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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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Bulletin 11

Public Act 34 of 2001, Revised Municipal Finance Act

Application for State Treasurer's Approval to Issue Pension or Other Post-Employment Benefits (OPEB) Long-Term Securities; Supporting Documentation

Issued By: Community Engagement and Finance Division
Bureau of Local Government Services

Effective Date: April 10, 2019

Public Act 34 of 2001, the Revised Municipal Finance Act, Section 518, requires municipalities issuing pension or OPEB bonds to request the prior written approval of the Department of Treasury before issuance. The Department of Treasury shall make a determination whether the municipality has met all of the following:

- (a) Has indicated the authority to issue the municipal security requested;
- (b) Is projected to be able to repay the municipal security when due; and
- (c) Has filed a compliance letter with the Department adequately addressing any noncompliance with Section 303(3) as determined by the Department.

The purpose of this bulletin is to address the application submission and required supporting documentation.

A. Application Requirements

1. Application for State Treasurer's Approval to Issue Pension or Other Post-Employment Benefits (OPEB) Long-Term Securities, Form 5366. Applications will be reviewed by the Department on a first-in, first-out basis. See page five of the application for instructions. In addition, submit the following:
 - a. Municipalities that do not have "Qualified" status under Section 303(3) shall also submit a Compliance Letter addressing each subsection that was denied and providing an explanation as to how the municipality will correct the issue.
 - b. Submit a certified resolution approving the issuance in accordance with Section 518(1) and/or (2). The resolution should also include compliance with (6), (7), (8) if applicable, (10), and (12).
 - c. For plans with 100 or greater members, certification by the person preparing the Comprehensive Financial Plan (CFP) that within one year

prior to the issuance the municipality has conducted an internal or external review to verify eligible participants in the defined benefit plan or postemployment health care plan, and that they are receiving appropriate pension/OPEB benefits consistent with their respective plan, in accordance with Section 518(3). Provide the number of members that passed/failed the review. For those that failed, provide certification by the person preparing the CFP that the fails have been corrected. For plans with less than 100 members, indicate that Section 518(3) is not applicable.

- d. Submit a copy of the proof of notice of intent and a certificate of no referendum in accordance with Section 518(4).
 - e. Submit a copy of the CFP in accordance with Section 518(5). The municipality should indicate which page numbers of the CFP fulfill the requirements under each of the subsections (a) through (k).
 - f. For Section 518(5)(a), the analysis for pension/OPEB plans not being funded with this issuance shall include whether it is an open or closed plan, the amount and percentage over/under funded, and any future strategies to fund the plan.
 - g. Certification by the person preparing the CFP that it was posted on the municipality's website and was made available for review at the Clerk's office no later than the date the notice of intent was published. See Section 518(5).
 - h. Submit documentation that the municipality has a credit rating within the category of A or higher or the equivalent by at least one nationally recognized rating agency, in accordance with Section 518(11). (Moody's A3 or higher, S&P, Fitch, Kroll A- or higher). An outstanding rating may be submitted with the application, but the rating for this specific issuance will need to be submitted before the Department will approve the application.
2. Within 15 business days of completing the issuance, the municipality shall file a Security Report, Form 3892, in accordance with Section 319(2).

B. Municipal Securities

1. The municipal security shall not fund capitalized interest (pension and OPEB) or Actuarially Determined Contribution (ADC) payments not made prior to the issuance (pension only). See Section 518(5)(d).
2. Debt service payments shall be structured in a manner that shall not materially deviate from level or descending annual payments. The Department defines "materially deviate" as the annual payments in year two through the year of final maturity not being greater than 110% of the smallest annual payment during this period. The year one payment is not subject to this requirement as it will often be smaller due to the ADC payments that have already been made during that year up until the time of issuance. At the discretion of the Department, and not to exceed five years after issuance, a municipality may have ascending

pension/OPEB debt service payments that wrap around existing debt service. The pension/OPEB debt service and existing debt service when combined shall be level or descending. After the first five years the pension/OPEB debt service shall convert to level or descending. See Section 518(5)(d).

3. Net present value savings, calculated using a method approved by the Department, shall be at a minimum 15% of par for pension bonds and 20% of par for OPEB bonds. See Section 518(5)(e).
4. The municipal security shall mature by no later than the date the final pension/OPEB payment would have been made had the municipal security not been issued. See Section 518(14).
5. Pension/OPEB bond issuances shall not exceed the difference between 95%/60% of the actuarial value of liabilities and 100% of the actuarial or market value of assets. See Section 518(1) and (2).

C. Application Documentation, Review, and Considerations

1. Financial Analyses:

a. Projected Fund: The amount to fund the Unfunded Accrued Liability (UAL)

- i. If the UAL is based on the market value of the assets, it must have been determined within 150 days prior to the expected date of issuance of the proposed municipal securities.
- ii. If the UAL is based on the actuarial value of assets, it must have been determined on the most recent actuarial report (either calendar or fiscal year end).
- iii. If the municipality wishes to issue municipal securities based on the higher of the UAL values above, please provide an explanation in the CFP as to why they desire to issue based on the larger amount.

b. Debt Service Schedules:

- i. Using the Projected Fund Amount utilized in 1.a. above and either a calendar or fiscal year reporting period, provide principal and interest repayment schedules using:
 - a. Current interest rates
 - b. Current interest rates plus 50 basis points (0.5%)
 - c. Current interest rates minus 50 basis points (0.5%)
- ii. Provide a net present value savings report for each of the debt service schedules provided in 1.b.i. above comparing the ADC of the pension/OPEB UAL to the annual principal and interest requirements of the proposed municipal security and remaining ADC payments.

- a. Expected UAL rate of return
 - b. Expected UAL rate of return minus 100 basis points (1.0%)
 - c. Expected UAL rate of return minus 200 basis points (2.0%)
- iii. Provide a matrix summary of the net present value savings scenarios from 1.b.i. and 1.b.ii. above. See example below. While not statutorily required, for the purpose of transparency the Department recommends including the sensitivity analysis below as part of the CFP required in Section 518(5).

NPV Savings	Current IR	Current IR+50 BPS	Current IR-50 BPS
Expected UAL ROR			
Expected UAL ROR-100 BPS			
Expected UAL ROR-200 BPS			

- 2. To clarify the Section 103(g) definition of a “defined contribution plan,” the Department has construed this to mean that a “defined contribution plan” does not include a hybrid plan with both a defined contribution and defined benefit component.
- 3. As part of an all-encompassing approach to reviewing a municipality’s defined benefit plan or postemployment health care plan, the Department encourages the municipality to read its Best Practices and Strategies. Go to Michigan.gov/MSB, and under “Documents” click on “Best Practices and CAP Criteria,” and then “Click here.”

D. Filing Fee Submission

- 1. See Section 303(7) to determine the proper filing fee amount. Submit the first page of the application along with the check, payable to the State of Michigan. Send via the U.S. Postal Service using the following address: Community Engagement and Finance Division, P.O. Box 30728, Lansing, MI 48909-8228.

E. File Application and Supporting Documentation via E-mail

- 1. The Application for State Treasurer’s Approval to Issue Pension or Other Post-Employment Benefits (OPEB) Long-Term Securities, Form 5366, and supporting documentation shall be submitted via email to Treas_MunicipalFinance@michigan.gov.

This bulletin is issued pursuant to Section 201(b) of the Revised Municipal Finance Act, which authorizes the Department of Treasury to issue bulletins or adopt rules to carry out the purposes of the Act. For questions, please contact the Community Engagement and Finance Division at 517-335-7469.