



City of CHARLOTTE

MEMORANDUM

TO: Mayor Ridge and City Council Members

FROM: Gregg Guetschow, City Manager

SUBJECT: Pension and OPEB Corrective Action Plans

DATE: January 10, 2020

I have reported to Council recently that the Department of Treasury has accepted the corrective action plans approved by the prior Council to address the underfunding of the City's pension and retiree health insurance (or OPEB) plans. The OPEB corrective action plan provided for the establishment of a retiree health insurance trust utilizing \$200,000 in funds that had been reserved for that purpose when the benefit was first established in 1989. We will be working with the Michigan Municipal Employees Retirement System (MERS) to set up the trust and bringing matters related to that to Council for action at future meetings.

The pension corrective action plan is the more challenging of the two. The unfunded accrued liability for the plan as of December 31, 2018 was \$10 million. Although the plan will have experienced a significantly improved return on the investment of assets during 2019, past experiences shows that this will make only a small difference in the total unfunded liability.

The annual required contribution for the pension plan is expected to increase from approximately \$900,000 in 2020 to more than \$2 million in 2040. I do not anticipate general revenue growth to accelerate at the same pace. For that reason, the corrective action plan contemplates Council's consideration of two potential revenue sources: a dedicate millage or a public safety special assessment.

During Monday's Council meeting a special presentation and discussion will take place concerning this issue. To assist you in preparing for this discussion, the agenda packet includes a copy of an August 22, 2019 memorandum that provides additional information concerning pension and OPEB funding issues. A copy of the corrective action plan outline approved by Council is also included.

As we began discussing these and related fiscal issues, I created a new section on the City's website to gather related information. It is found at <http://www.charlottemi.org/path-to-fiscal-stability/>.