
Dollars and Sense:

How The City Of Hartford Spends Your Money

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

Presented by
Linda J. Gray, City Treasurer

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.

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Welcome

Greetings,

As part of Governor Snyder's plan to reduce the state budget, we are required to prepare and distribute an accountability and transparency report using the template provided by the Governor.

This report will supplement our annual audit by an independent Certified Accounting Firm, and uses the Audited Financial Statements from July 1999 to our last Financial Statement on June 2010, to present this information in, hopefully, an easy to understand manner. Our audits are located on-line at our website, along with other financial information, like our current and proposed budgets for the year.

This audited information is added to information provided by the State of Michigan about private business, other local governments, and the State of Michigan; to create charts where you can compare the City of Hartford's financial information, with other local governments, the state government and private business.

We hope that after you read this report, you will understand the sources of revenue to operate the City, the services the City offers, and the cost of offering these services. We also hope you will compare the City of Hartford against private business, other local governments, and State of Michigan to see if we are operating more or less efficiently, and if we are spending your (the taxpayers) money wisely.

If you have questions about this report, stop by my office, or call and I will try and answer your questions. Also please call or stop by if you have any question about our audited Financial Statements. Our entire staff is here to serve our local taxpayers, and you are our first priority.

Sincerely,

Linda J. Gray, Hartford City Treasurer

WHERE CITIZEN DOLLARS GO

In the United States, everyone earning an income, including citizens of Hartford pay federal income taxes. Everyone in Michigan pays state sales tax on purchases and Michigan income tax on income earned. Everyone owning property in Michigan, including citizens of Hartford pays property taxes. The City is a collecting agency for the property tax and we distribute the tax collected. The City of Hartford has city operating taxes and a water bond debt tax on the summer property tax bills. In the fiscal year ending June 30, 2010 the City collected \$ 1,523,473 and paid out to Van Buren County, Hartford Schools, the State of Michigan, and other taxing authorities all except for \$ 425,499 in operating taxes, and \$ 60,041 on the IRP bond debt issue.

The IRP bond debt issue is restricted to repay the bonded debt. The \$ 425,499 operating taxes above is the only amount the City can use for our operating revenue. This amount is about \$ 159 per person living in the City of Hartford according to the 2010 census (2688).

The amount Hartford Citizens pay to both the state and federal governments is not all lost. The management of the City works very hard at bringing a share of the state and federal taxes you paid back to Hartford. To help create jobs, to improve our infrastructure, and help local business, the City seeks both state and federal grants to help improve our streets, water and sewer equipment and lines; purchase needed vehicles, and has helped to improve the buildings in Hartford including our New City Hall with grants from state and federal government.

In the fiscal year ending June 30, 2010 we received state and federal funding of \$ 1,112,140 including our State Shared Revenue from the state of Michigan. This money paid by our local taxpayers, could have been spent in other areas of the state and the country, if not brought back to Hartford. This revenue is almost 3 times (\$ 414 per person) the amount of property taxes paid by our local citizens.

The City of Hartford also collects revenue from charges for services. Our water and sewer systems are enterprise (business self-supporting) funds, and the water and sewer operating expenses are paid by the people using the service. In the fiscal year ending June 30, 2010 the water and sewer funds collected \$ 630,072 for water and sewer services. Hartford township users pay 1-1/2 the amount as City residences to use our water and/or sewer systems. The City also collected \$ 23,737 in other charges for services, such as building and electrical permits.

SERVICES THAT GOVERNMENTS PROVIDE

The revenue described above goes to provide service to our citizens. We provide the services that all local governments are required by state law to provide such as elections, assessing and collecting taxes. Our assessor sets the value on all tax parcels in the City, the City provides for the Board of Review where citizens can protest their assessed value, and keeps detailed assessing record for each parcel. The City also prints, mails, records taxes paid, balances tax records with the county at time of settlement, and provides tax records on-line for the convenience of our taxpayers.

The City provides election services for federal, state, local and school elections. We train and pay our election workers, provide voting equipment, ballots, and a certified state election clerk to oversee the election process. All of this insures that your vote is counted on Election Day.

We also provide building, electrical and mechanical permits, and rental inspections on rental units to insure that the City's housing is safe for occupancy. And our Code Enforcement Officer also works to keep the City healthy, clean, and orderly by enforcing City Ordinances.

The City provides other services that some local governmental municipalities are not required to provide. The City provides, with Hartford Township, for fire protection, by financing the Hartford Fire Department. The City pays a monthly amount to the Fire Department for operations, and again with Hartford Township, guarantees loans on fire equipment purchases. This is in addition to the fire millage on your tax bills that was recently added with voters' approval, for fire equipment.

The City also provides a 24 hours per day, 7 days a week, police department to insure the citizen's safety. We purchase and repair police vehicle, provide equipment and uniforms to our officers, provide for training and a department head, our Chief of Police; to organize and maintain our police department. Our police department when needed by the 911 dispatcher, response outside the City limits.

Our department of public works takes care of our streets and keeps the streets plowed in the winter. They do all of the snow plowing and street maintenance in the City limits. Our Department of Public Works help keep the City clean, by picking up brush and leaves in the spring and fall; and maintains our park, cleans our streets and sidewalks, and maintains all public buildings, and provides a dump site for brush at the Waste Water Treatment Plant.

The City provides water and sewer services for City residents, which some township residents also use. The City provides the facilities for water and sewer services, such as the Iron Removal Plant, the Waste Water Treatment Plant, and the water and sewer lines that provide the service. Our employees test the water samples, and send out samples to other labs to ensure safe drinking water, and keep enough water available for emergencies, such as fires. We also test the water returned to the river from the Waste Water Treatment plant to insure our system is not damaging our environment.

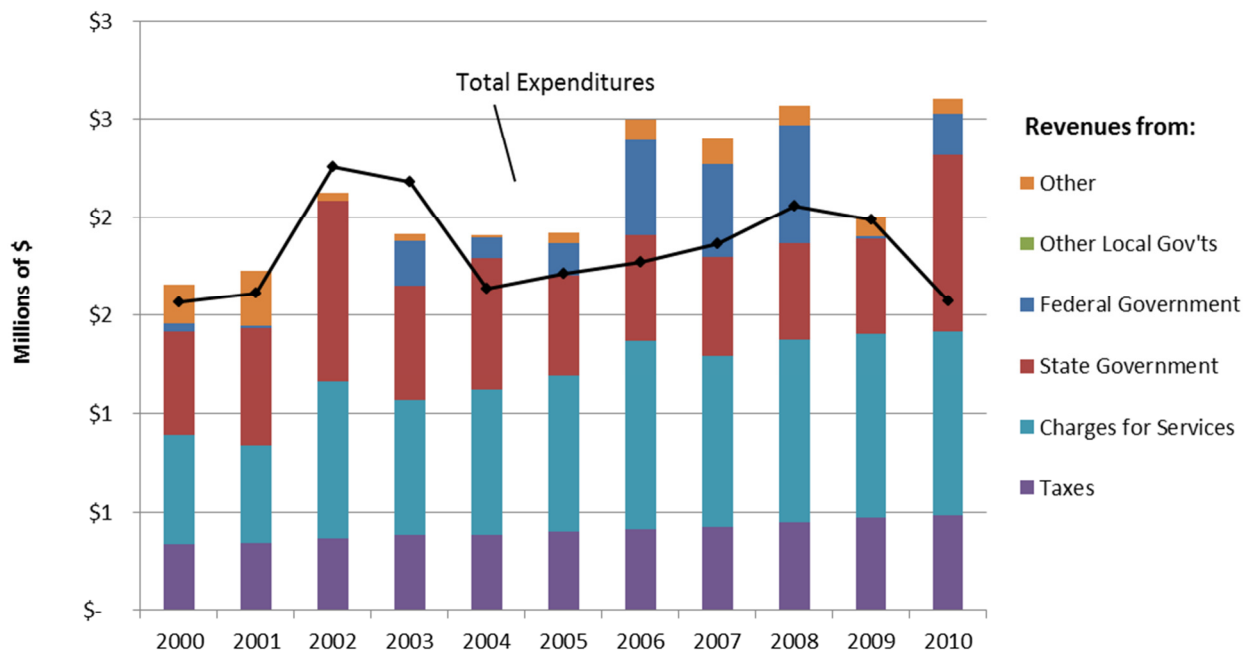
The City has office hours Monday thru Thursday from 8 a.m. to 5 p.m. and on Fridays from 8 a.m. to 4 p.m. If you have a problem with your tax bill, your utility bill, or any other problem the City may be able to help with, our office is open to help you solve your problem.

How Taxpayer Money is Spent: Government Revenues and Expenditures

GOVERNMENT BUDGETS

The City's budget is very much like your personal budget. It lists the revenue or income you receive, and the expenditures or expenses you expect to pay for the year. And like your personal budget if you receive more than you spend, you can save the balance for an emergency or to insure future financial stability. Or if you receive less than you spend, you use up your 'savings' that you had in prior years.

In the 2011 Citizen's Guide to Michigan's Financial Health our Governor said **"Michigan's state and local units of government have regularly spent more money than they have taken in since 2001. In 2010, state government had a primary government deficit of almost \$ 1 billion while local governments, taken together, had a deficit of about \$ 1.2 billion."**



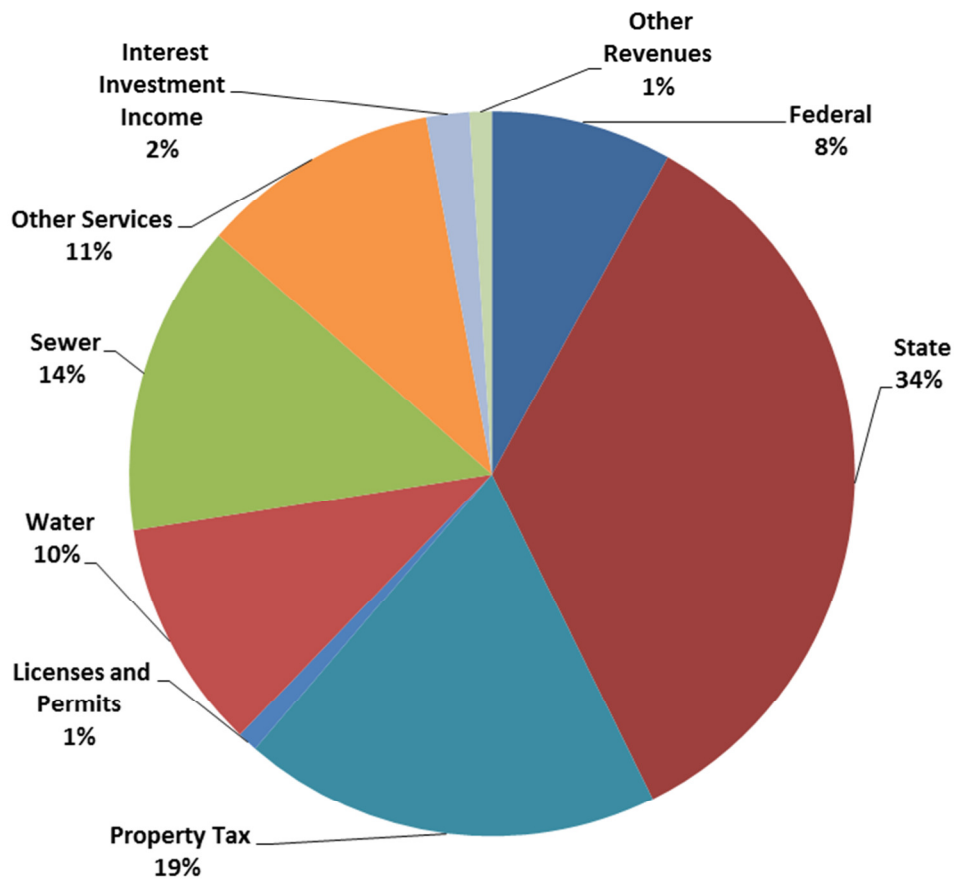
As you can see, from the above chart, the City had more expenditures than revenue in only 2 years 2002 and 2003. During the 2002-2003 timeframe the City had several major capital projects, the North Maple and Prospect Street construction, the North Parking lot Streetscape project, and the New City Hall, that increased our expenditures by the matching funds for the grants to do these projects.

City management also started seeking alternative sources of revenue, and as you can see from the revenue increases in 2006-2008 some alternative sources were found. But the drop in revenue in 2009, mainly from cuts in State Shared Revenue, resulted in further cuts in expenditures for the 2009 year. Also from the above charts, you can see that the expenditures for the 2010 year, without major capital projects, remain at about the same level as the 2000-2001 year.

The management of the City also responded by cutting expenditures in the 2004-2010 years. Some cuts were done by increasing efficiency like installing radio read meters for the water-sewer system, and some staff cuts by attrition. One of the City's management goals is to continue to "grow" our fund balance for the continued growth and financial stability of the City. We can only achieve this goal by continuing to spend less each year than we receive in revenue, and have a surplus to add to the fund balance.

Revenues.

City of Hartford Revenues, Current (2010) Year



What are the major sources of revenue for the City of Hartford? Only 19% of our total revenue comes from our local property tax, and this includes the water bond debt repayment millage, which is 13% of the total property tax collected. The users of the water and sewer systems provided 24% of the total revenue for the City.

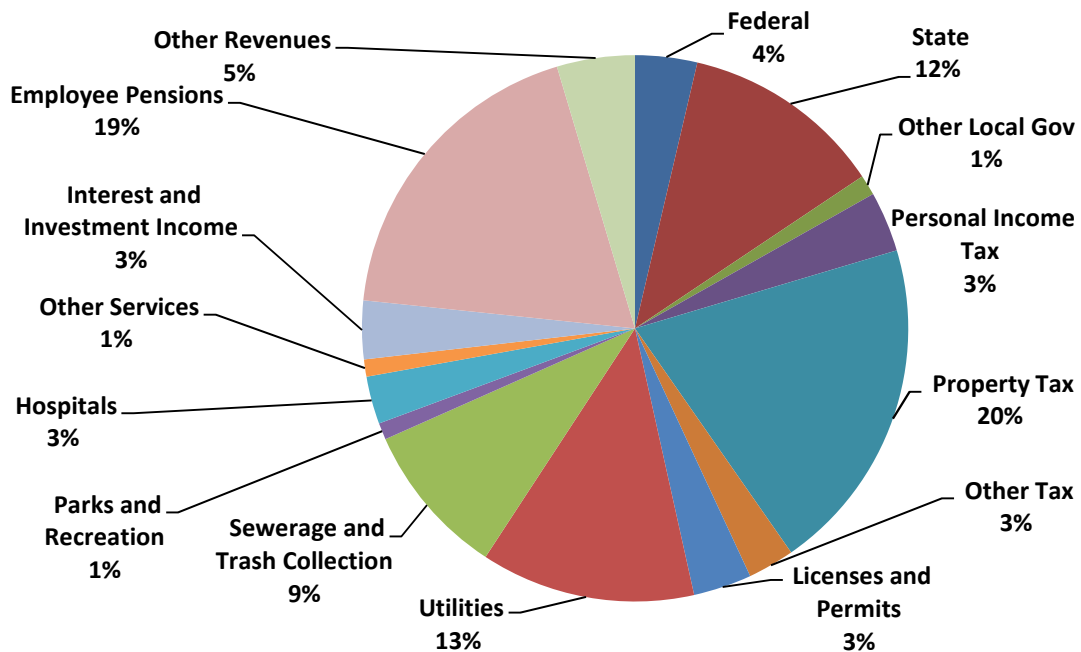
The federal government, from the federal taxes paid by our taxpayers, added 8% to the City’s revenue. This federal revenue was in the form of grants for capital improvement projects, such as adding new water and sewer lines, and improving City Infrastructure.

The State of Michigan, contributed 34% of the City revenue. 52% of the state revenue received comes from grants for capital improvement projects, in 2010 that included the resurfacing of West Main Street, the South Parking lot project, and a water system improvement project. This grant money, paid by our local citizens to the State of Michigan, would have been lost if the City had not applied and received funding for these projects. For 2010, 12% of the state revenue received was Act 51 funds for maintaining our Major and Local streets. The balance, 29% of state revenue, is state-shared revenue intended for general government; in 2010 this amount was \$ 265,679.

11% of the total revenue is for other services provided by the City, 85% of this amount is from other City funds (Water, Sewer, Major and Local Streets,) for administrative costs and rental of general government owned equipment used by the other funds. This insures the City is spreading administrative and equipment cost among all funds, not just the General Fund, supported by tax dollars.

Another important question is how does Hartford’s revenue compare with other Cities/Villages?

Avg. Revenues for Other Cities/Villages in Michigan, 2007



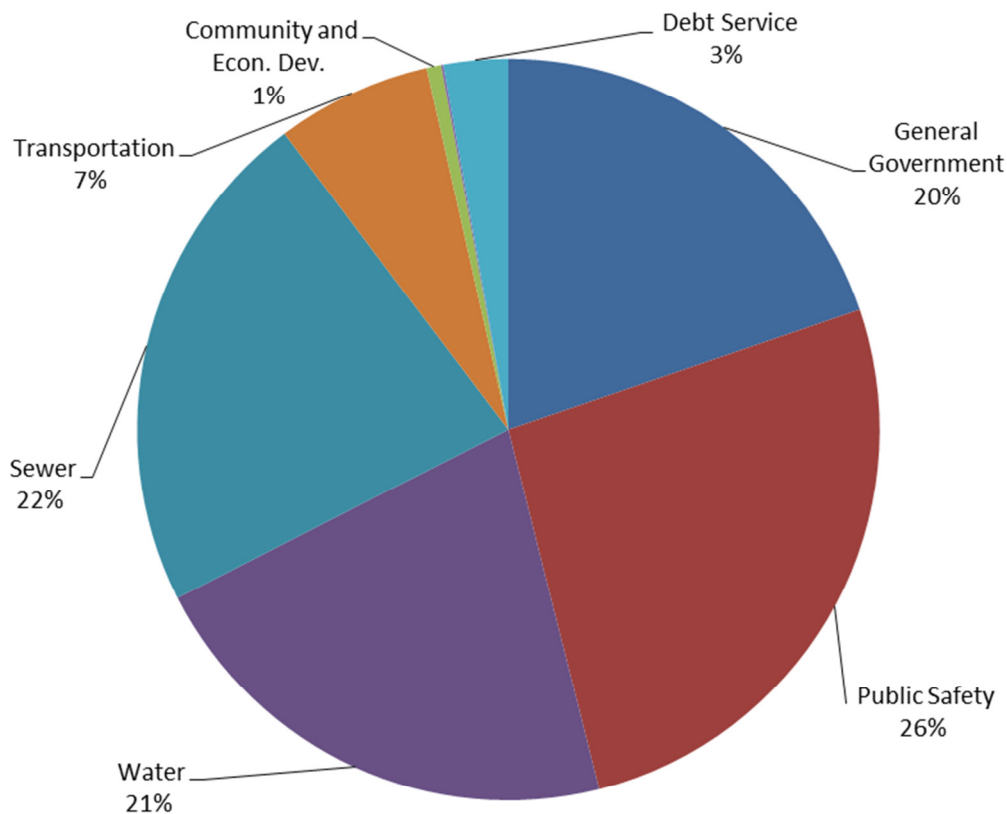
Other Michigan Cities and Villages have average tax revenue of 26% of their total budget, versus 19% for the City of Hartford. Other Cities and Villages collected only 4% of their revenue from the federal government, and 12% of their total from the State of Michigan, while Hartford 8% from the federal government, and 34% from the State of Michigan. This large difference was in grants received for our capital improvement projects.

Another large source of revenue for other Cities is income from employee pension funds; Hartford doesn't have a defined benefit pension program. Other City's collected 22% of their total revenue from utilities, while Hartford's income from the water and sewer service is 25% of our total revenue. Interest and Investment income is about the same for other Cities and Villages, 3% in 2007, while the City of Hartford received 2% in 2010.

Expenditures

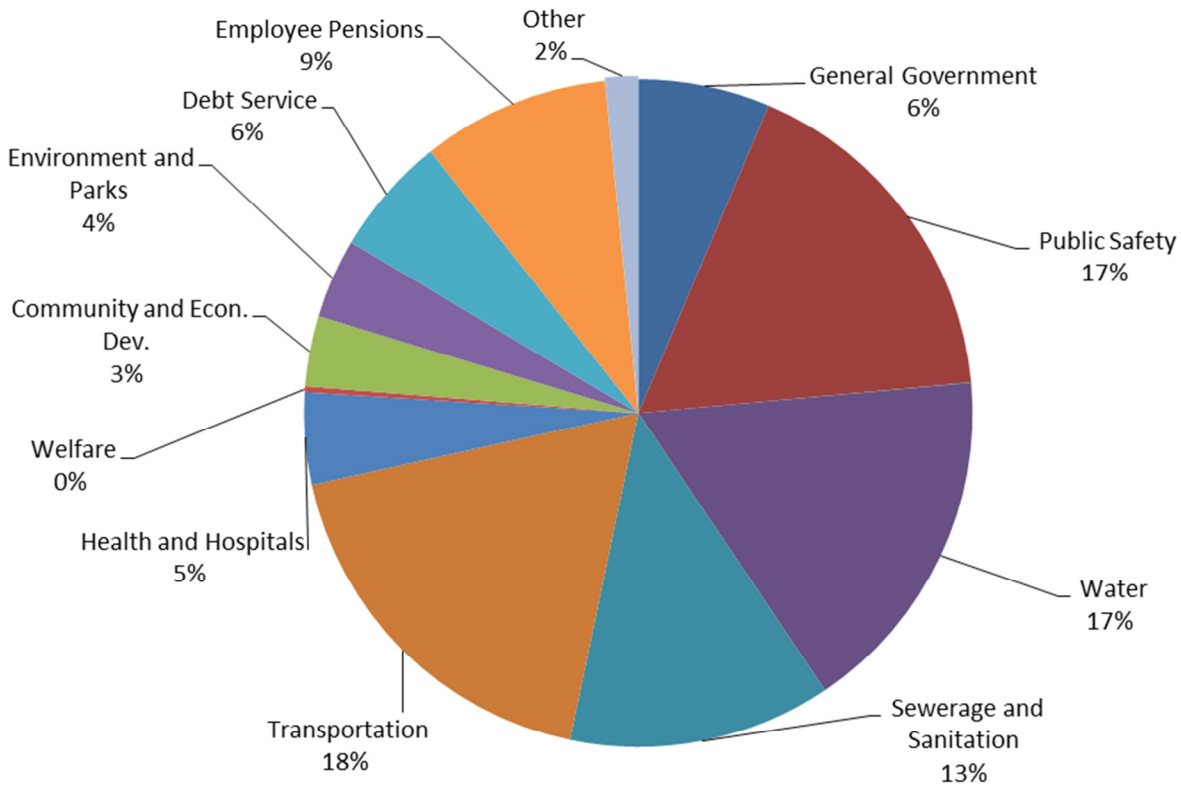
How does the City spend your tax dollars? As you can see from the chart below, the largest percent of expenditures (26%) are for public safety. Providing Water (21%) and Sewer (22%) utilities consumes the next largest percent of expenditures with a combined total of 43% of total expenditures. General Government (20%) includes the Clerk's and Treasurer's offices, City Manager, assessor, elections, code enforcement, Mayor and City Council, and all other general operations of the City. Maintaining local and major streets (Transportation) in the City consumes 7% of total revenue, debt service (paying principal and interest on loans) another 3%, and community and economic development claim the remaining 1% of total expenditures.

City of Hartford Expenditures, Current (2010) Year

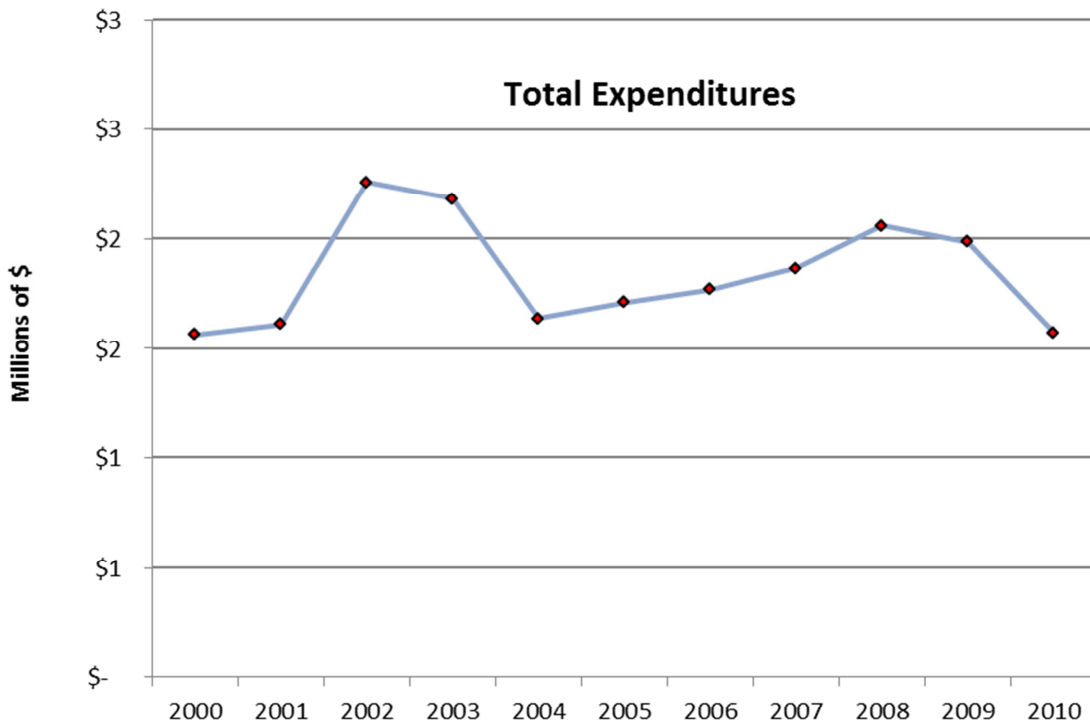


How does this compare to other Cities and Villages?

Avg. Expenditures for Other Municipalities in Michigan, 2007



Please note the City of Hartford has no employee pensions to fund, and no funds for parks or hospitals. We spent less for Debt Service, Community Development, Utilities, and streets; and spent more for General Government and Public Safety.

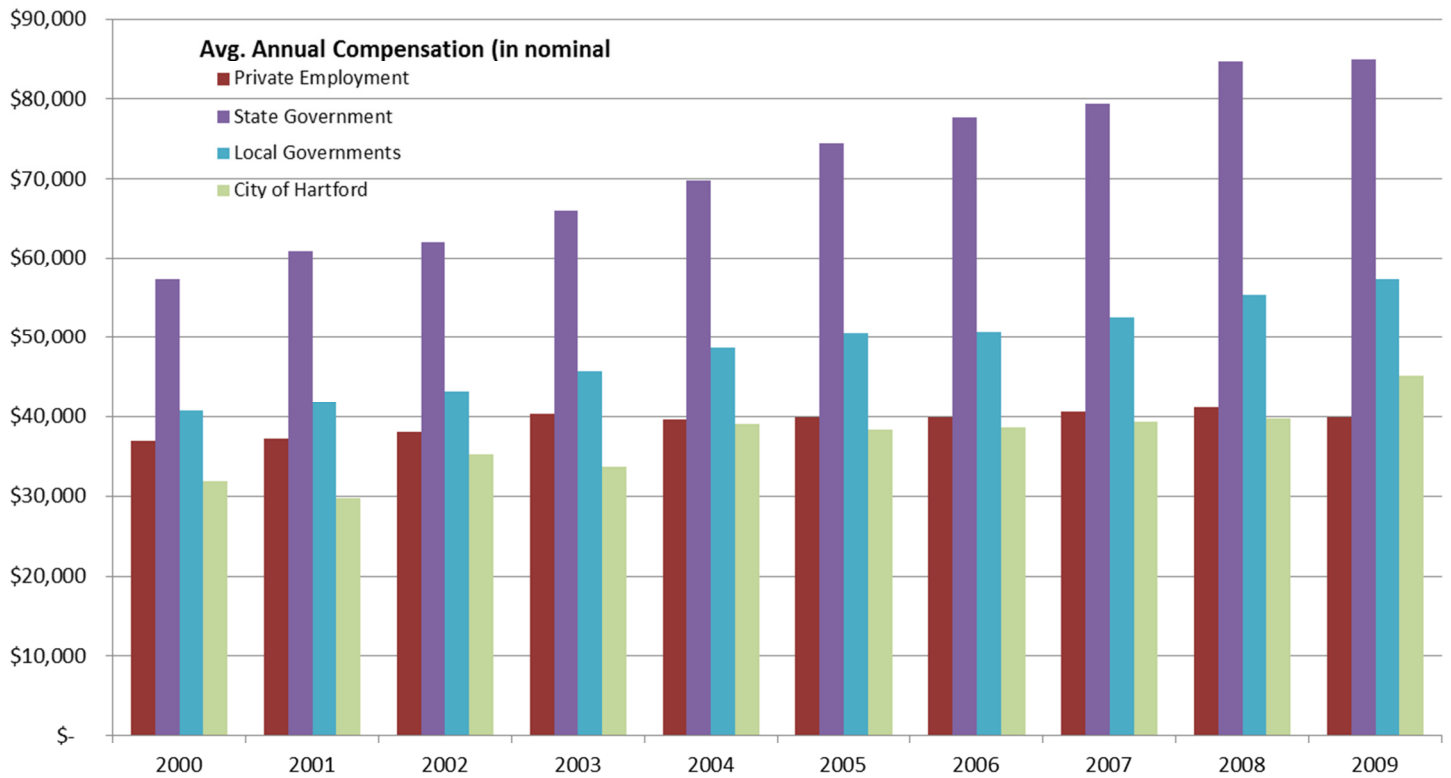


This chart shows the total expenditures from 2000 to 2010, except for the years with multiple capital projects, 2001-2002, and 2008-2009 our operating expenditures have remained very stable over the ten year period. As you can see, the expenditures for 2000 were about the same as for 2010.

NUMBER OF GOVERNMENT EMPLOYEES

In the City of Hartford, the number of employees has remained very stable. The average number of employees was lowest in 2009 with 17 and highest in 2010 with 20. From 2000 – 2009, the number was between 17 and 18 employees. These numbers include full-time, part-time, and seasonal employees (crossing guards, and seasonal Department of Public Works).

DIFFERENCE IN PUBLIC AND PRIVATE SECTOR COMPENSATION



As you can see from the above chart, in every year but 2009, the City of Hartford (green) has less compensation (wages plus benefits) than the private sector (deep red), other local governments, (blue) and a lot less than the highly compensated employees of the State of Michigan (purple). This chart compares all government workers with all private employee workers, with no difference in training, education or skills required for the employment.

Average Employee Compensation in Michigan

| | Wages | Benefits | Total Compensation | Total Employment | Avg. Compensation |
|-------------------------------------|-----------------|-----------------|--------------------|------------------|-------------------|
| Private Sector, 2009 | n/a | n/a | \$ 171,914,760,000 | 3,283,005 | \$ 52,365 |
| State Government, 2009 | \$2,763,466,647 | \$1,634,877,477 | \$ 4,398,344,124 | 51,699 | \$ 85,076 |
| Local Governments, 2009 | n/a | n/a | \$ 23,374,085,000 | 407,693 | \$ 57,333 |
| City of Hartford, Current Year 2010 | \$ 630,232 | \$ 144,766 | \$ 774,998 | 20 | \$ 38,750 |

The above information provided by the State of Michigan,(except for the City's current 2010 year) was used to compare the City of Hartford's average total compensation in 2010 with the total of other local governments, the private sector and, the State of Michigan in 2009.

RESERVES AND MAJOR FUND BALANCES

In order to spend at current levels, Michigan governments have:

1. Drawn down reserves
2. Borrowed money
3. Increased unfunded pension and other retirement liabilities

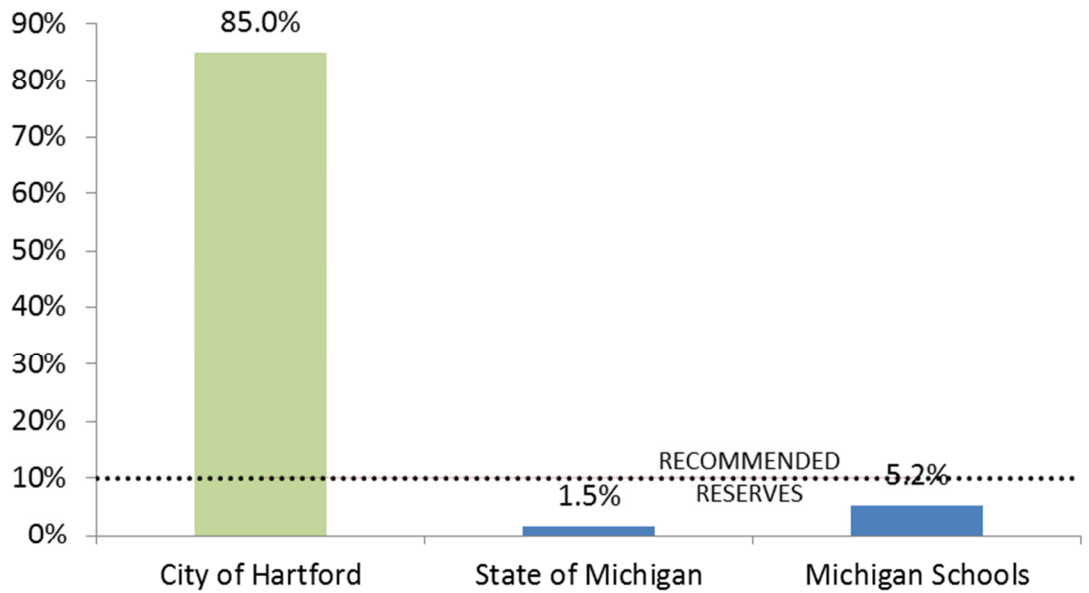
In recent years, governments and schools have drawn down their financial reserves or depleted their savings to support current spending levels.

State Government Reserves. It is considered good practice to keep around 10% of annual operating expenditures in unrestricted fund balances to cover new, unexpected expenses or an unanticipated drop in revenue. This is the state's equivalent of a cookie jar on the counter, or money in a savings account for unexpected needs. The State of Michigan has almost \$ 720 million in unrestricted fund balances in its major funds in FY 2010. That is 1.5% of total expenditures from those funds – well below the recommended 10%.

School Reserves. In FY 2004, public school districts had unrestricted reserves equivalent to over 10% of operating expenditures. Over the past few years, they have drawn down these reserves, bringing the reserve level to 5% last year.

At the current level of \$2.2 million, the balance in the state's "Rainy Day Fund" is not enough to cover the cost of state government operation for 30 minutes.

All of the above are direct quotes from Governor Rick Snyder's *2011 Citizen's Guide to Michigan's Financial Health* (page 12-13). But not all local Michigan governments have drawn down reserves, borrowed money, or increased unfunded pension and other retirement liabilities. The City of Hartford has no unfunded pension or other retirement liabilities, has not drawn on their reserves, and has not borrowed money in the past few years, but has paid off debt. The City of Hartford also recently adopted a Fund Balance Policy that requires an ending unassigned fund balance of at least \$ 500,000 (approximately 50% of annual operating expenditures) except in case of emergency or financial distress.



| City of Hartford Totals | | | | |
|--|----|-----------|------------------------|--------------------------|
| | | | % of Net Equity | % of Expenditures |
| Cash Balance | \$ | 1,177,651 | 23.4% | 74.8% |
| Cash On-hand | \$ | 462,019 | 9.2% | 29.3% |
| Available Reserves (funds not restricted or designated) | \$ | 1,338,248 | 26.6% | 85.0% |
| Total Assets | \$ | 6,382,726 | | |
| Total Liabilities | \$ | 1,350,607 | | |
| Net Equity | \$ | 5,032,119 | | |
| Total Annual Expenditures | \$ | 1,574,272 | | |

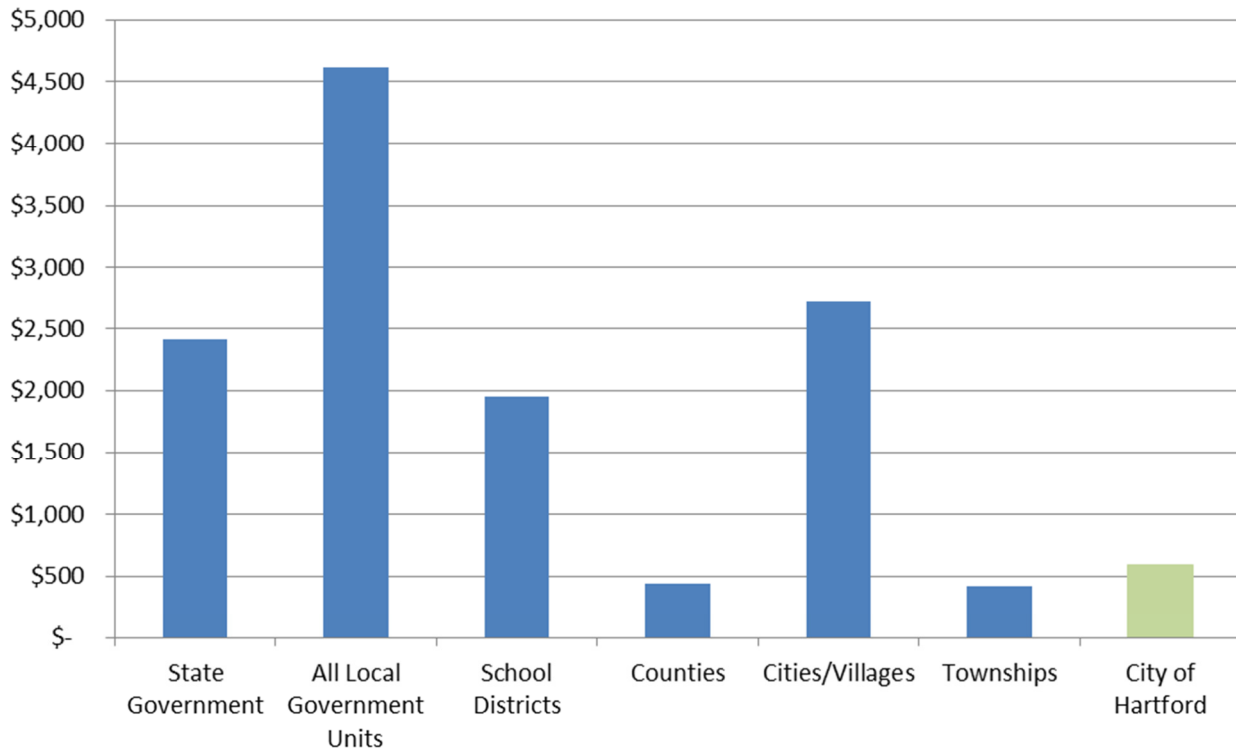
The first chart above shows the Governor’s recommend 10% reserves and the City of Hartford, The State of Michigan, and Michigan Schools reserves. The second table is the City’s totals for the fiscal year ending 2010.

DEBT LEVELS

City of Hartford Long-Term Debt, 2000-2010.....



Debt Per Capita



City of Hartford

| Avg. Annual Growth in Debt... | |
|--------------------------------------|-------|
| Last Year | -6.4% |
| Past 5 Years | -5.2% |
| Past 10 Years | 4.4% |

| Debt per Capita in Michigan | |
|------------------------------------|---------------|
| State Government | \$ 2,410 |
| All Local Government Units | \$ 4,617 |
| School Districts | \$ 1,944 |
| Counties | \$ 438 |
| Cities/Villages | \$ 2,726 |
| Townships | \$ 414 |
| City of Hartford | \$ 592 |

According to the 2011 Citizen’s Guide to Michigan’s Financial Health, **“The level of state debt per person has increased from \$ 724 per person in 1979 to over \$ 2,431 per Michigan resident in 2009.”** **“Similar to the State, local government debt has increased considerably over the past decade.”** According to the first chart above, the City of Hartford’s debt has risen from about \$ 1 million in 2000 to about \$ 2 million in 2010. The biggest rise in debt occurred in 2002-2003 years when The City acquired \$ 792,000 debt on the New City Hall with an interest rate of 4.75%. In 2006, the City acquired an additional \$ 277,127 in debt for a Water Improvement Project at 2.75% interest from Van Buren County.

In 2009, the City of Hartford used maturing investments to pay off \$ 142,000 in debt to USDA Rural Development (1987 Water Supply Revenue Bonds Series A & B) with a high interest of 6.125% and 5.75%. This resulted in a savings in interest on these two bonds of \$ 111,388 that would have been paid until the year 2027. This would net in an additional increase in debt from 2000 to 2010 of \$ 927,127, less amounts paid annually on the principal. This also brought our debt level to about the same as 2002’s amount. (See City of Hartford Long Term Debt chart)

The second chart shows the per capita debt for the City of Hartford, in comparison with other Michigan government units. The average per capita debt as of 2010 for the City is \$ 592 per person, much lower than other Cities/Villages, and much lower than all local government units.

Pension and Other Retiree Benefits

Public Budget Gap

Quickly rising benefits, poor market conditions, and insufficient contributions have resulted in a state and local pension fund shortfall of at least \$ 18.2 billion.

A **deficit** is the extent to which expenses exceed revenue in a given year. However, state and local governments have unfunded obligations that are not recognized in their deficits – namely, unfunded pensions and retirement health benefits are not recognized as liabilities and therefore not included in the budget surplus or deficit figure. Though governments have not fully funded these obligations, they will eventually have to pay for them since the Michigan Constitution guarantees pensions (but not retiree health benefits) for public employees. We present an alternative measure to the budget deficit called the **public budget gap**.

The above quotes are from Governor Rick Snyder's 2011 Citizen's Guide to Michigan's Financial Health. The City of Hartford has a defined contribution pension plan, which means the obligation for pension contributions is paid weekly as part of the payroll process, and included in our current budget. The City has no unfunded obligations for pensions or other retiree benefits.

Since the City has no unfunded retiree benefit liability, it has no Public Budget Gap.

How This Report Was Developed

The goal of this report was to provide the public with as much information as possible on the revenues, expenditures, and other financial activities of state and local governments. If you have any questions about the information presented, please call the City Treasurer at 269-621-2477

DATA SOURCES AND NOTES

All Direct Quotes – 2011 Citizen’s Guide to Michigan’s Financial Health, Presented by Governor Rick Snyder

All Financial Information For the City of Hartford (except Employee Compensation) City of Hartford’s Audited Financial Statement 2000 to 2010, presented by Gerbel & Company, P.C., St. Joseph, MI 49085

All Comparison Information Charts – provided by Governor Rich Snyder to use in local reports

Employee Compensation – Yearly Line Item Reports – City Of Hartford

Fund Balance Policy – City of Hartford, Approved at City Council Meeting, June 20, 2011