CITY OF BURTON

FINANCE COMMITTEE MEETING

MAY 19, 2014

MINUTES

Council Chambers	Special Meeting	6:00 PM

4303 S. CENTER ROAD
BURTON, MI 48519

This meeting was opened by at 6:00 PM.

A. MEETING WAS CALLED TO ORDER AT 6:09 P.M.

B. ROLL CALL

Attendee Name	Title	Status	Arrived
Dennis O'Keefe	Councilman	Present	
Danny Wells	Councilman	Present	
Vaughn Smith	Chairman	Present	

C. STAFF PRESENT

Paula Zelenko, Mayor
Rik Hayman, Executive Assistant
Sue Warren, Human Resources
Ginger Burker-Miller, Controller
Teresa Karsney, Clerk
Steve Heffner, Councilman
Ellen Ellenburg, Councilwoman
Pam Hill, Plante Moran

D. PRESENTATION

A. Discussion and possible recommendations regarding the City of Burton's Municipal Employee Retirement System (MERS) plan.

E. AUDIENCE PARTICIPATION

None

F. COMMITTEE DISCUSSION

Mr. Smith said he called the meeting to discuss the recommendations on what to contribute to the MERS pension's unfunded liability. He is looking to come up with a visionary plan for the City on how to handle this unfunded liability. We asked Pam Hill from Plante & Moran to help us with this.

Ms. Hill said she hasn't had a lot of time to look at this matter; she had just gotten a call from Ginger this morning. She talked about looking at the long term picture and not just an answer for the short term. She feels we need to put something in the budget for this year. Just because it is in the budget doesn't mean you are fully obligated to contribute that amount. This way you at least have an amount in the 2014-2015 Budget. Ms. Hill cautions the City not to make this decision without all the right tools. There has been lots of discussion on what types of services the City wants to provide to the residents regarding

Police and Fire Departments. The City needs to set a list of priorities, is one of the key issues. The City needs to know how the contributions to MERS will affect the unfunded liability in the pension plan. As long as we are adding employees to the plan we are also increasing our unfunded liability. The City needs to look at the impact of the contribution on a longer term than just what next year's budget is. If the City wants to control their cost on the unfunded liability then we need to close our current plan and go to a Hybrid or a defined contribution plan for new hires. The faster we get to close the plan the sooner we can get control of the unfunded liability. She feels this is key to long viability and better to control our cost. With this passage of the millage it does not include the new police officers we hired. They will be paying into the plan but they also cause more unfunded liability to the City. She thinks there is a lot of cost associated with employees that we don't always factor into the budget. We always factor in their pay and fringes. Fringes are your other post-employment benefit obligations, which the City isn't really being funded and this pension obligation as well. So she feels it is important that the City keeps that in mind when they think of hiring new employees. By doing a forecast and really getting into what the obligations the City has out there. When you add new employees, what is the effect to the City pension liability and OPEB liability on the future of the City on General Fund and the Police Fund and what does that mean?

Mr. Smith asked Pam to clarify that we have added 7 officers; we are actually building up more unfunded liability than we are contributing. How do we try to stop that fall?

Mrs. Burke-Miller stated that MERS is shorting the amortization from 30 years down to 20 years.

Ms. Hill stated that to a point, Mr. Smith, you are correct as long as the plan is open the City will get further behind because the plan is not closed. You can continue to contribute whatever they tell you to, but you will still be falling behind until the plan is closed. You will not see a ton of progress unless you make additional payments; close the plan or a combination of both.

Mr. Smith asked how concerned should the City be about these legacy costs.

Ms. Hill stated that you need to be concerned about the legacy cost because otherwise you are just pushing it off for future generations. Addressing it now and to get the plan funded so you can close it and negotiate as part of your union contracts for new hires a defined contribution. This is the only way to see the biggest impact to reduce those legacy costs. This will only grow larger when someone retires or you add someone new to the plan.

Mr. Smith asked how concerned we should be about this number, like roads vs. this number.

Ms. Hill stated that 50% she feels is pretty low as far as funding goes. The City is only at 39%. Most communities are around 70-80% right now. Being in the 40-50% range is really low.

Mr. Smith said that if we can get to 50% then we have the option to go to a Hybrid plan or a Defined Contribution. He asked Ms. Hill what her thoughts are on that. Should the City strive for that?

Ms. Hill thought someone from MERS will be better to answer that question.
That way they could discuss the pros and cons of both programs with you.
She did say the City has to stop the bleeding and the only way to do that is change your plan, but to change the plan you need to be 50% funded. She does think that it is something the City need to look at in the future. The sooner, the better, because then you

put a cap on this so when there are retirements and new people hired. The other thing I didn't touch on is that it helps you in your budgeting. If you had a Defined Contribution plan that percentage is set, it is not going to keep going up. It makes budgeting a heck of a lot easier and it puts the City in a better position because you know how much each year what to expect and you're not trying to guess what the market is going to be or what the percentage is going to be for next year. Your numbers, as for contribution percentage are really high and with the current cost of employees, put your people cost a really high amount. The residents have entrusted the City with this millage and at the end of the 20 years, where does the City want to be? Are we budgeting now that in 20 years we have no money left in the Police Fund? This is another kind of goal setting strategy discussion that the City needs to have. You need to know where you want to be in 15-20 years and in the position that the General Fund is supporting the police again. You want the Police Department to be self sufficient and not relying on General Fund.

Mr. O'Keefe's concerns are that we have this unfunded liability since the 90's when the plan was opened, that everyone was vested and didn't have to bring any money over. He feels that MERS has a different story every time they come and we can't get a straight answer from them. When MERS comes in he leaves with more questions than he came in with. He feels that the employee contribution is too high and will cause us to lose employees because they can't afford it. He was under the impression that when you add more employees your unfunded liability would go down because the new people were so far away from retirement.

Ms. Hill stated that if you are looking at a short term basis, then yes, it would help but it you are looking on a long term basis then no. The new employees will be increasing your liability. What you really need to be focusing on is the long term effects these employees will be having on the City. Now that you have the millage you need to have a plan. Do you want to reduce the legacy cost or not?

Mr. O'Keefe wants to know what value we are really getting out of the addition payments to MERS for this unfunded liability. Right now we haven't thought more than one year at a time. He has a hard time thinking about voting on a payment to MERS not knowing what the true outcome is going to be. Why doesn't the State look at a plan to help all the communities out, not just Detroit?

Ms. Hill stated that is why a forecast is so important. It would give you the answers you are looking for. She said it needs to be at least budgeted for, so it is in the budget, so when you do a higher level of comfort then the money is at least there if you decide to make extra payments. It is important to remember that these legacy cost with companies like GM and Chrysler, these employers have put off funding them and look what happened to them, they had to file bankruptcy. Look at the City of Detroit and City of Flint, they have these legacy costs and no one is doing anything about them. Government accounting standards are changing and the City of Burton is going to have to record this liability in two years. That is going to be a huge number. Your rating agencies is well aware of these liabilities Its going to be even more front and center in 2015 when it is front and center on your balance sheet.

Mr. O'Keefe stated he is not concerned with it being on the balance sheet, we know we owe the money. Now this is in our laps and we have to deal with it. He feels he does not have enough information to make a decision right now.

Ms. Hill said it is key to remember that Council can pass budget amendments throughout the year and if there is something you are uncomfortable with then wait to make the decision after you got the necessary information needed. There is nothing wrong with putting it in the budget you can always do a budget amendment to take it out if you don't use it.

Mr. Wells stated that he doesn't want to short change the residents by putting a million or a million five down on this unfunded liability that they are not going to see any use out of it. The only people who are going to get any use out of this is going to be the City of Burton employees. In the short term we need to figure out what we are going to do with this money. We are talking about a fixed amount of payments; maybe we should look at a percentage instead. Maybe every year before budget time see where we are at and decide on a percentage each year. We would be making some headway but maybe not the headway we wanted.

Mr. Smith is going to ask the Mayor to come up with an agreement with Plante & Moran and the Council sit down as a Council of the Whole to discuss how to allocate this money. The recommendation of the Finance Committee is that the Mayor enters into an agreement with Plante & Moran for quarterly meetings to discuss, with the Council of Whole, the unfunded liability for MERS and OPEB Health Care liability. Plante & Moran to bea moderator to give us informed options on how to spend this money.

Mayor Zelenko stated, yes, she could do that. She put it in the budget to make sure it is brought to the Council's attention that we need to do something with this unfunded liability. We need to have a plan in place on how to pay this down before 2015.

Mr. O'Keefe requested a new report from Sue on what the effects would be with the additional employees and how that affects the unfunded liability.

Ms. Warren said that it was just different scenarios and a bunch of what if.

Ms. Hill thinks it would be a good idea to talk in depth with the whole Council, so they understand some of the concepts that we talked about today. She feels we need to get the projection started at least, figure in your union negotiations, present employees and salaries, projections for your health care benefits, where your millage is going to be and highlight big picture items. You must have these items to have a meaningful discussion.

Mr. Wells said those numbers are going to change over the next few year, but we don't know what else will be coming down the road. His other question was do you feel this is your expertise and that you can guide us on this issue?

Ms. Hill said she feels she can lead discussions surrounding pension and unfunded liability. You will need to work with an actuarial company to get the other answers you are looking for. They would be able to get you what affects your payments would make on a big picture basis. We also have people that work with the OPEB liability that could help moderate that conversation on a as needed basis. We may need to get MERS involved and run some projections for you.

Mr. O'Keefe asked if there is a company out there that we can hire besides MERS and what would the cost be?

Ms. Hill said it could be a lot more costly to get those numbers from someone else. It could cost anywhere from $20,000 to $50,000 but it would be better to use MERS because they know your history, they have all your employee data, that should not be a big deal for MERS to run that for you and it would be more cost effective.

Mr. O'Keefe stated he has no confidence in MERS.

Mr. Wells stated this has been going on for 20 years and we need to stop kicking the can down the road. We need to make a decision to get this taken care of without short changing our residents.

G. BOARD RECOMMENDATIONS

Recommendation of the Finance Committee is to have the Mayor enter into an agreement with Plante & Moran for quarterly meetings to discuss with the Council of the Whole the unfunded liability for MERS and OPEB Health Care liability. Plante & Moran to be moderator/lead between the City and MERS. The first meeting will occur in June and then one a quarter. This way we can make progress before the next budget year comes around.

H. MEETING ADJOURNED AT 7:20 P.M.

Meeting was adjourned at .

Finance Committee
4303 S. Center Road
Burton, MI 48519

SCHEDULED

Meeting: 05/19/14 06:00 PM
Department: Clerk's Office
Category: Discussion
Prepared By: Teresa M. Karsney
Department Head: Teresa M. Karsney

AGENDA ITEM (ID # 1018)

DOC ID: 1018 A

Discussion and possible recommendations regarding the City of Burton's Municipal Employee Retirement System (MERS) plan.