CITY OF BURTON
FINANCE SUB-COMMITTEE MEETING MINUTES
DECEMBER 3, 2012, 6:00 P.M., COUNCIL CHAMBERS
www.burtonmi.gov

Councilman Vaughn Smith called the Meeting to order at 6:06 p.m.

MEMBERS PRESENT: Heffner, O'Keefe and Smith.
MEMBERS ABSENT: None.
OTHERS PRESENT: Mayor P. Zelenko and J. Adams, City Clerk.

PURPOSE OF THE MEETING: Discussion and possible recommendations concerning the following:

1. **City of Burton Fee Structure**
2. **PA 152 Health Care Payment Options**

PRESENTATION:

Mayor Zelenko said the Board received all the information available regarding the health care to the best of her knowledge. We will not know the exact health care rate until probably March or April of 2013 and are basing information on a possible 10% increase. The State has also raised the hard cap limits so they are taking those limits into consideration as well. One of the sheets Council received indicated information using the current rate of health care and the new hard cap limitations. If there were to be no increase in health care and they choose to stay under the hard cap, employees would see a reduction in the amount they pay per week.

AUDIENCE PARTICIPATION: None.

COMMITTEE DISCUSSION:

Mr. Smith went over the City's status now with health care and some other options we may have pertaining to how we are using the funds. He said the hard cap rate for single has been raised from $5,500 to $5,692.50, the 2 person rate went from $11,000to $11,385 and a family went from $15,000 to $15,525. He asked Administration to put out a weekly frequency of what the pay would be coming from the employees income and then what it would be in 2013, assuming the 10% rate of return. He would like to know how the 80/20 would affect the employees by looking at their hourly rate. He said should they go to the 80/20 for the 5 employees, out of 88 under the Community Blue, the amount being paid drops so the majority would be impacted by the hard cap with the Flexible Blue.

Mayor Zelenko said the lowest paid employee is currently at $15.65 per hour.

Mr. Smith said the 80/20 rate for a single person would be $23.80, 2 person would be $55.18 and a family would be at $65.58 on a weekly basis. The City's projection of the amount they will pay out for insurance is $978,471.00 per year. Should the City opt for the 80/20 the City would pay $782,776 and the employees would pay $195,694.21.

Through the efforts of the Council and employees the General Fund in the last few years increased from $2.1 million to $2.7 million so the City for the most part is doing better on the revenue side because we have been able to grow our General Fund but there is a problem on the liability side. Since the actuaries are being more aggressive this will require the employees to put more towards the MERS fund. The one positive is an inflation rate of 4.5%. Most public funds get a return of about 7% to 8.5% so the City was in the midrange but what compounds the situation with MERS is because of decisions made in 1992-1996 to pay out the funds that were in the old pension plan. Even in 2005, the MERS pension plan had less than half the money it should have had.

Mr. Smith went over the previous year's actuary assets and liability. Because of people retiring there is less people paying in so now we have an unfunded liability of 575%. Failing to do anything about this right now means it will just get worse, but he doesn't want to see employees worrying about their pension as they get closer to retirement. The difference between the hard cap and 80/20 is about $30,000. The General Fund has increased by about $500,000 over 3 years. He recommended to the Finance Committee to go 80/20 with every dollar from the General Fund going into MERS. Failing to do this will invite the State to step in. He feels that unless we can suddenly hire lots of employees, this is the only option.

Mr. O'Keefe said there is definitely a problem and urged caution before we start transferring money out because you are taking short term assets and paying a long term debt and sometimes you can get into trouble doing that. We have Plante & Moran, who is working on a comprehensive plan and an end game. He agrees with Mr. Smith 100% but is not sure if we would really have our arms around this. He asked if this will get to the point where we do a long term bond to settle this so we can pay the employees.

Mayor Zelenko said Plante & Moran would be here the end of January to give the audit report and at that time they would be giving a MERS update as well.

Mr. O'Keefe suggested keeping an eye on this and waiting until Plante & Moran comes and hopefully they will see something we don't. We could ask them their opinion on if we start taking General Fund money to reduce this, what benefits would that give. The small amount of money we would put on it isn't going to do much to fix the problem without creating another problem on the short term side.

Mr. Smith said Plante & Moran has been here through the majority of this. The auditor for MERS is Plante & Moran. He said most short term money pays long term debt.

Mr. O'Keefe said you are not supposed to though.

Mr. Smith said he doesn't have much confidence in MERS or Plante & Moran because we should never have ended up here.

Mr. O'Keefe asked if when you bond something out like this for the long term, is that conceivable.

Mayor Zelenko said the Controller is in the process of talking with Bendzinski's regarding going out for even a partial of that. It's going to come down to do we need to get to 80% or will they require us to be 100% funded. Those are some things MERS may be changing. She believes this option may be a possibility and then it will depend on the Council. A lot of these types of things would need to go to a vote of the people. She knows there has been legislation introduced to help communities that are in these types of situations and to do it legislatively through their Boards. She would be addressing this issue in Lansing on Wednesday.

Mr. O'Keefe said even the Mayor is in a fact finding situation and we need to be certain if it has to be 80% or 100%. This is very important to know. There are other factors we need to explore.

Mayor Zelenko said we are to the point where we have to talk about union negotiations and we just have to make sure not to talk about a particular union. The Council must make a decision before the end of this year on what to do with the health care.

Mr. O'Keefe said we did this last year. The employees had not paid anything up until then and he was very concerned about them. He feels the employees are probably the strongest asset in the City. The number of employees has gone down and they are doing more with less. He feels the Council picked the plan that was more beneficial to them last year. When he voted he was hoping union negotiations might be smooth and sail through but that is not the case. This leaves a stumbling block since he wants to do the best for the City but he is still representing residents so he doesn't know if his feelings can be the same as they were last year under these situations. He can't justify doing the same as last year for this year. He thought when he voted hard cap last year things would go better than they are with negotiations.

Mr. Smith said we have a huge issue and doesn't always want to ask the employees to give up.

Mr. Heffner agreed they need to wait until the end of January regarding MERS. He is definitely for the 80/20. When property values go back up then we can go back to the hard cap. It doesn't always have to be 80/20.

COMMITTEE RECOMMENDATIONS:

O'Keefe moved and Heffner seconded the following motion:

1. The Finance Committee recommends to send the 80/20 format to the City Council for approval.

Motion carried 3-0.

Meeting adjourned at 6:52 p.m.

ms