

Protecting Local Government Retirement and Benefits Act Corrective Action Plan Monitoring: Application for Certification of Compliance

Issued under the authority of Public Act 202 of 2017

LOCAL GOVERNMENT INFORMATION

Local Government Name: City of Charlotte Six-Digit Muni Code: 232010
Defined Benefit Retirement System Name: Retiree Health Care OPEB
System Type: ☐ Pension ☒ Retirement Health Care (OPEB)
Contact Name (Administrative Officer): Erin LaPere
Title (if not Administrative Officer): City Manager Telephone: 517-543-8850
Email (Communication will be sent here): elapere@charlottemi.org
Fiscal Year System was Determined to be Underfunded: 2018

I. GENERAL INFORMATION

Corrective Action Plan Monitoring: The Municipal Stability Board (the Board) shall monitor each underfunded local government's compliance with Public Act 202 of 2017 (the Act) and any approved corrective action plan (CAP). The Board shall adopt a schedule, not less than every 2 years, to certify that the underfunded local government is in substantial compliance with the Act.

Due Date: The local government has **90 days from the date the CAP Monitoring Form is sent** to return the form to the Board.

Filing: The submitted monitoring form must demonstrate through distinct supporting documentation that the local government is addressing its underfunded status in accordance with its CAP and the Act. Consistent with the Board's best practices document, supporting documentation utilized should include a projection within their annual valuation that includes, but is not limited to, actuarially determined contributions (ADC), retirement benefit payments, assets, liabilities, and discount rates.

The completed monitoring form must be submitted via email to Treasury at LocalRetirementReporting@michigan.gov for review by the Board. **If you have CAPs for multiple systems, you are required to complete separate monitoring forms and send a separate email for each CAP.** Please attach each plan as a separate PDF document in addition to all applicable supporting documentation.

The subject line of each email should be in the following format: **Corrective Action Plan Monitoring, Local Government Name, Retirement System Name, System Type** (e.g. Corrective Action Plan Monitoring, City of Lansing, Employee Retirement System, Pension). Treasury will send an automatic reply acknowledging receipt of the email. Your individual email settings must allow for receipt of Treasury's automatic reply. This will be the only notification confirming receipt of the form.

Municipal Stability Board: The Board shall certify and vote whether each local government is compliant with their CAP and the Act. If a CAP is certified as compliant, the Board will continue to monitor the CAP and review the local government's compliance with the Act not less than every two years.

Review Process: After receiving your submitted CAP monitoring form, Treasury will provide it to the Board to review and certify the local government for compliance with the Act.

CAP Monitoring Approval Criteria: A CAP may be certified as compliant by meeting the Board approved CAP monitoring criteria. In general, certification of compliance by the Board will occur if a local government is able to demonstrate through distinct supporting documentation that the CAP addresses:

- 1) **Underfunded Status:** The local government continues to address underfunded status in a reasonable timeframe (60% funded for pension systems or 40% funded for OPEB systems OR; if the local government is a city, village, township, or county, the ADC as a percentage of governmental fund revenues is less than 10% for pensions or 12% for OPEB);
- 2) **Substantial Changes:** The actions documented in the CAP remain substantially the same, OR alternative actions have been implemented to address underfunded status;
- 3) **Sustainability:** The local government and the Board certify that the projected payments remain sustainable and affordable both now and into the future.

Certification of Compliance: Following a review of the monitoring process for each CAP, the Board will certify a local government as one of the following:

- **Compliant:** A local government certified as compliant has met all published criteria from the Board.
- **Complaint with Conditions:** A local government certified as compliant with conditions has met the published criteria, but the Board has determined that the local government's plan(s) may not be sustainable or the Board is unable to reasonably confirm future sustainability. With this certification, the local government will have until the next monitoring period to address the stated concerns regarding the plan(s).
- **Noncompliant:** A local government certified as noncompliant failed to meet one or more of the Board's published criteria for monitoring certification of compliance or failed to file the monitoring form. If voted noncompliant, the Board shall notify the local government within 15 days, detailing the reasons for the determination for noncompliance. The local government has 60 days to address the determination of noncompliance.

2. UNDERFUNDED STATUS CERTIFICATION

Previously, local governments demonstrated that they would be addressing their underfunded status within a reasonable timeframe in accordance with the Board's Corrective Action Plan Development: Best Practices and Strategies guide. The purpose of this section is for the local government to certify that their plan is still addressing its underfunded status within this approved timeframe.

Please check the applicable answer:

- I. Referencing supporting documentation, is the local government addressing its underfunded status in the same timeframe or less than the CAP?

☒ **Yes, we are addressing underfunded status by fiscal year 2031 as originally approved.**

☐ **No, underfunded status will be now be addressed by fiscal year _____, which is within the Board's required timeframe.**

Required timeframe: As general guidance, a local government with a severely underfunded pension system (45% funded or less) should reach a funded ratio of 60% within 20 years of the original determination of underfunded status. A local government with a severely underfunded retirement health care system (25% funded or less) should reach a funded ratio of 40% within 30 years of the original determination of underfunded status.

If no, provide additional explanation:

3. SUBSTANTIAL CHANGES CERTIFICATION

The Board recognizes that as a local government implements the prospective actions in their CAP, specific solutions may need to be adjusted to continue to address its underfunded status. This section asks the local government to certify that the corrective actions documented in the plan to address underfunded status remain substantially the same.

Please check the applicable answer:

Does the CAP remain substantially the same as the originally approved submission?

☒ **Yes**

☐ **No** (If no, please complete a revised Form 5597 for OPEB or Form 5598 for pension and attach to this form)

Please check all that apply:

☒ **Actions Implemented from CAP** – What actions included in the CAP has the local government implemented?

Sample Statement: In **June 2019**, our local government began making additional payments of \$100,000 per year above its ADC to the **General Employees' Retirement System**, as stated in our CAP. Page 8 of our actuarial valuation (attachment 2a) shows our pension will be **62%** funded by **fiscal year 2028**.

In July 2020, the city established a Retiree Health Care Trust Fund in the amount of \$200,000.

☐ **Actions Not Implemented from CAP** – What corrective actions has the local government failed to implement since the plan was approved?

Sample Statement: In the **June 2019** contract negotiations, our local government sought to lower the system's multiplier for current employees from 2.5X to 2X for the **General Employees' Retirement System**. We were able to negotiate to a 2.25X multiplier. On page 8 of our actuarial valuation (attachment 2a), it shows we will be **62%** funded by **fiscal year 2028 instead of 2024**, as outlined in our CAP. The revised fiscal year remains within the Board's required timeline.

☐ **Additional Actions Approved** – What additional actions has the local government implemented or planned to implement to supplement the CAP since the plan was originally approved? (**Provide proof of governing body approval for all additional actions**)

Sample Statement: Since our local government was unable to lower the multiplier to 2X as outlined in our CAP, we implemented additional actions to address our underfunded status within the Board's required timeframe. Beginning in **fiscal year 2020**, we will begin amortizing the unfunded portion of the pension liability using a **level-dollar amortization method over a closed period of 10 years**. This will allow the retirement system to reach a funded status of **62%** by **fiscal year 2028** as shown on page 8 of the actuarial analysis (attachment 2a).

4. SUSTAINABILITY CERTIFICATION

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 the CAP.

The Board recommends that supporting documentation include a projection of all annual retirement payments (Pension ADC(s) + OPEB Benefit Payment(s) + all additional contributions) as a percentage of projected governmental fund revenues over the next five 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 specifically allocated to pay retirement costs.

What is the highest combined annual retirement payment as a percentage of your projected governmental revenues over the next five fiscal years? (Examples and Worksheet)

Fiscal year: 2021

1. Total pension ADC(s): 1,170,000
2. Total OPEB benefit payment(s): 107,146
3. Total additional contributions for pension: 0
4. Total additional contributions for OPEB: 200,000
5. Total governmental fund revenues: 7,753,876
6. Enterprise funds used to pay retirement costs (if applicable): _____

Total percentage [(Payments #1-4)/(Revenues #5-6)]: 19.1%

Do the projected annual payments increase by an amount greater than an average of 5% per year over the next five fiscal years?

- ☐ Yes (Explain and list actions implemented or planned to implement to address increased payments)
- ☒ No

Utilizing a projection of all annual retirement payments, do the approved corrective actions listed in this plan allow for the local government to continue to make, at a minimum, the ADC payment for the defined benefit pension system(s) and/or any applicable statutorily required payments for retirement health benefit system(s), according to your long-term budget forecast? Note: For retirement health benefit systems, local governments are required to make all retiree premium payments, as well as any applicable normal cost payments for employees first hired after June 30, 2018 in accordance with Section 4(1) of Public Act 202 of 2017.

- ☒ Yes
- ☐ No (Explain and list actions implemented or planned to implement to address increased payments)

5. REQUIRED DOCUMENTATION

Documentation should be attached as a PDF with this monitoring form. The documentation should detail and confirm the claims made in this document regarding the CAP that is being implemented to adequately address the local government's underfunded status. Please check all documents that are included as part of this form and attach in successive order as provided below. When attaching documents, please use the naming convention below:

Naming Convention

Type of Document

☒ Attachment – 1

(Required) This CAP monitoring form;

☒ Attachment – 2a

(Required) An actuarial projection, an actuarial valuation, or an internally developed analysis (in accordance with GASB and/or actuarial standards of practice), which illustrates how and when the local government will reach the Act's required funded ratio. Or, if the local government is a city, village, township, or county, how and when the ADC as a percentage of governmental revenues will be less than the Act's requirements. 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;

☒ Attachment – 2b

(Required) An actuarial projection, an actuarial valuation, or an internally developed analysis (in accordance with GASB and/or actuarial standards of practice), which projects all annual retirement payments (Pension ADC(s) + OPEB Benefit Payments(s) + all additional contributions) as a percentage of projected governmental fund revenues over the next five fiscal 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 specifically allocated to pay retirement costs;

☐ Attachment – 3

(Required if applicable) Documentation from the governing body approving additional corrective actions including documentation of commitment to additional payments or actions not previously included in the CAP (e.g. resolution, ordinance);

☐ Attachment – 4

(Required if applicable) In the event that the previous plan is no longer substantially in effect, a separate CAP to address its underfunded status which includes documentation of prior actions, prospective actions, governing body approval, and the positive impact on the system's funded ratio;

☐ Attachment – 5

Other documentation not categorized above.

6. CORRECTIVE ACTION PLAN CRITERIA

Please confirm that each of the CAP monitoring criteria listed below have been satisfied when submitting this document. Specific detail on CAP criteria can be found in the Corrective Action Plan Monitoring: Policy and Procedures document.

CAP Monitoring Criteria

Description

☒ Underfunded Status

The local government certifies that there is adequate supporting documentation showing that the CAP will continue to address the local government's underfunded status in a reasonable timeframe;

☒ Substantial Changes

The local government certifies that the corrective actions documented in the CAP remain substantially the same OR; the local government has implemented or planned to implement additional actions to continue to address their underfunded status;

☒ Sustainability

The CAP continues to allow the local government to make all required annual retirement payments, without increasing to a level that is unsustainable.

7. LOCAL GOVERNMENT'S ADMINISTRATIVE OFFICER APPROVAL OF CORRECTIVE ACTION PLAN MONITORING FORM

I, Erin E. LaPere, as the government's administrative officer (Ex. City/Township Manager, Executive Director, Chief Executive Officer, etc.) **(insert title)** City Manager approve this *Corrective Action Plan Monitoring: Application for Certification of Compliance* and will continue to implement the actions of the CAP.

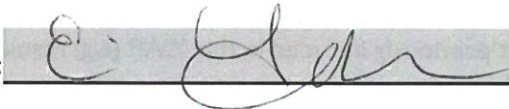
I confirm to the best of my knowledge that because of the actions referenced within this form, one of the following statements will occur:

☒ The Retiree Health Care OPEB **(insert retirement system name)** will achieve a funded status (60% for pension or 40% for OPEB) by fiscal year 2031 as demonstrated by required supporting documentation listed in Section 5.

OR, if the local government is a city, village, township, or county:

☐ The ADC for all defined benefit pension or retirement health benefit (OPEB) systems as a percentage of governmental fund revenues will be less than the Act's underfunded status threshold (10% for pension or 12% for OPEB) by fiscal year _____ as demonstrated by required supporting documentation listed in Section 5.

Signature:



Date:

4-20-2022