



City of
CHARLOTTE

MEMORANDUM

TO: Mayor Lewis and City Council Members

FROM: Gregg Guetschow, City Manager

SUBJECT: City Manager Report

DATE: May 24, 2019

Pension and OPEB. Yesterday I attended a workshop devoted primarily to addressing compliance with state requirements related to developing corrective action plans for pension and OPEB underfunding issues. You will recall that the City's filing with Treasury last year identified deficiencies as they related to the size of the City's unfunded actuarial liability as well as the percent of total revenues that must be devoted to the annual required contribution to the pension and OPEB plans.

Speakers represented the Department of Treasury, Plante & Moran, MERS and Dickinson Wright, the firm the City uses as bond counsel. The sessions were informative and will be of assistance as we work to prepare the corrective action plan.

The primary goal of the plan is to identify a date by which the City will achieve at least 60% funding of its unfunded actuarial liability for pension and 40% funding of its liability for retiree health insurance. These goals must be achieved within 20 years for pension and 30 years for retiree health.

Because the City's retiree health plan covers a small number of individuals and is closed to new entrants, I am confident we could map out a plan to achieve the minimum required funding level with contributions at approximately the current level. Our most recent actuarial valuation for pension demonstrates that we will achieve the required funding level within the 20-year time frame. As I noted in my budget message, however, this assumes that the City's annual required contribution will increase from slightly under \$900,000 to more than \$1.8 million over that period of time.

The corrective action plan requires a certification from Council that it has reviewed and approved the plan. The challenge that we face in making a valid certification is in addressing the City's ability to find the resources to pay for a doubling of the annual required contribution when it is highly unlikely that we will see a doubling of our revenues over the same period.

Further, there are changes that MERS is adopting related to calculations used in the determining accrued liability that are likely to further increase this amount. The expected rate of return will decrease from 7.75% to 7.35% effective December 31, 2019 and will affect the City's annual required contribution beginning in 2021. MERS is also exploring revisions to its mortality tables. New tables are expected to represent an increase in longevity for covered employees which would have the effect of increasing the City's pension liability.

I will be exploring with MERS the impact on our annual required contribution if actions affecting the benefits we offer are pursued. These actions might include bridging employees to different benefit programs, reducing the amount of overtime that is included within compensation for retirement purposes and the like. Actions of this nature would require negotiations with the City's bargaining units, of course.

Information was presented during the workshop about bonding for pension liabilities. This is neither a quick nor an easy process and carries with it risk related to interest rates and return on investments. My impression at this point is that this should be thought of only as a last resort. I am not convinced that we would achieve any significant advantage in as much as the 2018 amendments to the statute authorizing these bond sales limits the duration of the bond maturities. The action that we would need to take to qualify for the bond sale – closing all defined benefit plans and enrolling new hires in defined contribution plans – is something that in and of itself might achieve the savings we would hope to realize through a bond sale.

Health Insurance. The workshop included a presentation about health insurance from representatives of Plante & Moran. The presenters recommend considering a self-insurance alternative to the way we typically obtain health insurance coverage. As Council knows, we experienced significant premium increases over the last few years, the most recent of which has led me to question whether we are being well served by the insurance broker we use. The City Clerk and I will be looking into this more over the next few months. It is likely we will be speaking further with Plante & Moran about self-insurance.

Lovett Street Project. DPW Director Amy Gilson reports that the new watermain on Lovett Street has been installed and tested and crews are starting to connect services. This will require that individual properties will be without water for short periods of time. The sanitary sewer work is complete from Clinton Street to Sheldon Street and new services will be installed in coming weeks. Despite the rain, the project is on schedule.

Financial Statements. Your agenda packet includes financial statements for the period ending April 30, 2019. There are some minor inaccuracies related to coding labor and benefits for DPW employees that will be corrected in subsequent reports.