

Municipal Stability Board

WORKSHOP MEETING

Monday, May 20, 2019 at 8:00 a.m.

Austin Building

State Treasurer's Boardroom

430 W. Allegan Street

Lansing, MI 48922

I. Call to Order

A. Roll Call

II. Public Comment

A. 2-minute limit

III. Correspondence

A. Agenda Overview

IV. Old Business

V. New Business

A. Corrective Action Plan Criteria & Best Practices (55 minutes)

- i. Municipal Stability Board Priorities (10 minutes)
- ii. Treasury Recommendations (10 minutes)
- iii. Discussion (35 minutes)

B. Corrective Action Plan Monitoring (55 minutes)

- i. Municipal Stability Board Priorities (10 minutes)
- ii. Treasury Recommendations (10 minutes)
- iii. Discussion (35 minutes)

VI. Public Comment

A. 2-minute limit

VII. Board Comment

VIII. Adjournment

Draft: Corrective Action Plan Best Practices and Approval Criteria

May 20, 2019

Statutory Requirement: PA 202 of 2017 Sec. 8 - The board shall review and annually update a list of best practices and strategies that will assist an underfunded local unit of government in developing a corrective action plan.

Current Corrective Action Plan Criteria

1. Underfunded Status

- a. Must reach the PA 202 funded ratio of 60% for pension or 40% for OPEB
- b. If a primary government, ADC/revenue below 10% for pension or 12% for OPEB
- c. Must provide adequate supporting documentation including Actuarial Valuation, Actuarial Projection, or Internal Analysis

2. Reasonable Timeframe

- a. Must reach funded status in a reasonable amount of time
 - i. 20 years for pension systems under 45% funded
 - ii. 30 years for OPEB systems below 25% funded
- b. Primary governments: ADC/Revenue below 10% or 12% within 5 years

3. Legal and Feasible

- a. Follows all applicable laws
- b. Approved by governing body
- c. Must be reasonably achievable

4. Affordability

- a. Local government must certify that plan allows them to continue to make ADC or retiree premium payment (as well as normal costs for new hires after 6/30/18)
- b. Must do so without using a significant portion of budget

Proposed Corrective Action Plan Criteria

1. Underfunded Status

a. **Potential changes:**

- i. Combine Underfunded Status and Reasonable Timeframe into one criterion.
- ii. Stipulate what needs to be included in supporting documentation:
 1. Assets (for duration of plan)
 2. Liabilities (for duration of plan)
 3. ADC or OPEB benefit payments (for duration of plan)
 4. Funding ratio (for duration of plan)
 5. Normal cost payment (if applicable, for the duration of the plan)
- iii. If future funding is proposed in a CAP, require local governments to have governing body resolutions that commit to funding those amounts.
- iv. Refine what can be submitted as supporting documentation

1. Only accept actuarial analyses
2. Only accept actuarial analyses unless utilizing the alternative method
3. Actuarial valuation or internally developed study, in accordance with GASB and/or actuarial standards of practice, that projects assets and liabilities into the future
4. Status quo

b. Treasury recommendations:

- i. Combine Underfunded Status and Reasonable Timeframe into one criterion
- ii. Stipulate what needs to be included in supporting documentation
- iii. If future funding is proposed in a CAP, require local governments to have governing body resolutions that commit to funding those amounts.
- iv. Actuarial valuation or internally developed study consistent with assumptions and methodology used in actuarial valuation, that projects assets and liabilities into the future.

2. Reasonable Timeframe

a. Potential changes:

- i. Move criteria to be included with Underfunded Status.
- ii. Each year, the timeframe allowed to address underfunded status could be reduced by one year.
 - a. Example: A local government would have 29 years to address their OPEB underfunded status if they triggered in 2019.

b. Treasury recommendations:

- i. Move criteria to be included with Underfunded Status.
- ii. Each year, the timeframe allowed to address underfunded status could be reduced by one year.

3. Legal and Feasible

a. Potential changes:

- i. Provide additional clarification on what is governing body approval.
 1. Example: "Acceptable governing body approval can be, but is not limited to, minutes or a formal resolution."
- ii. Remove "feasible" from criteria.
 1. Unnecessary – Thus far, CAP denial based on feasibility has only been used to deny a CAP when the proposed plan was not affordable (i.e., greater than 100% of revenues)
 2. Add to CAP Approval Criteria preamble
- iii. Have Feasibility be its own criteria.
 1. How would this be defined?

b. Treasury recommendation:

- i. Remove feasible from criteria and add to general criteria.

4. Affordability

a. Potential changes:

- i. Replace “critical services” in bullet two with something more specific
 1. Example: Services such as public safety, quality of life, economic development, etc....
- ii. Affordability determined by percentage of ADC/revenue, as outlined by current requirement.
Example: Your ADC/revenue should be below 22%
 1. Currently listed as 10% for pension and 12% for OPEB
 2. Change to combined 22%
- iii. Define what the upper threshold is for combined ADC as a percentage of revenue for all systems.
 1. 50%, 60%, etc...
- iv. If you reach a certain percentage of ADC/revenue, local governments must provide an analysis showing how this can be afforded.
- v. Can't increase greater than X% per year (ADC and Pay-go + Additional Contributions)
- vi. Require projected benefits and ADC payments for all systems when evaluating affordability.
- vii. Move 2nd bullet to best practices
 1. The practice of affordability means the ability to meet a local unit's current and future obligations, without using a significant percentage of the annual budget. Affordability is defined as follows:
 - In accordance with the Act, annual required contributions should remain less than 10 percent of general fund operating revenues for pension systems and less than 12 percent of general fund operating revenues for retirement health systems.
 - The ability of a local unit to offer residents critical public services while paying for legacy obligations.
 - The ability of a local unit to prefund retirement benefits, earn interest or investment income, and build savings to afford future payments
 - Affordability is reached through plan funding, modern plan design, and effective plan administration.

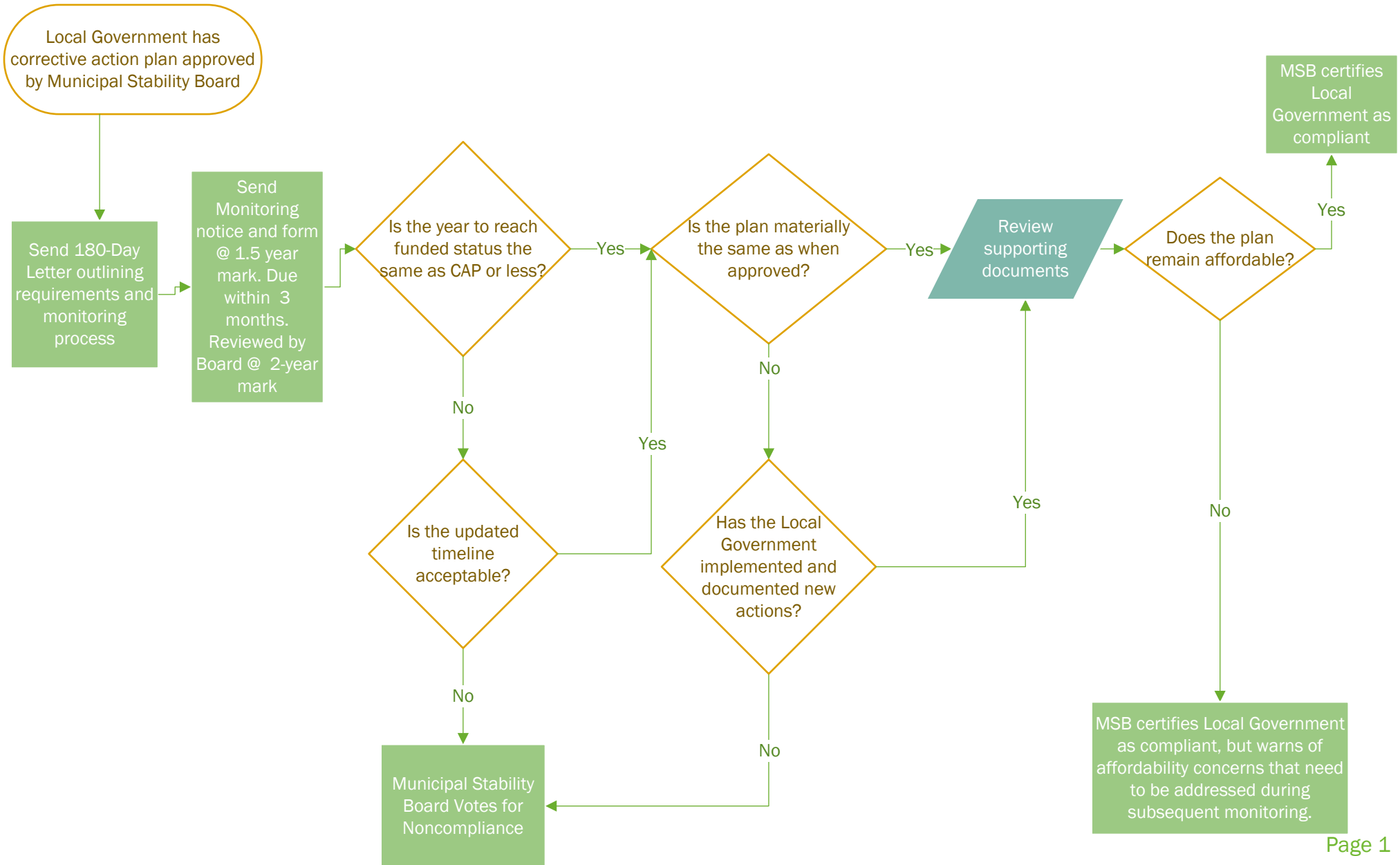
b. Treasury recommendations:

- i. Define what upper threshold should be for combined ADC as a percentage of revenue for all systems.
- ii. Can't increase greater than X% per year (ADC and Pay-go + Additional Contributions)
- iii. Update definition of what percentage ADC/Revenue should be below
 1. Currently listed as 10% for pension and 12% for OPEB
 2. Change to combined 22%

Effective Plan Administration

- Do a yearly audit of employees and their dependents to ensure that they still should be on health care plan. This would include an audit for those plans that are different for people that are on Medicare.
- Part-time elected officials should not be on pension or health care plans

DRAFT



Draft: Corrective Action Plan Monitoring Process and Decision Document

Statutory Requirement: PA 202 of 2017 Sec. 10(6) - The board shall monitor each underfunded local unit of government's compliance with this act and any corrective action plan. The board shall adopt a schedule, not less than every 2 years, to certify that the underfunded local unit of government is in substantial compliance with this act.

Philosophy: According to statute, Corrective Action Plans (CAPs) were intended to be locally developed plans, allowing flexibility for local governments to determine the components of their plan. As a result, CAPs have been approved under a broad scope, required only to conform to Corrective Action Plan Approval Criteria. Additionally, the documentation required in CAPs to demonstrate that local governments were meeting Corrective Action Plan Approval Criteria could be elemental in nature. In view of the following, the corrective action plan monitoring process is intended to require greater scrutiny and to validate local governments CAP implementation.

Timeline: Any time after the original CAP has been approved, an updated CAP may be filed by the local government if the previous submission is no longer materially in effect. Local governments will be sent the "180-Day Implementation Letter" 180 days after CAP approval. The CAP monitoring form will be sent to local governments 1.5 years after the receipt of their CAP approval and will be allowed three months to complete the form and return it to Treasury.

Corrective Action Plan Monitoring Process

1. **180 Day Implementation Letter**

- a. 180 days after CAP is approved, a letter is sent to local government notifying them that they should have begun implementing the actions outlined in their CAP.
- b. Additionally, we propose to indicate "Your next analysis will need to include the following: [list items required in number 4 and method for developing analysis data.]"

2. **Send CAP Monitoring Form**

- a. **Sent 1.5 years after initial CAP approval**
- b. **Request additional monitoring information**
 - i. 5572s Filed on Time:
 1. In the CAP monitoring letter, indicate that if the local government does not have all required 5572s filed by the time the monitoring report is due, they will be determined noncompliant
 - ii. Due back to Treasury in 3 months
 - iii. Board to Review around 2-year mark

3. **Are you addressing your underfunded status in the same timeframe or less as your approved CAP? If no, is your updated timeline acceptable? Is the plan materially the same? Please provide supporting documentation.**

- a. **Timeframe:**
 - i. **Options:**
 1. Must be within original parameters of approval criteria (20 years for pension, 30 years for OPEB)
 2. Must be no more than 2 years greater than original date
 - ii. **Treasury recommendation:**
 1. Must be within original parameters of approval criteria (20 years for pension, 30 years for OPEB)

b. Supporting Documentation:

i. Options:

1. Require Actuarial documentation to project for the life of the plan: liabilities, assets, ADC/pay-go, actual employer payments, funded ratio, system open or closed, future normal costs (OPEB), retiree premiums.
2. Require Actuarial documentation to project for the life of the plan unless utilizing the alternative method: liabilities, assets, ADC/pay-go, actual employer payments, funded ratio, system open or closed, future normal costs (OPEB), retiree premiums
3. Allow for internally developed studies in accordance with GASB and/or actuarial standards of practice, that projects assets and liabilities into the future. Provide: liabilities, assets, ADC/pay-go, actual employer payments, funded ratio, system open or closed, future normal costs (OPEB), retiree premiums.

ii. Treasury recommendation:

Require Actuarial documentation to project for the life of the plan unless utilizing the alternative method: liabilities, assets, ADC/pay-go, actual employer payments, funded ratio, system open or closed, future normal costs (OPEB), retiree premiums

c. Is the plan materially the same as the approved CAP submission?

i. If “Yes”, no action required.

1. Provide Governing Body approval?

ii. If “No”, supplemental monitoring questions are required:

1. What changes did you implement in the last two years? (Use CAP past and prospective system design, funding, other considerations format)?
2. What actions were you unable to implement (fail to implement)?
3. What additional changes have been approved to accommodate for changes that were unable to be implemented?
 1. Provide governing body approval

4. Is the approved plan still affordable for your local government?

a. Options:

- i. We continue to rely on the local governments to verify affordability. If they certify it is affordable, then the Board accepts their verification at face-value.
- ii. Require local government to certify affordability AND project increase in payments as a percent of revenues.
- iii. Require local governments to certify affordability and review to see if in any future year, the combined ADC and/or Pay-Go as a percentage of revenues exceeds X% revenues.
- iv. Require local governments to certify affordability and review to see if ADC or pay go payment or minimum employer payment as a percentage of revenue increases by more than X% per year and is above than what is in the CAP.
- v. Require local governments to demonstrate that annual payments as a percent of revenue decreases below X% within X years.

b. Treasury recommendation:

- i. Require local government to certify affordability and review to see if combined ADC or pay go payment or minimum employer payment as a percentage of revenue increases by more than X% per year and is above than what is in the CAP?

c. Local government responds for “No”, stating that their plan is not affordable

i. Options:

1. No immediate action – continue monitoring
2. Warning option: Board votes for compliance; however, we note you are not on track, as your annual payments have significantly increased. Prior to your next monitoring period, you must address the change in affordability, or you may be voted noncompliant.
3. Noncompliance – this plan is no longer reasonable, need to come up with options and use the best practices
4. Revised plan

ii. **Treasury recommendation:**

1. Warning option: Board votes for compliance; however, we note you are not on track, as your annual payments have significantly increased. Prior to your next monitoring period, you must address the change in affordability, or you may be voted noncompliant.

5. If you are funded, would you like to be released from the Board's purview?

a. Form 5572 demonstrates that local government no longer triggers as underfunded

b. Options:

- i. After funded status is issued in their annual report, local governments **can elect** to be removed from the Board's purview at any time.
 1. Optional Secondary requirement: Require a projection displaying continued funded status to remain funded.
- ii. After funded status is issued in their annual report, during the 2-year certification, local governments will be administratively removed from the Board's purview.
 1. Optional Secondary requirement: Require a projection displaying continued funded status.
- iii. After funded status is issued in their annual report, at 2-year certification, local governments **can elect** to be removed from purview.
 1. Optional Secondary requirement: Require a projection displaying continued funded status.
- iv. Administratively, local governments will be recommended at some interval to be removed from Board purview after a funded status is issued on their annual report.

c. Treasury recommendation:

- i. After funded status is issued in their annual report, at 2-year certification, local governments **can elect** to be removed from purview.
 1. Optional Secondary requirement: Require a projection displaying continued funded status.

6. If you answer yes to questions 3 and 4 and you remain in underfunded status, you have completed this form.

7. If you answer no to questions 3 and 4 indicating that your plan is no longer meeting Board criteria

a. Option:

- i. MSB votes local government noncompliant

b. Treasury recommendation:

- i. MSB votes local government noncompliant