MINUTES
Committee of the Whole
Monday, February 12, 2018 @ 5:00 p.m.
City Council Chambers

CALL TO ORDER
Council President Wood called the meeting to order at 5:00 p.m.

PRESENT
Councilmember Kathie Dunbar- arrived at 5:31 p.m.
Councilmember Jeremy A. Garza
Councilmember Adam Hussain
Council Member Brian T. Jackson
Councilmember Peter Spadafore
Councilmember Patricia Spitzley- excused and arrived at 6:30 p.m.
Councilmember Jody Washington-excused
Councilmember Carol Wood

OTHERS PRESENT
Sherrie Boak, Council Staff
Eric Brewer Internal Auditor
Jim Smiertka, City Attorney- arrived at 5:53 pm.
Samantha Harkins, Mayors Executive Assistant- arrived at 5:20 p.m.
Angie Bennett, Finance Director
Ben Bakken, FHT
Eric Scorsone, FHT
Greg Venker, Assistant City Attorney- arrived at 5:02 p.m.
Elaine Womboldt
Tim Damon, FHT
Janet Lillie, FHT
Mary Schulz, FHT
Robert Swanson, FHT
Steve Jappinga, Chamber of Commerce
Rehmann Robson Representative

Minutes
MOTION BY COUNCIL MEMBER HUSSAIN TO APPROVE THE MINUTES FROM FEBRUARY 5, 2018 AS PRESENTED. MOTION CARRIED 5-0.

<u>Public Comment on Agenda Items (Up to 3 Minutes)</u>
Ms. Womboldt spoke on an interest in the report on the Final Pension Plan Analysis, and noted her opposition of selling BWL to help with the debt.

<u>Presentations</u>
<u>2017 Final Pension Plan Analysis; 2017 Final OPEB Report; Financial Health Team/ Segal Consulting</u>
Mr. Bakken thanked the Council for allowing them to make a presentation on the letter they sent to the Mayor on December 13, 2017 with the recommendations from the Segal report. Introductions of FHT members was done; Eric Scorsone, Mary Schulz, Janet Lillie, Tim Damon and Robert Swanson, all available to answer questions.

Mr. Scorsone began the presentation by informing the Committee he would be rejoining the FHT in June 2018. He then noted to the Committee that in December 2017 the State passed PA202 which requires certain reporting activities a municipality must undertake. Local unit of government that have a June Fiscal year will report to the State on their funded ratio and data points of their pension and OPEB. The Act lays out the criteria and triggers for municipality on the funded status, and he noted that at a preliminary view, based on the information to date, the City will need to do one of two things. The State will send a letter in the future, and the City will need verification that the pension system classified as underfunded, so they will need to either ask for a waiver that states the City believes they should be classified as "underfunded" status. Mr. Scorsone stated, by adding that if the waivers are not accepted or not approved, then the City has to do a correction action plan. This plan, he noted, would set out a series of steps over a number of years to get the City a status. This correction action plan would be monitored by a municipal board who will oversee.

Council Member Jackson asked Mr. Scorsone, if based on the waiver provisions he was aware of, would the City of Lansing qualify for a waiver. Mr. Scorsone could not provide a response, stating they were still developing the process. The City will have to demonstrate that the actions have already been taken, not what they are going to do, and that they are sufficient and not just reflected in an annual report. The plan allows municipalities to make the case that they are better off than the State shows.

Council Member Wood asked if Mr. Scorsone will sit on that Board and if he will make the determination. Mr. Scorsone stated he will have to sign off on it along with the State Treasurer.

Mr. Bakken took the Committee back to their letter of December 2017.

Council Member Spadafore asked Mr. Scorsone if the City is determined underfunded based on the balance of the General Fund or the retirement. Mr. Scorsone agreed that it was both, but Council Member Wood pointed out that the Police and Fire Retirement meets the criteria but the Employee Retirement is below the measureable. Mr. Scorsone agreed with that statement, noting they are at 71%.

Mr. Bakken began with a overview, noting the process started in 2015, the Segal Reports were finalized in 2017. The FHT reviewed a letter which outline the problems and provide solutions. They pointed to the concerns of why the issues exist and what happens from here. They do want it noted that the FHT does recognize the sacrifices the staff has taken over the years and that over the last few years the City have submitted a balanced budget. Council Member Spadafore asked what the amount was in 2016. Mr. Bakken answered that the amount in 2016 was $184 million and now it is up to $197 million.

Mr. Bakken referred the Committee to the FHT letter noting it does not recommend a conclusion but leads Council to the point to start the recommendations. Part of their goal with work being done now is they want the City of Lansing and employees to retain control in the outcome and not get to the point where a decision is being made.

Council President Wood asked Mr. Bakken to turn to page 3 of his report, and explain the itemized recommendation beginning with item #1. Mr. Bakken referenced page 12 of the OPEB report, where the recommendations were listed and it noted they are not recommending taking away benefits, but looking for another way to deliver them. Replace Medicare eligible with medical and drug with refunded dollar reimbursement. Council President Wood made Mr. Bakken aware of her concerns when the City has negotiates contracts and now retirees are upset about what these recommendation will mean and how will it affect what they are living on. Mr. Bakken admitted it could potentially impact.

Recommendation 2 spoke to a review of the City's asset, and Council voiced concerns that the sale of City property would only create a one-time cash increase, so was the recommendation to look at things not being used and the highest value. Mr. Bakken clarified that BWL is not considered in this item, but this is a recommendation of a thorough review of City assets, and one time in nature. In terms of funding the underfunded liability with a one-time influx of cash, that is the recommendation. They are not pointing to one more than the other. The amount the City is looking at was $680 million in 2015 and that would require a significant sale to get there, but not all in one shot. Mr. Bakken referred the Committee to the pension report, page 39, where there is a transfer of assets of value and reducing the liability and the payment. What they are not saying in item 2 is not a sale, but a review of those referenced in the value.

Council Member Jackson asked if there any room for growth, and if they considered what type of growth the City could have made to make an impact. Mr. Bakken admitted that in terms of economic growth, the goal was not to create "the sky is falling" but for growth to occur it is the hopes it will continue to happen. There is a way to look at items that are going to hit the tax roll, but they were not sure how the State would look at those. Mr. Scorsone added that the challenge would be that it is hard to generate growth, and for a lot of communities' revenue forecasting forward, and a comparison to liability cost is a challenge in the current structure.

Council President Wood pointed out to the FHT that in the past they recommended not doing incentives and asked how that has an impacted. Mr. Bakken answered that at this time the FHT is not formally recommending to do away with incentives that would be a case by case decision. Council Member Spadafore asked if the FHT would discourage reducing the incentives. Mr. Bakken again stated it would be case by case depending on the project and if it was applied correctly.

Council President Wood asked if the study took into consideration there was a school millage approved and the amount of influx into cash in to the school system would entice and take into consideration for growth. Mr. Bakken could not recall the school millage in the report.

Council President Wood for detail on the Medicare vs reimbursement recommendation. Mr. Bakken referred the Committee to page 12 in the pension report and additional discussions in the Segal report. Some recommendations in the Segal report were based on preparative analysis. With a comparison to the norm with other municipalities, it was a promise that was made. Mr. Bakken noted that Item 1 in the letter is more specific to the health reimbursement account.

Council President Wood pointed out to the FHA that #3-4 would reduce benefits that Council had already made promises to. Mr. Bakken referred the group to the OPEB reports, page 46-47, which presented a chart that goes through the recommendation of the summary page 12.

In item 6, Council President Wood the FHT was more than the actuarial is recommending to Council. Mr. Bakken stated it was 7.2% of the rate of return, and this also ties to item 7. He noted that there is also discussion is to consider if 5 years a good frequency to look at the mortality rate is.

Council President Wood noted that PA345 and the special millage specific to Police and Fire pension only, and as of 2016 the amount unfunded was $130 million on that side.

Council Member Jackson asked the FHT if it was safe to assume Council will need to implement a corrective action plan with these recommendations, and that those would need to include eliminate, sell, transfer or a millage. Mr. Scorsone agreed it the City would likely will have to do a corrective action plan. Ultimately there are only a few options.

Council Member Spadafore asked if the City can cut services to fall out of the State oversight. Mr. Scorsone noted that ratio is based on actual required contributions. The Police and Fire OPEB do not pay in the full amounts. Once the City gets an approved correction plan and follow through, the OPEB cap would not matter.

Council President Wood asked if similar to Combined Sewer Overflow Plan is there any leeway with the State, or is it cut in stone. Mr. Scorsone could not answer that, noting it would be up to the municipality stability board to decide. But he added it would be fair to say over a period of time, but that won't be known until May or June. Council President Wood pointed out to the FHT that over the years the City has done things to take corrective action such as changes in vesting, insurance coverage changes, gone from 8% to 7.25% on the rate return, and asked if these changes will be reflected to show they are making a corrective action. Mr. Scorsone agreed that the goal is make sure retirees and employees are getting what they are being promised and is going to be available. Mr. Bakken added that the FHT also wants to see any impact to retirees and employees to be as minimal as possible. The first recommendation does not remove benefits, and item 2 with selling assets is not the only option but consider transfer.

Mr. Bakken ended that item 9 is a cautionary note on bonding, but not recommending.

Council Member Jackson asked whether the City has to eliminate the entire Medicare reimburse or only eliminate some if that person has another job. Mr. Scorsone stated that would be up to collective bargaining to suggest those changes, because they cannot be imposed. The retirees do not get collective bargaining so it would fall under what they retired under. Once pension is earned it cannot be taken away.

Council Member Spadafore asked why the FHT did not explore bankruptcy. Mr. Bakken answered that bankruptcy was the goal to avoid. In recommendations they work through to avoid bankruptcy, but the topic does come up regularly.

Council Member Dunbar asked how many people represent organized labor on the FHT. Mr. Bakken stated that Dennis Parker and Eric Weber currently attend, however they are currently in discussions with the Mayor's office is extend invitations and ask for more participation. Ms. Harkins confirmed the Mayor's office is working on invitations to reappoint the FHT and include additional members which include bargaining units' involvement. Council President Wood suggested that if a member cannot attend, encouraging others from that unit to attend.

Council Member Dunbar asked for further discussion the bankruptcy note. Mr. Scorsone stated that they have no position on that with the City of Lansing. Factually speaking, municipal bankruptcy can only occur when cities run out of money. The City could not file because they have a lot of debt, and filing is rare. A municipality would have to have no cash to pay their bills when they come due. Mr. Scorsone would not take a position on where the City of Lansing is.

Council President Wood encouraged Council to attend the February 20, 2018 joint Retirement Board meeting for the presentation by the actuarial.

Mr. Brewer had no comments.

<u>Comprehensive Annual Financial Report (CAFR); Mayor's Office/Finance Department</u>
Ms. Bennett highlighted sections of the CAFR including page 15 which was the Analysis, page 30-31 which represented the Net Position and Statement of Activities. She did not based on the earlier discussion that the retiree health care is not fully on the balance sheet, but in the current fiscal year, and that will be a further impact on the long term. Page 138-139 represented the combined balance sheet and the combined statement of revenues, expenditures and changes in fund balance

The Committee when through a handout provided by Ms. Bennett at the meeting, FY2016/2017 Fund Financial Results. This handout included a breakdown on the stabilization fund which included the Stadium Fund, a graph on the general fund reserve levels which represented a rise to 12.4% in 2017 and a table on the unrestricted fund balance.

Council Member Dunbar asked about the asset liability and if it was calculated out not annual. Ms. Bennet stated it was a long term perspective, for all incurred to the end of when those liabilities will be in effect. Council Member Dunbar then asked Ms. Bennett what were the funds changing over time, and if the costs were lower, and what is that change for the City over time, leading to the City making an adjustment. Ms. Bennett assured Council that on an annual basis they look at what is the cost and looks at the trend those costs pressures will be. That is where those fees need to be adjusted to keep a net. Council Member Dunbar asked if there was a cost analysis for paying annually on the long term projections. Ms. Bennett stated the City does on an annual basis and are currently covered. Council President Wood asked if the figures represented current or ones that were retired. Ms. Bennett stated it was both, and retirement costs would stay with the City. Council Member Wood asked when the last time was that a review was done for charges for the services. Ms. Bennett answered that it is done annually as part of the budget process. There is no official report, but each department considers it as part of their projection. Council President Wood suggested speaking to the Administration on putting a report together to determine the charge of services that is used when the departments project their budgets.

Council Member Garza stepped away from the meeting at 6:11 p.m.

The Rehmann Robson representative acknowledged the Finance Department for their work on the report, and made a point to the Council that the goal of the audit is to make sure the financial statements are accurately stated and useful for decision making process. They do not look at every transaction, but design a test to focus on higher risks, higher dollar amounts, and design a test to review those transactions. Part of it is to also look at the internal controls.

Council Member Garza returned to the meeting at 6:13 p.m.

The first part is the independent auditor report (page 11), the conclusion and opinion on the financial statements. Part of the audit process would identify areas of improvement, and it was pointed out that there are reoccurring improvements from previous years. One item found were journal entries that were identified, and any time there is an audit adjustment they have to be reported. It was noted that the most significant item to work through is the pension. The notes are comments and recommendations, not findings. A recommendation made by the audit is that there is an end control over the payroll before cutting a check, and again some spreadsheets are still being done manually, which should then have a second review. Council President Wood asked how many recommendations were repeats from other years, and if so how many times were the repeated. It was confirmed some recommendations were multiple year repeats. Ms. Bennett explained that one item has to do with reconciled items, which get turned over to the State to collect, but they plan to have that complete by the end of this fiscal year. Regarding the recommendation on the payroll processing, Ms. Bennett noted that with an upgrade to the payroll systems it will be addressed at that time. Ms. Bennett then explained they continue to use manual spreadsheets when preparing information for the auditors.

Council President Wood asked if the Department was fully staffed, at which Ms. Bennet confirmed. Ms. Bennett stated that her department was also working on the information on the funding for the pension. Council President Wood asked if the actuarial for the Retirement Board were also working on information for the Segal report, at which Ms. Bennett stated they were not.

Council Member Dunbar asked about scheduled contributions and interest and was referred to page 120 which reflected a 4 year data, a how plan net changed. Interest in 2017 was $22.4 million, which was the number provided by actuaries, comparing to the planned fiduciary employer contributions. They calculate the interest with the number of estimates and assumptions in pension liability, taking a rate, based on the previous year. This is interest as defined is growth in liability. Council Member Spadafore asked what was the error and payroll growth assumptions; assumed rate of return. Ms. Bennett stated it would be 7.35% with the Police and Fire at 7.4 %. They are not positive on the next 5 years but recommend to 7.25%. This mirrors the Segal report on the pension.

Mr. Brewer had no comments.

Discussion/Action:
PLACE ON FILE – City of Lansing Employees' Retirement System; Actuarial Valuation For Funding and Contributions
PLACE ON FILE – City of Lansing Police and Fire Retirement System; Actuarial Valuation For Funding and Contributions
Council President Wood invited all Council Members to attend the Joint Retirement Meeting on February 20th for an overview by the Actuarial.

MOTION BY COUNCIL MEMBER DUNBAR TO PLACE THE REPORTS ON FILE. MOTION CARRIED 7-0.

Other
Council President Wood referred the Committee to the emergency ordinance provided by Law that would be the late item at Council meeting later.

Mr. Smiertka informed the Committee it was brought to his attention on February 9, 2018, that some of the City ordinances may have expired. He then referenced the Charter 3-307 which states that every ordinance that creates a regulatory function in an agency to the City or service shall expire every 10 years. The Charter requires that the Clerk notice the Council 6 months prior to expiration and Council take action 2 months prior to expiration. The last recodification took place November 24, 2007, and therefore Mr. Smiertka acknowledged that the City Attorney Office concluded that Council needs to act to re-codify those ordinances that were in effect in 2007, and he added that sunset does not apply to every ordinance, it only applies to regulatory or agencies that had the ordinances in effect November 24, 2007. He assured the Committee that the Ordinance on Medical Marihuana is not covered in this because it was just adopted, along with any ordinance enacted after 2007. Noted the traffic code ordinance is governed by the State, along with the building codes. Currently Law is continuing to do an analysis, however at this time Mr. Smiertka was proposing an ordinance be adopted as an emergency ordinance tonight by 6 votes for immediate effect. The Charter under 3-308 allows for an Emergency Ordinance he noted. The proposed emergency ordinance will last for 60 days and in that time a full ordinance will be prepared to adopt a codified ordinance the next 10 years and be brought before Council.

Council Member Spitzley asked Law why was law proposing to going back retro to November 25, 2017. Mr. Smiertka clarified that it was 10 years from the last recodification, November 24, 2017.

Council Member Jackson asked for clarification on the retro-active enforcement, and the authority of the City. Mr. Smiertka assured the Committee that he believed it would be enforceable on the civil side, and will address other issues as they come up.

Council Member Dunbar asked what impact this had on ordinances adopted after November 25, 2017. Mr. Smiertka addressed the concern but stating that a new ordinance would not be affected, just those that were in effect on November 24, 2007. He provided examples of those that have been adopted since then that will not be impacted such as Medical Marihuana, Building Codes, International Property Maintenance Code. The late item only addresses the regulatory ordinances that were in effect on November 24, 2007. Council President Wood then asked if Council should look into codifying ordinances annually. Mr. Smiertka noted it is codified annually but not "re-adopted". The Charter requires a six month notification for the re-adoption, and if Council wanted to authorize re-adoption and codification at the same time the sunset would roll. Council Member Dunbar asked for a list of when an item was adopted and when it expired. Mr. Smiertka stated they would need to request that of the Clerk.

Council President Wood asked Law if they believed by doing the emergency resolution back to November 25, 2017, the City would not be putting itself in jeopardy. Mr. Smiertka agreed.

Council Member Jackson recite the Charter Section 3-308 which spoke to the emergency resolution would be done if it affects the life, health and property, and then asked if Law thought this issue could affect that. Mr. Smiertka stated they have reviewed it.

Council President Wood concluded the discussion, and informed the Committee the item would be a "Late Item" up for adoption on the Council agenda later in the night**.**

Other

No other topics.

ADJOURN

The meeting was adjourned at 6:45 p.m.
Respectfully Submitted by,Sherrie Boak, Recording Secretary
Lansing City Council
Approved by the Committee on January 26, 2018