



Virg Bernero, Mayor

City of Lansing, Michigan Citizens' Guide to City Finances

This user guide provides an overview of the City's finances and financial position. The guide is divided into four (4) sections:

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Information in this guide contains the most currently-available information and data. The Guide is updated as new data becomes available.

Additional information on the City's finances are available in the following resources on the City's website, www.lansingmi.gov:

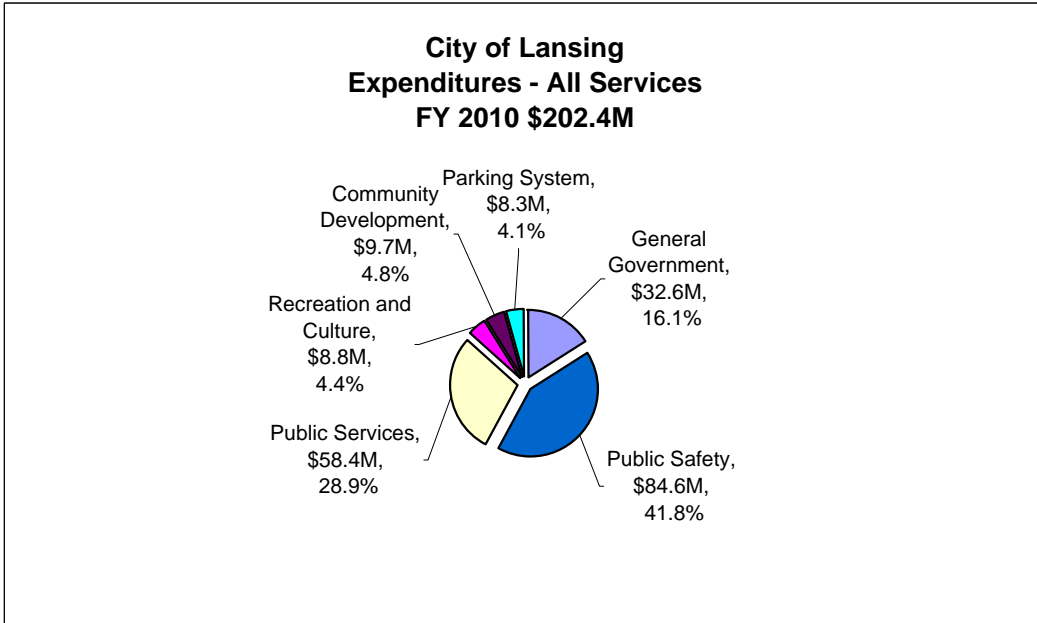
- Financial statements - Comprehensive Annual Financial Report (CAFR) - provides a financial information as of the June 30 each year
- Budget Documents - provides the City's financial and service-level plan for each of the City's fiscal years.
- Citizen Dashboard - provides service-level performance indicators

If you have questions about this guide or need additional financial information, contact the Finance Department at (517) 483-4500.

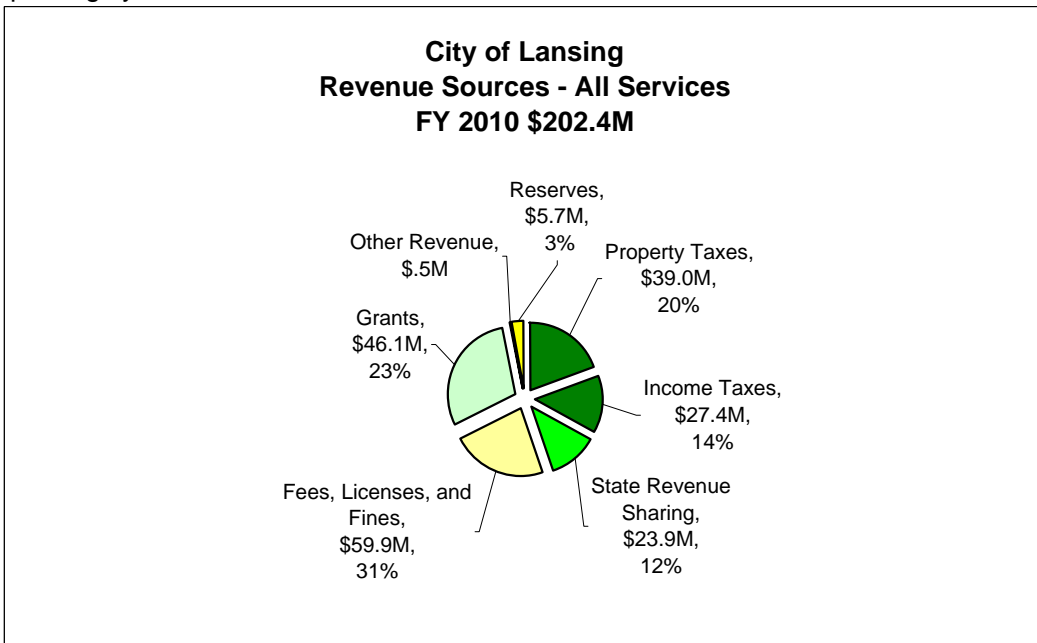
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YOUR GOVERNMENT AT WORK

The City provides a broad array of services, including police and fire protection; sanitary sewers, storm sewers; over 400 miles of roads; 114 parks; a parking system; a District Court; community and neighborhood development; recreational opportunities; and support for human services and cultural events. Of all services, by far the most is spent police and fire protection (public safety).

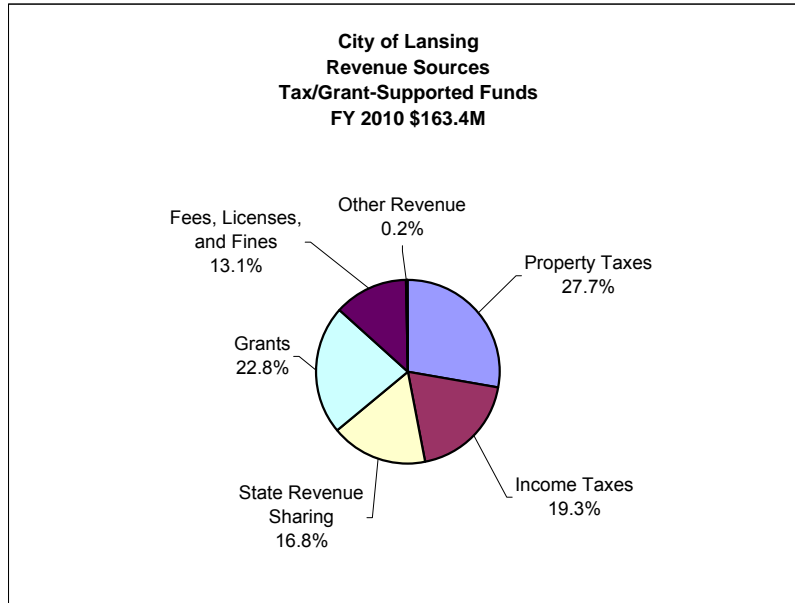


The three largest revenues sources for the City, in total, are taxes (34%), user fees/licenses/fines (31%), and grants (23%). While fees make up a significant portion of total revenues, the majority are attributable to the City's sanitary sewer and parking systems.

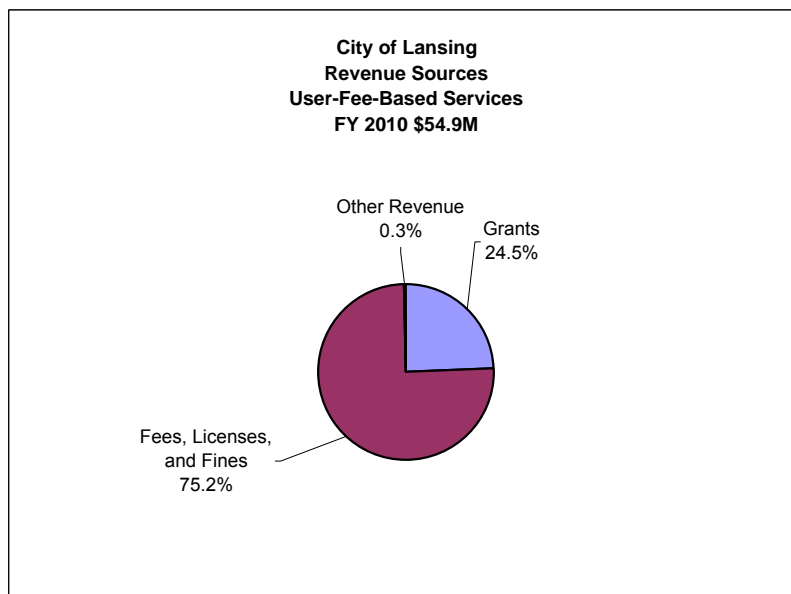


Funding for City services is characterized in two categories:

- General governmental services are supported by tax revenues and grants, with some funding coming from user-based fees. These services include police and fire protection, community development, parks and recreational programs, general government operations such as finance and human resources, and road maintenance.

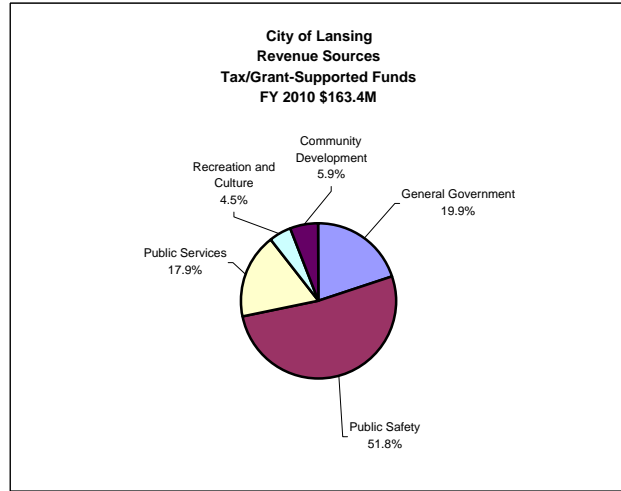
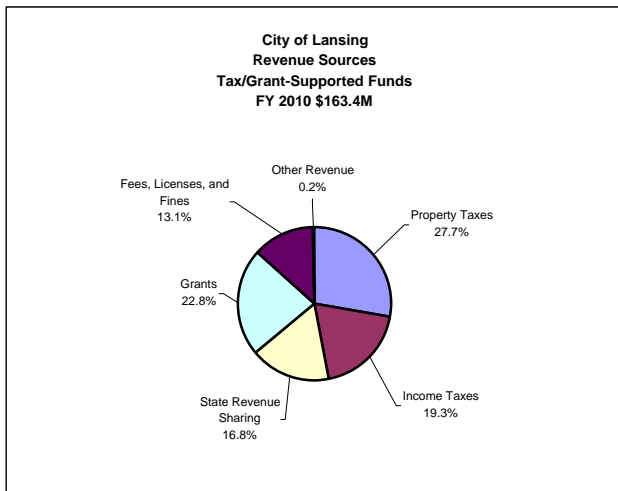


- User fee-based services are funded mainly through user fees and usage rates. The City's sanitary sewer system, parking system, golf operations, and refuse and recycling programs fall into this category.



SECTION 1:

General governmental services are those municipal services supported mainly by tax revenues and grants.



This group of services includes police and fire protection, parks and recreational activities, community and neighborhood development, storm sewer, sidewalk, and road maintenance and construction, and general government operations such as finance, human resources, and the City Attorney's Office.

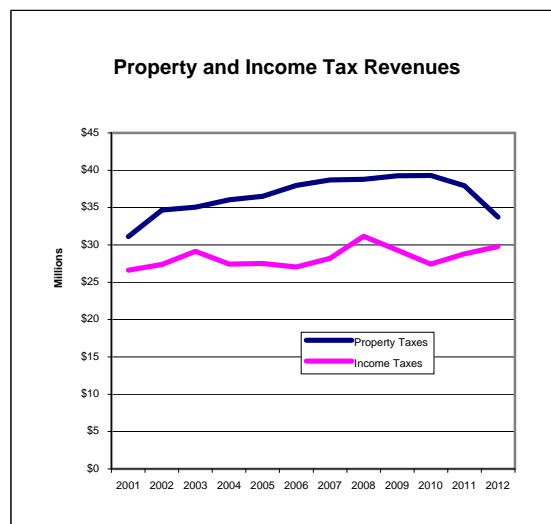
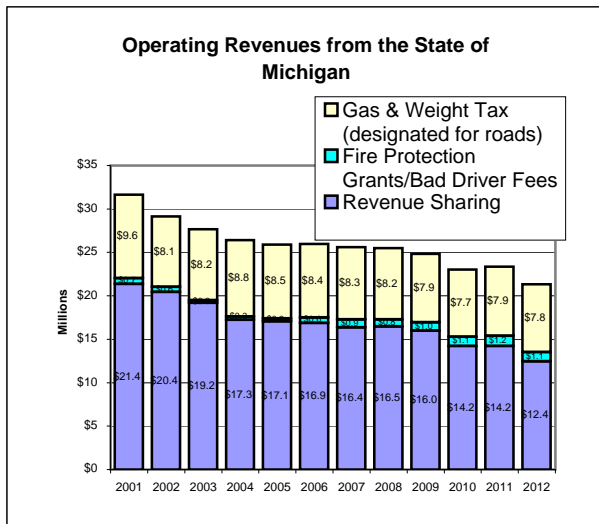
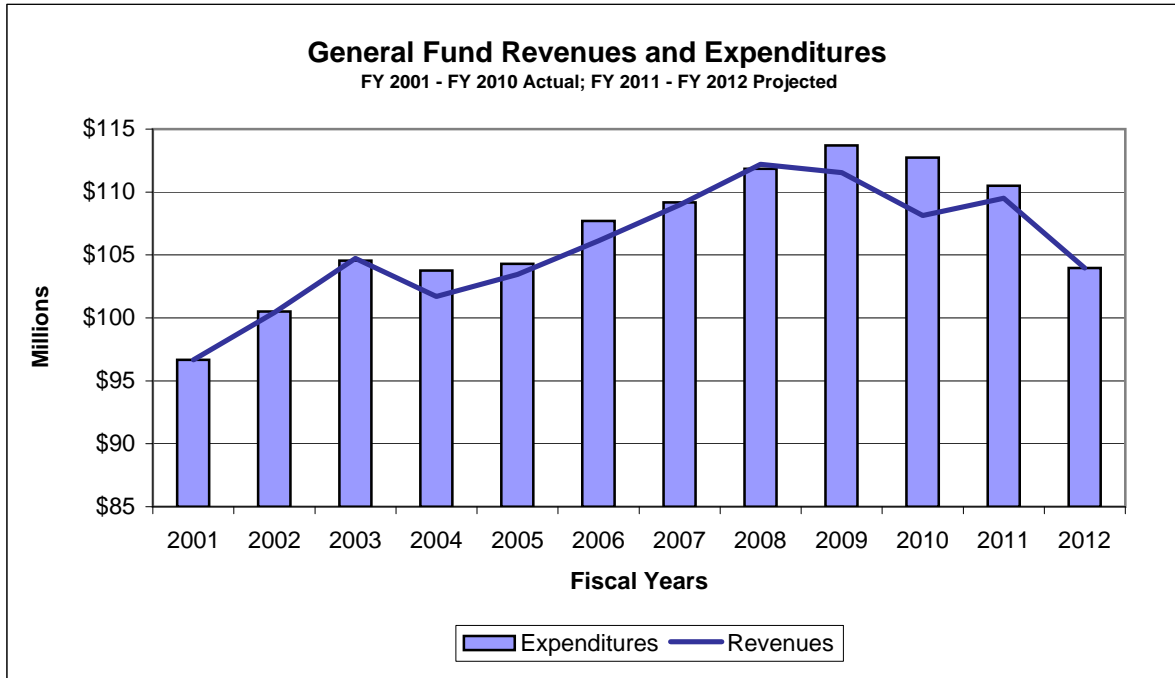
The main sources of funding for these services are property taxes, income taxes, State revenue sharing, and grants.

These services are reported in the City's financial statements in the category of funds known as "governmental" funds.

Information on the following pages is summarized to provide a concise view. More detailed information on each of these funds is available in the "Governmental" Funds section of the City's Comprehensive Annual Financial Report (CAFR) and annual Budget Documents.

Revenue Trends - General Governmental Services

Over the past several years, the City has seen a steady and significant decline in revenues from the State of Michigan. Revenues from the State support general operations (revenue sharing), the Fire Department (Fire Protection/Bad Driver Fees), and Roads (Gas & Weight Tax). These reductions, combined with the effects of declining property tax revenues since 2010, fluctuating income tax revenues, and escalating healthcare and pension costs, have resulted in significant fiscal challenges for the City and other municipalities.



Service-Level Changes Enacted In Response to Declining Revenues

In response to the challenges presented by declining General Fund revenues and increasing costs of pension and healthcare, Mayor Bernero has, since coming into office in 2006, proposed and implemented many different changes in City programs, staffing, and organization, including:

- Reducing the City's workforce by 338 (27%) since FY 2006, from 1,220 to 882
- Reducing hours of work for all non-emergency personnel
- Reducing city health insurance costs by negotiating increases in employee health insurance premium sharing, healthcare plan change, and pension contributions

- Reducing city health insurance costs for Medicare-eligible retirees
- Reducing/postponing/eliminating capital projects, including roads and streets
- Reducing minimum staffing requirements for firefighters
- Reducing police overtime by reorganizing work schedules

- Closing 3 fire stations and eliminating associated costs
- Closing Waverly and Red Cedar Golf courses
- Closing Miller Road Senior Community Center
- Closing Washington Ice Dome and Scott House

- Consolidating functions within the City (grounds maintenance, engineering, fleet maintenance)
- Consolidating functions with other governments (911, dive team)
- Entering into cooperative agreements with other governments (police and fire training, purchasing)
- Expanding mutual aid agreements with adjoining municipalities

- Transferring management of Sycamore Driving Range and Fenner Nature Center to non-profits
- Eliminating leased space by consolidating police Patrol and Investigations Divisions
- Increasing fees
- Implementing new technology to improve efficiency (including cash receipting, code compliance, financial system upgrades, payroll system, computerized traffic ticket system, E-filing for income taxes)
- Increasing income tax compliance efforts (over \$3M in additional uncollected revenue since February, 2007)
- Implementing energy efficiency measures in city buildings
- Implementing new restrictions on overtime, travel and hiring

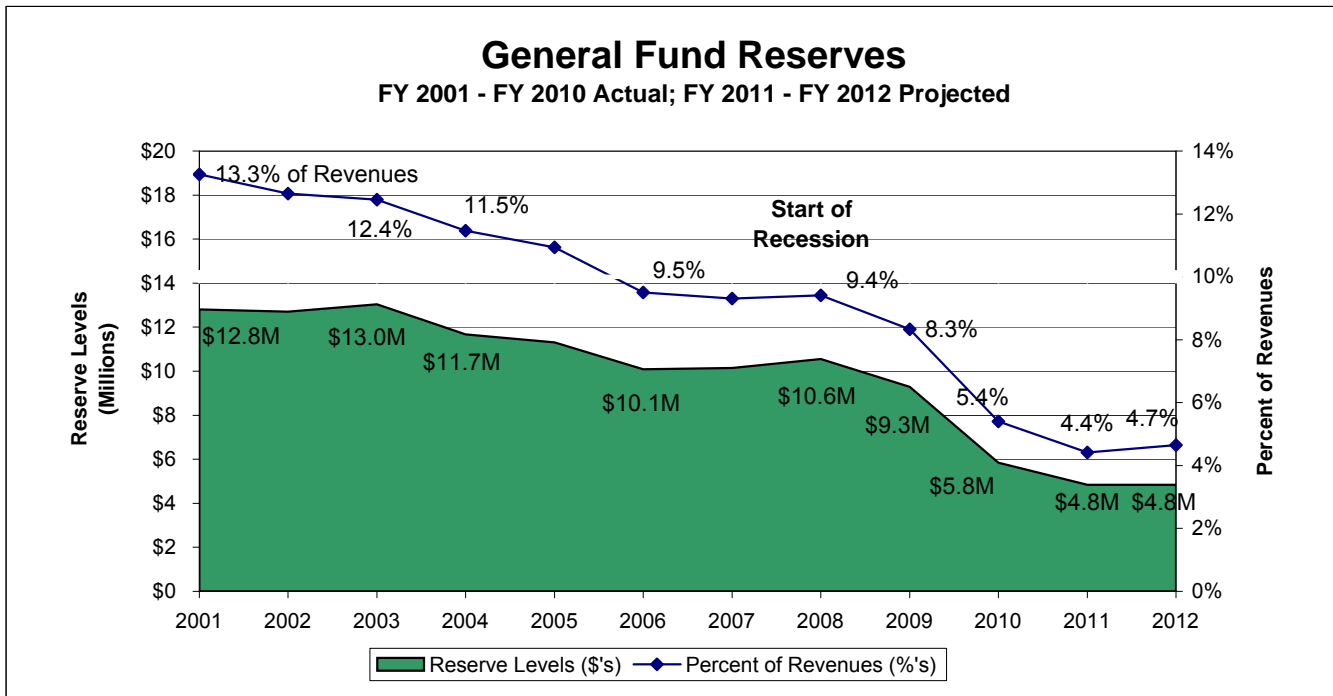
During this time, the City has maintained its focus on preserving and improving its economic base. The Mayor's economic team has worked tirelessly to retain and expand jobs, bringing income tax and property tax revenue into the City.

General Fund Reserves

The City's General Fund is fund used for accounting purposes that accounts for activities mainly supported by tax revenue and State-shared revenues. (Grant are reported in separate funds in order to demonstrate legal compliance with grant requirements.)

"Reserves", also known as "fund balance", "budget stabilization fund", and "rainy-day funds", is the amount by which assets exceed liabilities. It can be thought of as a savings account -- there in case of emergency financial situations and to sometimes save up for major purchases.

Since FY 2007, General Fund budgets have been adopted without reliance on the use of reserves. Unfortunately, the severity of the economic downturn that started December, 2008 has resulted in unanticipated loss of revenues. Expenditures have been managed to lessen the impact on reserves, but have not been enough to match the loss of revenue. Where the City's desire is to maintain General Fund reserve levels of 10% - 15% of revenues, reserve levels are projected to be 4.4% at the end of FY 2011.



SECTION 2:

User Fee-based services those municipal services funded mainly through user fees and usage rates

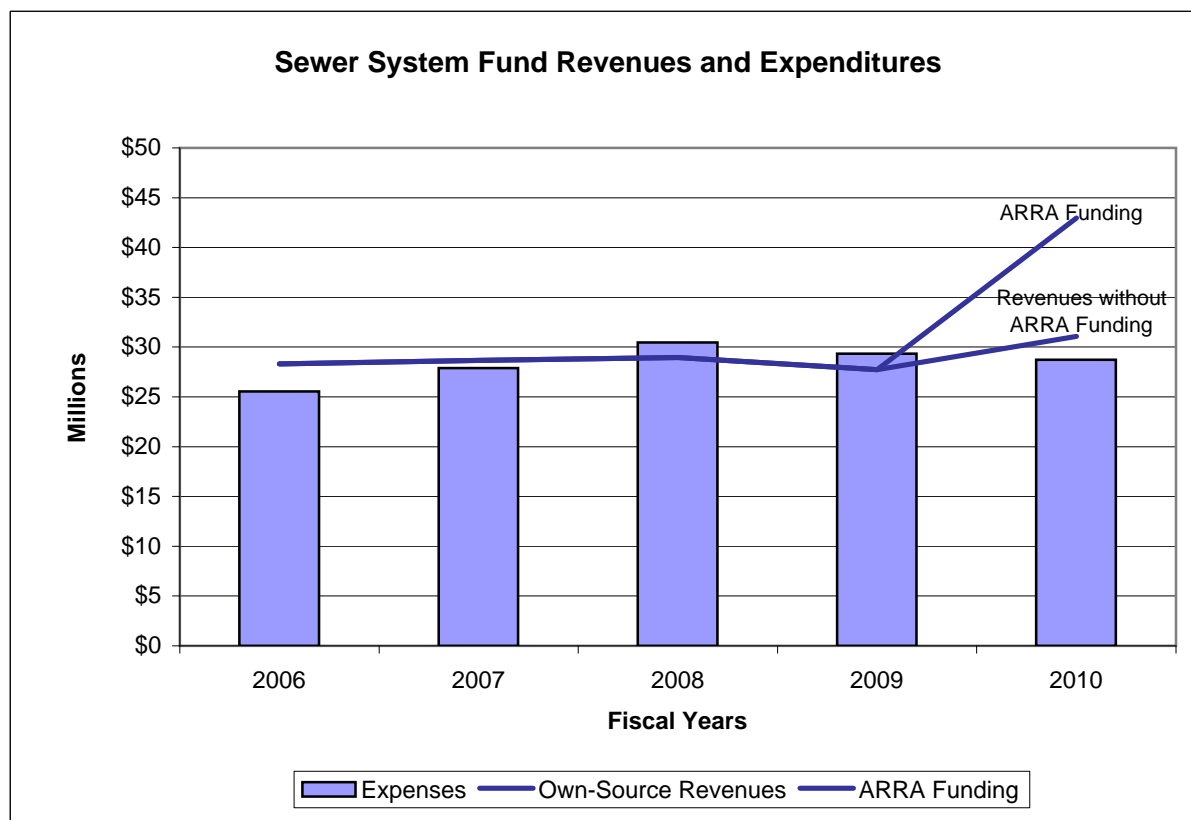
Services included in this section include the City's:

- Sanitary Sewer System
- Parking System
- Refuse (Garage Collection) Operations
- Recycling Operations
- Golf Course Operations
- Cemetery Operations

These services are reported in the City's financial statements in the category of funds known as "enterprise" and "proprietary" funds.

Information on the following pages is summarized to provide a concise view. More detailed information on each of these funds is available in Proprietary Fund section of the City's Comprehensive Annual Financial Report (CAFR) and annual Budget Documents.

Sanitary Sewer System

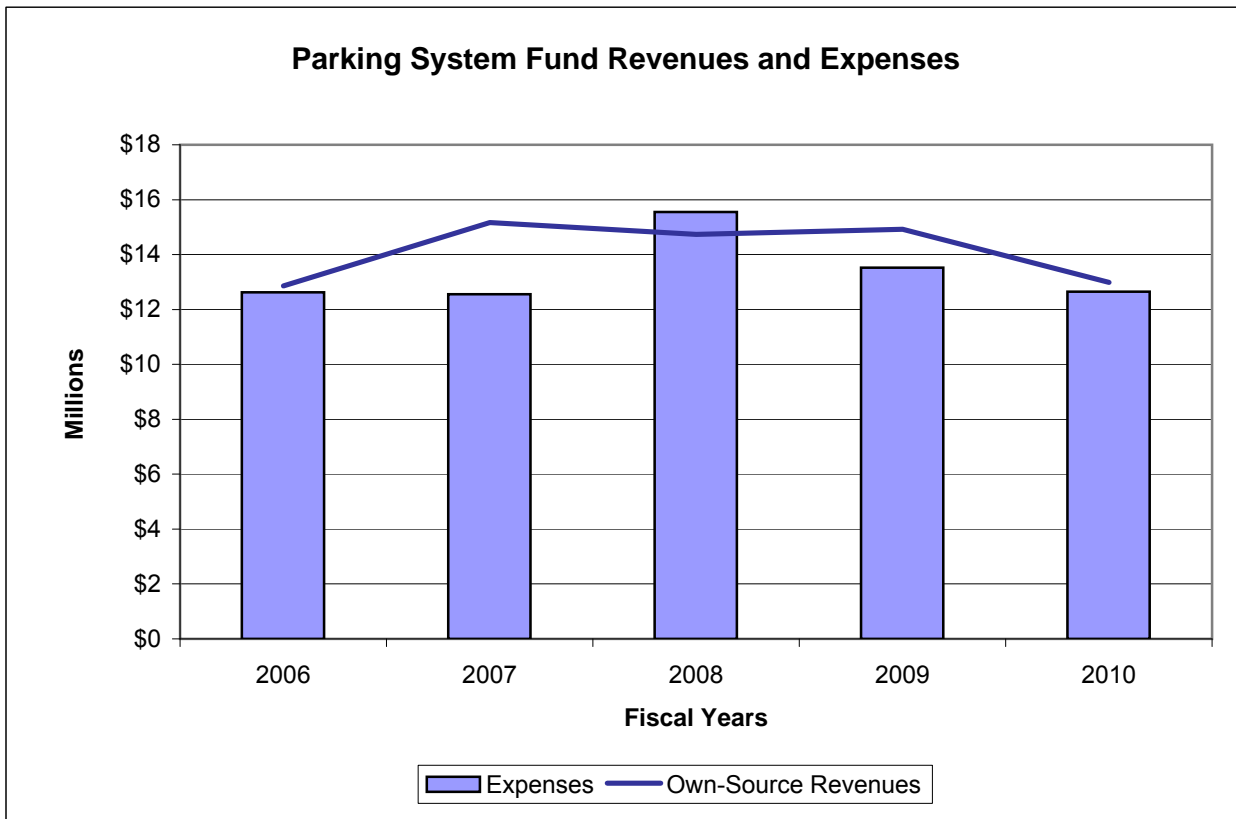


The City's sanitary sewer system invests heavily in infrastructure. Rates are structured to fund not only day-to-day operations, but to also fund capital maintenance and construction needed to operate the systems in the long-term. In some years, revenues exceed expenses and are "saved" for infrastructure needs. In years where heavy infrastructure maintenance and/or construction occurs, expenditures exceed revenues, and the amounts "saved up" are spent.

The City is required by federal and state mandates to separate sanitary sewer from storm sewers, in order to lessen the amount of sewage that flows into the Grand River during major storm events. This program, known as the Combined Sewer Operations (CSO) has resulted increasingly-large debt repayments (see page 16), requiring annual sewer rate increases.

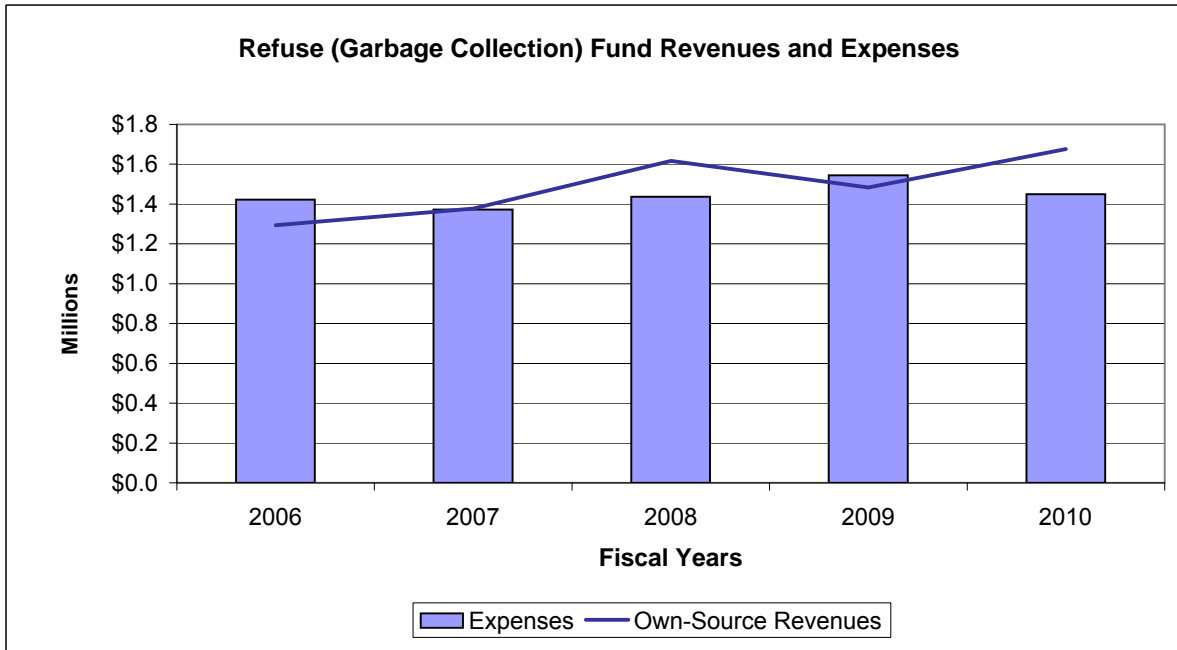
In FY 2010, the sanitary sewer system received \$11.8 million in federal stimulus from the American Recovery and Reinvestment Act (ARRA). This resulted in an influx of cash; however, that amount will be needed to repay debt for the federally-discounted loans.

Parking System



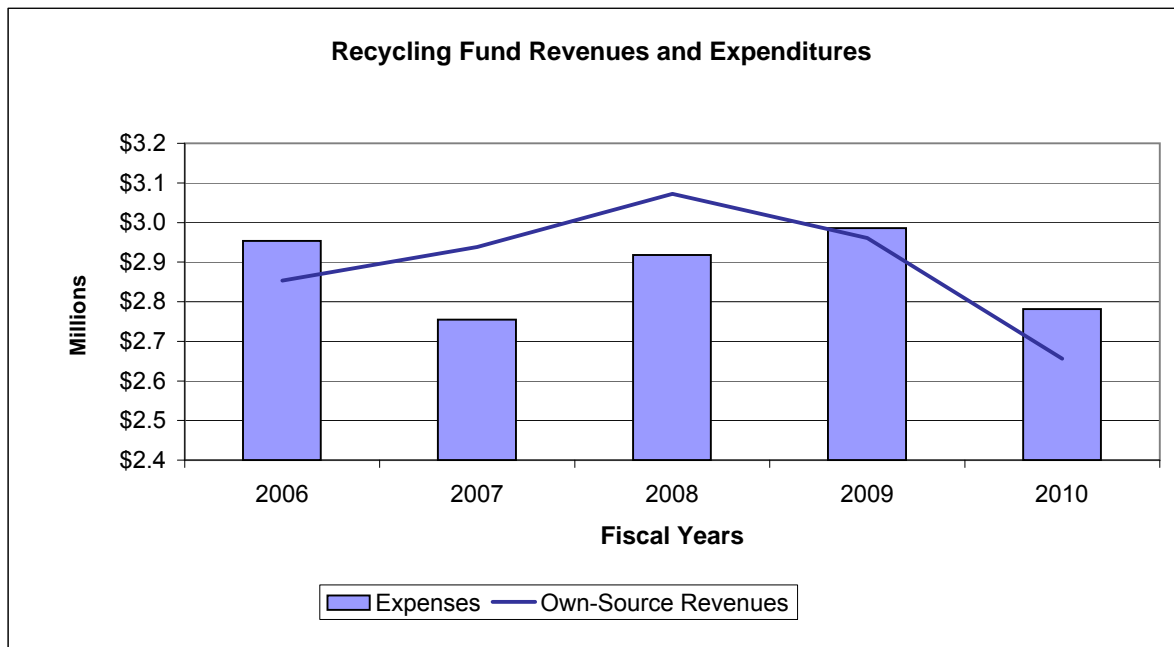
The City's parking system invests heavily in infrastructure, as the system supports various parking lots and four parking ramps. Rates are structured to fund not only day-to-day operations, but to also fund capital maintenance and construction needed to operate the system in the long-term, including structural repairs to parking ramps and ramp replacement. In some years, revenues exceed expenses and are "saved" for infrastructure needs. In years where heavy infrastructure maintenance and/or construction occurs, which was the case for fiscal year 2008, expenditures exceed revenues, and the amounts "saved up" are spent.

Garbage Collection and Recycling Systems

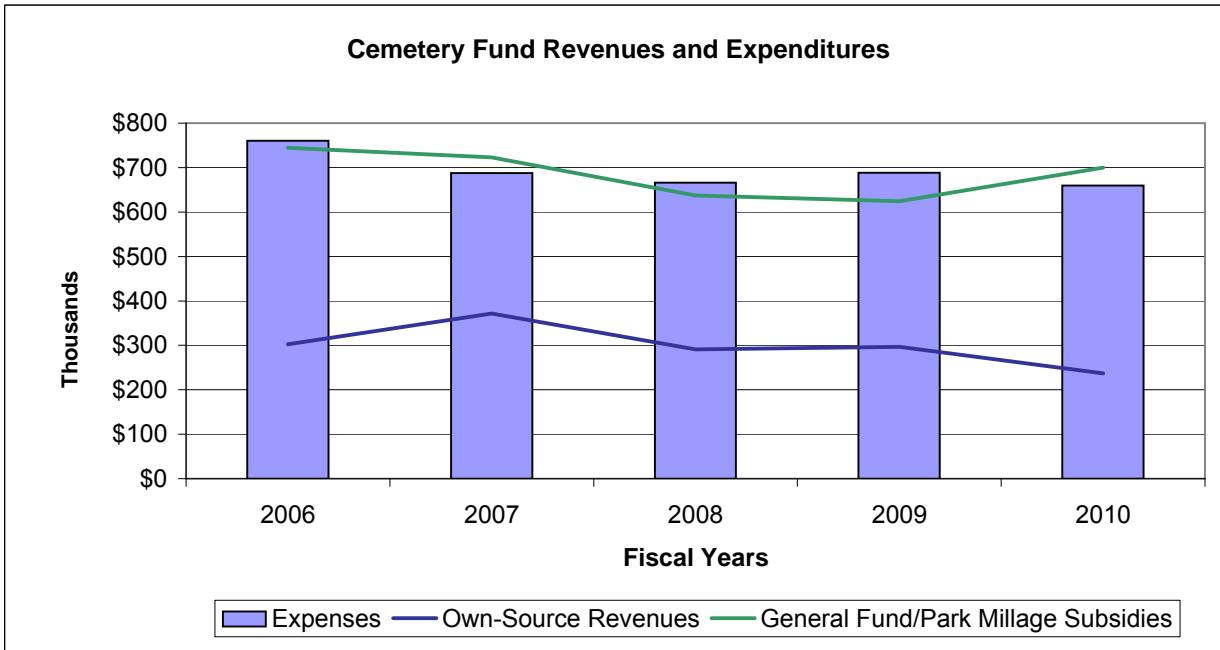


The City provides in-house garbage collection. The program is funded by user fees, based on the size of garbage container used. The City's residential recycling system, which converted this past year to single stream, is funded by a recycling fee charged to residents. These programs are designed to encourage recycling and the reduction of waste being hauled to landfills.

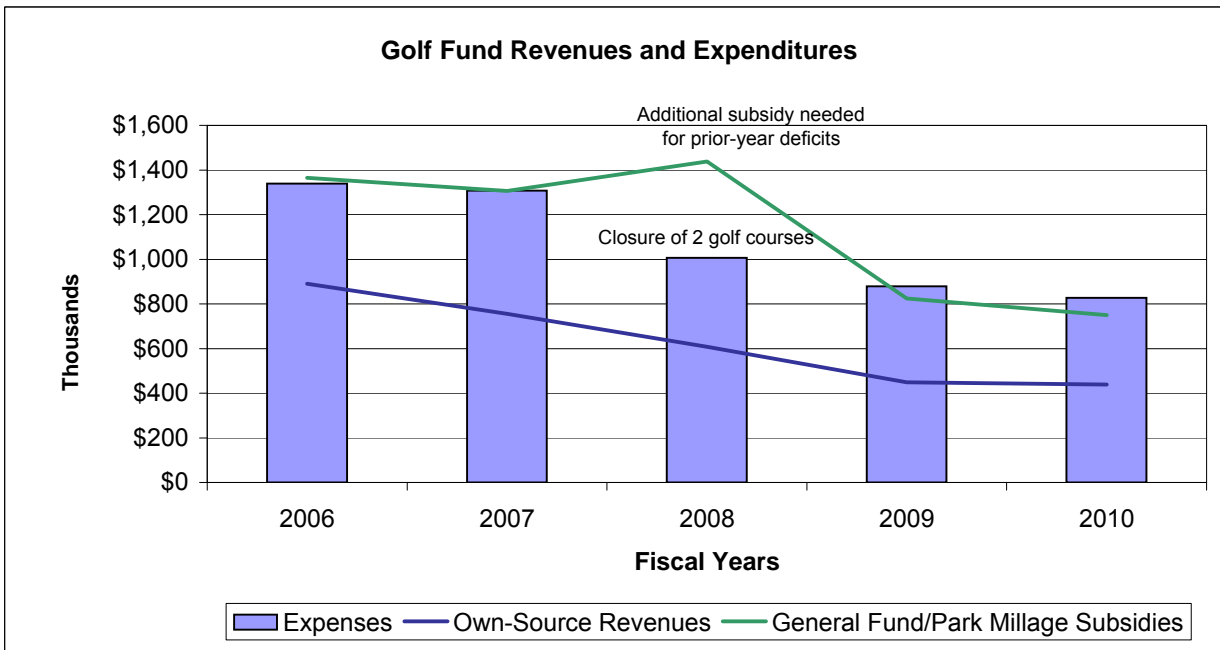
While not as capital-intensive as the sewer and parking systems, garbage collection rates and the recycling fee are designed to fund day-to-day operations as well as capital replacement for vehicles and equipment. As a result, revenues will exceed revenues in some years to build up funding for capital, and expenditures will exceed revenues in years where such capital is purchased.



Cemetery and Golf Operations



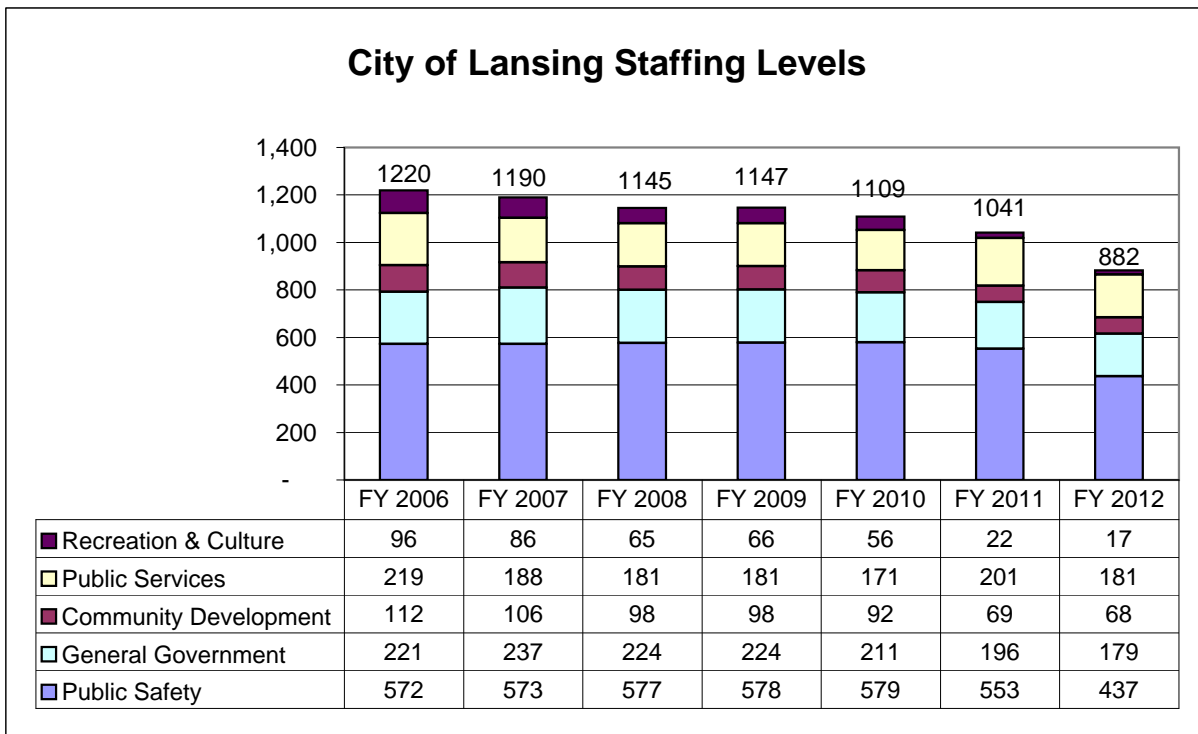
The City currently operates three (3) cemeteries, one 18-hole golf course, and a driving range. Cemetery and golf operations have both required heavy subsidies from the City's General Fund and Parks Millage Fund in recent years. To reduce these tax dollar subsidies, various measures have been adopted to reduce costs, including the closure of two formerly-City-operated golf courses, a partnership with the First Tee organization for the operation of the City's driving range, and the exploration of potential agreements to operate the City's cemeteries and remaining golf course.



SECTION 3: STAFFING

The following graph is for total City staffing. Staffing has decreased nearly 28% from FY 2006 levels, as the City has been faced with declining revenues and inflationary pressures from healthcare and pension costs.

Until FY 2012, the downsize in staffing was achieved through attrition, which included a retirement incentive in FY 2010. In fiscal year 2008, a number of layoffs occurred, including 11 firefighters and 34 police officers.



Notes:

Recreation & Culture - 18 positions transferred to Ingham County with Zoo in FY 2008 with the passage of a County-wide zoo millage; 31 positions transferred from Recreation & Culture to Public Service as part of a consolidation of grounds maintenance functions.

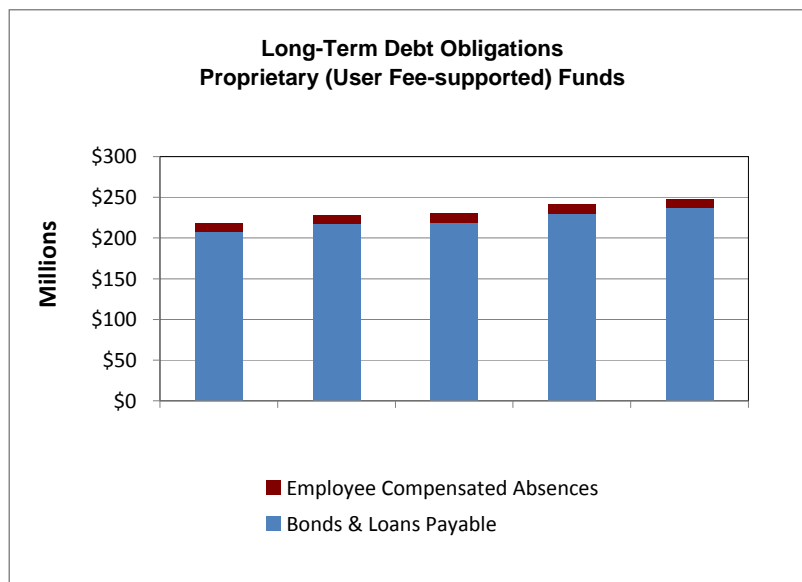
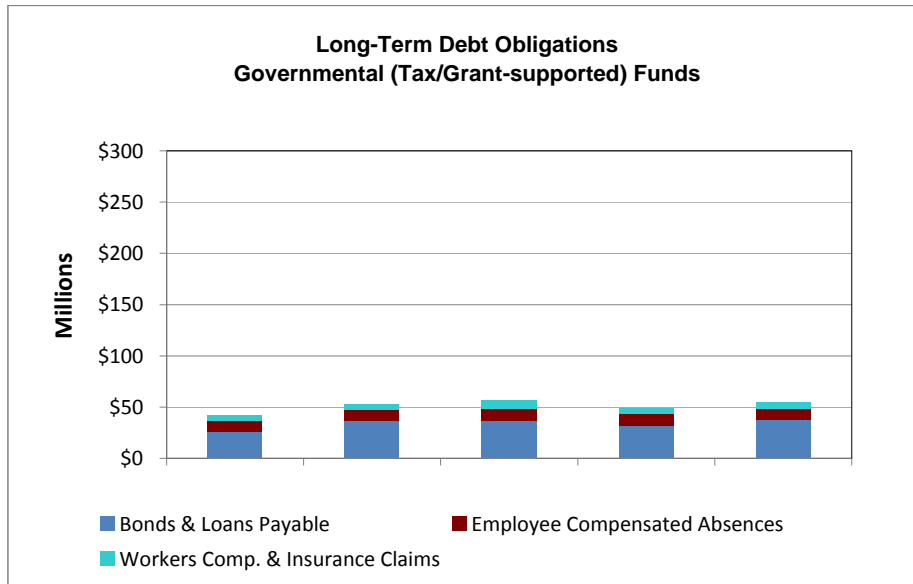
	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Number of employees per 1,000 residents	10.7	10.4	10.0	10.1	9.7	9.1	7.7
Number of Residents per Employee	94	97	100	99	103	110	130

SECTION 4:

Long-Term Obligations

The City has obligations which are funded by both current and future year revenues. These obligations include debt issued to fund capital projects (which benefit not only the current year but future years), and funding for its pension and healthcare benefits for retirees.

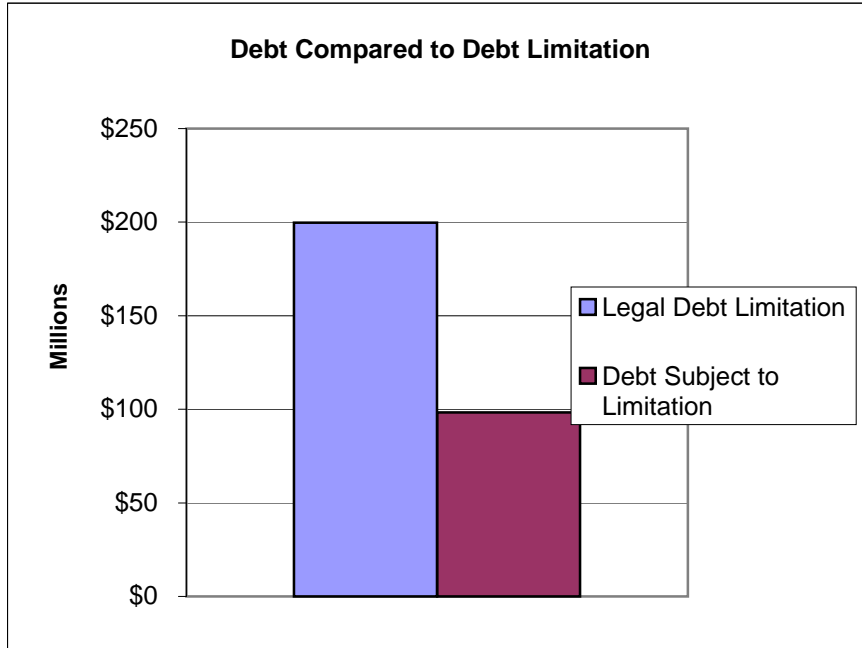
Long-Term Debt Obligations



The City issues debt, in the form of long-term bonds and loans, to finance certain capital projects. The City does not issue debt to finance day-to-day operations. Debt is repaid with annual revenues. The City's EPA-mandated sewer separation project is heavily financed by debt issuances, as noted in the second chart.

Additionally, certain amounts, such as accumulated employee leave time and insurance claims, are recorded as long-term obligations of the City. These are also paid with annual revenues as they come due.

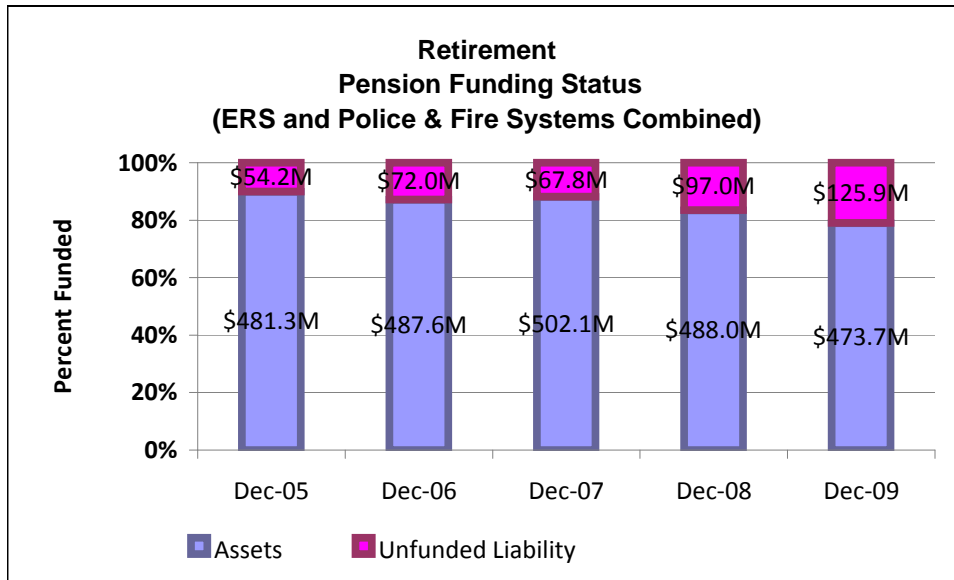
Long-Term Debt Obligations



The capacity for the City to issue certain types of bonds and loans is governed by the City's debt limitation, which is based on assessed property value and the ability to generate property taxes. Certain bond issuances, most notably those supported by user-fee based revenues, are not subject to the City's debt limitation. As indicated by the above chart, the City is well within its legal debt limitation.

<u>Moody's Bond Rating Scale</u>		<u>S&P Bond Rating Scale</u>	
Aaa	Highest Rating	AAA	Highest Rating
Aa	Lansing Revenue-Backed Debt = Aa3 Lansing Tax-Backed Debt = Aa2	AA	Lansing Tax-Backed Debt = AA Lansing Revenue-Backed Debt = AA-
A		A	
Baa		BBB	
Ba		BB	
B		B	
Caa		CCC	
Ca		CC	
C	Lowest Rating	C or D	Lowest Rating

Long-Term Pension Obligations

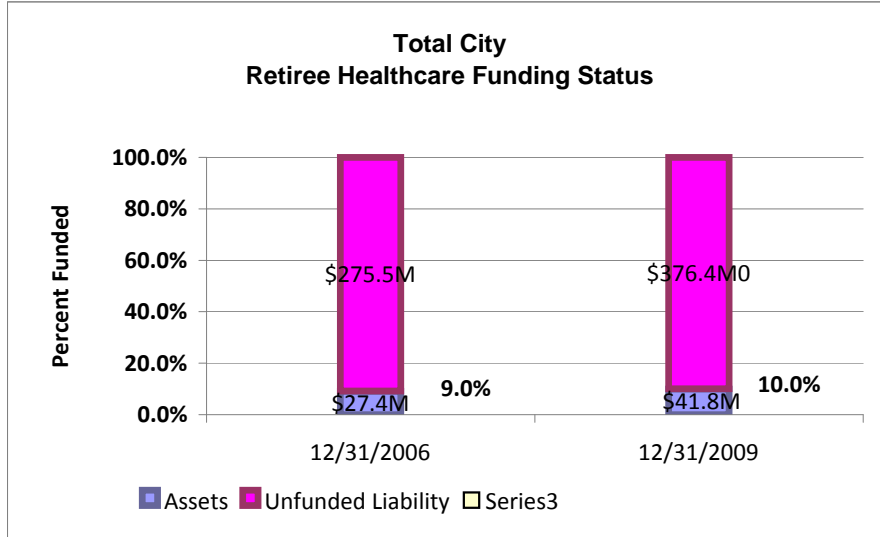


The City has defined benefit (pension) plans for its current retirees and employees. The City has been funding the resulting actuarially-determined long-term liabilities, and their current funding status is shown above. The stock market crash in December, 2008 adversely impacted the funding status of the systems. To the extent the systems have unfunded actuarial liabilities, annual contributions to the pension systems are required.

Actuarial valuations are performed annually, on a calendar-year basis, for the City's pension systems.

More detailed information is available from the City's actuarial reports of its Employee's Retirement System (ERS), Police and Fire Retirement System, and its Other Post-Employment Benefits System, as well as the City's Comprehensive Annual Financial Report.

Long-Term Retiree Healthcare Obligations



The City has defined benefit retiree healthcare plans for its current retirees and employees. While municipalities have been setting aside funding and receiving actuarial valuations for pension systems for decades, they have only been required to do so for retiree healthcare since an accounting requirement change in FY 2009. The City has been setting aside monies for prefunding of retiree healthcare since FY 2005, several years longer than most municipalities. The City has been funding the resulting actuarially-determined long-term liabilities, and their current funding status is shown above. The stock market crash in December, 2008 adversely impacted the funding status of the systems; however, despite the market downturn, the overall funding levels of the systems improved slightly, from 9% to 10%. Because prefunding for retiree healthcare has begun very recently, benefits for current retirees are funded on a pay-as-you-go basis out of current-year revenues.

Actuarial valuations are performed biannually for the City's retiree healthcare systems. The next one will be performed as of 12/31/2011.

More detailed information is available from the City's actuarial reports of its Employee's Retirement System (ERS), Police and Fire Retirement System, and its Other Post-Employment Benefits System, as well as the City's Comprehensive Annual Financial Report.