

Protecting Local Government Retirement and Benefits Act Corrective Action Plan Monitoring: Application for Certification of Compliance

Issued under the authority of Public Act 202 of 2017

LOCAL GOVERNMENT INFORMATION

Local Government Name: _____ Six-Digit Muni Code: _____

Defined Benefit Retirement System Name: _____

System Type: Pension Retirement Health Care (OPEB)

Contact Name (Administrative Officer): _____

Title (if not Administrative Officer): _____ Telephone: _____

Email (Communication will be sent here): _____

Fiscal Year System was Determined to be Underfunded: _____

I. GENERAL INFORMATION

Corrective Action Plan Monitoring: The Municipal Stability Board (the Board) shall monitor each underfunded local government's compliance with Public Act 202 of 2017 (the Act) and any approved corrective action plan (CAP). The Board shall adopt a schedule, not less than every 2 years, to certify that the underfunded local government is in substantial compliance with the Act.

Due Date: The local government has **90 days from the date the CAP Monitoring Form is sent** to return the form to the Board.

Filing: The submitted monitoring form must demonstrate through distinct supporting documentation that the local government is addressing its underfunded status in accordance with its approved CAP and the Act. Consistent with the Board's best practices document, supporting documentation utilized should include a projection within their annual valuation that includes, but is not limited to actuarially determined contributions (ADC), retirement benefit payments, assets, liabilities, and discount rates.

The completed monitoring form must be submitted via email to Treasury at LocalRetirementReporting@michigan.gov for review by the Board. **If you have approved CAPs for multiple underfunded systems, you are required to complete separate monitoring forms and send a separate email for each approved CAP.** Please attach each plan as a separate PDF document in addition to all applicable supporting documentation.

The subject line of each email should be in the following format: **Corrective Action Plan Monitoring, Local Government Name, Retirement System Name, System Type** (e.g. Corrective Action Plan Monitoring, City of Lansing, Employee Retirement System, Pension). Treasury will send an automatic reply acknowledging receipt of the email. Your individual email settings must allow for receipt of Treasury's automatic reply. This will be the only notification confirming receipt of the form.

Municipal Stability Board: The Board shall certify and vote whether each local government is compliant with their approved CAP and the Act. If a CAP is certified as compliant, the Board will continue to monitor the CAP and review the local government's compliance with the Act not less than every two years.

Review Process: After receiving your submitted CAP monitoring form, Treasury will provide it to the Board to review and certify the local government for compliance with the Act.

CAP Monitoring Approval Criteria: A CAP may be certified as compliant by meeting the Board approved [CAP monitoring criteria](#). In general, certification of compliance by the Board will occur if a local government is able to demonstrate through distinct supporting documentation that the CAP addresses:

- 1) **Underfunded Status:** The local government continues to address underfunded status in a reasonable timeframe (60% funded for pension systems or 40% funded for OPEB systems OR; if the local government is a city, village, township, or county, the ADC as a percentage of governmental fund revenues is less than 10% for pensions or 12% for OPEB);
- 2) **Substantial Changes:** The actions documented in the approved CAP remain substantially the same, OR alternative actions have been implemented to ensure continued compliance addressing underfunded status;
- 3) **Sustainability:** The local government and the Board certify that the projected payments remain sustainable and affordable both now and into the future.

Certification of Compliance: Following a review of the monitoring process for each approved CAP, the Board will certify local governments as one of the following:

- *Compliant:* Local governments certified as compliant have met all published criteria from the Board.
- *Complaint with Conditions:* Local governments certified as compliant with conditions have met the published criteria, but the Board has determined that the local government's plan(s) may not be sustainable. With this certification, the local government will have until the next monitoring period to address the stated concerns regarding the sustainability or affordability of the plan(s).
- *Noncompliant:* Local governments certified as noncompliant failed to meet one or more of the Board's published criteria for monitoring certification of compliance or failed to file the monitoring form. If voted noncompliant, the Board shall notify the local government within 15 days, detailing the reasons for the determination for noncompliance. The local government has 60 days to address the determination of noncompliance.

2. UNDERFUNDED STATUS CERTIFICATION

Previously, local governments demonstrated that they would be addressing their underfunded status within a reasonable timeframe in accordance with the Board's [Corrective Action Plan Development: Best Practices and Strategies](#) guide. The purpose of this section is for the local government to certify that their plan is still addressing its underfunded status within this approved timeframe.

Please check the applicable answer:

- I. Referencing supporting documentation, is the local government addressing its underfunded status in the same timeframe or less than the approved CAP?

- Yes, we are addressing underfunded status by fiscal year _____ as originally approved.**
- No, underfunded status will be now be addressed by fiscal year _____, which is within the Board's required timeframe.**

Required timeframe: As general guidance, a local government with a severely underfunded pension system (45% funded or less) should reach a funded ratio of 60% within 20 years of the original determination of underfunded status. A local government with a severely underfunded retirement health care system (25% funded or less) should reach a funded ratio of 40% within 30 years of the original determination of underfunded status.

If no, provide additional explanation:

3. SUBSTANTIAL CHANGES CERTIFICATION

The Board recognizes that as a local government implements the prospective actions in their approved CAP, specific solutions may need to be adjusted to continue to address its underfunded status. This section asks the local government to certify that the corrective actions documented in the approved plan to address underfunded status remain substantially the same.

Please check the applicable answer:

Does the CAP remain substantially the same as the originally approved submission?

- Yes**
- No** (If no, please complete a revised [Form 5597](#) for OPEB or [Form 5598](#) for pension and attach to this form)

Please check all that apply:

Actions Implemented from CAP – What actions included in the CAP has the local government implemented?

Sample Statement: *In June 2019, our local government began making additional payments of \$100,000 per year above its ADC to the **General Employees' Retirement System**, as we stated we would in our CAP. Page 8 of our actuarial valuation (attachment 2a) shows our pension will be **62%** funded by **fiscal year 2028**.*

Actions Not Implemented from CAP – What corrective actions has the local government failed to implement since the plan was approved?

Sample Statement: *In the June 2019 contract negotiations, our local government sought to lower the system's multiplier for current employees from 2.5X to 2X for the **General Employees' Retirement System**. We were able to negotiate to a 2.25X multiplier. On page 8 of our actuarial valuation (attachment 2a), it shows we will be **62%** funded by **fiscal year 2028 instead of 2024**, as outline in our CAP. This is within the Board's required timeline.*

<Insert User Entry Box>

Additional Actions Approved – What additional actions has the local government implemented or planned to implement to supplement the CAP since the plan was originally approved? **(Provide proof of Governing Body Approval for all additional actions)**

Sample Statement: *Since our local government was unable to lower the multiplier to 2X as outlined in our approved CAP, we implemented additional actions to address our underfunded status within the Board's required timeframe. Beginning in **fiscal year 2020**, we will begin amortizing the unfunded portion of the pension liability using a **level-dollar amortization method over a closed period of 10 years**. This will allow the retirement system to reach a funded status of **62%** by **2028** as shown on page 8 of the actuarial analysis (attachment 2a).*

<Insert User Entry Box>

4. SUSTAINABILITY CERTIFICATION

The local government must certify the plan is still affordable through detailed supporting documentation. This includes documentation that the local government's retirement costs are not increasing at a rate greater than what can be afforded through reasonable revenue growth. Retirement costs also must not have substantially increased above the original projection in the approved CAP.

The Board recommends that supporting documentation include a projection of all annual retirement payments (Pension ADC(s) + OPEB Benefit Payment(s) + all additional contributions) as a percentage of projected governmental fund revenues over the next five years. A local government should project governmental fund revenues using a reasonable forecast based on historical trends and projected rates of inflation. This analysis may include projected enterprise funds specifically allocated to pay retirement costs.

What is the highest combined annual retirement payment as a percentage of your projected governmental revenues over the next five years?([Examples](#))

Fiscal Year: _____

Total Pension ADC(s): _____

Total OPEB Benefit Payment(s): _____

Total additional contributions for pension: _____

Total additional contributions for OPEB: _____

Total Percentage: _____

Do the projected annual payments increase by an amount greater than an average of 5% per year over the next five years?

- Yes** (Explain and list actions implemented or planned to implement to address increased payments)
- No**

<Insert User Entry Box>

Utilizing a projection of all annual retirement payments, do the approved corrective actions listed in this plan allow for the local government to continue to make, at a minimum, the ADC payment for the defined benefit pension system(s) and/or the retiree premium payment for the retirement health benefit system, according to your long-term budget forecast?

- Yes**
- No** (Explain and list actions implemented or planned to implement to address increased payments)

<Insert User Entry Box>

5. REQUIRED DOCUMENTATION

Documentation should be attached as a PDF with this monitoring form. The documentation should detail and confirm the claims made in this document regarding the approved CAP that is being implemented to adequately address the local government's underfunded status. Please check all documents that are included as part of this form and attach in successive order as provided below. When attaching documents, please use the naming convention below:

Naming Convention

- Attachment – 1
- Attachment – 2a

Type of Document

This CAP monitoring form (required);

An actuarial projection, an actuarial valuation, or an internally developed analysis (in accordance with GASB and/or actuarial standards of practice), which illustrates how and when the local government will reach the Act's required funded ratio. Or, if the local government is a city, village, township, or county, how and when the ADC will be as a percentage of governmental revenues will be less than the Act's requirements. The Board recommends that supporting documentation show a projection for the duration of the CAP that includes, but is not limited to, assets, liabilities, funded ratios, normal cost payments (if applicable), actuarial assumptions, and retiree benefit payments, using reasonable calculations (required);

- Attachment – 2b

An actuarial projection, an actuarial valuation, or an internally developed analysis (in accordance with GASB and/or actuarial standards of practice), which projects all annual retirement payments (Pension ADC(s) + OPEB Benefit Payments(s) + all additional contributions) as a percentage of projected governmental fund revenues over the next five years. A local government should project governmental fund revenues using a reasonable forecast based on historical trends and projected rates of inflation. This analysis may include projected enterprise funds specifically allocated to pay retirement costs (required);

- Attachment – 3

Documentation from the governing body approving additional corrective actions including documentation of commitment to additional payments or actions not previously included in the approved CAP (e.g. resolution, ordinance) **(required if applicable);**

- Attachment – 4

In the event that the previous plan is no longer substantially in effect, a separate CAP to address its underfunded status which includes documentation of prior actions, prospective actions, governing body approval, and the positive impact on the system's funded ratio **(required if applicable);**

- Attachment – 5

Other documentation not categorized above.

6. CORRECTIVE ACTION PLAN CRITERIA

Please confirm that each of the following CAP monitoring criteria listed below have been satisfied when submitting this document. Specific detail on CAP criteria can be found in the [Corrective Action Plan Monitoring: Policy and Procedures](#) document.

CAP Monitoring Criteria	Description
<input type="checkbox"/> Underfunded Status	The local government certifies that there is adequate supporting documentation showing that the approved CAP will continue to address the local government's underfunded status in a reasonable timeframe;
<input type="checkbox"/> Substantial Changes	The local government certifies that the corrective actions documented in the approved CAP remain substantially the same OR; the local government has implemented or planned to implement additional actions to continue to address their underfunded status;
<input type="checkbox"/> Sustainability	The approved CAP continues to allow the local government to make the all required annual retirement payments without increasing to a level that is unsustainable.

7. LOCAL GOVERNMENT'S ADMINISTRATIVE OFFICER APPROVAL OF CORRECTIVE ACTION PLAN MONITORING FORM

I _____, as the government's _____ (Administrative Officer, City/Township Manager, Executive Director, Chief Executive Officer, etc.) approve this *Corrective Action Plan Monitoring: Application for Certification of Compliance* and will continue to implement the actions of the approved CAP.

I confirm to the best of my knowledge that because of the actions referenced within this form, one of the following statements will occur:

- The _____ will achieve a funded status (60% for pension or 40% for OPEB) by _____ as demonstrated by required supporting documentation listed in Section 6.

OR, if the local government is a city, village, township, or county:

- The ADC as a percentage of the local government's annual governmental fund revenues for all the defined benefit retirement systems of _____ will be less than the Act's underfunded status threshold (10% for pension or 12% for OPEB) by _____ as demonstrated by required supporting documentation listed in Section 6.

Signature: <insert signature>

Date: <insert date>