how general fund dollars and selected other revenue sources are used to operate the city. This guide also provides the citizen with information about the city's unfunded liabilities. Together this data provides an economic picture of the fiscal condition of our city. The data represented in this guide is selected by the State of Michigan Treasury Department as reported on form F-65 to the State of Michigan.

The City of Niles always welcomes citizen inquiries and comments in reference to fiscal questions or any other concern you may have. Please feel free to contact the office of the City Administrator with any issue you may have. I hope you will share my optimism for a bright and fiscally sound future for the City of Niles.

Sincerely,

Richard A. Huff
City Administrator

HOW TAXPAYER MONEY IS SPENT: GOVERNMENT REVENUES AND EXPENDITURES

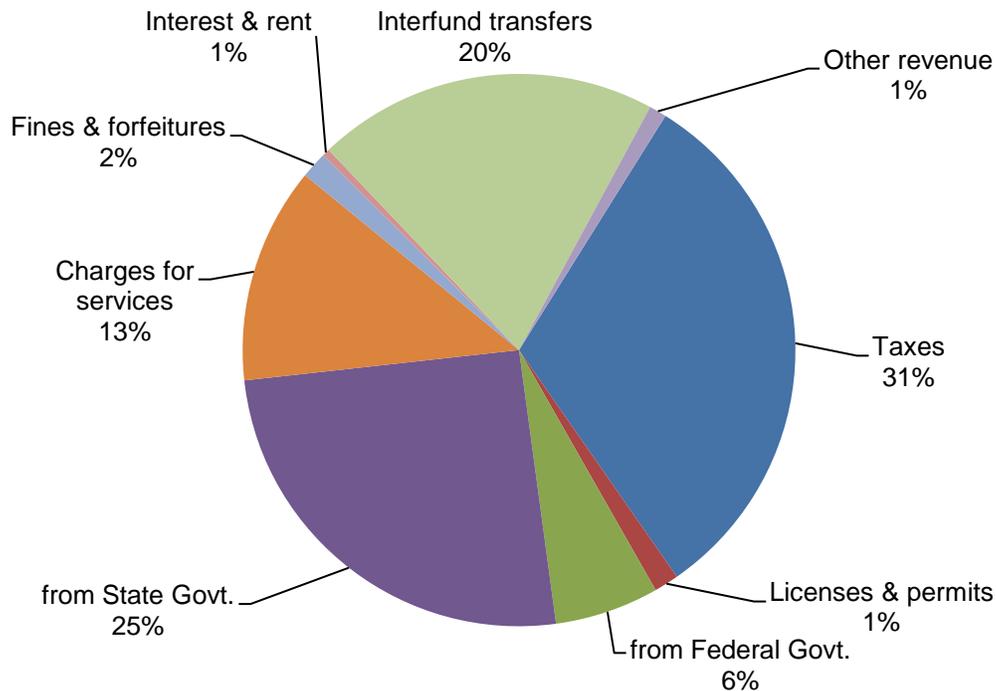
REVENUES.

| | |
|----------------------|---------------------|
| TAXES | \$ 3,012,728 |
| LICENSES & PERMITS | 138,197 |
| FROM FEDERAL GOVT. | 584,038 |
| FROM STATE GOVT. | 2,432,890 |
| CHARGES FOR SERVICES | 1,214,004 |
| FINES & FORFEITURES | 148,645 |
| INTEREST & RENT | 42,841 |
| INTERFUND TRANSFERS | 1,913,157 |
| OTHER REVENUE | 97,413 |
| TOTAL | \$ 9,583,913 |

Down roughly \$1.5 million from last year, the City of Niles' General Fund revenues were just over \$9.5 million dollars this year. This decrease is due to a decrease in federal funding, \$1,420,471 last year, which was specifically a one-time grant for emergency services. Currently, Niles has 105 full-time and 99 part-time employees who run the city on General Fund and governmental revenues of \$9,583,913 (and enterprise funds of \$17.5 million). If Niles government was a private business it would be one of the largest within the city in terms of revenues and staffing.

CITY OF NILES
ACTUAL REVENUES—FY 2015
(OCT 1, 2014—SEPT 30, 2015)

Like most businesses which sell products or services to a variety of customers, the City of Niles obtains its revenues from a variety of sources. The largest source of funds is the property tax, which accounts for just over \$3 million, or 31% of the city's total revenue. The second largest funding source is the state government, which provides 25% of our revenue; interfund transfers at 20%; and charges for services at 13% of Niles's revenue.



PROPERTY TAXES

Property owners within the City of Niles contribute to the operation of city government through the property taxes they pay. A property tax is a charge on the value of property that the owner of the property is required to pay to a government in which the property is situated. There are three types of property:

- Land
- Improvements to land (immovable human-made objects, such as buildings)
- Personal property (movable human-made objects).

Real property (also called real estate or realty) means the combination of land and improvements.

Besides supporting Niles city government your property tax dollars also support a variety of other governmental functions, including:

- Niles Community Schools
- Lake Michigan College
- Niles District Library
- Greater Niles Senior Center
- Berrien County
- Niles Dial-a-Ride
- Berrien Regional Educational Service Agency

The City of Niles collected property taxes totaling **\$ 3,012,728** in FY 2015. This amount represents **31%** of the total revenue collected by the City, **up 4%** from last year.

STATE GOVERNMENT

The State of Michigan provides funding to local governments through a revenue distribution process called the **City, Village, and Township Revenue Sharing/County Incentive Program (CVTRS)**. Revenue sharing is money that is either constitutional or statutory. The constitutional portion is guaranteed as it is written into the Michigan State Constitution; whereas the CVTRS is a program that is based upon legislative action (hence, the distribution of CVTRS funds is subject to approval by the state legislature). In Michigan, all revenue sharing is *unrestricted*—that is, the state imposes no constraints on how it is spent by the local government that receives it.

INTERFUND TRANSFERS

Interfund transfers are just that – transfers from other funds. The largest source of interfund transfer dollars is the PILOT – Payment in Lieu of Taxes, which is obtained from the City's Electric/Water/Waste Water Divisions. In **FY 2015 this amount increased about \$70,000 to \$1,776,944 or about 93% of all revenue from interfund transfers.**

FEDERAL GOVERNMENT

The federal government supplies the City of Niles with funding from two primary sources. The Federal Transit Administration funds the City's public transit service (Niles Dial-a-Ride) and the Department of Housing and Urban Development funds the City's public housing agency (Niles Housing Commission) and the City's Community Development Block Grant program.

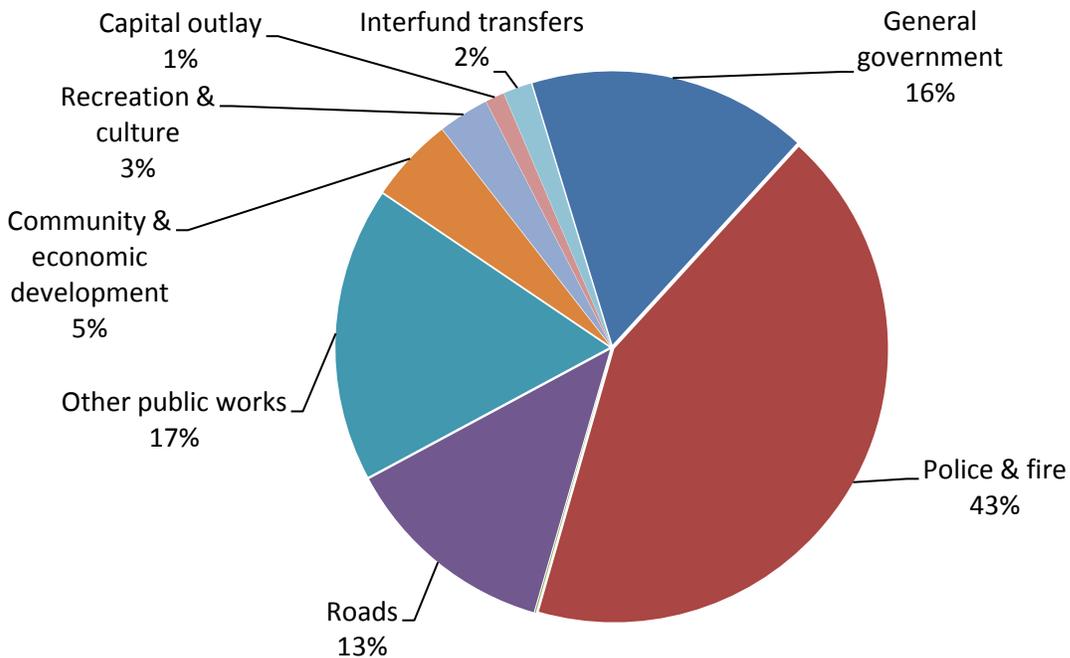
| | |
|----------------------------------|--------------------|
| GENERAL GOVERNMENT | \$1,537,319 |
| POLICE & FIRE | 3,974,041 |
| OTHER PUBLIC SAFETY | 5,568 |
| ROADS | 1,177,815 |
| OTHER PUBLIC WORKS | 1,613,928 |
| COMMUNITY & ECONOMIC DEVELOPMENT | 467,073 |
| RECREATION & CULTURE | 278,066 |
| CAPITAL OUTLAY | 104,512 |
| DEBT SERVICE | 848 |
| INTERFUND TRANSFERS | 155,896 |
| TOTAL | \$9,315,066 |

EXPENDITURES.

Expenses are the other side of the fiscal equation, consisting of money that is paid out to keep local government operating. The pie chart below shows how the City of Niles spends the money it collects. The largest expenditure category is attributed to police and fire protection (collectively referred to as *public safety*), which accounts for **43%** of the City's expenses.

Public safety spending is followed by spending on *general government* functions, which employ people to perform city administration (**16% - down 4% from FY14**); other *public work* functions such as leaf pick-up accounts for 17% of the budget (**up roughly 1.5%**); *roads*, which consists of engineering, road maintenance supplies, sidewalk, parking lot and road maintenance, and storm sewer maintenance (**13% - up 4% from last year**). Finally, *community and economic development*, *recreation and culture*, *Interfund Transfers* and *capital outlay*, which combined total roughly **11% of all local expenditures**, round out the categories that make up the expenditure pie.

CITY OF NILES
 ACTUAL EXPENSES—FY 2015
 (OCT 1, 2014—SEPT 30, 2015)

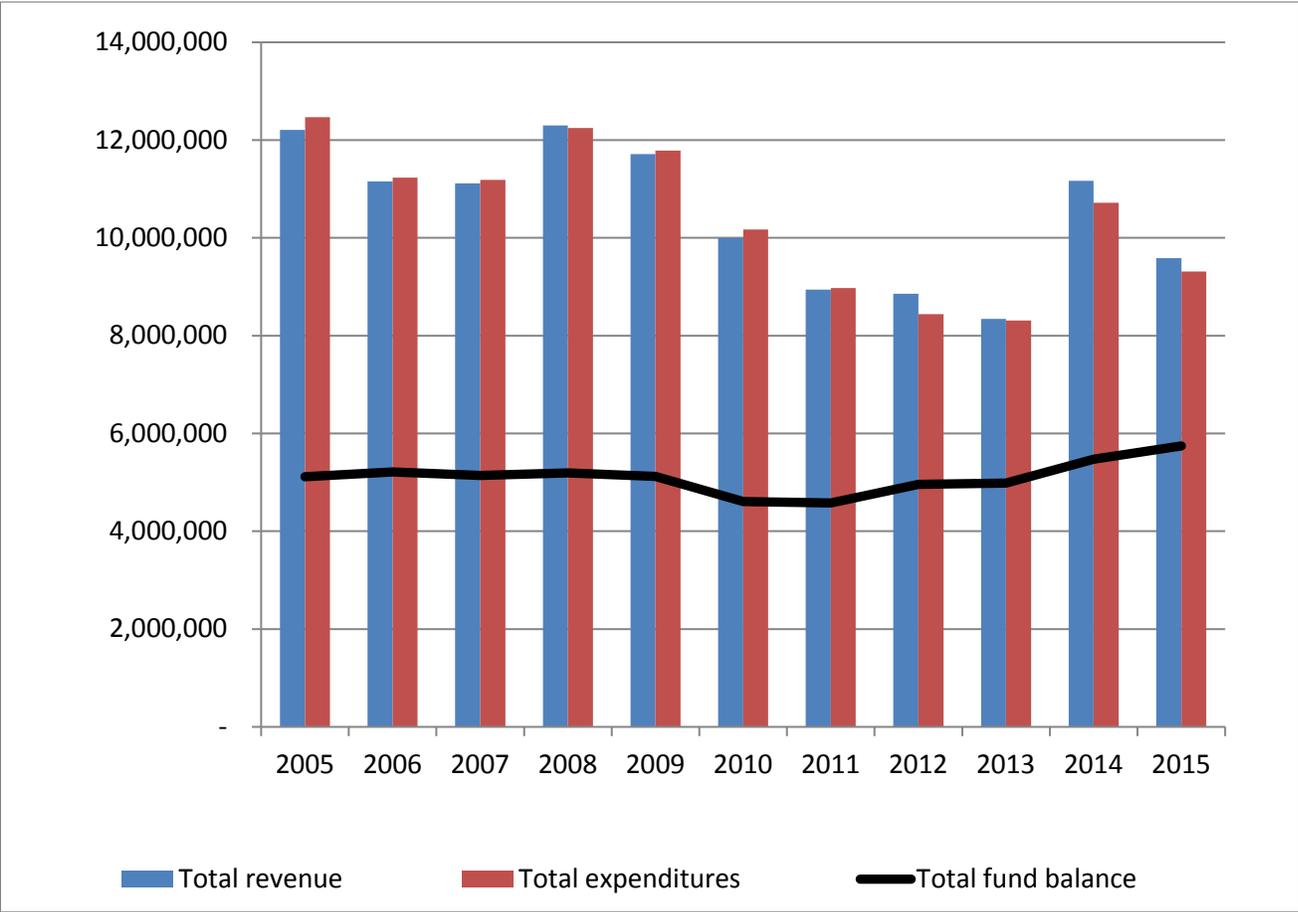


RESERVES AND MAJOR FUND BALANCES.

City governments, like all businesses and households, have revenues and expenses. As such, cities strive to collect more in revenue than they pay out for expenses. However, that is not always possible because of the substantial financial obligations that cities have. Similarly to businesses and households, city governments do their best to save money for “rainy days” [or future times of financial need] that may require large amounts of readily available cash. This savings is called a **fund balance**.

The chart below shows revenues and expenses on an annual basis and includes the City of Niles’ total fund balance. You can see that revenues and expenses steadily declined during the 2008 to 2013 period but made significant positive movement beginning in fiscal year 2014, due to a one-time Federal grant. However, the City’s fund balance has remained relatively stable in comparison, showing healthy increases over the last three fiscal years. **At the end of FY 2015 it was just under \$5.75 million (up nearly \$300,000), for a fund balance of about 60% of total revenues.**

CITY OF NILES
FUND BALANCE HISTORY



SERVICES THAT THE CITY OF NILES PROVIDES

Niles is a full service city that serves its citizens with a great variety of services, which include:

PUBLIC WORKS

- Operates public golf course
- Operates public airport
- Operates public cemetery
- Streets, sidewalks, sewer and park capital improvement projects
- Winter ice control/snow plowing
- Fall leaf collection
- Brush chipping, including Christmas trees
- Street sweeping
- Pavement patching and repairs
- Pavement marking (crosswalks, stop bars, parking spaces, directional arrows, etc.)
- Sanitary and storm sewer cleaning and repairs
- Mowing City street rights-of-way and City-owned properties
- Alley grading and clearing
- Park maintenance

POLICING

- Serves and protects the community from unlawful activities
- Provides 911 emergency response
- Administers traffic laws
- Files reports of theft, accidents, etc.
- Investigates crimes
- Facilitates crime prevention programs for the community

UTILITIES

The City of Niles' portfolio of services also includes a Utilities Department which is operated for the purpose of providing electric, water, and wastewater treatment services. No tax dollars are used to operate the water, wastewater and electric facilities.

FIRE PROTECTION AND BUILDING SAFETY

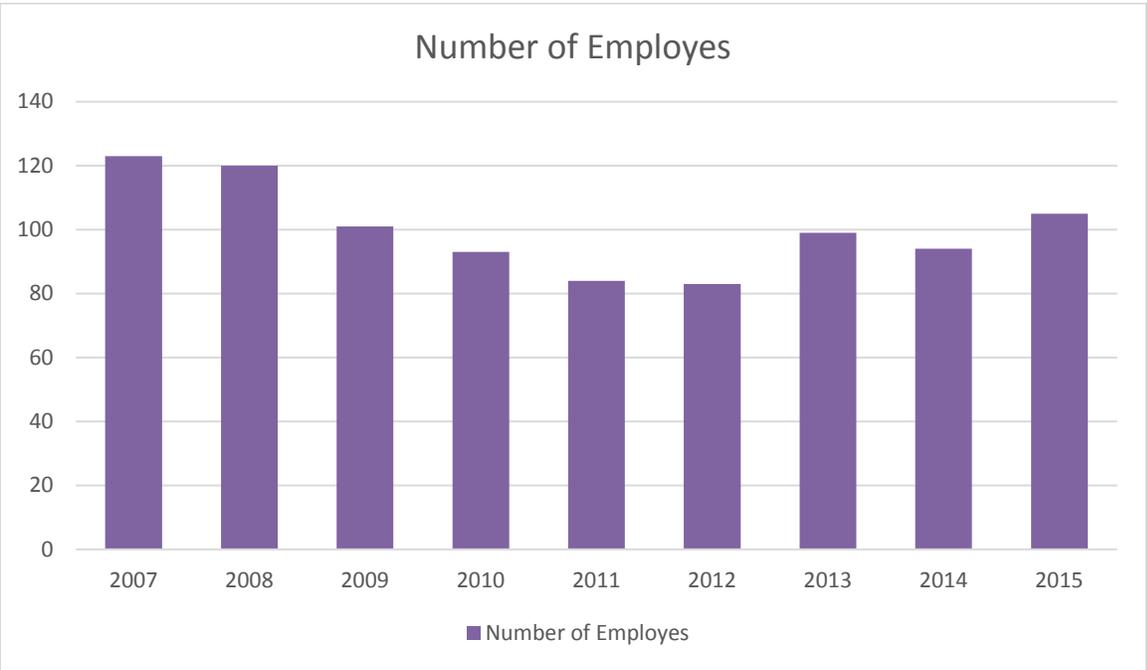
- The Fire Department responds to life threatening emergencies such as fires, car accidents, medical emergencies, and hazardous chemical spills
- Provides Emergency Preparedness guidance and information
- Conducts commercial fire inspections
- Provides public education safety programs
- Administers volunteer programs
- Reviews constructions drawings for Building and Fire Code compliance

PLANNING

- Administers zoning ordinance and provides zoning information; Reviews sign permits as well as all industrial, commercial, residential site plans
- Develops and implements the City's Master Plan, Recreation Plan and other planning documents
- Develops and implements the City's Consolidated Plan and administers the Community Development Block Grant program
- Prepares grant applications for community development projects

NUMBER OF EMPLOYEES

The chart below shows employment levels for the City of Niles over an eight year period. It includes only full-time employees as well as year-round part-time employees. Because all other employees are paid out of enterprise funds and not general funds, this report does not include volunteer police officers and fire fighters, Utility Department office workers, the water, electric and waste water labor force, and cemetery, airport, and golf employees.

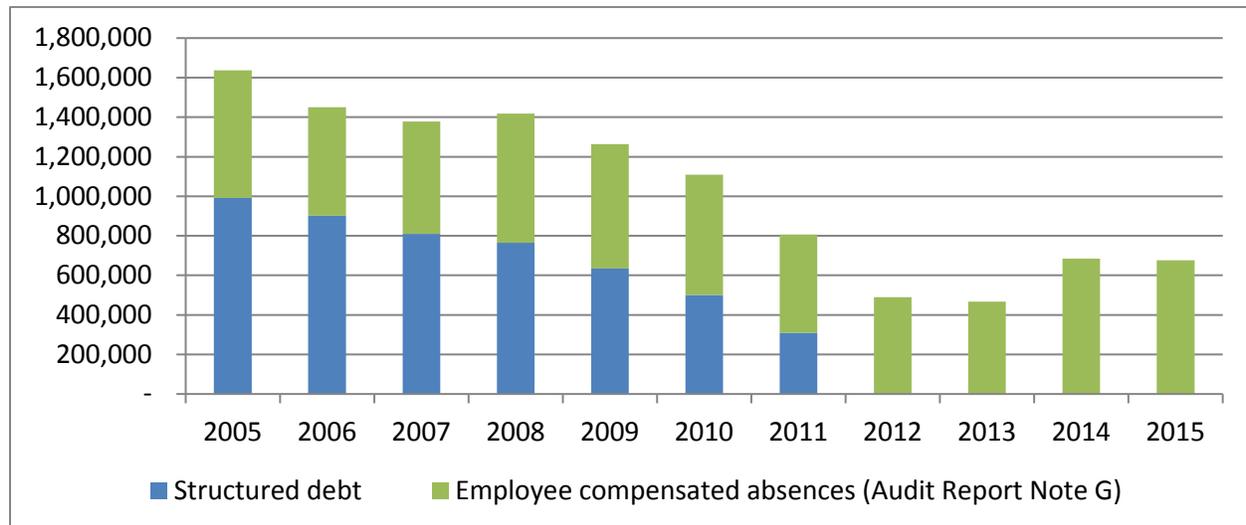


As evidenced by the chart, the trend has been for the City of Niles to utilize fewer employees for government operations. The only department seeing a small increase in staffing is Niles Dial-A-Ride, due to a need for more part-time drivers.

The Utilities Department comprises a very sizable portion of City operations. However, the revenues and expenditures within the department are not part of the General Fund. As such, they have not been figured into the revenues and expenses within this guide.

DEBT LEVELS

Below is a chart representing a ten year history of the City of Niles' General Obligation Debt and Accrued Compensated Absences.



Long-Term Debt Obligations

Employee compensated absences represent the liability for the accrued vacation, sick and compensatory time off for City employees. Perhaps the best way to understand this financial obligation is to imagine all City employees retiring at the same time. **This imaginary situation would require the City to pay \$675,877 for unused vacation, sick and compensatory time off.** However, it is safe to assume that such a scenario would never occur, and thus the City would not be placed in position that demanded a large amount of money for this type of obligation.

PENSION AND OTHER RETIREE BENEFITS

A pension is an arrangement to provide people with an income when they retire from their place of employment. Employers provide different arrangements, or plans, to their employees. There are two major types of pension plans – **defined benefit** and **defined contribution**. The City of Niles uses a defined benefit pension plan. A defined benefit plan is one in which an employer promises a specified monthly benefit on retirement that is set by a formula based on the employee's earnings history, length of service, and age. It is 'defined' in the sense that the formula for determining the employer's contribution is known in advance.

Pension obligations lie with the employer who is responsible for making the decisions. Employer contributions to a defined benefit pension plan are based on a formula that calculates the contributions needed to meet the defined benefit. These contributions are **actuarially** determined, taking into consideration the employee's life expectancy and normal retirement age,

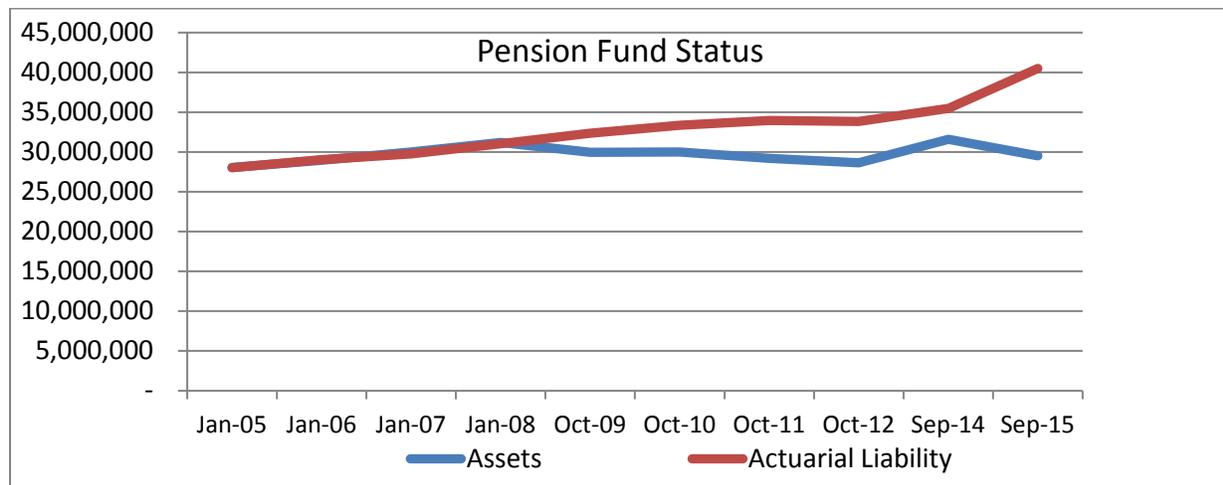
possible changes to interest rates, annual retirement benefit amount, and the potential for employee turnover.¹

DEFINED BENEFIT PLANS FALL INTO TWO CATEGORIES, EITHER FUNDED OR UNFUNDED.

Actuaries answer financial questions, including those involving the level of pension contributions required to produce a certain retirement income and the way in which a company should invest resources to maximize its return on investments in light of potential risk.

In a *funded* plan, contributions from the employer, and sometimes also from employees, are invested in a fund towards meeting the benefits. In Niles, which has a funded plan, public safety employees contribute 7% of their income towards their pension and all other employees contribute 5.92%. Future returns on the investments and the future benefits to be paid are not known in advance in a funded plan, so there is no guarantee that a given level of contributions will be enough to meet the benefits. Typically, the contributions to be paid are regularly reviewed in a valuation of the plan's assets and liabilities, carried out by an **actuary** to ensure that the pension fund will meet future payment obligations. This means that in a defined benefit pension investment risk and investment rewards are typically assumed by an employer (such as the City of Niles) and not by the individual.

The chart below shows a comparison between the value of the City of Niles' pension plan assets and the plan's actuarial liability. The values in the chart may seem strikingly large because the City's pension account is required to pay for the pensions of all of its previous employees. At the time this Guidebook was prepared there were a total of 143 former employees collecting a pension.



¹ "What is a Defined Benefit Pension Plan?". *Channels: Tax center*. New York Life Precision Information, LLC. 2009. Retrieved 2009-05-09

Two aspects of the City's pension plan are revealed by the chart. First, assets and liabilities followed an even track for the time period between 2005 and 2008. Assets kept up with liabilities and no shortfalls were projected during that time. However, in 2008 the value of the City's pension dropped sharply, reflecting the fallout of the economic downturn that began that year. **Since 2008, liabilities have continued to climb with this year showing a near \$5 million increase,** while assets have been mostly flat with some fluctuation up (PY14) and down (roughly \$2 million in PY15) over the last few years. **The difference between assets and actuarial liabilities increased dramatically to almost \$11 million at the end of FY 2015, up from just under \$4 million the year prior.** This dramatic increase was mostly due to a change in demographic and economic assumptions used in the actuarial valuation.

The significance of these numbers is that the City of Niles is responsible for making the pension plan whole. That is, if there is a projected shortfall of money to pay for retiree's pensions, the City of Niles is required to make up the difference.

The unfunded actuarial pension liability should not be viewed as an amount that is due immediately. Rather, the total amount is being amortized over a remaining 24 year period, which means that the City would make annual payments to narrow the liability gap. Actuaries calculate the liability from year to year, which determines whether (and how much) the City must pay into its pension trust fund.

The City's annual *other postemployment benefit* (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the Plan:

| | | |
|--|----|-----------------|
| Annual required contribution | \$ | 332,793 |
| Interest on net OPEB obligation | | 24,639 |
| Adjustment to annual required contribution | | <u>(34,245)</u> |
| Net OPEB cost | | 323,187 |
| Contributions made | | <u>195,250</u> |
| Increase in net OPEB obligation | | 127,937 |
| Net OPEB obligation, beginning of year | | <u>615,969</u> |
| Net OPEB obligation, end of year | \$ | 743,906 |

| Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|------------|------------------|--|---------------------|
| 9/30/2011 | \$260,436 | 60% | \$159,079 |
| 9/30/2012 | \$260,576 | 53% | \$281,529 |
| 9/30/2013 | \$268,387 | 45% | \$427,853 |
| 9/30/2014 | \$326,116 | 42% | \$615,969 |
| 9/30/2015 | \$323,187 | 60% | \$743,906 |

TREND INFORMATION

Funded Status and Funding Progress. As of October 1, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$3,139,365, all of which was unfunded.

This chart depicts the last three audited fiscal years for pensions and other post-employment retirement benefits (OPEB). At the end of FY2015, the City's Pension is 72.9% funded while OPEB is 0% funded. Combined, the City's liability for these two items are 95% funded as of 2009, 83% funded as of 2011, and 67% funded for 2015.

