



CITY OF IONIA

Residents Guide to the City of Ionia's Finances

October 1, 2021

Introduction

This Residents Guide to the City of Ionia's Finances represents the eleventh of such guides published by the City of Ionia in order to fulfill one of the requirements established by the City, Village, and Township Revenue Sharing (CVTRS) program [formerly known as the Economic Vitality Incentive Program (EVIP)].

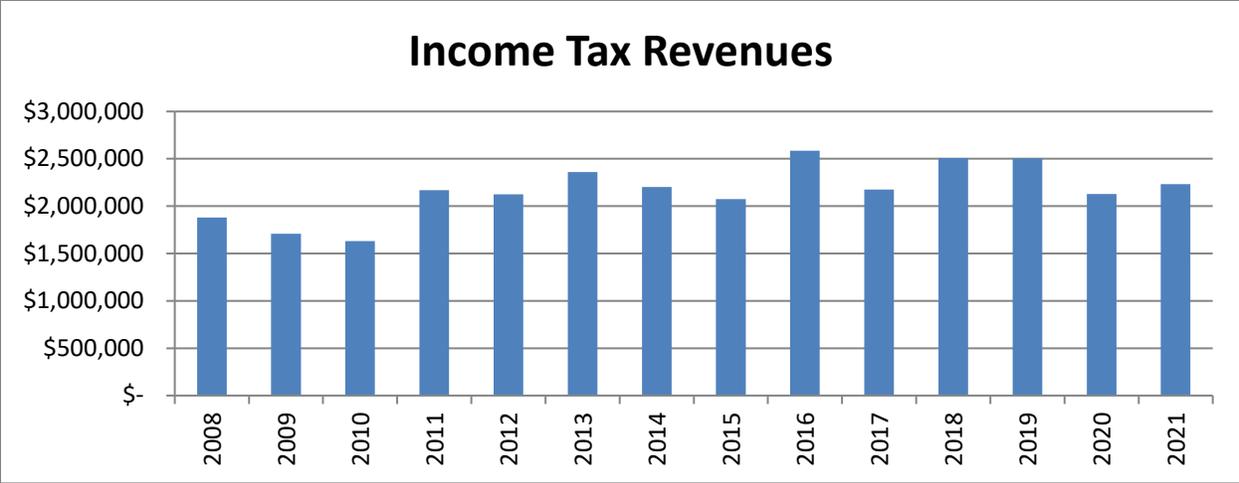
The format for this year's guide is consistent with previous guides (2011 - 2020 editions). As in past years, the City has also prepared a companion comprehensive budget report including the current fiscal year's (FY20-21) revenues and expenditures along with projected revenues and expenditures for FY21-22. This report, along with the City's performance dashboard and complete list of outstanding debt and associated debt amortization schedules, is available on the City's website at www.cityofionia.org.

Revenues Received by the City

General Operations

The majority of the City's core operations are funded by the City's General Fund. This includes general government operations, public safety, information technology and transfers to other City operating funds including parks, recreation and streets. There are three primary sources of revenue that support the General Fund – the city income tax, general property tax and state revenue sharing.

The City began levying a city income tax in 1994. The income tax rate is statutorily set at 1.0% for residents and .5% for non-residents. These rates are applied to individuals and businesses either residing in the City or earning income in the City. Since enactment the city income tax has been the largest source of revenue for the City's General Fund and generated \$2.233 million during FY20-21. The bar graph below illustrates the total income tax revenue received by the City for each fiscal year since FY 07-08.



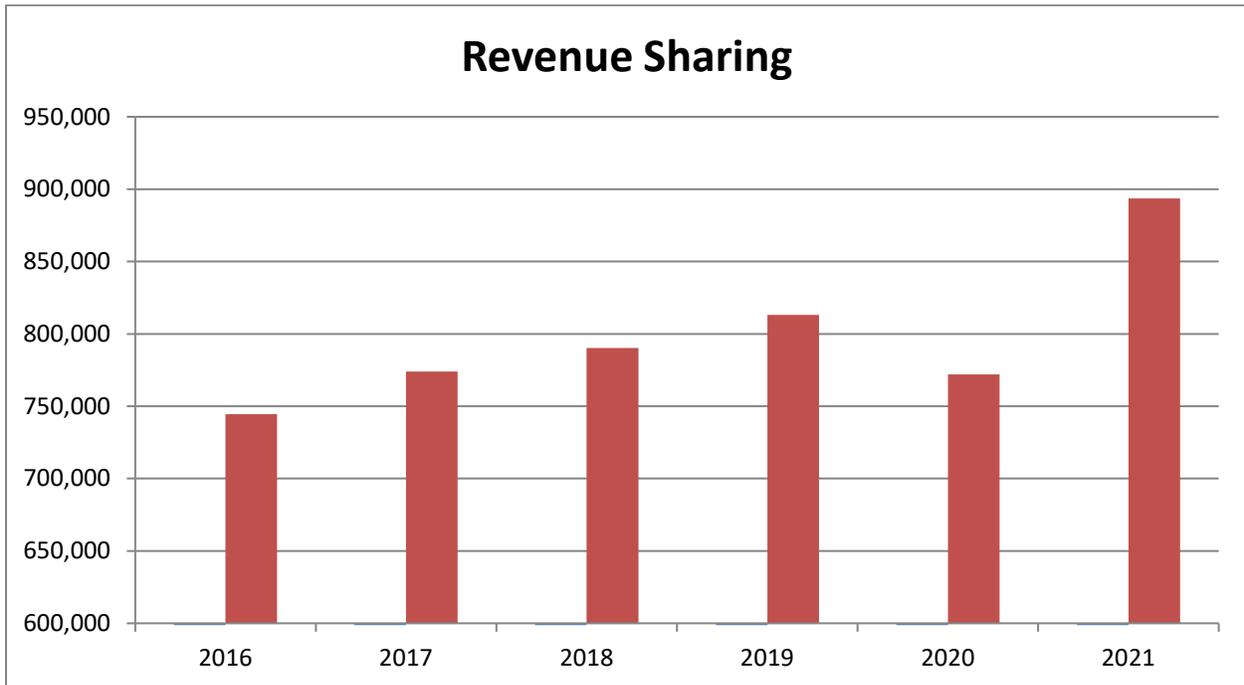
The second largest source of revenue for the General Fund has alternated between the general property tax and revenue sharing depending on the total millage rate levied by the City and the condition of the State of Michigan budget.

The City Charter sets the annual maximum millage rate at 15.00 mills plus 1.00 mill for library operations and .75 mills for public transportation. The millage reduction factor established by the Headlee Amendment affects some of the millages levied by the City. As part of the annual budget process, City Council sets the millage rate to be levied and determines which millages are levied as part of the summer (July) property tax bill or winter (December) bill. The chart below illustrates the total millage rate levied by the City (in “mills” – a “mill” is \$1.00 per \$1,000 in property taxable value) to support the past five fiscal year budgets. The chart also identifies the actual revenue that was generated by each millage during FY20-21.

	FY17	FY18	FY19	FY20	FY21	Revenue in FY21
General operating	3.0000	3.0000	3.0000	3.0000	3.0000	\$ 295,857
Public Safety	0.7500	1.0000	1.0000	1.1500	1.1500	\$ 118,879
Solid Waste	2.0000	2.0000	2.0000	2.0000	2.0000	\$ 206,757
Environmental Response	0.4000	0.2508	0.2508	0.1008	0.1165	\$ 12,033
Environmental Debt	0.9000	0.0000	0.0000	0.0000	0.0000	\$ -
Dial A Ride	0.7492	0.7492	0.7492	0.7492	0.7335	\$ 758,120
City Streets	1.2500	1.0000	1.0000	0.0000	0.0000	\$ -
Theatre Facility Improv.	0.0000	0.0000	0.0000	1.0000	1.0000	\$ 103,373
Parks - Facilities Imp	1.0000	1.0000	1.0000	1.0000	1.0000	\$ 103,373
	10.0492	9.0000	9.0000	9.0000	9.0000	\$ 1,598,392

Revenue Sharing is distributed by the State of Michigan to cities, townships, villages and some counties based on a formula that takes into consideration population, relative tax effort and sales tax revenues received by the State (a full explanation is available on the State of Michigan, Department of Treasury website). For the City, revenue sharing has been the most volatile revenue source during the past several fiscal years due to the economic pressures and financial challenges faced by the State of

Michigan. The bar graph below illustrates total revenue sharing dollars received by the City during the past six fiscal years.



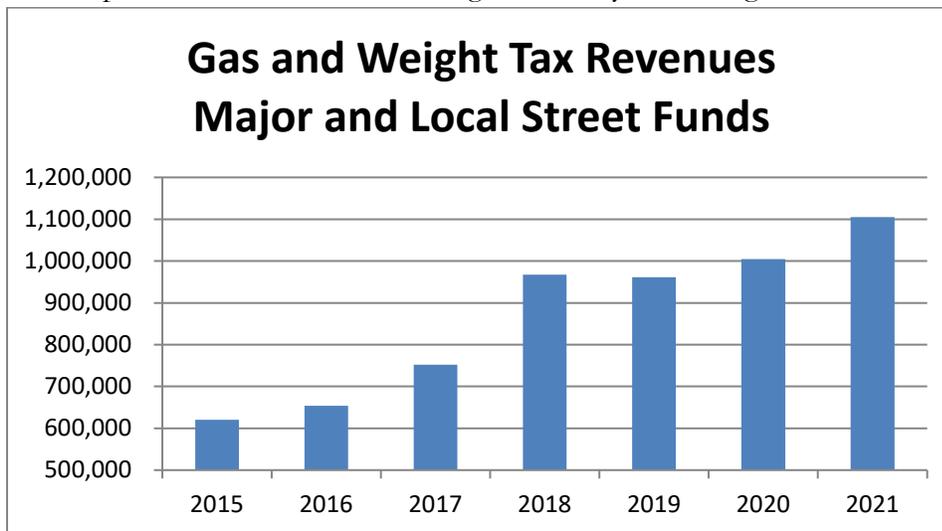
In addition to the “big three” revenues (income tax, property tax, revenue sharing), the City’s General Fund also receives other revenues in addition to the sources identified above. Some of these other revenues include fire protection grants (payment from the State of Michigan for providing fire services/coverage to the prisons), franchise fees (Spectrum), fines, administrative service charges to other City funds, and interest income.

Street Operations

The City owns and maintains 26.51 miles of public streets. Each street is classified by the Michigan Department of Transportation (MDOT) as either a major street or a local street and the City’s annual street mileage is certified by MDOT for the purpose of determining the amount of Gas and Weight Tax that will be distributed to the City for street maintenance. A major street is a street that typically has a higher traffic volume than most streets and usually serves a center of commerce. In some instances a street is considered a major street because of the linkage it provides between two State highways. There are 8.66 miles of major streets in the City with the list including Main, Depot, Steele, Washington and Yeomans Streets. All streets not categorized as a major street are a local street. These are typically neighborhood streets. The City has 17.85 miles of local streets including Chapman, Branch, Brooks and Pearl Streets, to name a few.

Everyone who owns and operates a vehicle pays gas and weight taxes. This particular tax, collected by the State, includes vehicle registration fees, surcharges on gasoline and fuel (paid at the pump) and drivers license fees. The bar graph below illustrates the amount of Gas and Weight Tax received by to the City to operate its street system during the past six fiscal years. Due to changes in driving practices influenced by higher gas prices, this particular revenue source has fluctuated. In

order to close the gap between revenues received from this source and cost of maintaining both street systems, the City typically transfers dollars from the General Fund to each street fund (especially the Local Street Fund). During 2018, Ionia County voters approved a County-wide road millage. The City annually receives a pro-rata share of the revenue generated by this millage.



The City is annually required to file with MDOT an Act 51 report, which illustrates how the City spent its Gas and Weight Tax revenues and ensures that its spending practices are consistent with MDOT policies.

Utilities – Water and Sewer

The City operates public water and sanitary sewer systems. These systems service the City and portions of neighboring townships. To account for the revenues generated and expenditures incurred by each utility system, the City maintains separate Water and Sewer Funds. Unlike many government funds, both the Water Fund and Sewer Fund are proprietary in nature, meaning that they are intended to operate as an enterprise that is funded by fees sufficient to cover the costs of operation (no property tax dollars support utility operations).

The Water Fund accounts for all aspects of operating the water utility including maintaining the City’s well field and pumps, storing the water and pressurizing the water system (through ground or elevated storage), distributing the water, reading and maintaining meters, and ensuring its quality. Revenues to cover the cost of providing residents and businesses with quality drinking water are generated through the sale of water. Customers are billed quarterly for the water used during the previous three months (commodity charge). In addition to the commodity charge, the City also charges a facilities maintenance charge, which covers the cost of retiring principal and interest on bonds (loans) issued to upgrade the water system. The facilities maintenance charge utilizes a residential equivalent unit (REU) factor to determine the charge assessed non-single family residential and commercial accounts. The table below illustrates the commodity and facilities maintenance charge rates as set by the City Council for the past five fiscal years.

Utility Rates – Water Fund

	2017	2018	2019	2020	2021
Water Commodity Charge (per 1,000 gallons)	\$ 2.80	\$ 3.00	\$ 3.40	\$ 3.80	\$ 3.80
Water Facilities Maintenance (per REU)	\$ 23.00	\$ 24.00	\$ 26.00	\$ 28.00	\$ 28.00

Based on the above rate schedule, each rate generated the total revenues identified below, by category, for the past five fiscal years.

Revenue Generated – Water Fund (in hundred thousands)

	2016	2017	2018	2019	2020
Water Commodity Charge	\$ 1,558	\$ 1,513	\$ 1,718	\$ 1,779	\$ 2,133
Water Facilities Maintenance	\$ 442	\$ 468	\$ 516	\$ 669	\$ 711

The Sewer Fund accounts for all aspects of operating the sanitary sewer utility, including collecting the sewage through the collection system and treating it at the Ionia Regional Utilities Authority Wastewater Treatment Plant. Like the Water Fund, revenues to cover the cost of providing services are generated through assessing both a commodity charge and a facilities maintenance charge. The amount billed for sanitary sewer services is typically based on the water meter reading for the same quarter. The table below illustrates the commodity and facilities maintenance charge rates for the sewer system as set by the City Council for the past five fiscal years.

Utility Rates – Sewer Fund

	2017	2018	2019	2020	2021
Sewer Commodity Charge (per 1,000 gallons)	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.20
Sewer Facilities Maintenance (per REU)	\$ 43.50	\$ 44.00	\$ 44.00	\$ 44.00	\$ 45.00

Based on the above rate table, each rate generated the total revenues identified below, by category, for the past five fiscal years.

Revenue Generated – Sewer Fund (in hundred thousands)

	2016	2017	2018	2019	2020
Sewer Commodity Charge	\$ 2,648	\$ 2,769	\$ 2,644	\$ 2,574	\$ 2,740
Sewer Facilities Maintenance	\$ 921	\$ 927	\$ 940	\$ 975	\$ 892

Other Sources

In addition to the major operating funds already noted, the City maintains several other funds to financially account for its operations. This list of funds includes the following, which generate revenue from specific sources to support the particular services financed by each fund:

Capital Improvement Fund: Revenues received in the form of transfers from the City's Water Fund and Sewer Fund (usually from bond proceeds).

Central Garage Fund: Revenues generated through the leasing of equipment owned by this Fund on a pay for use basis by other City Funds.

Dial-A-Ride Fund: Revenues generated through a .7335 mill property tax levy, federal and state grants, and fare box revenue from riders.

Downtown Development Authority (DDA) Fund: Revenues generated through a 2 mill property tax levy on all properties located within the DDA and revenues from fundraising and professional services.

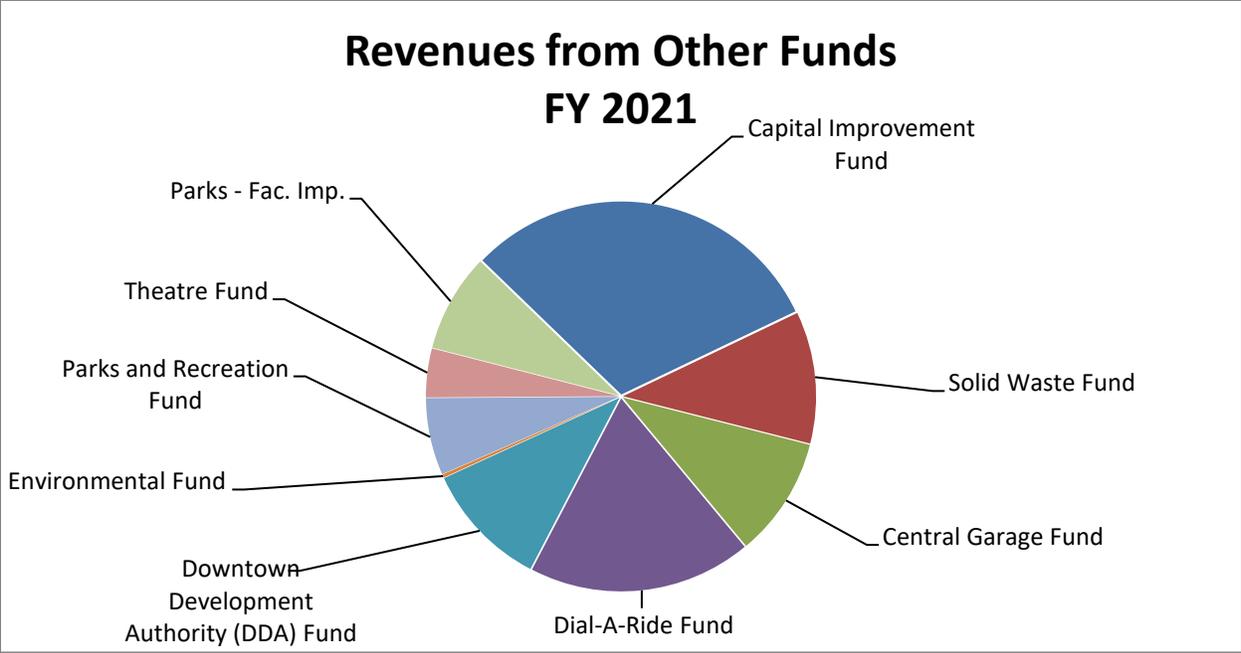
Environmental Fund: Revenues generated through a property tax millage (.1165 mill) designated for monitoring and remediating the City's former municipal landfill on Cleveland Street.

Parks and Recreation Fund: Revenues generated through program participation fees, sponsorships and a transfer from the City's General Fund.

Solid Waste Fund: Revenues generated through a 2.00 mill property tax levy and service charges for the provision of trash and recycling services.

Theatre Fund: Revenues generated through movie admissions and sale of concessions.

The pie chart below shows the sources of all revenues received collectively by the eight funds identified above during FY20-21.



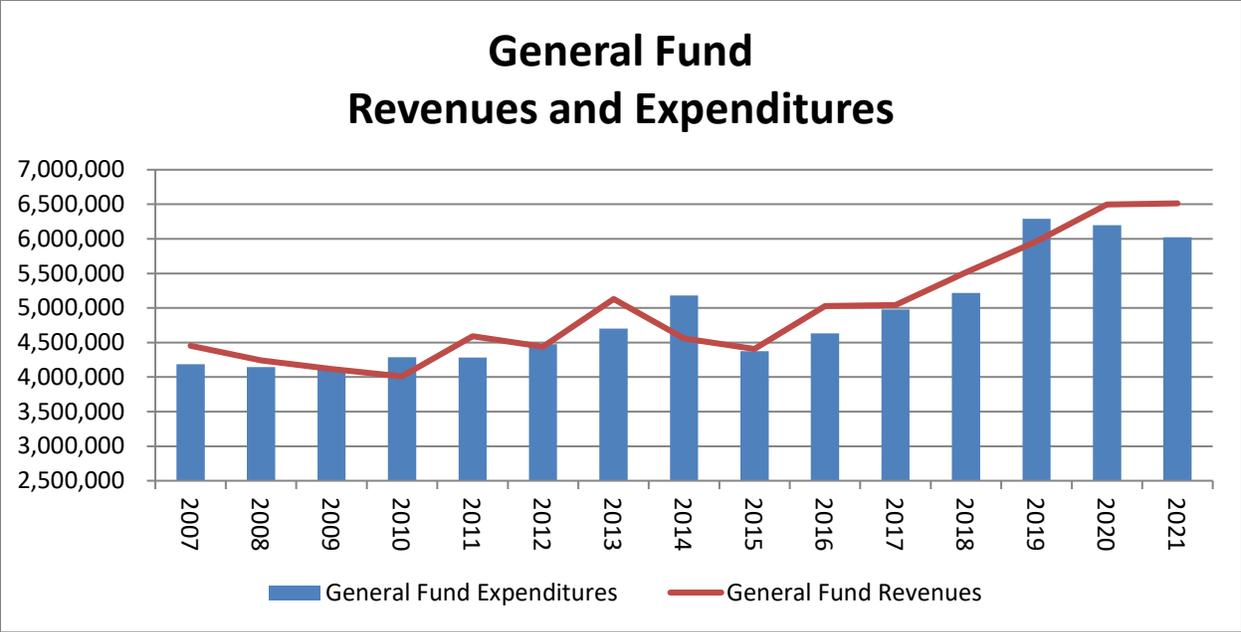
Services Delivered by the City

General Operations

Most general government operations are funded by the City’s General Fund either directly (budgeted in the General Fund) or indirectly (budgeted in a different fund that receives an appropriation from the General Fund). Departments and offices funded by the General Fund include the following:

- | | | | |
|---------------|--|-------------------|---------------|
| City Council | City Manager | Elections | Accounting |
| Audit | Income Tax Administration | Planning & Zoning | Assessing |
| City Attorney | Information Technology | Ambulance | Public Safety |
| Street Lights | Contributions to Other Funds (Streets, Parks & Recreation, Debt) | | |

Total expenditures in the General Fund fluctuate from fiscal year to fiscal year for a variety of reasons including changes in revenue, changes in staffing levels, capital projects (ie. facility improvements, vehicle replacement, etc.) and service delivery adjustments. The graph below illustrates total General Fund expenditures for the past fourteen fiscal years. The line on the graph shows total General Fund revenues for the corresponding fiscal year. In instances where the line is above the bar, revenues received by the General Fund exceeded General Fund expenditures. Conversely, in instances where the line is below the bar, General Fund expenditures exceeded revenues and reserves (fund balance) held by the General Fund were tapped to make-up the difference.



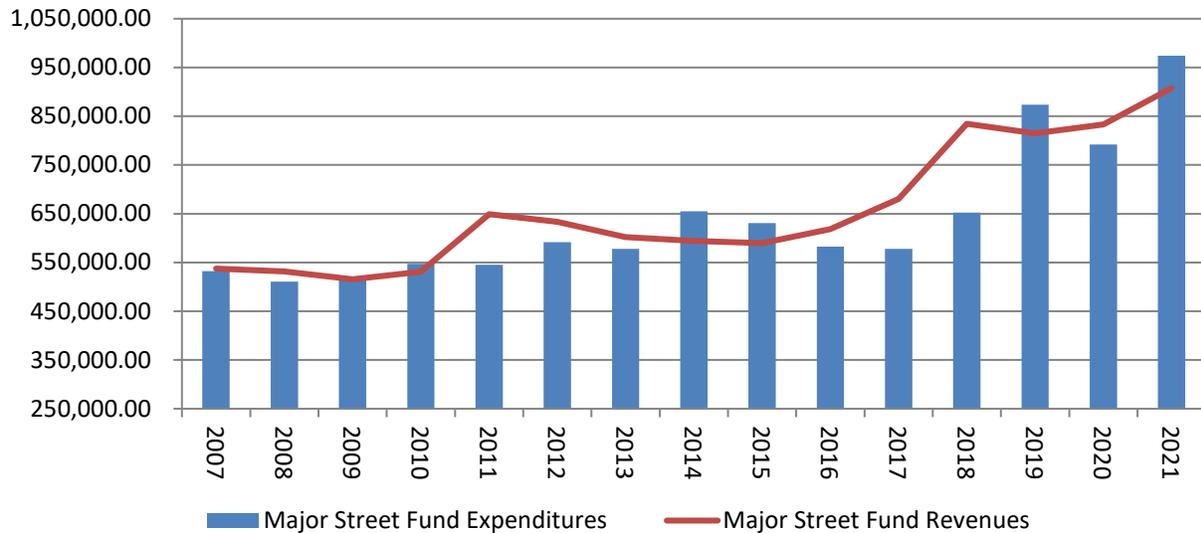
Street Operations

Revenues and expenditures associated with the operation of the City’s street system are segregated by law in either the Major Street Fund or the Local Street Fund. Both funds include line items addressing general street maintenance such as routine maintenance, tree trimming, traffic service, winter maintenance and administration.

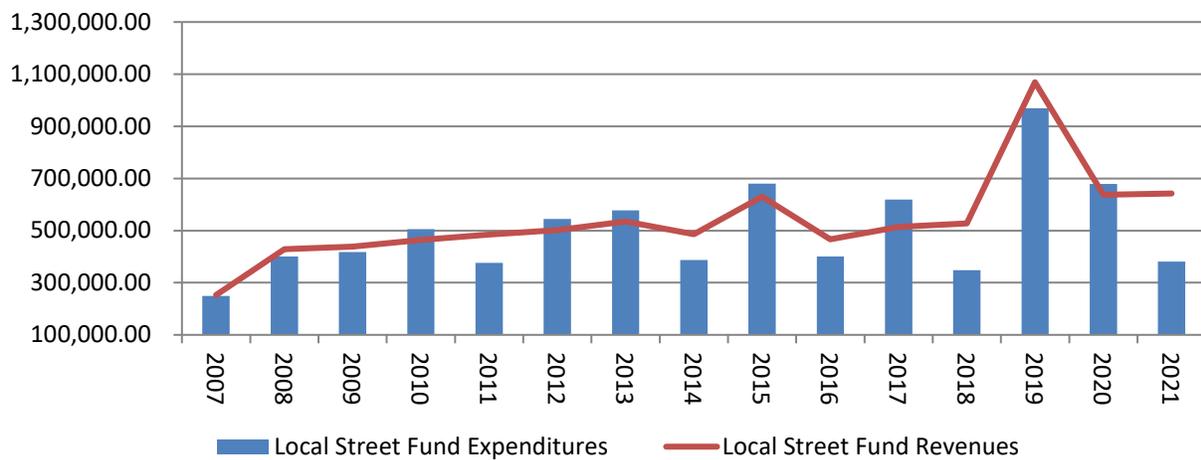
The City annually reports its street maintenance-related expenses to the State of Michigan so that the State can monitor the City’s use of State transferred Gas and Weight Taxes. Expenditures in both the Major Street Fund and Local Street Fund fluctuate greatly from year to year due to two primary reasons – the level of street maintenance work completed (resurfacing and reconstructs) and the severity of winter weather and the associated snow removal and salting expenses.

The graphs below illustrate total expenditures for the Major Street Fund and Local Street fund, respectively, for the past fourteen fiscal years. As with the graphs that illustrate General Fund expenditures, included on the graphs below are lines that illustrate revenues for each fiscal year. In instances where expenditures exceed revenues, fund reserves were tapped to cover the difference. This is quite common with the two street funds, because that the City will “save” money for a fiscal year or two in order to cover the significant cost of reconstructing a particular street. Street improvement priorities are established through capital planning and incorporated into the annual fiscal year budget as part of the City’s Capital Improvement Plan. The City Council reviews this Plan on an annual basis and makes adjustments as necessary.

Major Street Fund Revenues and Expenditures



Local Street Fund Revenues and Expenditures

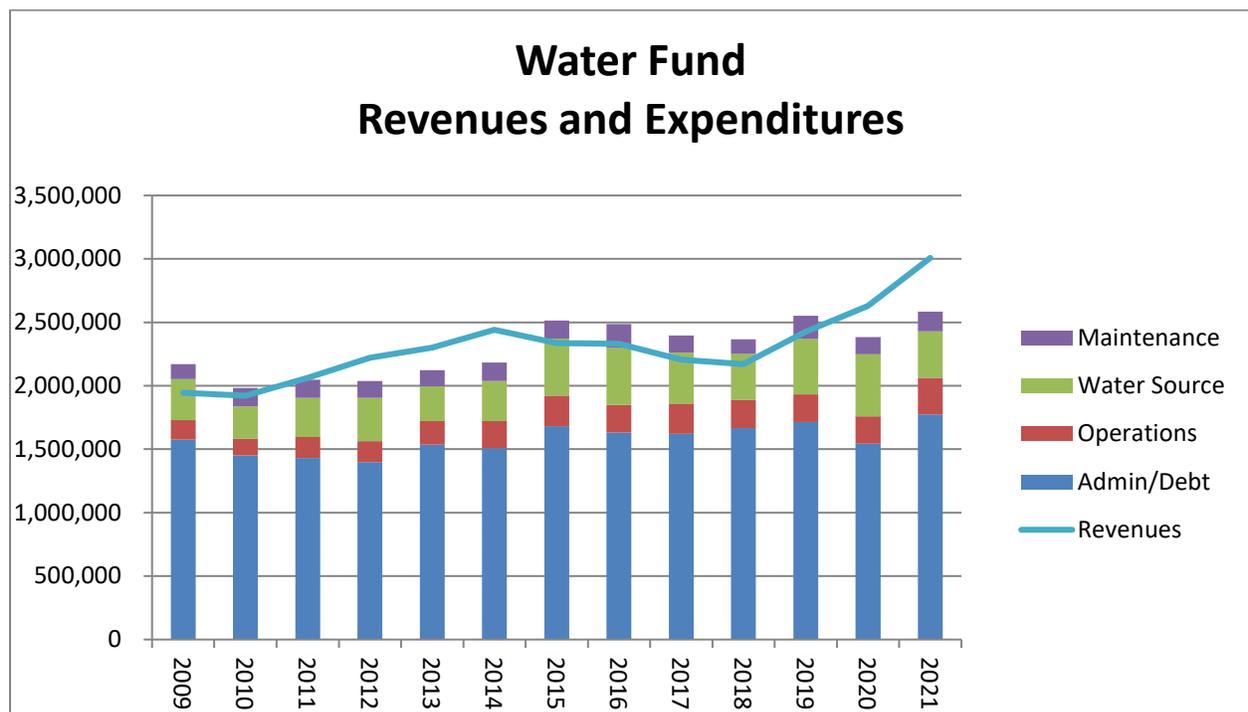


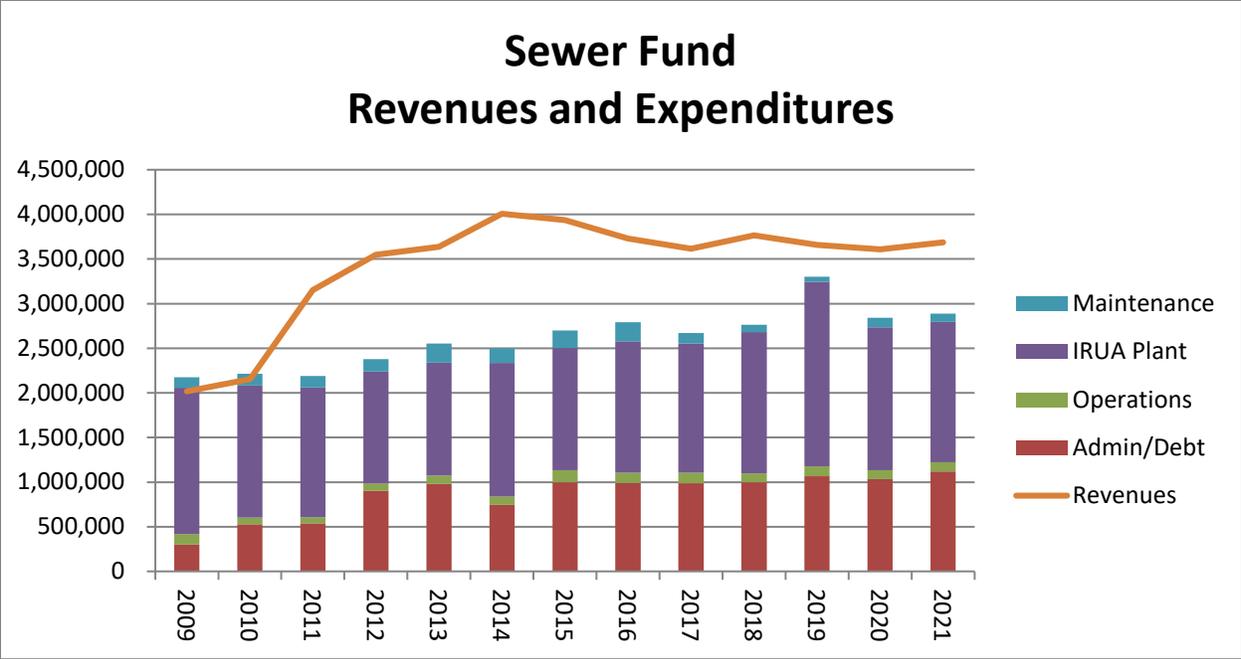
Utilities – Water and Sewer

Expenditures in both the Water Fund and Sewer Fund are scrutinized closely each year as part of the annual fiscal year budgeting process as the rate structure for each utility is developed. As with any utility there are high fixed costs of operating both the water and sanitary sewer systems. As water consumption increases (or total gallons of wastewater treated increases) the cost of producing (or treating) each gallon is typically less than the cost of producing (or treating) the previous gallon.

Water Fund expenditures can fluctuate greatly based on the cost of routine maintenance/capital improvement projects that are undertaken. The City attempts to “smooth” these expenses from fiscal year to fiscal year through forecasting major expenditures over a five fiscal year period. Such forecasting assists in developing a more stable rate structure. Expenditures in the Water Fund are annually appropriated by cost center, which include administration/debt service, operations, water source, and maintenance. Expenditures for each cost center for the past fourteen fiscal years are identified in the bar graph below labeled “Water Fund Revenues and Expenditures”. Revenues received each fiscal year to offset the expenditures are illustrated by the line on the graph.

Sewer Fund expenditures are also annually appropriated by cost center including administration/debt service, operations, treatment plant, and maintenance. The largest expenditure is a payment to the Ionia Regional Utilities Authority (IRUA) for the City’s portion of operating the treatment plant. The City pays IRUA based on a formula that includes the flow of wastewater sent to the treatment plant from City sewer customers relative to the total flow from all participants. Expenditures for each cost center for the past fourteen fiscal years are identified in the bar graph below labeled “Sewer Fund Revenues and Expenditures”. Revenues received each fiscal year to offset the expenditures are illustrated by the line on the graph below.

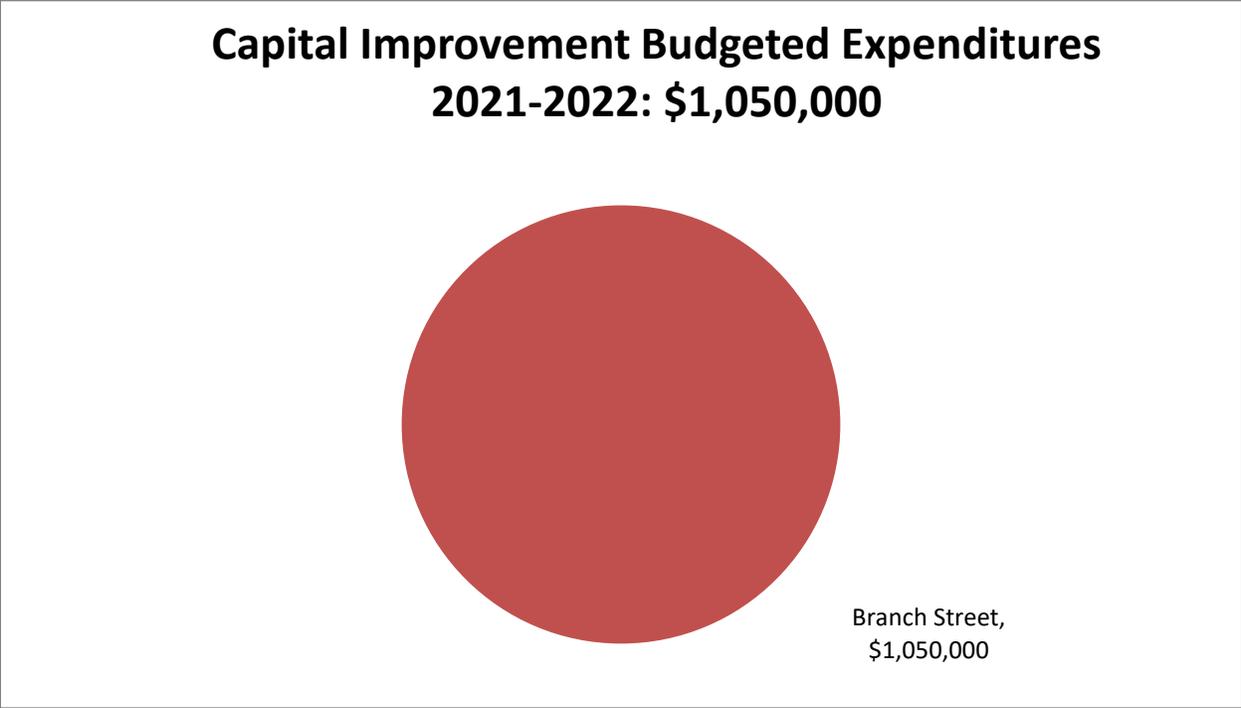




Other

A detailed narrative is not necessary to explain the expenditure areas for selected miscellaneous City funds. The pie charts below illustrate the budgeted expenditures for FY20-21 for the referenced funds.

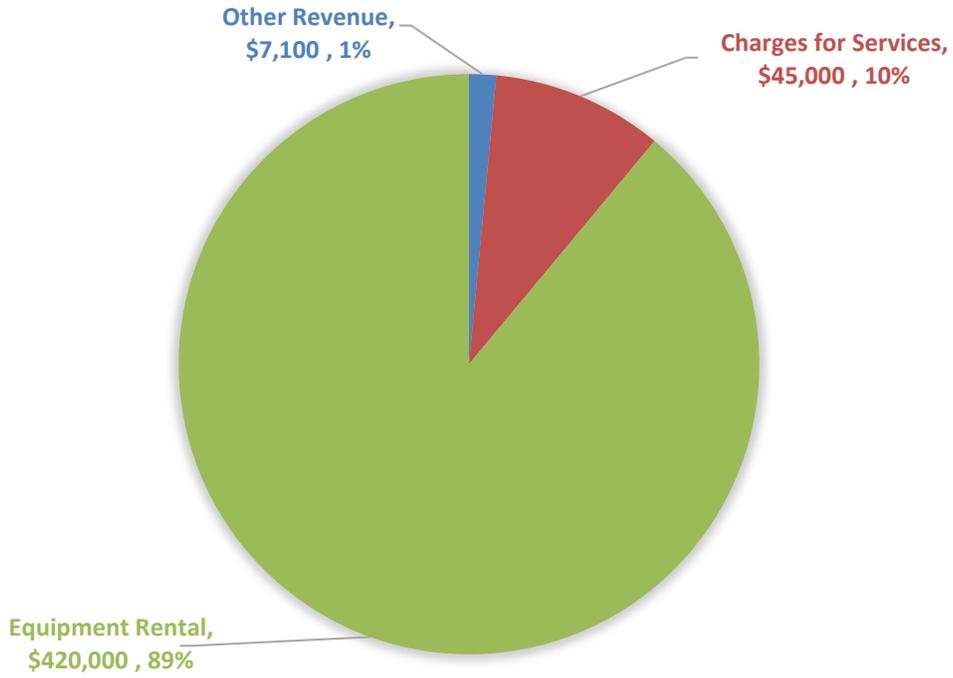
Capital Improvement Fund:



Central Garage Fund:

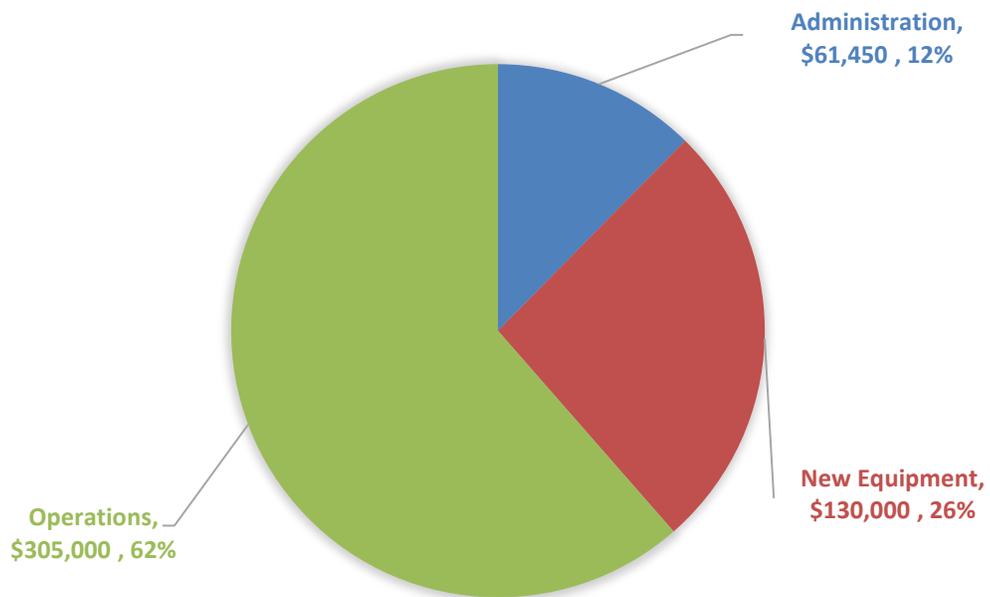
CENTRAL GARAGE REVENUES

2021-2022: \$472,100



CENTRAL GARAGE EXPENDITURES

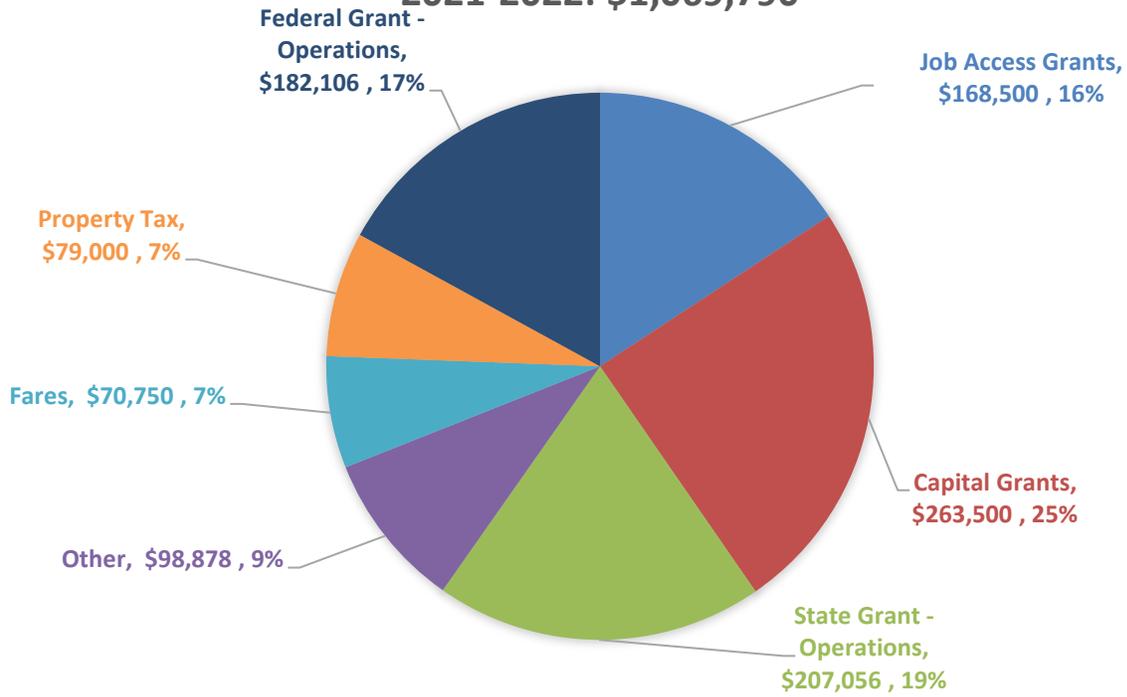
2021-2022: \$496,450



Dial-A-Ride Fund:

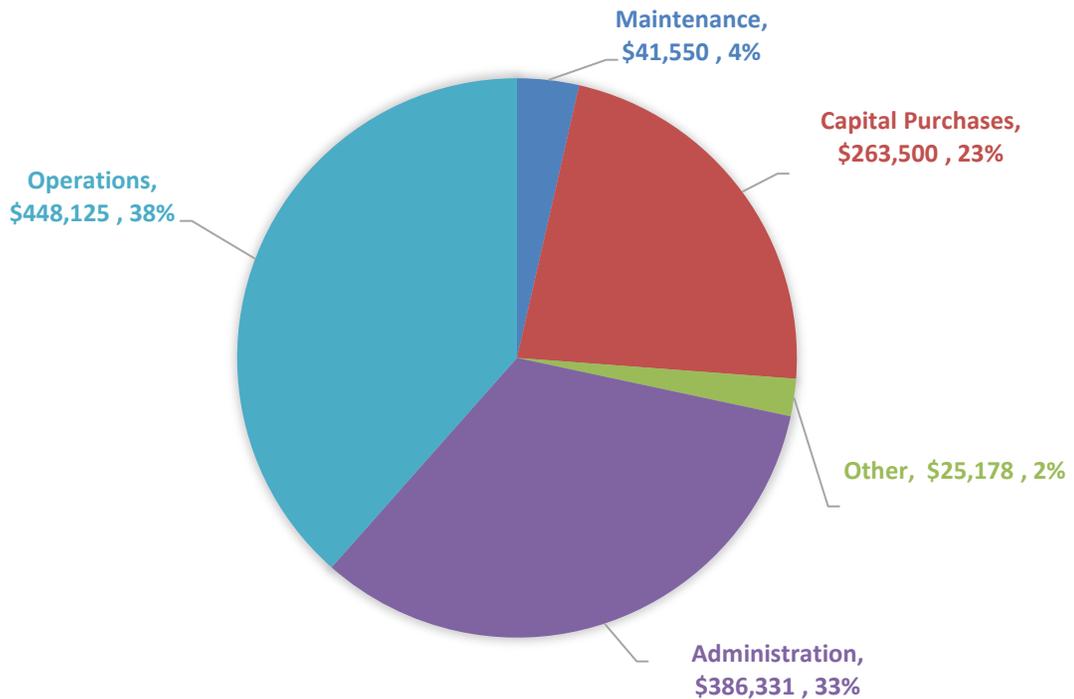
DIAL-A-RIDE REVENUES

2021-2022: \$1,069,790



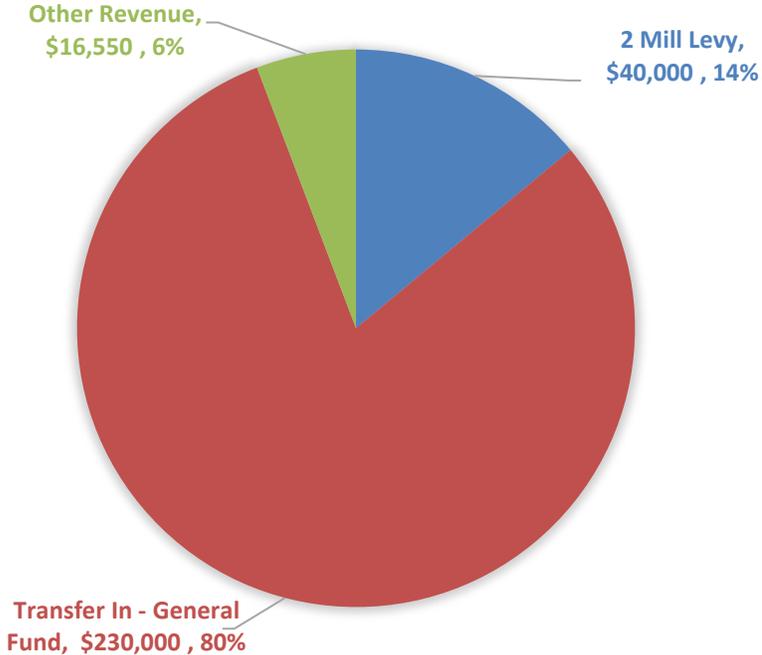
DIAL-A-RIDE EXPENDITURES

2021-2022: \$1,164,684



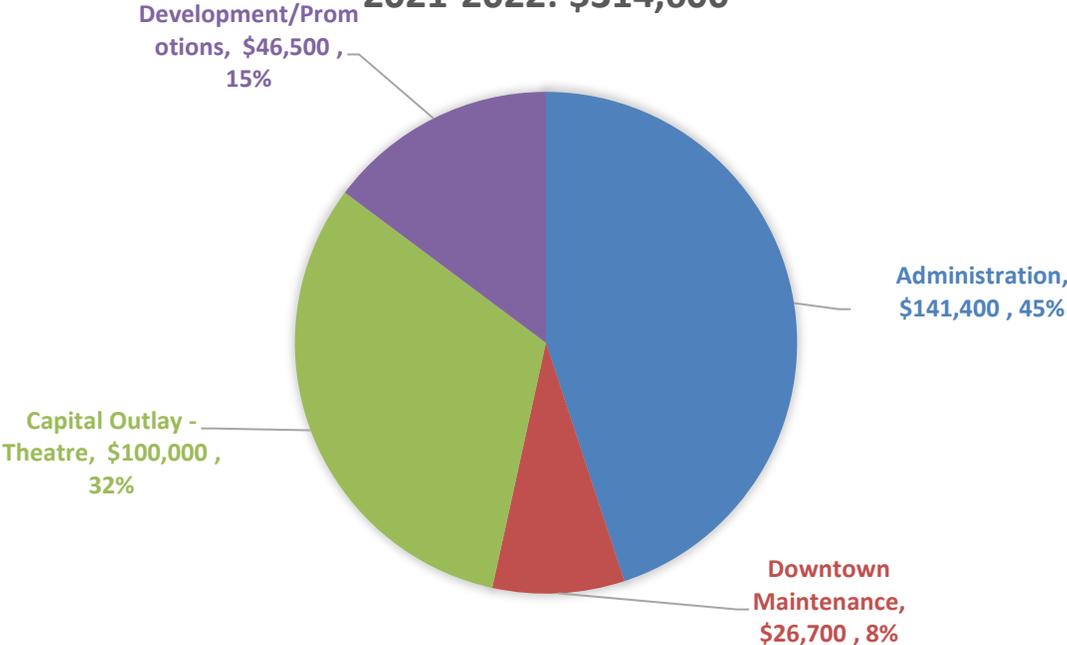
Downtown Development Authority Fund:

**DOWNTOWN DEVELOPMENT AUTHORITY REVENUES
2021-2022: \$286,550**



DOWNTOWN DEVELOPMENT AUTHORITY EXPENDITURES

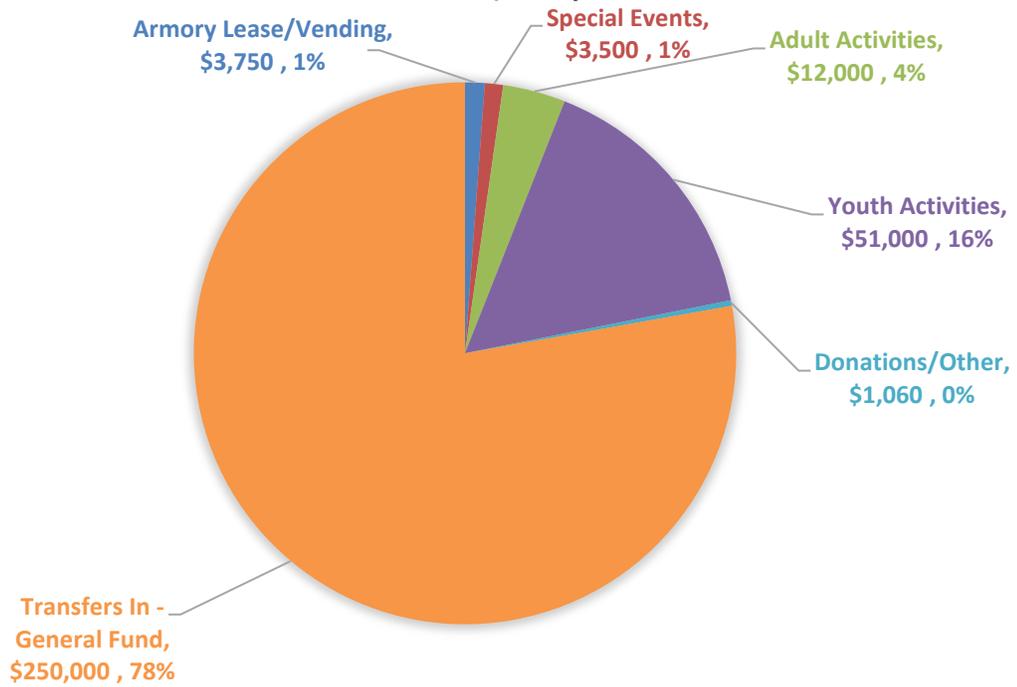
2021-2022: \$314,600



Parks and Recreation Fund:

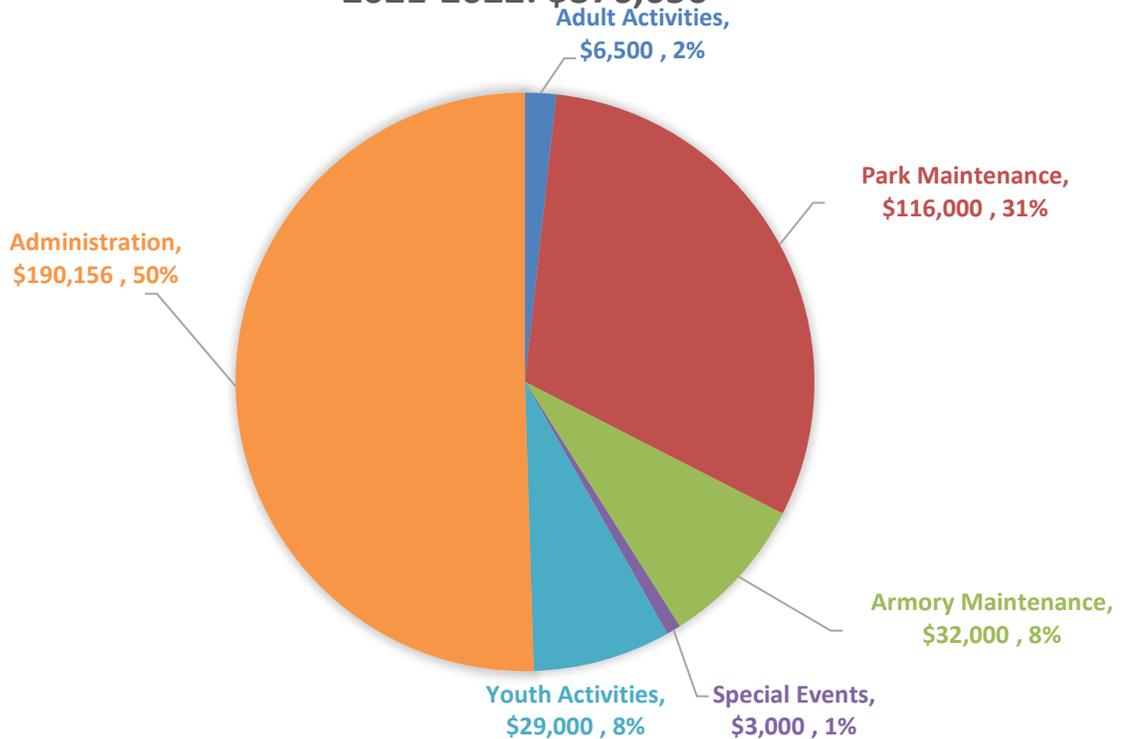
RECREATION REVENUES

2021-2022: \$321,310



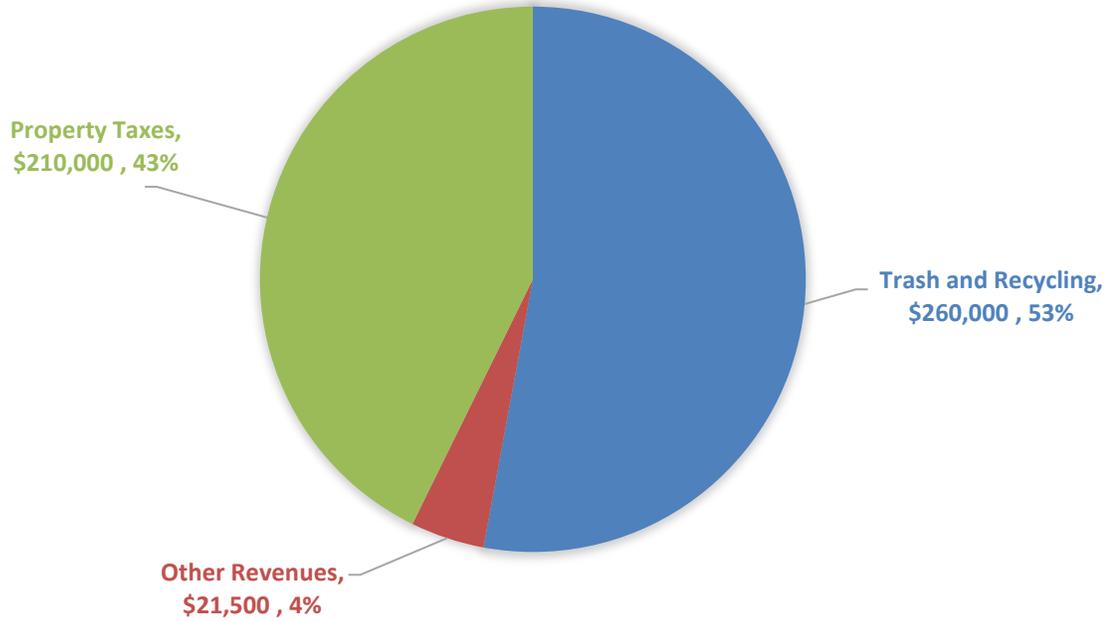
RECREATION EXPENDITURES

2021-2022: \$376,656

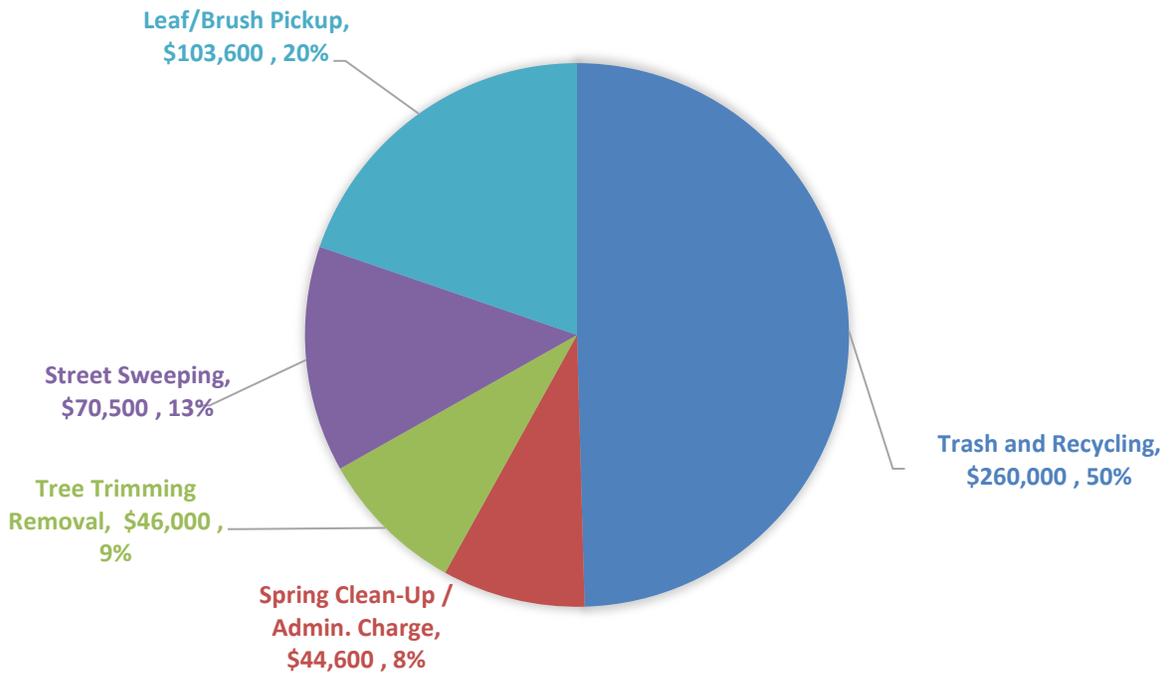


Solid Waste Fund:

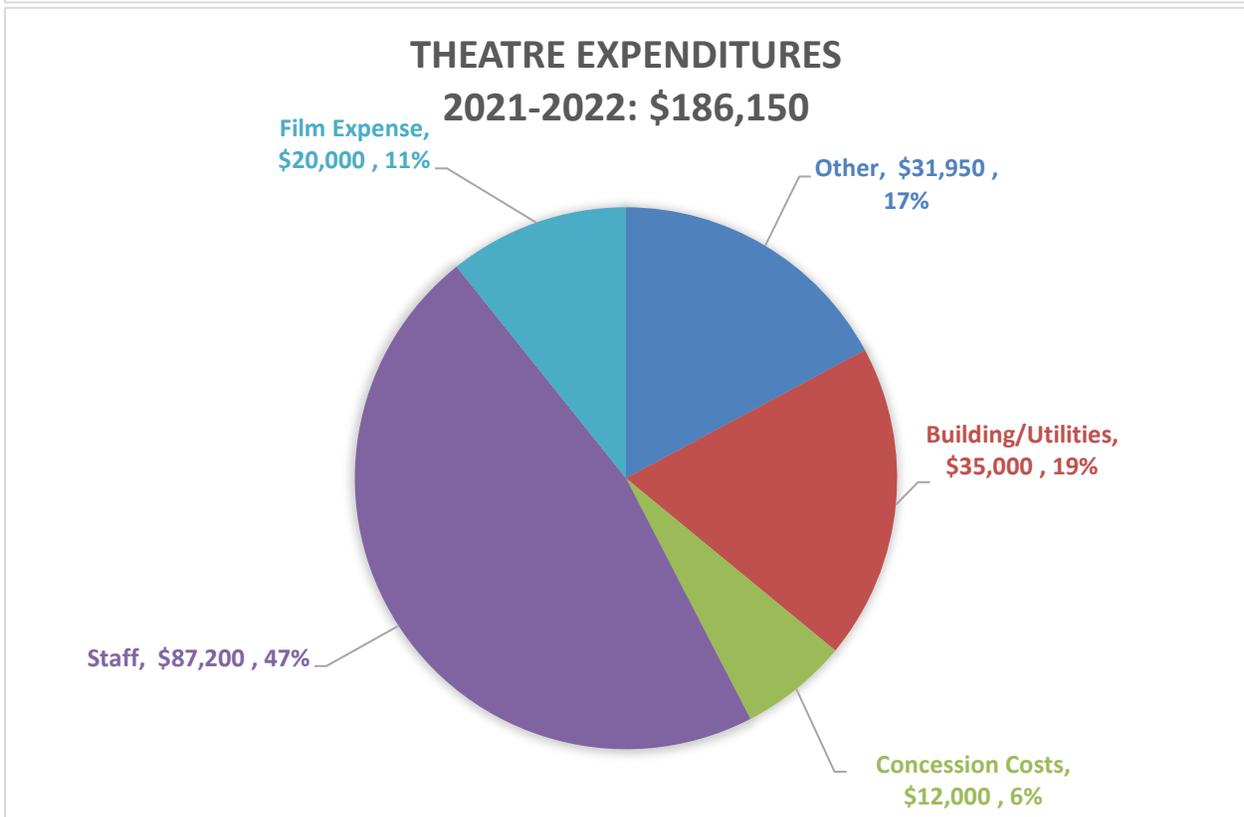
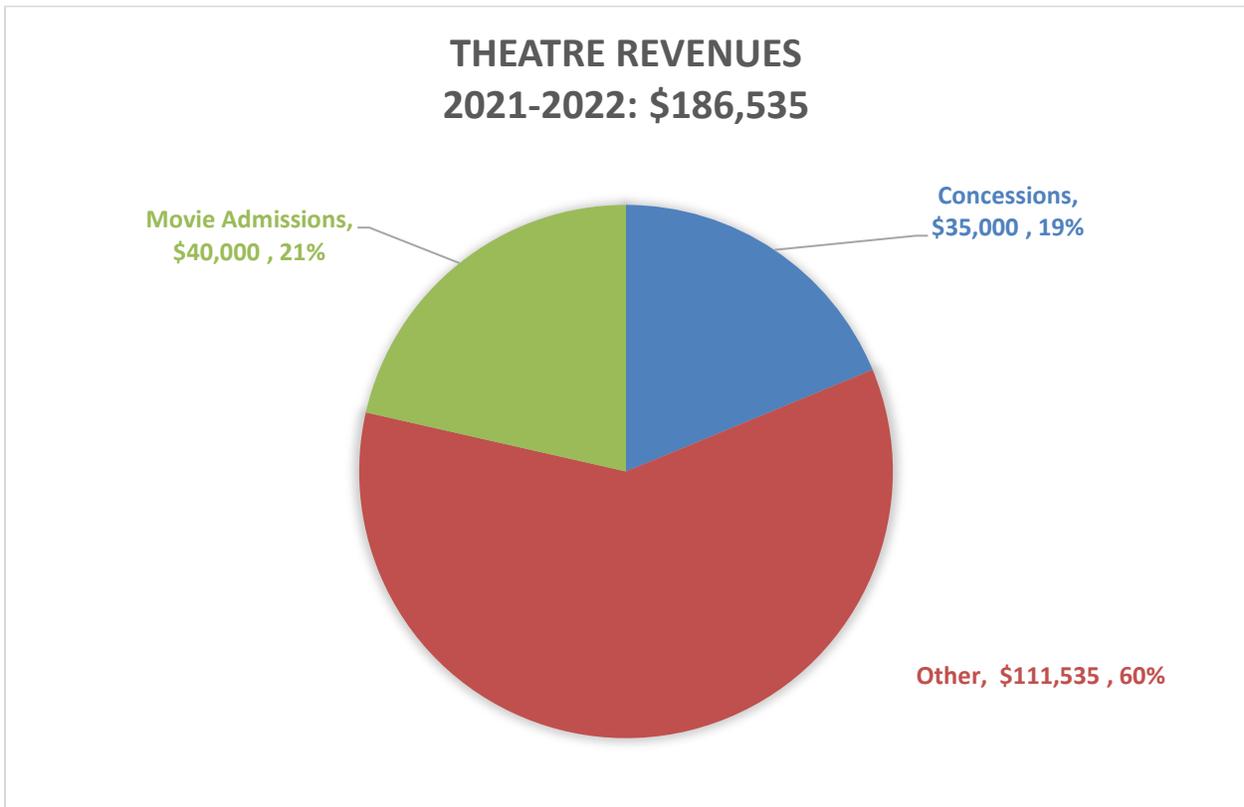
**SOLID WASTE REVENUES
2021-2022: \$491,500**



**SOLID WASTE EXPENDITURES
2021-2022: \$524,700**



Theatre Fund:



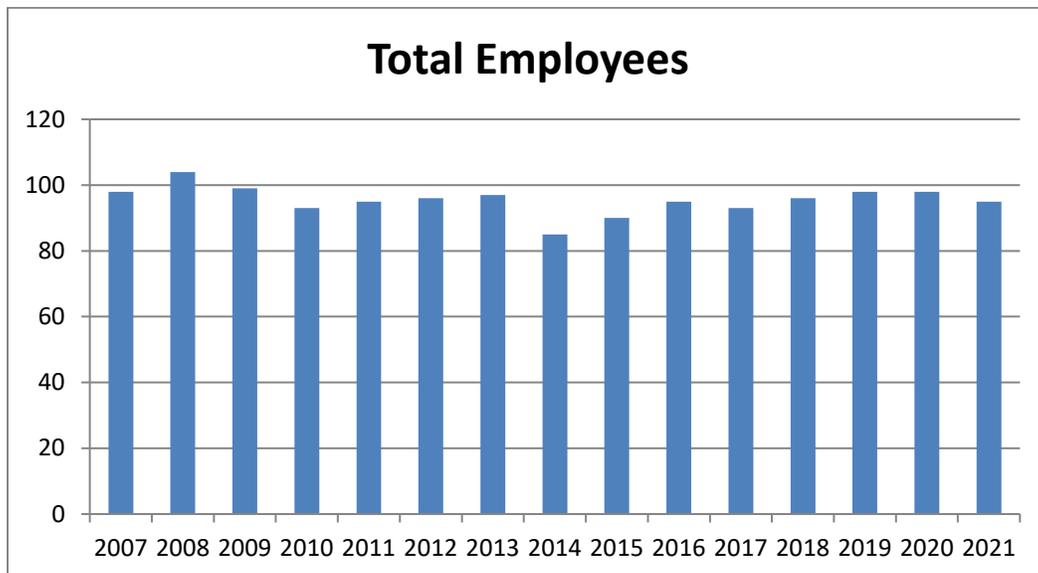
Budgetary Process

The City operates on a July 1st to June 30th fiscal year. The process by which the annual budget is developed is established by Article V of the City Charter, which was approved by City voters on November 2, 1993. Article V of the City Charter requires the City Manager on or before the first day of May each year to submit to the City Council a budget for the ensuing fiscal year. The proposed budget is to include a statement of proposed revenues and expenditures for each fund, along with a proposed capital improvement plan. Upon receiving the proposed budget and conducting a public hearing, the City Council may adopt the budget. Article V of the City Charter requires the City Council adopt the budget on or before June 15th each year.

During the course of each fiscal year the City Council receives regular financial updates. These updates come in the form of financial reports, investment reports, periodic adjustments to the adopted budget that require City Council approval, and involvement in certain major expenditures. The City Council also contracts with an independent auditing firm that is responsible for completing an annual fiscal year audit. Traditionally, the annual audit is presented to the City Council at a public meeting in November. The audit analyzes the fiscal year's revenues and expenditures and includes comments about the internal control practices of City administration. The most recent City audit may be viewed on the City's website at www.cityofionia.org

Employees

The City's greatest asset is its employees, which are charged with delivering public services to the community, in some cases around the clock. As of December 31, 2021, the City had 95 employees, which range from full-time (49) to temporary part-time and paid on-call. The graph below illustrates total employment as of December 31st for the listed calendar years.



A majority of the City’s employees are union, with the following unions representing employees within the referenced departments:

<u>Union</u>	<u>Employees Covered</u>	<u>Expiration Date of Current Collective Bargaining Agreement</u>
Police Officers Assoc. of MI	Public Safety	June 30, 2026
AFSCME AFL-CIO	Clerical	June 30, 2024
AFSCME AFL-CIO	Dial-A-Ride	July 1, 2024
Teamsters Local 214	Public Utilities/ Public Works	June 30, 2025

The collective bargaining agreements between the City and each union address a variety of employer/employee issues ranging from minimum staffing levels and work conditions to wages and benefits. The City provides a competitive wage and benefits package, which has been helpful in maintaining stability and longevity among the City’s workforce.

Reserves Held by the City

As with personal finances, the City sets aside funds to address major purchases or unforeseen/unplanned expenses. The reserves held by each fund fluctuates as major purchases or capital projects are planned and then completed. During the past few fiscal years the City has tapped some of its reserves to address revenue deficiencies in certain funds. Additionally, in anticipation of “rainy days” the City has accumulated additional reserves in some funds. During 2011, the City Council adopted an updated Fund Balance Policy for the City. The policy categorizes fund balance into four categories: non-spendable fund balance, restricted fund balance, committed fund balance and assigned fund balance. The policy states that when fund balance is needed to meet obligations, it shall be expended from most restrictive to least restrictive. The policy also establishes a minimum fund balance level for the General Fund of ten percent of adopted expenditures.

The City had total cash on-hand of \$8,686,908 as of June 30, 2021. The following table list cash and pooled investments, which are not the same as fund balance. Cash represents actual cash on-hand either in a checking or savings account at a local financial institution, or in the form of a certificate of deposit or pooled investment account. Fund balance is not only cash, but other assets that may be available to the fund including accounts receivable and is traditionally the difference between the assets of a fund and the fund’s liabilities.

A review of the City’s June 30, 2021 audit, as prepared by the City’s auditors Vredevelde Haefner, LLC, Grand Rapids, revealed the following cash and pooled investments on a per fund basis:

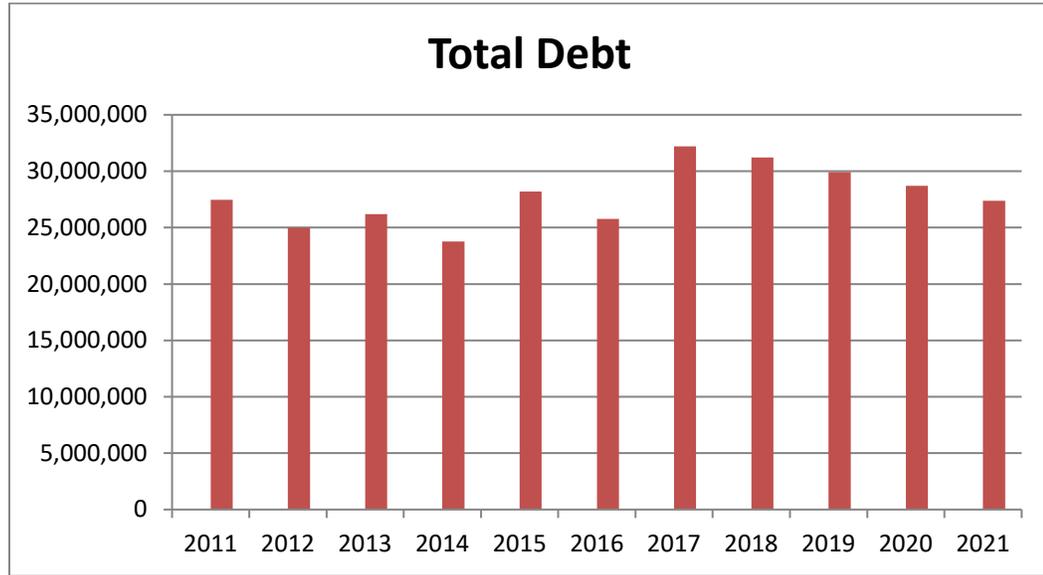
Property Tax Fund	Agency	\$ -
Capital Improvement Fund	Capital Projects	\$ 71,461.00
Environmental Fund	Capital Projects	\$ 100,956.00
Parks Facilities	Capital Projects	\$ 194.00
Sidewalk Fund	Capital Projects	\$ 688.00
Brownfield Redev. Auth. Fund	Component Unit	\$ 267,118.00
Downtown Dev. Auth. Fund	Component Unit	\$ 155,945.00
Local Dev. Finance Auth. Fund	Component Unit	\$ 180,965.00
Dial-A-Ride Fund	Enterprise	\$ 616,896.00
Water Fund	Enterprise	\$ 765,438.00
Sewer Fund	Enterprise	\$ 3,449,971.00
Theatre Fund	Enterprise	\$ 41,503.00
General Fund	Governmental	\$ 1,492,378.00
Central Garage Fund	Internal Service	\$ 180,370.00
Cemetery Perpetual Care Fund	Permanent-Endowed	\$ 5,394.00
Drug Forfeiture Fund	Special Revenue	\$ 6,043.00
Local Street Fund	Special Revenue	\$ 500,424.00
Major Street Fund	Special Revenue	\$ 190,833.00
Parks Facilities – Improvements	Special Revenue	\$ 382,461.00
Public Safety Donation Fund	Special Revenue	\$ 10,312.00
Public Safety Vehicle Fund	Special Revenue	\$ 153,792.00
Recreation Fund	Special Revenue	\$ 67,242.00
Solid Waste Fund	Special Revenue	\$ 46,524.00
	TOTAL	<u>\$ 8,686,908.00</u>

Debt Issued by the City

From time to time the City issues debt to finance capital projects or purchases, which is repaid over multiple fiscal years and is considered “long-term debt”. The City currently has no outstanding “short-term debt”, which is typically debt associated with financing day to day operational activities. The City either issues debt directly on its own or through the Ionia County Board of Public Works , where the City can take advantage of lower interest rates due to the County’s superior bond rating. Repayment of debt comes from a variety of revenue sources. In some cases, a dedicated millage is used to retire debt, while in other cases general tax dollars or utility revenues finance the repayment.

The City’s current outstanding debt has financed projects involving reconstruction of the water distribution and sanitary sewer collection system. The City does not plan to issue any new debt during FY21-22.

The total outstanding debt for the City is outlined in the graph below.



Unfunded Liabilities

The City currently provides eligible employees with a retirement benefit through the Municipal Employees’ Retirement System of Michigan (MERS). Depending on the department and their date of hire with the City, employees either receive a defined benefit retirement plan or a hybrid retirement benefit plan (the “hybrid” is comprised of two components – a defined benefit multiplier and a “fixed” defined contribution). The City annually funds the required contribution to MERS as calculated by MERS through its actuary. The table below shows the annual contribution the City made to MERS for the past nine calendar years:

Calendar Year <u>Ending</u>	Employer Contributions	
	<u>Required</u>	<u>Additional</u>
December 31, 2012	\$ 622,569.00	\$ 0.00
December 31, 2013	\$ 690,163.00	\$ 0.00
December 31, 2014	\$ 754,134.00	\$ 125,000.00
December 31, 2015	\$ 847,700.00	\$ 140,000.00
December 31, 2016	\$ 889,849.00	\$ 140,000.00
December 31, 2017	\$ 944,509.00	\$ 150,000.00
December 31, 2018	\$ 1,018,701.00	\$ 250,000.00
December 31, 2019	\$ 1,096,414.00	\$1,125,000.00
December 31, 2020	\$ 1,180,148.00	\$ 750,000.00

As of December 31, 2020, the City's defined benefit plan was 58% funded, as determined by the MERS Annual Actuarial Valuation with future unfunded accrued liabilities of \$11,066,186 remain.

The City also provides employees with a deferred compensation plan created pursuant to Internal Revenue Code Section 457. The Plan is available to eligible employees and permits an employee to defer a portion of their salary until future years. The City contributes a fixed percentage of each employee's salary to the employee's deferred compensation account. Employees are permitted to voluntarily contribute per IRS rules. There are no unfunded liabilities associated with the deferred compensation program.

The City does not provide retirees with post-employment benefits such as retiree health care. Retired employees have the option at their expense to continue City subscribed health insurance. A few employees currently take advantage of this option.

Other than retirement expenses, the City's only accrued non-current employee liability is for unused personal, sick and vacation time earned by employees but not yet taken. As of June 30, 2021, the liability for this unused time totaled \$526,260.

Additional Information

Additional information regarding the City's finances including the annual appropriation Resolution, audit, and performance dashboard is available at the City's website at www.cityofionia.org.

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