

Corrective Action Plan Monitoring: Policy and Procedures

Background

PA 202 of 2017 Sec. 10(6):

The Municipal Stability Board (the Board) shall monitor each underfunded local unit of government's compliance with Public Act 202 of 2017 (the 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.

Monitoring Methodology and Intent:

Corrective action plans (CAP) thus far have been approved under a broad scope in support of locally developed plans. As such, the Board has provided great flexibility in approval of these CAPs to allow local governments to determine the components of their plan. CAPs were approved based on the CAP Approval Criteria, but much of the supporting documentation provided to support the approval criteria has been imprecise. To ensure that the local governments are reaching the goals outlined in their CAPs, the CAP monitoring process is intended to provide greater scrutiny and validation of the components and details of local government plans. This process will ensure that local governments are taking the necessary steps to address their underfunded status.

Timeline:

Local governments must begin implementation within 180 days of CAP approval and will be monitored for substantial compliance with the Act every two years.

CAP Changes:

If at any time after a CAP has been approved, a local government determines its previous submission is no longer substantially in effect, the local government may file an updated CAP for review by the Board.

Corrective Action Plan Monitoring Process¹

Local Government Communication: Monitoring Notifications

Step 1:-180-Day Implementation Notification

- 180 days after a local government is notified that its CAP is approved, a letter is sent to the local government informing them that it has reached the 180-day deadline to begin implementing the actions listed in their CAP as required by the Act.
- Treasury will provide guidance in this notification that local governments should be receiving projections within their annual valuations in accordance with the Board's best practices document as follows:
 - Actuarially Determined Contributions (ADC), retirement benefit payments, assets, liabilities, and discount rate
 - The Board recommends that local governments utilize these projections as part of their monitoring certification

Step 2:-CAP Monitoring Form – Sent approximately 1.5 years after initial CAP approval

- In the CAP monitoring notification, local governments will be reminded that the Retirement System Annual Report (Form 5572) is due annually six months after their fiscal year end
- Failure to submit the Form 5572 could result in a determination of noncompliance
- **Local governments will be required to submit the proposed "CAP Monitoring Form" to be used by the Board when evaluating CAP compliance and implementation**
- The completed CAP monitoring form is due 3 months after receipt

¹ A local government's CAP monitoring timeline for all underfunded systems is established by the notification date of the first CAP to be approved by the Board

- Treasury will provide administrative support by preparing a detailed review and recommendation for the Board's compliance certification
- The Board will review and certify the local government for compliance with the Act approximately every 2 years²

~~Proposed~~ Municipal Stability Board Corrective Action Plan Monitoring Criteria

To assist local governments in preparing for the statutorily required monitoring process for their approved CAP(s), the Board is publishing CAP monitoring approval criteria. The Board will consider this criteria when monitoring corrective action plan implementation and will determine if the local government has made funding progress as outlined in the CAP. Local governments are encouraged to continue to use a balanced approach to address their underfunded status by using one or more of the [best practice principles](#) published by the Board. Additionally, local governments may use CAP monitoring approval criteria to ensure their approved corrective actions are compliant with the Act and the Board's requirements.

CAP Monitoring Criteria:

Underfunded Status

- Using detailed supporting documentation, is the local government addressing their underfunded status in the same timeframe or less, as the approved CAP?
 - **Supporting documentation**
 - - 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
 - **If underfunded status is not being addressed in a timeframe less than or equal to the approved CAP timeframe:**
 - If a corrective action plan by a local government is not addressing its underfunded status within the original approval criteria timeframe (20 years for pension or 30 years for OPEB, for severely underfunded systems), the local government may be found noncompliant with the Board's CAP monitoring criteria
 - As general guidance, a local government with a severely underfunded pension system is 45% funded or less. A local government with a severely underfunded retirement health care system (OPEB) is 25% or less

Substantial Changes

- A local government must certify that the corrective action plan remains substantially the same as the original approved submission.
 - **If a local government cannot certify that its plan is substantially the same as the approved submission, the local government must provide the following with its CAP Monitoring Form:**
 - All proposed actions the local government was able to implement
 - All proposed actions the local government was unable to implement.
 - Any actions in addition to the original CAP
 - Governing body approval is required for additional actions not listed in approved corrective action plan
- The Board will use the CAP criteria from the initial CAP approval to approve or disapprove CAP changes, thereby certifying compliance with the Act or finding the local government in noncompliance.

² The Board may limit the number of reviews to 20 local governments per month to ensure local governments are provided with adequate resources in their review

- The Board and the Department of Treasury are available to assist local governments as they evaluate and update their CAPs. To discuss potential assistance please schedule an appointment using the [Local Retirement Calendar](#) or email us at LocalRetirementReporting@michigan.gov.

Sustainability

- **Local governments must certify sustainability**

- 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 their approved CAP.
 - Local governments with a combined payment that ~~increases by greater than 5% annually and is greater than 22%~~ as a percentage of governmental fund revenues may be determined to be unsustainable by the Board.
 - ~~The Board recommends that supporting documentation include a projection of all annual retirement payments (Pension ADC(s)+OPEB Benefit Payments(s)+all additional contributions) as a percentage of projected governmental fund revenues for the ensuing 5 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 allocated specifically to pay retirement costs.~~
- The local government must confirm that corrective actions listed in the CAP allow for the local government to make, at a minimum, the actuarially determined contribution (ADC) payment for pension plans and/or the retiree health care premium payment, as well as the normal cost payment for new hires for retirement health benefits (Sec. 4(1) of the Act, MCL 38.2804). This confirms that local governments have linked long-term future payment expectations with revenue expectations and have concluded that those payments are sustainable now and into the future, without additional changes to their CAP.

- **Supporting Documentation**

- The Board requires that the local government uses Treasury's sustainability worksheet or provides an equivalent analysis utilizing detailed supporting documentation to provide a projection of all annual retirement payments (Pension actuarially determined contribution(s)+ OPEB Benefit Payments(s)+all additional required contributions) as a percentage of projected governmental fund revenues for the ensuing 5 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 allocated specifically to pay retirement costs.

- **If the local government cannot document that the CAP will continue to be sustainable or the Board determines that the plan may no longer be sustainable:**

- The Board may certify compliance; however, the Board will note that the local government is not on track, as its annual payments have significantly increased. Prior to the next monitoring period, the local government must address the change in affordability, or it may be determined noncompliant.

Step 3: Certification of Compliance

- **Compliant:** If a local government has met all published CAP monitoring criteria and satisfied all reporting requirements:
 - The Board certifies the local government is in compliance with the Act.
- **Compliant with Conditions:** If a local government is unable to certify sustainability or determined to be unsustainable, but all other criteria and reporting requirements are met:
 - The Board certifies the local government is in compliance with conditions.
 - Affordability concerns must ~~be~~ addressed and documented prior to the subsequent monitoring period, to the Board's satisfaction.

- **Noncompliant:** If a local government does not meet CAP monitoring criteria or did not satisfy annual reporting requirements:
 - The Board may determine the local government noncompliant
 - The local government will have 60 days to address the reasons for noncompliance.