



Commission Agenda Report

City of Kalamazoo

TO: Mayor Hopewell, Vice Mayor Cooney, and City Commissioners

FROM: James K. Ritsema, ICMA-CM, City Manager
Prepared by: Jeff Chamberlain, AICP, Deputy City Manager

DATE: October 18, 2016

SUBJECT: Foundation for Excellence – Memorandum of Understanding

RECOMMENDATION

It is recommended that the City Commission approve the Memorandum of Understanding for the proposed Foundation for Excellence and authorize the Mayor, the City Manager, the City Attorney and the City Clerk to sign all documents on behalf of the City.

BACKGROUND

At a special City Commission meeting held on July 28, 2016, a presentation was made by the City Administration regarding a new option for addressing the City's structural revenue problems – the creation of the Foundation for Excellence (FFE) with donations from philanthropic and community sources.

The FFE would be funded for the first three years through a donation of \$70.3 million and would be used for three purposes: 1) stabilize the City's budget; 2) lower the City's property tax rate from 19.27 mills to 12.00 mills; and 3) provide \$10 million per year for "aspirational" projects.

At the July 28 meeting, the City Commission directed the City Manager to continue working on the Foundation for Excellence model and to bring a draft Memorandum of Understanding (MOU) to the Commission. Since then the City Administration and the City Attorney have worked with the lead donors to draft the MOU which would implement the outcomes outlined in July.

Memorandum of Understanding

The attached MOU outlines the partnership between the lead donors and the City and each party's commitment. The lead donors have approved the MOU and, with City Commission approval, agree to raise \$70.3 million for the City over the next three years (including \$20.1 million for the 2017 budget) and co-chair a capital campaign to endow the permanent Foundation for Excellence. The City agrees to create the organizational

documents in partnership with the lead donors to implement the Foundation, lower the City's property tax rate for 2017, 2018 and 2019 to 12 mills, allocate funds for "aspirational" projects, and continue to implement best practices and other budgetary savings ideas.

Other Questions

How will the FFE be created?

The City Administration, in partnership with the lead donors, will research best practices and models for creation of a foundation that will stand the test of time. This research will include different types of foundations, how to best structure this foundation, and examples of governance, bylaws and ethics principles for the new foundation.

The City Attorney will prepare the documents for the new FFE with the goal of having it established by August 31, 2017. Prior to then, the City Commission will be asked to approve details such as: the composition of the FFE board; its specific roles, bylaws, investment strategy; ethics policy; and, other items necessary for the creation of the FFE.

Will the City Commission have control over the use of the funds?

The City Commission will have the opportunity to approve the creation of the foundation, whose purpose will be to support the City of Kalamazoo operations. As a separate entity established by the City, the FFE will have its own board and will make contributions to the City of Kalamazoo. The City Commission will have the authority to appropriate the funds through the annual budget process.

How will this impact the City's 2017 budget?

The lead donors have agreed to raise \$20.1 million for the 2017 City budget, which will be used for millage rate reduction and aspirational projects. The FY2017 budget transmittal will incorporate the millage rate reduction and the City Administration will bring a budget amendment to the City Commission during 2017 to appropriate aspirational projects.

How will aspirational projects be chosen?

Imagine Kalamazoo 2025 will be the basis for aspirational projects, which will include projects that address generational poverty and provide opportunities for youth. The budget and work plan for the aspirational projects will be brought to the City Commission for review and final approval.

How big will the permanent FFE Endowment need to be and how will it be invested?

In order for the FFE to stabilize the City's annual budget, lower property taxes, and provide funds for aspirational projects, it is estimated the permanent endowment will need to be in the range of \$500 million. The actual size of the endowment will be

determined as part of the creation of the Foundation. The endowment will be invested in a professional manner similar to the City's pension fund.

How will the outcomes of the FFE be measured and tracked?

Through Priority Based Budgeting, metrics will be used to measure impact around community results for all areas of the organization. The City Administration is currently working with the W. E. Upjohn Institute for Employment Research and other agencies to develop metrics and evaluation tools. There will be specific, measurable outcomes for all FFE-funded projects and programs. Using these resources, we will develop tracking systems to measure the effectiveness of the funds and to report our successes and lessons learned.

Will the use of FFE funds be transparent?

Reporting and on-line tools will be developed to allow the public to review annual program budgets for the FFE and to track outcomes.

Can anyone make a donation to the FFE?

Yes, the FFE will accept public donations no matter how large or small.

What are the next steps?

After the MOU is approved the following will happen:

- Legal documents will be drafted by the City, in partnership with the donors, to create the FFE (such as an organizational indenture, articles of incorporation, bylaws, and ethics policies).
- The FY2017 budget will be prepared incorporating the property tax millage reduction to 12 mills.
- A budget and work plan will be developed for the aspirational projects informed by Imagine Kalamazoo 2025 input, which will be presented for approval to the City Commission as a budget amendment in 2017.
- Lead donors have committed to raising the \$70.3 million (including \$20.1 million for the 2017 budget) and a goal of fully endowing the FFE over the next three years.

COMMUNITY RESOURCES CONSULTED

Extensive community input has been received on this topic including the July 28 special City Commission meeting, extensive media coverage, a scientific survey of Kalamazoo residents, and a dedicated web page at www.kalamazoo.org/foundation.

FISCAL IMPACT

The creation of the FFE will provide funds in each of the next three years to stabilize the City's budget, lower City of Kalamazoo property taxes from 19.27 mills to 12.00 mills,

and fund aspirational projects. Once fully endowed, the FFE will continue this work into perpetuity.

ALTERNATIVES

The City Commission could chose to reject the MOU. This option is not recommended.

ATTACHMENTS

Memorandum of Understanding

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding is made this ____ day of _____, 2016 between the **City of Kalamazoo** ("City"), a Michigan municipal corporation organized pursuant to and exercising the powers set forth in the Home Rule City Act, being 1909 Public Act # 279, as amended, whose principal office is 241 W. South St, Kalamazoo, MI 49007 and William Johnston and William Parfet as Lead Donors and Capital Campaign Co-chairs ("Lead Donors"), the City and Lead Donors being collectively referred to as the "Parties".

The Challenges

The Parties acknowledge the following:

1. That in January 2014 the City Commission adopted the following Five Priorities to set the course for the City's future direction:
 - a. Create long-term fiscal stability/sustainability given new realities;
 - b. Build a high performance organizational culture by engaging the workforce;
 - c. Create a shared vision/future direction using intentional community engagement;
 - d. Continue to provide exceptional "core" municipal services;
 - e. Foster collective action to reduce unacceptable poverty- especially of children.
2. That in response to the broken Michigan municipal finance model, the City convened a Blue Ribbon Revenue Panel in 2015 comprised of individuals who reflected a cross section of interests and points of view to explore and recommend methods to address anticipated future City revenue shortfalls.
3. That the Final Report of the Blue Ribbon Revenue Panel made several recommendations regarding City revenue improvements, but acknowledged that those recommendations did not fully address future anticipated City revenue shortfalls.
4. That the only option which clearly addressed anticipated future City revenue shortfalls, imposition of a City Income Tax by voter approval, was not recommended by the Blue Ribbon Revenue Panel.
5. That as part of the effort to update its Master Plan, the City has embarked on the Imagine Kalamazoo 2025 community visioning process intended to develop a Shared Vision for the community, create its future direction, and identify the resources needed to advance and achieve that vision.
6. That City residents and property owners already shoulder a tax burden that frustrates efforts to compete for new investment in the community.

The Philanthropic Approach

The Lead Donors, recognizing the proactive efforts of the leadership of the City to define and address the challenges that confront our community, agree:

1. To lead the Capital Campaign for the tentatively named Kalamazoo Foundation for Excellence, a non-profit entity that will be created to last into perpetuity. The purpose of the Foundation for Excellence will be to support the City of Kalamazoo operations as defined in the organizational indenture document of the Foundation.
2. Upon the creation by the City and approval by the Lead Donors of the organizational indenture of the Foundation for Excellence, the Lead Donors agree to raise \$70.3 million to be utilized by the City for budget stability, an *ad valorem* tax rate equal to a 12 mills (1.2%) rate as well as aspirational projects as identified by Imagine Kalamazoo 2025. To facilitate the 2017 City budget process the Lead Donors agree to begin the Capital Campaign in advance of the organizational indenture document completion with the expressed purpose of raising \$20.1 million dollars for the 2017 City of Kalamazoo budget.
3. To actively promote the goal of having the Foundation for Excellence fully endowed by June 30, 2019.
4. The Lead Donors understand that the City will need to explore other revenue alternatives, should the effort to fund the Foundation for Excellence fail.
5. The Lead Donors believe the Foundation for Excellence will last into perpetuity. As such the Foundation will endure for generations to come beyond our current Mayor, City Commissioners, City administrators, donors and citizens. The Lead Donors require that substantial research and thoughtful deliberation be engaged in to create an organizational document that will stand the test of time and include the appropriate governance structure that assures that the funds will be administered as defined in the organizational indenture.

The Work

The City, upon receipt of the donation, will undertake the following commitments:

1. Create a separate City-controlled fund to receive the donations.
2. By August 31, 2017, establish the organizational indenture of the nonprofit Foundation for Excellence entity, as permitted by MCL 117.4a, into which the donations and any additional contributed money, from sources both great and small, shall be deposited to provide an endowment so as to extend and continue the budget stability and programs made possible by the donations.
3. Develop a budget for Fiscal Years 2017, 2018 and 2019, which incorporates a 12 mill (1.2%) *ad valorem* tax rate for municipal purposes on real and personal property located in the City.

4. Allocate \$10 million in each of the next three Fiscal Year City budgets for Aspirational Projects, to be funded by the donations, based on the results of the Imagine Kalamazoo 2025 process, the recommendations of the City Manager and approval by the City Commission which may include, but are not limited to:

a. Develop and commit resources to address generational poverty, promote youth development and remove barriers to employment opportunities for youth, under employed and unemployed individuals, and persons seeking re-entry to our community.

b. Address capital and human infrastructure and improvement/maintenance needs as identified by the Imagine Kalamazoo 2025 process and the City's Capital Improvement Program.

c. Develop and implement neighborhood improvement efforts and projects which reimagine and reinvest public spaces to attract and connect people.

5. Explore further budgetary savings that may be realized by shared service delivery with regional municipal, post-secondary school educational institutions, and private partners.

6. Develop best practices and measures intended to show the impact of the donations on the efforts and initiatives of the City to achieve the Five Priorities for the future direction of the community.

For the CITY OF KALAMAZOO:

Bobby J. Hopewell, Mayor

James K. Ritsema, City Manager

Clyde J. Robinson, City Attorney

Scott A. Borling, City Clerk

For the LEAD DONORS and CAPITAL CAMPAIGN CO-CHAIRS:

William Johnston

William Parfet