AGENDA
Committee of the Whole
Monday, October 22, 2018 5:30 p.m.
City Council Chambers, City Hall 10th Floor

Council Member Wood, Chairperson
Council Member Washington, Vice Chairperson

1. **Call to Order**

2. **Roll Call**

3. **Minutes**
   - October 8, 2018

4. **Public Comment on Agenda Items (Up to 3 Minutes)**

5. **Presentations:**
   - Division on Deaf, DeafBlind and Hard of Hearing Communities - Anne Urasky

6. **Discussion/Action:**

   A.) RESOLUTION – Reappointment(s)
   - John Shaski; Capital Region Airport Authority; City Member; Term to Expire 9/30/22
   - Andrea Ragan; Economic Development Corporation; At-Large; Term to Expire 2/28/23

   B.) RESOLUTION- PA 202 Corrective Action Plans; ERS Pension System, ERS OPEB Plan., and P & F OPEB Plan

7. **Other**
   - DISCUSSION/ORDINANCE **-** Amend Chapter 404, Section 404.01; Impound of Transportation Devices Improperly Parked or Abandoned
   - DISCUSSION/ORDINANCE **-** Amend Chapter 812, Section 812.04; Include additional Transportation Devices within Prohibited Transportation Devices on Sidewalks in the Principal Shopping District (PSD)

8. **Adjourn**

PUBLIC COMMENT AND SIGN IN SHEET

COMMITTEE OF THE WHOLE

DATE Oct 22, 2018

Please print

NAME	ADDRESS	Purpose for Attending	Email Address	PHONE
Kathy Miller		RSL		
Elaine Womboldt	RSL			
Loretta Stanaway	546 Armstrong Rd	scooters	sosusop@aol.com	6485730
Mary E Reynolds				

MINUTES
Committee of the Whole
Monday, October 8, 2018 @ 5:30 p.m.
City Council Chambers, City Hall 10th Floor

CALL TO ORDER
Council President Wood called the meeting to order at 5:30 p.m.

PRESENT
Councilmember Kathie Dunbar
Councilmember Jeremy A. Garza
Councilmember Adam Hussain
Council Member Brian T. Jackson
Councilmember Peter Spadafore
Councilmember Patricia Spitzley
Councilmember Jody Washington
Councilmember Carol Wood

OTHERS PRESENT
Sherrie Boak, Council Staff
Eric Brewer, Council Internal Auditor
Jim Smiertka, City Attorney
Samantha Harkins, Mayor Executive Assistant
Mayor Schor
Elaine Womboldt
Kathy Miles
Loretta Stanaway
Greg Venker, Assistant City Attorney
Heather Sumner, Deputy Chief City Attorney
Nick Grueser, TMO
Scott Keith

Minutes
MOTION BY COUNCIL MEMBER SPITZLEY TO APPROVE THE MINUTES FROM OCTOBER 1, 2018 AS PRESENTED. MOTION CARRIED 7-0.

Public Comment on Agenda Items
Ms. Womboldt spoke in support of the professional soccer club, but questioned if this was a priority and concerned with the financial impact.

Ms. Stanaway spoke in opposition to the soccer lease, and asked for any funding to go to City Departments first.

Ms. Miles spoke in opposition to the soccer league agreement.

DISCUSSION/ACTION

RESOLUTION- Stadium Soccer License Agreement; City of Lansing & Lansing Soccer Club, LLC (LSC) as a USL League 1, a United Soccer League One Club; Thomas M. Cooley Law School Stadium

Council Member Jackson stepped away from the meeting at 5:40 p.m.

The Committee went through the agreement and City Attorney Smiertka highlighted the changes

Council Member Jackson returned to the meeting at 5:41 p.m.

Council President Wood asked Mayor Schor to speak at the end of the meeting on the cost of the project on the tax payers and what items will be sponsored or incentives by sponsors. This would be in addition to what the City currently pays to the Lugnuts. She pointed an interested towards what the additional cost will be, what will be offset with donations, sponsorships and the franchise.

Mr. Smiertka confirmed that at the Committee meeting on October 1st, Law was asked to make changes to the agreement based on the comments by Council. In addition the applicant was to provide the ticket manifest; which was submitted, provide the number of City residents that were employees, and confirm that the source of water was BWL. Mr. Smiertka then went through the changes in the document which were addressed on the following pages:
Page 1 line 11; page 10 line 7; page 11 line 18; page 12 line 20; page 13 line 18-20; page 21 line 3-7; page 22 line 17; page 25 line 7; page 26 line 9-10; page 32 line 16; page 33 line 3 and line 15; page 39 line 22; page 40 lines 2, 4 and 20.

Council Member Jackson voiced his concern on the language used for the request for the players to volunteer and work with the community. Mr. Grueser stated that is it part of their business plan and with timing of 2018 they will start in June 2019 and work into June 2020. This will include ongoing community engagement with players and a youth club. The Youth club will be a paid membership starting at age 5. Council President Wood voiced her concern on the paid membership and asked them to consider options for free. Mr. Grueser stated they could look into sponsorships and donations, but that plan will not be finalized until later.

Regarding the changes to the marketing match by the organization, Council President Wood was concerned the City marketing budget of $120,000 would be paying for their marketing staff. Council Member Dunbar stated she understood some of their funds would need to support a person to do the programming. Council Member Spitzley stated her concern with the City paying $120,000 for marketing of a private business, but appreciated that they agreed to match it. Council President Wood clarified her earlier statement, noting she wanted to see how the $120,000 was being spent and wanted it to go directly to advertising, but understand their match could go towards a person to do the job. The Committee moved into reviewing the manifest and percentage of the tickets the City would get. Mr. Grueser explained he took the average of the number of premium tickets, divided it by themselves, then divided by $2 and that came to 5.97% and so he rounded it up to 6% and that is now what is in the agreement instead of $2 per premium ticket.

The Committee then spoke with Mr. Grueser on the Administration on their request at the October 1, 2018 meeting for reutilization of the sod when they do change over. Mr. Grueser confirmed he spoke to his grounds keeper, who confirmed it will be difficult to roll back up so there will be trial and error period, but they will attempt to reuse. It will depend on the timing, available resources, and strict coordination on replacement in a sod prepared area. Council President Wood asked if it is not reused if it can be composted. Mayor Schor stated he would check with the Parks Director on locations, but he added the Lansing Soccer Club is responsible to remove so it is their expense. Mayor Schor said he would look into what would be involved in composting the sod that is not reused.

Council Member Spitzley referred the group to page 40, line 11-13 where it stated the neutral representative would be paid out of available CIP funds, pointing out that this item was not one of the itemized CIP expenditures. Council Member Spadafore explained that the CIP are funds for certain items, so if it was needed, that would lessen the total CIP for other projects. Mr. Smiertka admitted that has been in the TMO agreement. Council President Wood asked if that was ever utilized in the TMO agreement, and was told no.

Council Member Jackson asked the Administration about the negotiations for this agreement, and if there were any concessions already made to get to this point, and if the Administration could make any more concessions because the City has a concern with the current fiscal responsibility they are in. Mayor Schor confirmed they had started with many options, and worked to this point. He felt comfortable to this point, and acknowledged that both parties agree to 5 years on the financial items and believe this is fiscally responsible. Mayor Schor also assured the Council that in his next year proposed budget he will show addressing fire, police, streets and this soccer agreement. On a side note he also made a statement that he believed the City will have a sponsor for 2/3 of the equipment ($100,000).

Council Member Spadafore asked what the team payroll would be, and as told $350,000 with no salary cap at this level of soccer. Council President Wood asked if the players would live in the City for more than 6 months, and if so they would have to make sure they paid resident and/or non-resident income tax. Mr. Grueser stated they have not made the final determination on the housing, but assume they will live in Lansing 8-9 months out of the year.

MOTION BY COUNCIL MEMBER SPADAFORE TO APPROVE THE RESOLUTION FOR THE STADIUM SOCCER LICENSE AGREEMENT; CITY OF LANSING & LANSING SOCCER CLUB, LLC (LSC) AS A USAL LEAGUE 1, A UNITED SOCCER LEAGUE ONE CLUB; THOMAS M COOLEY LAW SCHOOL STADIUM. MOTION CARRIED 7-0.

Other:
No topics

ADJOURN
The meeting was adjourned at 6:13 p.m.
Respectfully Submitted by,
Sherrie Boak, Recording Secretary
Lansing City Council
Approved by the Committee on

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BY THE COMMITTEE OF THE WHOLE
RESOLVED BY THE CITY COUNCIL OF THE CITY OF LANSING

WHEREAS, the Mayor made the reappointments to various Boards as stated below:

Capital Region Airport Authority:
John Shaski as a City of Lansing Member for a term to expire September 30, 2022; and

Economic Development Corporation:
Andrea Ragan for an At-Large Member for a term to expire February 28, 2023.

WHEREAS, the Mayor’s office has verified that the nominees has been vetted and meets the qualifications as required by the City Charter; and

WHEREAS, the Committee of the Whole met on October 22, 2018 and took affirmative action;

NOW, THEREFORE, BE IT RESOLVED that the Lansing City Council, hereby, confirms the reappointments to various Boards as stated below:

Capital Region Airport Authority:
John Shaski as a City of Lansing Member for a term to expire September 30, 2022; and

Economic Development Corporation:
Andrea Ragan for an At-Large Member for a term to expire February 28, 2023.

Michigan Department of Treasury
5597 (08-18)

Protecting Local Government Retirement and Benefits Act
Corrective Action Plan:
Retirement Health Benefit Systems

Issued under authority of Public Act 202 of 2017.

1. MUNICIPALITY INFORMATION

Local Unit Name: City of Lansing   Six-Digit Muni Code: 332020

Retirement Health Benefit System Name: Lansing Police & Fire OPEB System

Contact Name (Administrative Officer): Angela Bennett

Title if not Administrative Officer: Finance Director

Email: angela.bennett@lansingmi.gov   Telephone: (517) 483-4511

2. GENERAL INFORMATION

Corrective Action Plan: An underfunded local unit of government shall develop and submit for approval a corrective action plan for the local unit of government. The local unit of government shall determine the components of the corrective action plan. This Corrective Action Plan shall be submitted by any local unit of government with at least one retirement health benefit system that has been determined to have an underfunded status. Underfunded status for a retirement health system is defined as being less than 40% funded according to the most recent audited financial statements, and, if the local unit of government is a city, village, township, or county, the annual required contribution (ARC) for all of the retirement health systems of the local unit of government is greater than 12% of the local unit of government's annual governmental fund revenues, based on the most recent fiscal year.

Due Date: The local unit of government has **180 days from the date of notification** to submit a corrective action plan to the Municipal Stability Board. The Board may extend the 180-day deadline by up to an additional 45 days if the local unit of government submits a reasonable draft of a corrective action plan and requests an extension.

Filing: Per Sec. 10(1) of the Act, this Corrective Action Plan must be approved by the local government's administrative officer and its governing body. ***You must provide proof of your governing body approving this Corrective Action Plan and attach the documentation as a separate PDF document.*** Per Sec. 10(4) of the Act, failure to provide documentation that demonstrates approval from your governing body will result in a determination of noncompliance by the Board.

The submitted plan must demonstrate through distinct supporting documentation how and when the local unit will reach the 40% funded ratio. Or, if the local unit is a city, village, township, or county, the submitted plan may demonstrate how and when the ARC for all of the retirement healthcare systems will be less than 12% of annual governmental fund revenues, as defined by the Act. Supporting documentation for the funding ratio and/or ARC must include an actuarial projection, an actuarial valuation, or an internally developed analysis. The local unit must project governmental fund revenues using a reasonable forecast based on historical trends and projected rates of inflation.

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

The subject line of the email(s) should be in the following format: **Corrective Action Plan-2017, Local Unit Name, Retirement System Name** (e.g. Corrective Action Plan-2017, City of Lansing, Employees' Retirement System OPEB

Plan). 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 application(s).

Municipal Stability Board: The Municipal Stability Board (the Board) shall review and vote on the approval of a corrective action plan submitted by a local unit of government. If a corrective action plan is approved, the Board will monitor the corrective action plan for the following two years, and the Board will report on the local unit of government's compliance with the Act not less than every two years.

Review Process: Following receipt of the email by Treasury, the Board will accept the corrective action plan submission at the next scheduled meeting of the Board. The Board shall then approve or reject the corrective action plan within 45 days from the date of the meeting.

Considerations for Approval: A successful corrective action plan will demonstrate the actions for correcting underfunded status as set forth in Sec. 10(7) of the Act (listed below), as well as any additional solutions to address the underfunded status. Please also include steps already taken to address your underfunded status, as well as the date prospective actions will be taken. A local unit of government may also include in its corrective action plan a review of the local unit of government's budget and finances to determine any alternative methods available to address its underfunded status. A corrective action plan under this section may include the development and implementation of corrective options for the local unit of government to address its underfunded status. The corrective options as described in Sec. 10(7) may include, but are not limited to, any of the following:

(i) Requiring cost sharing of premiums and sufficient copays.

(ii) Capping employer costs.

Implementation: The local unit of government has up to 180 days after the approval of a corrective action plan to begin to implement the corrective action plan to address its underfunded status. The Board shall monitor each underfunded local unit of government's compliance with this act and any corrective action plan. The Board shall adopt a schedule, not less than every 2 years, to certify that the underfunded local unit of government is in substantial compliance with the Act. If the Board determines that an underfunded local unit of government is not in substantial compliance under this subsection, the Board shall within 15 days provide notification and report to the local unit of government detailing the reasons for the determination of noncompliance with the corrective action plan. The local unit of government has 60 days from the date of the notification to address the determination of noncompliance.

3. DESCRIPTION OF PRIOR ACTIONS

Prior actions are separated into three categories below: System Design Changes, Additional Funding, and Other Considerations. Please provide a brief description of the prior actions implemented by the local government to address the retirement system's underfunded status within the appropriate category section. Within each category are sample statements that you may choose to use to indicate the changes to your system that will positively affect your funded status. For retirement systems that have multiple divisions, departments, or plans within the same retirement system, please indicate how these changes impact the retirement **system** as a whole.

- **Please Note:** If applicable, prior actions listed within your waiver application(s) may also be included in your corrective action plan.

Please indicate where in the attached supporting documentation these changes are described and the impact of those changes (i.e. what has the local unit of government done to improve its underfunded status, and where can we find the proof of these changes in the supporting documentation?).

Note: Please provide the name of the system impacted, the date you made the change, the relevant page number(s) within the supporting documentation, and the resulting change to the system's funded ratio.

Category of Prior Actions:

☒ **System Design Changes -** System design changes may include the following: Changes to coverage levels (including retiree co-payments, deductibles, and Medicare eligibility), changes to premium cost-sharing, eligibility changes, switch to defined contribution retiree health care plan, changes to retiree health care coverage for new hires, etc.

Sample Statement: *Benefit levels of the retired membership mirrors the current collective bargaining agreement for each class of employee. On **January 1, 2017**, the local unit entered into new collective bargaining agreements with the **Command Officers Association** and **Internal Association of Firefighters** that increased employee co-payments and deductibles for healthcare. These coverage changes resulted in an improvement to the retirement system's funded ratio. Please see page **12** of the attached actuarial analysis that indicates the system is **40%** funded as of **June 30, 2017**.*

Attachment 2a demonstrates the actuarial projection of funding levels for the Lansing Police & Fire OPEB system, with 40% funding projected in year 2035.
Included as Attachment 6a(1) is a list of changes made to actuarial assumptions and benefit levels of the Police & Fire OPEB system over the past several years.

☐ **Additional Funding –** Additional funding may include the following: paying the annual required contribution in addition to retiree premiums, voluntary contributions above the annual required contribution, bonding, millage increases, restricted funds, etc.

Sample Statement: *The local unit created a qualified trust to receive, invest, and accumulate assets for retirement healthcare on **June 23, 2016**. The local unit of government has adopted a policy to change its funding methodology from Pay-Go to full funding of the Annual Required Contribution (ARC). Additionally, the local unit has committed to contributing **$500,000** annually, in addition to the ARC for the next five fiscal years. The additional contributions will increase the retirement system's funded ratio to **40%** by **2022.** Please see page **10** of the attached resolution from our governing body demonstrating the commitment to contribute the ARC and additional **$500,000** for the next five years.*

☒ **Other Considerations –** Other considerations may include the following: outdated Form 5572 information, actuarial assumption changes, amortization policy changes, etc.

Sample Statement: *The information provided on the Form 5572 from the audit used actuarial data from **2015**. Attached is an updated actuarial valuation for **2017** that shows our funded ratio has improved to **42%** as indicated on page **13**.*

The City has had the Lansing Financial Health Team (FHT) in place since 2012 for funding improvement necessity beyond the PA 202 minimums. OPEB study performed by the City, in conjunction with the FHT, is included as Attachment 6a(4).
Information on budgetary restructuring in response to revenue losses is included as Attachment 6a(2).

4. DESCRIPTION OF PROSPECTIVE ACTIONS

The corrective action plan allows you to submit a plan of prospective actions which are separated into three categories below: System Design Changes, Additional Funding, and Other Considerations. Please provide a brief description of the prospective actions implemented by the local government to address the retirement system's underfunded status within the appropriate category section. Within each category are sample statements that you may choose to use to indicate the changes to your system that will positively affect your funded status. For retirement systems that have multiple divisions, departments, or plans within the same retirement system, please indicate how these changes impact the retirement **system** as a whole.

Please indicate where in the attached supporting documentation these changes are described and the impact of those changes (i.e. what will the local unit of government do to improve its underfunded status, and where can we find the proof of these changes in the supporting documentation?).

Category of Prospective Actions:

☒ **System Design Changes** - System design changes may include the following: Changes to coverage levels (including retiree co-payments, deductibles, and Medicare eligibility), changes to premium cost-sharing, eligibility changes, switch to defined contribution retiree health care plan, changes to retiree health care coverage for new hires, etc.

Sample Statement: *The local unit will seek to align benefit levels for the retired membership with each class of active employees. Beginning with* ***summer 2018*** *contract negotiations, the local unit will seek revised collective bargaining agreements with the* ***Command Officers Association*** *and* ***Internal Association of Firefighters*** *to increase employee co-payments and deductibles for healthcare. These coverage changes would result in an improvement to the retirement system's funded ratio. Please see page* ***12*** *of the attached actuarial analysis that indicates the system would be* ***40%*** *funded by* ***fiscal year 2020*** *if these changes were adopted and implemented by* ***fiscal year 2019***.

The City investigated use of an HRA model for Medicare-eligible retirees which could reduce the liability by 25%-36% in the short-term and 48%-67% in the longer term; ability precluded by prior collective bargaining agreement language.
All of the City's collective bargaining agreements will be negotiated this next year. As a part of those negotiations, the City is considering further pension changes, including former (see Attachment 6a(3)) and ongoing/new OPEB recommendations from the Lansing Financial Health Team, including consideration of a high-deductible/HRA model for current employees and applicable retirees/future retirees, as well as an OPEB study conducted in 2017 (see Attachment 6a(4)), in recognition of necessity of funding improvement beyond the State threshold of 40% funding.

☒ **Additional Funding –** Additional funding may include the following: meeting the annual required contribution in addition to retiree premiums, voluntary contributions above the annual required contribution, bonding, millage increases, restricted funds, etc.

Sample Statement: *The local unit will create a qualified trust to receive, invest, and accumulate assets for retirement healthcare by* ***December 31, 2018***. *The local unit of government will adopt a policy to change its funding methodology from Pay-Go to full funding of the Annual Required Contribution (ARC) by* ***December 31, 2018***. *Additionally, beginning in fiscal year 2019, the local unit will contribute* ***$500,000*** *annually in addition to the ARC for the next five fiscal years. The additional contributions will increase the retirement system's funded ratio to* ***40%*** *by* ***2022***. *Please see page* ***10*** *of the attached resolution from our governing body demonstrating the commitment to contribute the ARC and additional* ***$500,000*** *for the next five years.*

The City has instituted a General Fund fund balance policy specifying that fund balance amounts in excess of 15% of General Fund expenditures will be contributed as additional payments to its pension and OPEB systems (see page 12 of Attachment 4a).

☒ **Other Considerations** – Other considerations may include the following: outdated Form 5572 information, actuarial assumption changes, amortization policy changes, etc.

Sample Statement: *Beginning in* ***fiscal year 2019***, *the local unit will begin amortizing the unfunded portion of the healthcare liability using a* ***level-dollar amortization method over a closed period of 10 years***. *This will allow the health system to reach a funded status of* ***42%*** *by* ***2022*** *as shown in the attached actuarial analysis on page* ***13***.

The City continues to evaluate City service delivery for cost efficiencies and joint venture/collaboration/regional opportunities.

5. CONFIRMATION OF FUNDING

Please check the applicable answer:

Do the corrective actions listed in this plan allow for *(insert local unit name)* ______________________________
to make, at a minimum, the retiree premium payment, as well as the normal cost payments for all new hires (if applicable), for the retirement health benefit system according to your long-term budget forecast?

☒ **Yes**
☐ **No**
If No, Explain

6. DOCUMENTATION ATTACHED TO THIS CORRECTIVE ACTION PLAN

Documentation should be attached as a .pdf to this corrective action plan. The documentation should detail the corrective action plan that would be implemented to adequately address the local unit of government's underfunded status. Please check all documents that are included as part of this plan and attach in successive order as provided below:

Naming convention: when attaching documents please use the naming convention shown below. If there is more than one document in a specific category that needs to be submitted, include a, b, or c for each document. For example, if you are submitting two supplemental valuations, you would name the first document "Attachment 2a" and the second document "Attachment 2b".

Naming Convention	Type of Document
☒ Attachment – 1	**This Corrective Action Plan (Required)**
☒ Attachment – 1a	**Documentation from the governing body approving this Corrective Action Plan (Required)**
☒ Attachment – 2a	**An actuarial projection, an actuarial valuation, or an internally developed analysis, which illustrates how and when the local unit will reach the 40% funded ratio. Or, if the local unit is a city, village, township, or county, ARC will be less than 12% of governmental fund revenues, as defined by the Act. (Required)**
☐ Attachment – 3a	Documentation of additional payments in past years that is not reflected in your audited financial statements (e.g. enacted budget, system provided information).
☒ Attachment – 4a	Documentation of commitment to additional payments in future years (e.g. resolution, ordinance)
☐ Attachment – 5a	A separate corrective action plan that the local unit has approved to address its underfunded status, which includes documentation of prior actions, prospective actions, and the positive impact on the system's funded ratio
☒ Attachment – 6a	Other documentation, not categorized above

7. CORRECTIVE ACTION PLAN CRITERIA

Please confirm that each of the four corrective action plan criteria listed below have been satisfied when submitting this document. Specific detail on corrective action plan criteria can be found in the Corrective Action Plan Development: Best Practices and Strategies document.

Corrective Action Plan Criteria	Description
☒ Underfunded Status	Is there a description and adequate supporting documentation of how and when the retirement system will reach the 40% funded ratio? Or, if your local unit is a city, village, township, or county, how and when the ARC of all retirement healthcare systems will be less than 12 percent of governmental fund revenues?
☒ Reasonable Timeframe	Do the corrective actions address the underfunded status in a reasonable timeframe (see CAP criteria issued by the Board)?
☒ Legal and Feasible	Does the corrective action plan follow all applicable laws? Are all required administrative certifications and governing body approvals included? Are the actions listed feasible?
☒ Affordability	Do the corrective action(s) listed allow the local unit to make the retiree healthcare premium payment, as well as normal cost payment for new hires now and into the future without additional changes to this corrective action plan?

8. LOCAL UNIT OF GOVERNMENT'S ADMINISTRATIVE OFFICER APPROVAL OF CORRECTIVE ACTION PLAN

I, Andy Schor, as the government's administrative officer (insert title) Mayor (Ex: City/Township Manager, Executive director, and Chief Executive Officer, etc.) approve this Corrective Action Plan and will implement the prospective actions contained in this Corrective Action Plan.

I confirm to the best of my knowledge that because of the changes listed above, one of the following statements will occur:

☒ The Lansing Police & Fire OPEB System **(Insert Retirement Healthcare System Name)** will achieve a funded status of at least 40% by Fiscal Year 2027 as demonstrated by required supporting documentation listed in section 6.

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

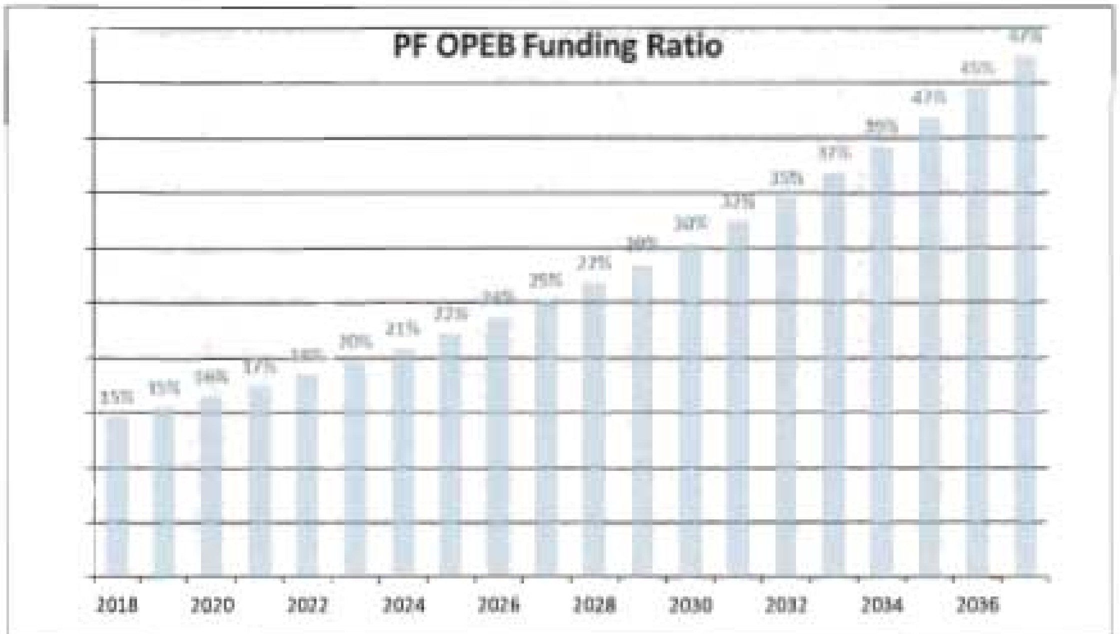
☐ The ARC for all of the retirement healthcare systems of ____________________ **(Insert local unit name)** will be less than 12% of the local unit of government's annual governmental fund revenues by Fiscal Year ________ as demonstrated by required supporting documentation listed in section 6.

Signature ____________________ Date ____________________

Attachment 1a – City Council Corrective Plan Approval Resolution

City of Lansing Police/Fire OPEB Funding Projection, *Prepared by Boomershine Consulting Group*

Baseline Scenario (no gains or losses, no changes in assumptions/methods)



The projection of funding shown above is based on the January 1, 2016 valuation projected forward, based on the benefit provisions and actuarial assumptions outlined in the valuation report. The above reflects the City's current funding strategy of paying benefits as well as contributing a percentage of payroll to the OPEB Fund.

This projection has been completed in in accordance with generally accepted actuarial principles and practices. The undersigned is a member of the American Academy of Actuaries, and meets the Qualification Standards to provide the actuarial opinions herein.

Gregory M. Stump

Gregory M. Stump, FSA, EA, FCA, MAAA
Chief Actuary
Boomershine Consulting Group

BOOMERSHINE CONSULTING GROUP, LLC

RESOLUTION #2018-142

BY COMMITTEE OF THE WHOLE
RESOLVED BY THE CITY COUNCIL OF THE CITY OF LANSING

WHEREAS, in conformance with Article 7, Section 7-101 of the City Charter, on March 26, 2018, the Mayor submitted a proposed budget for the 2018/2019 fiscal year, which spans from July 1, 2018 through June 30, 2019; and

WHEREAS, the City Council held a series of televised public hearings to review Mayor's budget recommendations; and

WHEREAS, the City Council held special Committee of the Whole meetings during evening hours at the Foster Community Center on May 10, 2018 and at the Alfreda Schmidt Community Center on May 15, 2018, and as part of the Council meeting to provide opportunities for citizens to comment on the proposed City budget; and

WHEREAS, in accordance with City Charter and the State Uniform Budgeting and Accounting Act, notice was published and a public hearing was held on May 14, 2018, for the fiscal year 2018/2019 budget and capital improvements program; and
WHEREAS, Public Act 2 of 1968 of the State of Michigan, as amended, provides that the budget resolution of the City shall set forth the total number of mills to be levied under the General Property Tax Act, the estimated revenues, by source, and amounts appropriated to defray expenditures and meet the liabilities of the City for the ensuing fiscal year; and

WHEREAS, the City Council desires to establish certain budget policies for the fiscal year 2018/2019,

NOW, THEREFORE, BE IT RESOLVED that 19.70 mills be levied under the General Property Tax Act for fiscal year 2018/2019 as follows:

City Operating: 19.44
City Debt: .26

BE IT FURTHER RESOLVED that the City's sewage rate shall be increased by 3.0% for FY 2018/2019;

BE IT FURTHER RESOLVED that the following changes to the City's fee and charges be adopted:

	From Current FY 2018	To Adopted FY 2019
Fire Department		
Ambulance Fee - Advanced Life Support 2	$ 900.00	$ 1,150.00
Ambulance transport mileage (per mile)	$ 13.50	$ 16.50
EMS Report Fee	$ 4.00	$ 10.00
Economic Development & Planning - Building Safety		
Non-FOIA Search and Copy Charge (per 15 minutes)	new fee	$ 10.00
Non-FOIA Search and Copy Charge - CD/DVD (each)	new fee	$ 2.00
Economic Development & Planning - Parking System		
South Capitol Ramp Permits (Monthly)		
Reserved	$ 135.00	$ 141.00
Covered	$ 107.00	$ 115.00
Roof	$ 85.00	$ 90.00
Basement	$ 112.00	$ 120.00
North Grand Ramp Permits (Monthly)		
General	$ 128.00	$ 140.00
Reserved	$ 150.00	$ 160.00
Roof	$ 93.00	$ 110.00
North Capitol Ramp Permits (Monthly)		
General	$ 93.00	$ 110.00
Townsend Ramp Permits (Monthly)		
Reserved Basement/Level 1	$ 167.00	$ 170.00
General, Levels 2-5	$ 143.00	$ 150.00
General, Levels 6-8	$ 130.00	$ 133.00

Transient Parking Rates	From Current FY 2018	To Adopted FY 2019
VIP Hourly Rate per half-hour (all ramps)	$ 0.70	$ 1.05
Hourly rate per half hour (Townsend, South Capitol, North Capitol R	$ 1.00	$ 1.25
Hourly rate per half hour (North Grand Ramp)	$ 1.00	$ 1.50
Daily Maximum (Townsend, South Capitol, North Capitol Ramps)	$ 10.00	$ 12.50
Daily Maximum (North Grand Ramp)	$ 10.00	$ 15.00
Lot Rates (Monthly)		
Lot #1	$ 75.00	$ 85.00
Lot #49	$ 50.00	$ 60.00
Lot #49A	$ 50.00	$ 60.00
Lot #50	$ 22.00	$ 30.00
Lot #52	$ 63.00	$ 70.00
Lot #53	$ 63.00	$ 70.00
Lot #55	$ 68.00	$ 80.00
Lost Ticket Rates		
North Capitol Ramp	$ 10.00	$ 12.50
Townsend, South Capitol Ramps	$ 10.00	$ 25.00
North Grand Ramp	$ 20.00	$ 30.00

Office of Community Media

Inflatable Movie Screen & Equipment Rental - free community events	new fee	$ 500.00
Inflatable Movie Screen & Equipment Rental - ticketed events	new fee	$ 1,000.00
Media Center theatre space rental - professional video or ticketed eve	new fee	$ 500.00
Media Center theatre space rental - free community event (per hour)	new fee	$ 20.00
Media Center theatre space rental - non-commercial production, non-business hours (per hour)	new fee	$ 20.00
Backpack studio rental - commercial production (per day)	new fee	$ 100.00
Intermediate Production class - Resident	new fee	$ 55.00
Intermediate Production class - Nonresident	new fee	$ 105.00
Camera Package Rental - commercial production	new fee	$ 100.00
Live Production Trailer with final edited product with staff and equipme	new fee	$ 1,750.00

Parks & Recreation Department

Marshall Park Sand Volleyball - no equipment (per hour)	$ 5.00	$ 10.00
Marshall Park Sand Volleyball - with equipment (per hour)	$ 8.00	$ 15.00
Frances Park Pavilion Rental - 1/2 Pavilion, 1/2 Day Weekday		$ 70.00
Frances Park Pavilion Rental - 1/2 Pavilion, 1/2 Day Weekend		$ 80.00
Frances Park Pavilion Rental - Full Pavilion, 1/2 Day Weekday		$ 115.00
Frances Park Pavilion Rental - Full Pavilion, 1/2 Day Weekend		$ 135.00
Frances Park Pavilion Rental - Full Pavilion, Full Day - Weekday		$ 190.00
Frances Park Pavilion Rental - Full Pavilion, Full Day - Weekend		$ 220.00
Frances Park Pavilion Rental - 1/2 Pavilion, 1/2 Day Holiday		$ 100.00
Frances Park Pavilion Rental - Rental of 1/2 Pavilion Full Day Holiday		$ 165.00
Frances Park Pavilion Rental - Full Pavilion, Full Day Holiday		$ 275.00
Frances Pavilion Clean Up Fee Rental - Deposit for Clean Up Forfeite		$ 50.00
Hunter Park Pavilion Rental - 1/2 Day Weekday/Weekend	Change in rate	$ 35.00
Hunter Park Pavilion Rental - Full Day Weekday/Weekend	structure	$ 60.00
Hunter Park Pavilion Rental - 1/2 Day Holiday		$ 65.00
Hunter Park Pavilion Rental - Full Day Holiday		$ 110.00
Moores Park Pavilion Rental - 1/2 Day, Weekday/Weekend		$ 45.00
Moores Park Pavilion Rental - Full Day Weekday/Weekend		$ 70.00
Moores Park Pavilion Rental - 1/2 Day Holiday		$ 75.00
Moores Park Pavilion Rental - Full Day Holiday		$ 125.00
Washington Park Pavilion Rental - 1/2 Day, Weekday/Weekend		$ 45.00
Washington Park Pavilion Rental - Full Day Weekday/ Weekend		$ 70.00
Washington Park Pavilion Rental - 1/2 Day Holiday		$ 75.00
Washington Park Pavilion Rental - Full Day Holiday		$ 125.00
Adado Riverfront Park Rental	$ 150.00	$ 500.00
	From	**To**
Grand River Park Boat Slip Rental - Resident	$ 200.00	$ 220.00
Grand River Park Boat Slip Rental - Nonresident	$ 400.00	$ 420.00
Turner Dodge - Teas	$ 15.00	$ 19.00
Turner Dodge / First Floor Rental - Resident (per hour)	$ 110.00	$ 120.00
Turner Dodge / First Floor Rental - Non-Resident (per hour)	$ 125.00	$ 135.00
Turner Dodge / Entire House Rental - Resident (per hour)	$ 145.00	$ 155.00
Turner Dodge / Entire House Rental - Non-Resident	$ 160.00	$ 170.00
Special Recreation - Road Rally	$ 75.00	$ 100.00
Community Center - Kids cooking class	$ 20.00	$ 30.00

SEPA Late Fee - Adado Riverfront Park <30 days from event		new fee	$	150.00
SEPA Late Fee - Rivertrail Rental <30 days from event		new fee	$	125.00
Adult Men's Baseball League - Age 30+	$	907.00	$	1,007.00
Adult Men's Baseball League - Age 40+	$	907.00	$	1,007.00
Adult Men's Baseball City League	$	1,249.00	$	1,350.00
Girl's Wildcat Softball, before May 10 - Resident	$	30.00	$	40.00
Girl's Wildcat Softball, before May 10 - Nonresident	$	35.00	$	45.00
Girl's Wildcat Softball, after May 10 - Resident	$	40.00	$	50.00
Girl's Wildcat Softball, after May 10 - Nonresident	$	45.00	$	55.00
Baseball Field Rentals - Youth Tournaments (per game)	$	30.00	$	100.00
Baseball Field Rentals - Adult Tournaments (per game)	$	35.00	$	120.00
Public Service Department Refuse and Recycling Funds:				
Refuse Bags:				
Individual Bags	$	2.00	$	2.25
5 bags	$	10.00	$	11.25
Carts:				
21 gallon cart	$	40.00	$	42.00
32 gallon cart	$	43.00	$	44.00
65 gallon cart	$	48.00	$	49.00
95 gallon cart	$	54.00	$	55.00
Blue cart late fee	$	5.00	$	10.00
Recycling Fee	$	98.50	$	105.00
Recycling Commercial Fee (per quarter)	$	47.00	$	52.00
Recycling Fee - Special Events, Cart Rental	$	10.00	$	15.00
Recycling Fee - Special Events, Noncompliance (contamination)		new fee	$	10.00

BE IT FURTHER RESOLVED that the following appropriations and revenue projections are adopted as the City's budget for the FY 2018/2019 fiscal year:

	FY 2019 Proposed	Council Changes	FY 2019 Adopted
Estimated Revenues			
Property Taxes	$ 40,315,000		$ 40,315,000
Income Taxes	38,500,000		38,500,000
State Shared Revenues	19,196,700		19,196,700
Licenses and Permits	1,677,000		1,677,000
Charges for Services	9,017,200	10,000	9,027,200
Fines and Forfeitures	2,456,100		2,456,100
Interest and Rents	205,000		205,000
Return on Equity	22,500,000		22,500,000
Other Revenue	333,000		333,000
Transfers	100,000		100,000
Use of/(Contribution to) Fund Balance	-		-
Total Revenue	$ 134,300,000	$ 10,000	$ 134,310,000

Appropriations

City Council			
Personnel	$ 494,573		$ 494,573
Operating	219,427		219,427
Total	$ 714,000	$ -	$ 714,000
Internal Audit			
Personnel	$ 182,261		$ 182,261
Operating	12,639		12,639
Total	$ 194,900	$ -	$ 194,900
Courts			
Personnel	$ 5,186,717		$ 5,186,717
Operating	1,418,783		1,418,783
Total	$ 6,605,500	$ -	$ 6,605,500
Mayor's Office			
Personnel	$ 1,076,326		$ 1,076,326
Operating	220,474		220,474
Total	$ 1,296,800	$ -	$ 1,296,800
Office of Community Media			
Personnel	$ 431,375		$ 431,375
Operating	38,525		38,525
Total	$ 469,900	$ -	$ 469,900
City Clerk' Office			
Personnel	$ 955,857		$ 955,857
Operating	241,143		241,143
Total	$ 1,197,000	$ -	$ 1,197,000
Neighborhood and Citizen Engagement			
Personnel	$ 540,790		$ 540,790
Operating	322,710		322,710
Total	$ 863,500	$ -	$ 863,500
Economic Development and Planning			
Personnel	$ 2,576,020	$ 70,000	$ 2,646,020
Operating	2,415,280	(40,000)	2,375,280
Total	$ 4,991,300	$ 30,000	$ 5,021,300
Finance			
Personnel	$ 4,208,563		$ 4,208,563
Operating	1,263,037		1,263,037
Total	$ 5,471,600	$ -	$ 5,471,600
Human Resources			
Personnel	$ 1,239,243		$ 1,239,243
Operating	878,757		878,757
Total	$ 2,118,000	$ -	$ 2,118,000
City Attorney			
Personnel	$ 1,905,589		$ 1,905,589
Operating	262,711		262,711
Total	$ 2,168,300	$ -	$ 2,168,300
Police			
Personnel	$ 36,508,691		$ 36,508,691
Operating	6,684,609		6,684,609
Total	$ 43,193,300	$ -	$ 43,193,300

Fire			
Personnel	$ 29,283,556	$ (20,000)	$ 29,263,556
Operating	4,866,344		4,866,344
Total	$ 34,149,900	$ (20,000)	$ 34,129,900
Public Service			
Personnel	$ 2,857,678		$ 2,857,678
Operating	8,714,822		8,714,822
Total	$ 11,572,500	$ -	$ 11,572,500
Human Relations & Community Service			
Personnel	$ 1,427,118		$ 1,427,118
Operating	171,182		171,182
Total	$ 1,598,300	$ -	$ 1,598,300
Parks & Recreation			
Personnel	$ 4,947,423		$ 4,947,423
Operating	3,353,577		3,353,577
Total	$ 8,301,000	$ -	$ 8,301,000
Human Services			
Operating	$ 1,660,000		$ 1,660,000
Total	$ 1,660,000	$ -	$ 1,660,000
City-Supported Agencies			
Operating	$ 381,400		$ 381,400
Total	$ 381,400	$ -	$ 381,400
Non-Departmental			
Vacancy Factor	$ (500,000)		$ (500,000)
Library Lease	150,000		150,000
Debt Service	1,154,000		1,154,000
Transfers	6,548,800		6,548,800
Total	$ 7,352,800	$ -	$ 7,352,800
Total Appropriations	$ 134,300,000	$ 10,000	$ 134,310,000

II. SPECIAL REVENUE FUNDS

MAJOR STREETS FUND

Estimated Revenues			
Gas & Weight Tax Receipts	$ 9,588,800		$ 9,588,800
Utility Permit Fees (Metro Act)	450,000		450,000
Reimbursements	959,000		959,000
Miscellaneous Revenue	45,000		45,000
Transfer from Other Funds	100,000		100,000
Use of/(Contribution to) Fund Balance	1,811,200		1,811,200
Total Revenue	$ 12,954,000	$ -	$ 12,954,000
Appropriations			
Personnel	$ 3,003,107		$ 3,003,107
Operating	3,824,693		3,824,693
Capital	2,700,000		2,700,000
Debt Service	526,200		526,200
Transfers	2,900,000		2,900,000
Total Appropriations	$ 12,954,000	$ -	$ 12,954,000

LOCAL STREETS FUND

Estimated Revenues			
Gas & Weight Tax Receipts	$ 3,196,200		$ 3,196,200
Reimbursements	200,000		200,000
Miscellaneous Revenue	120,000		120,000
Transfer from Other Funds	5,270,000		5,270,000
Use of/(Contribution to) Fund Balance	(125,200)		(125,200)
Total Revenue	$ 8,661,000	$ -	$ 8,661,000
Appropriations			
Personnel	$ 3,042,012		$ 3,042,012
Operating	2,371,588		2,371,588
Capital	2,520,000		2,520,000
Debt Service	727,400		727,400
Total Appropriations	$ 8,661,000	$ -	$ 8,661,000

STADIUM FUND

Estimated Revenues			
Operating Revenues	$ 400,000		$ 400,000
Stadium Naming Rights	120,000		120,000
Reimbursements	125,000		125,000
Transfers In	512,000		512,000
Use of/(Contribution to) Fund Balance	-		-
Total Revenue	$ 1,157,000	$ -	$ 1,157,000
Appropriations			
Debt Service	$ 1,157,000		$ 1,157,000
Total Appropriations	$ 1,157,000	$ -	$ 1,157,000

BUILDING DEPARTMENT FUND

Estimated Revenues			
Licenses & Permits	$ 2,592,200		$ 2,592,200
Charges for Services	2,500		2,500
Miscellaneous	300		300
Use of/(Contribution to) Fund Balance	(25,000)		(25,000)
Total Revenue	$ 2,570,000	$ -	$ 2,570,000
Appropriations			
Personnel	$ 2,029,226		$ 2,029,226
Operating	540,774		540,774
Total Appropriations	$ 2,570,000	$ -	$ 2,570,000

CDBG FUND

Estimated Revenues			
Federal Grants	$ 2,850,968		$ 2,850,968
General Fund Transfer	152,530		152,530
Total Revenue	$ 3,003,498	$ -	$ 3,003,498
Appropriations			
Personnel	$ 1,058,885		$ 1,058,885
Operating	1,944,613		1,944,613
Total Appropriations	$ 3,003,498	$ -	$ 3,003,498

HOME GRANT FUND

Estimated Revenues			
Federal Grants	$ 1,689,435		$ 1,689,435
General Fund Transfer	26,720		26,720
Total Revenue	$ 1,716,155	$ -	$ 1,716,155
Appropriations			
Personnel	$ 201,697		$ 201,697
Operating	1,514,458		1,514,458
Total Appropriations	$ 1,716,155	$ -	$ 1,716,155

EMERGENCY SHELTER GRANT FUND

Estimated Revenues			
Federal Grants	$ 167,605		$ 167,605
General Fund Transfer	-		-
Total Revenue	$ 167,605	$ -	$ 167,605
Appropriations			
Operating	$ 167,605		$ 167,605
Total Appropriations	$ 167,605	$ -	$ 167,605

FEDERAL DRUG LAW ENFORCEMENT SPECIAL REVENUE FUND

Estimated Revenues			
Drug Forfeitures	$ -		$ -
Use of/(Contribution to) Fund Balance	108,000		108,000
Total Revenue	$ 108,000	$ -	$ 108,000
Appropriations			
Personnel	$ -	$ -	$ -
Operating	108,000	-	108,000
Total Appropriations	$ 108,000	$ -	$ 108,000

STATE/LOCAL DRUG LAW ENFORCEMENT SPECIAL REVENUE FUND

Estimated Revenues						
Drug Forfeitures	$	-			$	-
Use of/(Contribution to) Fund Balance		523,600				523,600
Total Revenue	$	523,600	$	-	$	523,600
Appropriations						
Operating	$	523,600	$	-	$	523,600
Transfers		-				-
Total Appropriations	$	523,600	$	-	$	523,600

DRUG LAW ENFORCEMENT FUND - TRI-COUNTY METRO

Estimated Revenues						
Drug Forfeiture Revenues	$	428,220			$	428,220
Contributions from Local Units		428,220				428,220
Total Revenue	$	856,440	$	-	$	856,440
Appropriations						
Personnel	$	86,920	$	-	$	86,920
Operating		769,520		-		769,520
Transfers		-		-		-
Total Appropriations	$	856,440	$	-	$	856,440

DOWNTOWN LANSING, INC.

Estimated Revenues						
Special Assessments	$	420,400			$	420,400
Grants		10,000				10,000
Miscellaneous		290,275				290,275
Transfer from General Fund		156,300				156,300
Use of/(Contribution to) Fund Balance		14,525				14,525
Total Revenue	$	891,500	$	-	$	891,500
Appropriations						
Personnel	$	164,875			$	164,875
Operating		726,625				726,625
Total Appropriations	$	891,500	$	-	$	891,500

III. ENTERPRISE FUNDS

CEMETERIES FUND

Estimated Revenues						
Cemetery Service Revenue	$	190,150			$	190,150
Sale of Lots		70,000				70,000
Other		3,000				3,000
Transfer from Perpetual Care		5,000				5,000
Transfer from Parks Millage		486,850				486,850
Use of/(Contribution to) Fund Balance		-				-
Total Revenue	$	755,000	$	-	$	755,000
Appropriations						
Personnel	$	414,989			$	414,989
Operating		313,011				313,011
Transfers		27,000				27,000
Total Appropriations	$	755,000	$	-	$	755,000

GOLF FUND

Estimated Revenues						
Transfers In - Parks Millage	$	179,400			$	179,400
Total Revenue	$	179,400	$	-	$	179,400
Appropriations						
Operating	$	179,400			$	179,400
Total Appropriations	$	179,400	$	-	$	179,400

PARKING FUND

Estimated Revenues				
Parking Revenue	$ 5,985,600			$ 5,985,600
Baseball Revenue	55,000			55,000
Parking Fines	500,000			500,000
Other Revenue	1,251,269			1,251,269
Use of/(Contribution to) Fund Equity	4,396,131			4,396,131
Total Revenue	$ 12,188,000	$	-	$ 12,188,000
Appropriations				
Personnel	$ 2,406,137			$ 2,406,137
Operating	2,500,053			2,500,053
Capital	3,976,810			3,976,810
Debt Service	3,305,000			3,305,000
Total Appropriations	$ 12,188,000	$	-	$ 12,188,000

WASTEWATER FUND

Estimated Revenues				
Sewer Charges	$ 35,733,000			$ 35,733,000
Interest Income	148,960			148,960
Low Income Credit	(2,000)			(2,000)
Miscellaneous Income	-			-
Use of/(Contribution to) Fund Equity	4,890,040			4,890,040
Total Revenue	$ 40,770,000	$	-	$ 40,770,000
Appropriations				
Personnel	$ 8,329,628			$ 8,329,628
Operating	8,467,596			8,467,596
Capital	9,228,000			9,228,000
Debt Service	14,744,776			14,744,776
Total Appropriations	$ 40,770,000	$	-	$ 40,770,000

REFUSE FUND

Estimated Revenues				
Operating Income	$ 2,133,004			$ 2,133,004
Interest Income	7,000			7,000
Use of/(Contribution to) Fund Equity	(215,004)			(215,004)
Total Revenue	$ 1,925,000	$	-	$ 1,925,000
Appropriations				
Personnel	$ 945,893			$ 945,893
Operating	929,107			929,107
Capital	50,000			50,000
Total Appropriations	$ 1,925,000	$	-	$ 1,925,000

RECYCLING FUND

Estimated Revenues				
Operating Income	$ 4,130,540			$ 4,130,540
Sale of Recycled Materials	-			-
Interest Income	-			-
Use of/(Contribution to) Fund Equity	169,460			169,460
Total Revenue	$ 4,300,000	$	-	$ 4,300,000
Appropriations				
Personnel	$ 2,196,847			$ 2,196,847
Operating	1,598,340			1,598,340
Debt Service	454,813			454,813
Capital	50,000			50,000
Total Appropriations	$ 4,300,000	$	-	$ 4,300,000

IV. CAPITAL PROJECT FUNDS

CAPITAL IMPROVEMENT (CIP) FUND

Estimated Revenues				
Transfer from the General Fund	$ 1,395,000			$ 1,395,000
Loan Revenue	180,000			180,000
PEG (Cable Capital) Revenues	400,000			400,000
Total Revenue	$ 1,975,000	$	-	$ 1,975,000

Appropriations			
Capital	$ 995,000		$ 995,000
PEG Capital	300,000		300,000
Debt Service	180,000		180,000
Transfer to General Fund	100,000		100,000
Transfers to Street Funds	400,000		400,000
Total Appropriations	$ 1,975,000	$ -	$ 1,975,000

PARKS MILLAGE FUND

Estimated Revenues			
Transfer from the General Fund	$ 2,036,250		$ 2,036,250
Total Revenue	$ 2,036,250	$ -	$ 2,036,250
Appropriations			
Transfers to Golf/Cemetery Funds	$ 666,250		$ 666,250
Capital	1,370,000		1,370,000
Total Appropriations	$ 2,036,250	$ -	$ 2,036,250

BE IT FINALLY RESOLVED, that the following policies are hereby established for the 2018/2019 fiscal year:

FY 2019 Budget Policies

In accordance with the State Uniform Budget and Accounting Act (Public Act 2 of 1968), the City of Lansing's annual appropriations, as set forth in the annual budget resolution, shall be made in accordance with Generally Accepted Accounting Principles (GAAP) and shall apply to all funds except internal service funds, debt service funds, permanent funds, and trust and agency funds.

The City's fiscal year is July 1 through June 30. In accordance with the City Charter, on or before the fourth Monday in March, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. No later than the third Monday in May, the Council adopts the budget and sets the property tax rates for the ensuing fiscal year.

Appropriations are set forth in the annual budget resolution. Authority to transfer between appropriations is dictated by City Charter; however, additional administrative budget transfer authority is granted for the following instances. The Administration is requested to submit to Council quarterly reports of such transfers.

Wastewater Funds – the transfer residual State Revolving Fund (SRF) loan and/or bond proceeds between projects and project segments.

Flood Control – the transfer of funds for flood control and/or storm sewer purposes to address flooding or unanticipated storm sewer maintenance needs.

Major and Local Street (Act 51) Funding – Transfer authority is not limited by departmental allocation, and administrative authority is included for appropriation of MDOT special authorization funding.

Parking System – the transfer of capital project accounts from operating accounts is permitted to meet bid or unforeseen capital needs.

Debt Service Funds – the transfer of residual balances between general obligation bond debt service accounts.

Vacancy Factor/funded and unfilled Positions - The budget includes an attrition vacancy allowance of $500,000. The Administration is requested to provide Council on July 1, 2018 and on a quarterly basis, thereafter, a list of vacant positions by department. The Administration is also requested to provide, on a quarterly basis, a detailed list by Department of all positions by title, FTE, wages and fringes, and impact on programs and/or services which are included within this allowance. The personnel wages and fringes associated with all positions identified above as of July 1, 2018 and any such position vacated, thereafter, shall be placed in a budget control account, and will require City Council approval for expenditure.

In addition, administrative authority is granted for the transfer of wage and fringe benefit reserves to departmental budgets upon settlement of a collective bargaining agreement.

Carryforwards

Authority is granted to reappropriate available capital project balances as of June 30, 2018 into the FY 2019 budget. All non-capital balances require City Council approval to carryforward, except for encumbered (purchase order) obligations less than $5,000 and not more than 8 months old.

- Human Services and Community Supported Agencies Funding
  The plan for funding Agencies submitted to Council designate particular Agencies. If any agency does not apply for or use their funding, all funds will remain in their respective account(s) for additional appropriation and approval by Council for Human Services and Community Supported Agencies use pursuant to the Charter transfer authority. The Administration/Human Relations Community Services Department is requested to submit to Council a quarterly report on the status of the Human Services and Community Supported Agencies' funding. This report should include the accounting level detail appropriation; amount spent, balance, and a notation as to whether the balance of funds is expected to be spent by the end of the Fiscal Year; if not, why.

General Fund Reserve Policy

The City's General Fund reserves consist of the General Fund fund balance and the Budget Stabilization Fund. Use of and contributions to the Budget Stabilization Fund are dictated by Ordinance section 218.05.

The targeted unrestricted balance for the combination of the General Fund fund balance and the Budget Stabilization Fund is a minimum of 12% of General Fund expenditures and a maximum of 15% of General Fund expenditures. If events necessitate that the combined balances drop below 12% of General Fund expenditures, annual appropriations of a minimum of $500,000 will be made until the 12% target is reached. In the event that combined reserves are projected to exceed 15% of General Fund revenues, the excess amount will be used to supplement pension and/or retiree healthcare prefunding.

Debt Management

Appropriations are made to adequately fund annual debt service obligations. Adherence will be made to required debt service reserves, where applicable, as well as to the provision of annual disclosures as required by outstanding bond obligations.

Investment Policy

Management of cash investments is governed by the City's investment policy and in accordance to State statute, with the objective being the maximization of return on the City's governmental funds through pooling of funds where appropriate and permitted, monitoring of interest rates and fee structures. Investments of the Employee Retirement System, the Police and Fire Retirement System, and the VEBA, are governed those respective boards and dictated by their respective investment policies.

Strategic Planning and Budget Development

In working toward the goal of the incorporation of strategic planning into the budget process, this next year, Administration is encouraged to work towards developing a multi-year budgeting process. This process should align the City's master plan, strategic goals, and performance metrics to short-term and long-term budget priority-setting by Council in accordance with Financial Health Team recommendations.

Civil Actions, Claims, and Damages

Whenever a claim is made or any civil action is commenced against the Mayor, a City Council member, a non-bargaining unit employee, or a Lansing retirement board trustee (collectively in this provision "the Employee") for damages caused by an act or acts of the Employee within the scope of his or her authority and while in the course of his or her employment with the City or his or her duties on behalf of the retirement board, the City will pay for, engage, or furnish the services of an attorney to advise the Employee as to the claim and to appear for and represent the Employees in the action. If the City Attorney does not provide the attorney services, the attorney selection shall be made by the City Attorney in the manner the City Charter requires. The City may compromise, settle, and pay a claim before or after the commencement of any civil action. Whenever any judgment for damages caused by the act or acts of the Employee covered under this provision is awarded against the Employee as the result of a civil action, the City will indemnify the Employee or will pay, settle, or compromise the judgment. The City's obligations under this provision, however, is contingent upon the Employee giving prompt notice of the commencement of the action and upon the Employee cooperating in the preparation, defense, and settlement of the action. The term "scope of authority" under this provision does not include any act or acts of Employee (i) fraud, (ii) dishonesty, (iii) willful, intentional, or deliberate violation of the law or breach of fiduciary duty, (iv) criminal act, or (v) traffic violation; nor does this provision abrogate or diminish governmental immunity.

Grants

In order to receive timely Council consideration of the approval of any grant award, every application for any grant requiring legislative approval shall be submitted to Council, and, upon notification of the award of such a grant, the acceptance shall be submitted to Council. Once accepted administrative authority is granted to create necessary accounts and transfers in accordance with the requirements

of the grantor. Any grant that can be applied for administratively should be submitted for Council review within 10 days of the application.

Transparency and Accountability in Government

Council will review, and when necessary, pass policies, procedures and ordinances to achieve improved transparency and accountability with respect to economic incentives, outsourcing of service and contracting within City government.

Corridor Façade Grants

The Council will generate a resolution of guidelines with LEAP describing the area and requirements for the implementation of the Corridor Façade Grants by August 1, 2018.

Chris Swope

Chris Swope, CMMC/MMC
Lansing City Clerk

I hereby certify that the foregoing is true and is a complete copy of the action adopted by the Lansing City Council.

Lansing Police & Fire OPEB Attachment 6a Index

6a(1) List of Police & Fire OPEB plan provisions changes

6a(2) History of Funding and Budgetary Actions Taken

6a(3) Lansing Financial Health Team Report/Recommendations, March, 2013

6a(4) Lansing OPEB study conducted by the City in conjunction with the Lansing Financial Health Team, September, 2017

Lansing Police & Fire OPEB System – Recent Plan Provision Changes

- Reduction of eligibility and funding period for sworn Police (Capitol City Labor Program Inc.) and Fire (International Association of Firefighters) positions from full family coverage to retiree-only coverage for new hires after 8/1/14 and 5/19/14, respectively.

- Change to $500/$1000 deductible plans from no-deductible plans for sworn Police (Capitol City Labor Program Inc.) and Fire (International Association of Firefighters) positions for current and future hires, effective 7/1/14 and 5/19/14, respectively.

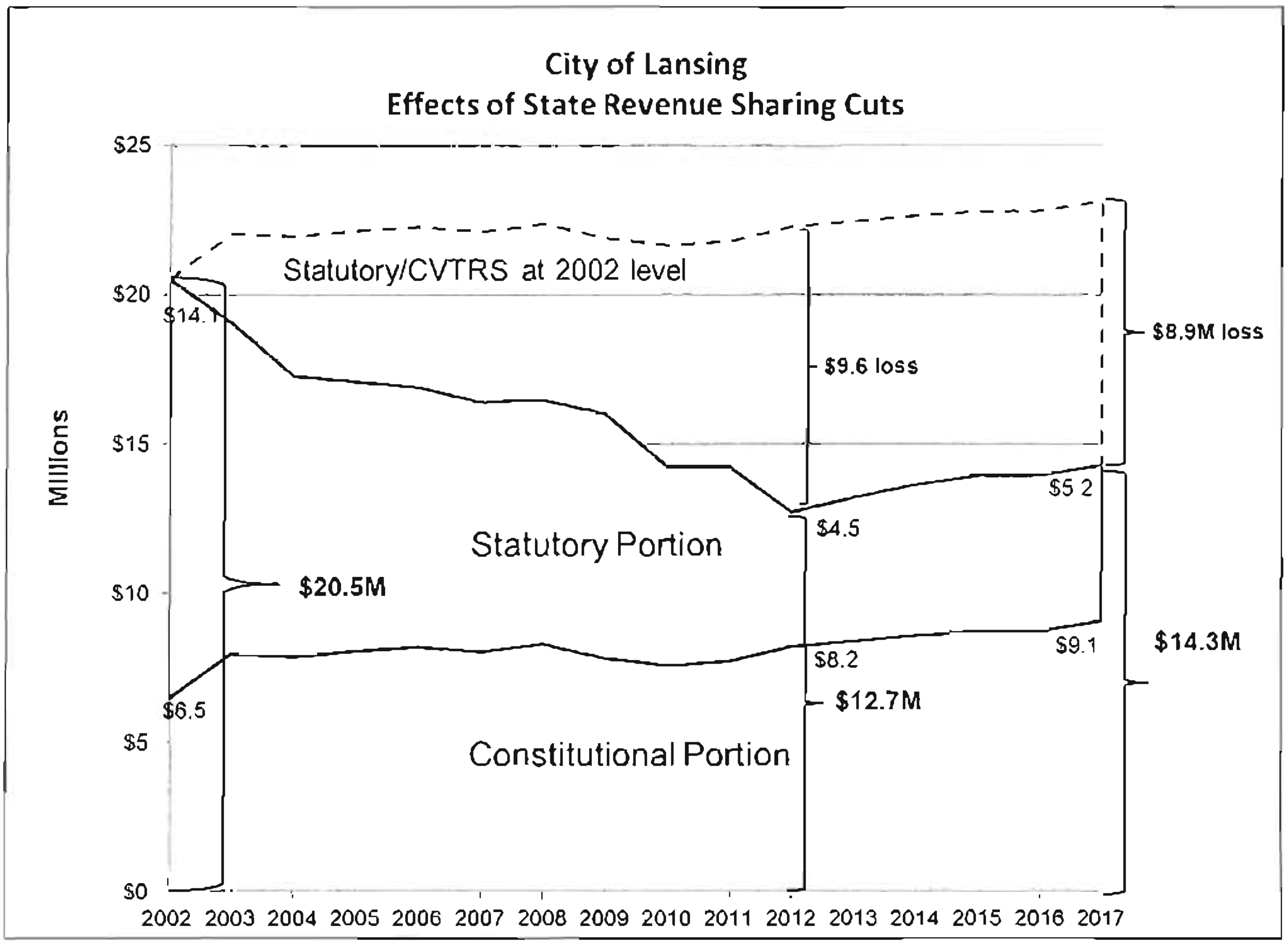
- Decrease in plan's assumed rate of return from 8.0% to 7.25% between 2012 and 2017.

- Updated mortality tables

Lansing History of Funding and Budgetary Actions Taken

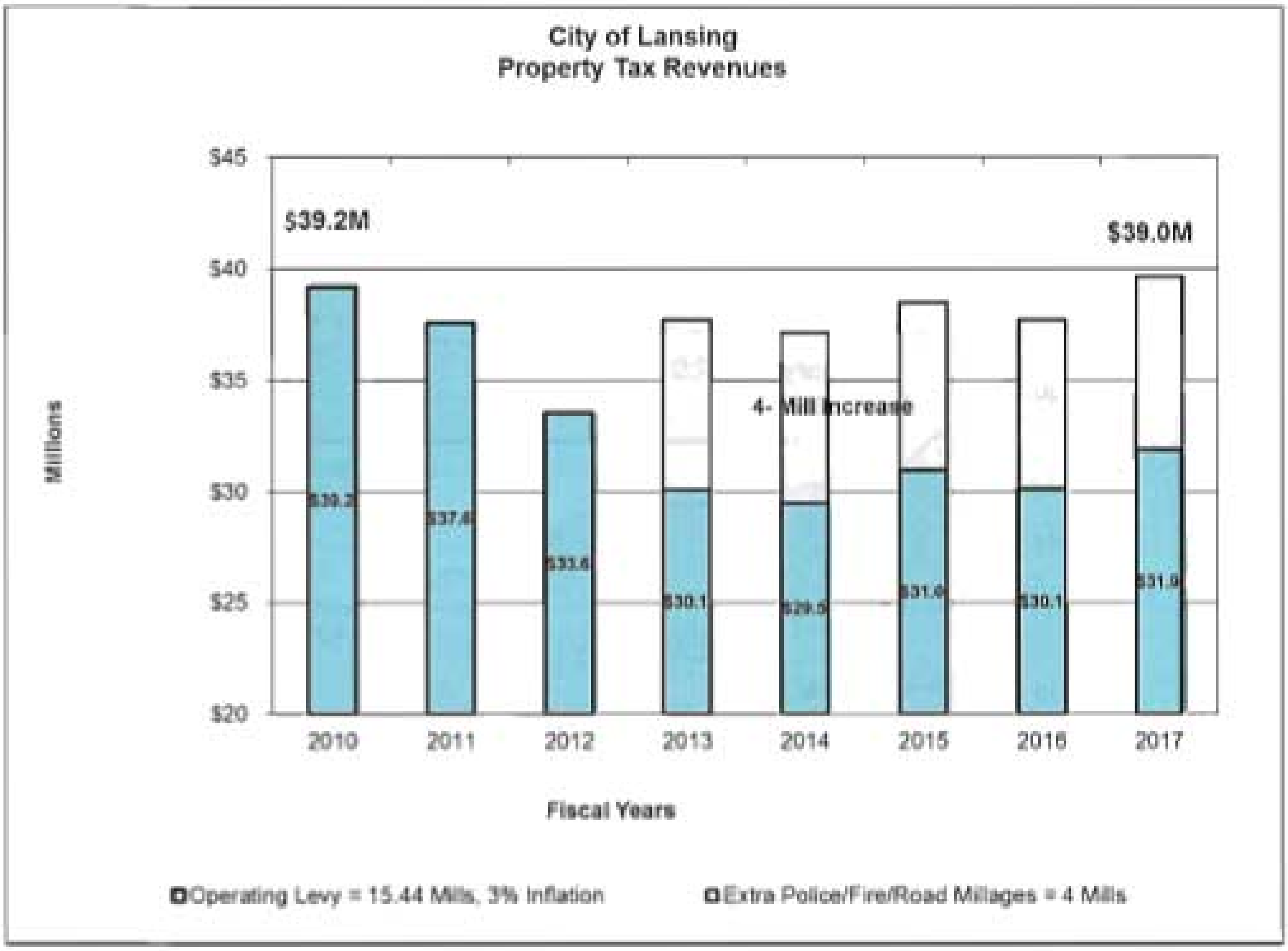
The City of Lansing, like other Michigan municipalities, is challenged in its revenue structure. The structure for Michigan's municipal funding is based on centralization of taxation and revenue diversification at the state level, with municipalities having limitations on ability to raise revenues. A prime example is sales taxes: in many other states, municipalities can levy sales taxes; in the state of Michigan only the state is allowed to levy sales tax. This structure was predicated on revenue sharing by the state with its municipalities.

Preceding and through the Great Recession, as the State of Michigan ran into its own budgetary challenges, the statutory portion of revenue sharing to municipalities by the state was reduced by approximately $8.1 billion. For the City of Lansing, these cuts have amounted more than $6 million in real dollars *annually* for the City, and almost $9 million annually when adjusted for inflation, or over $104 million from 2002-2017.

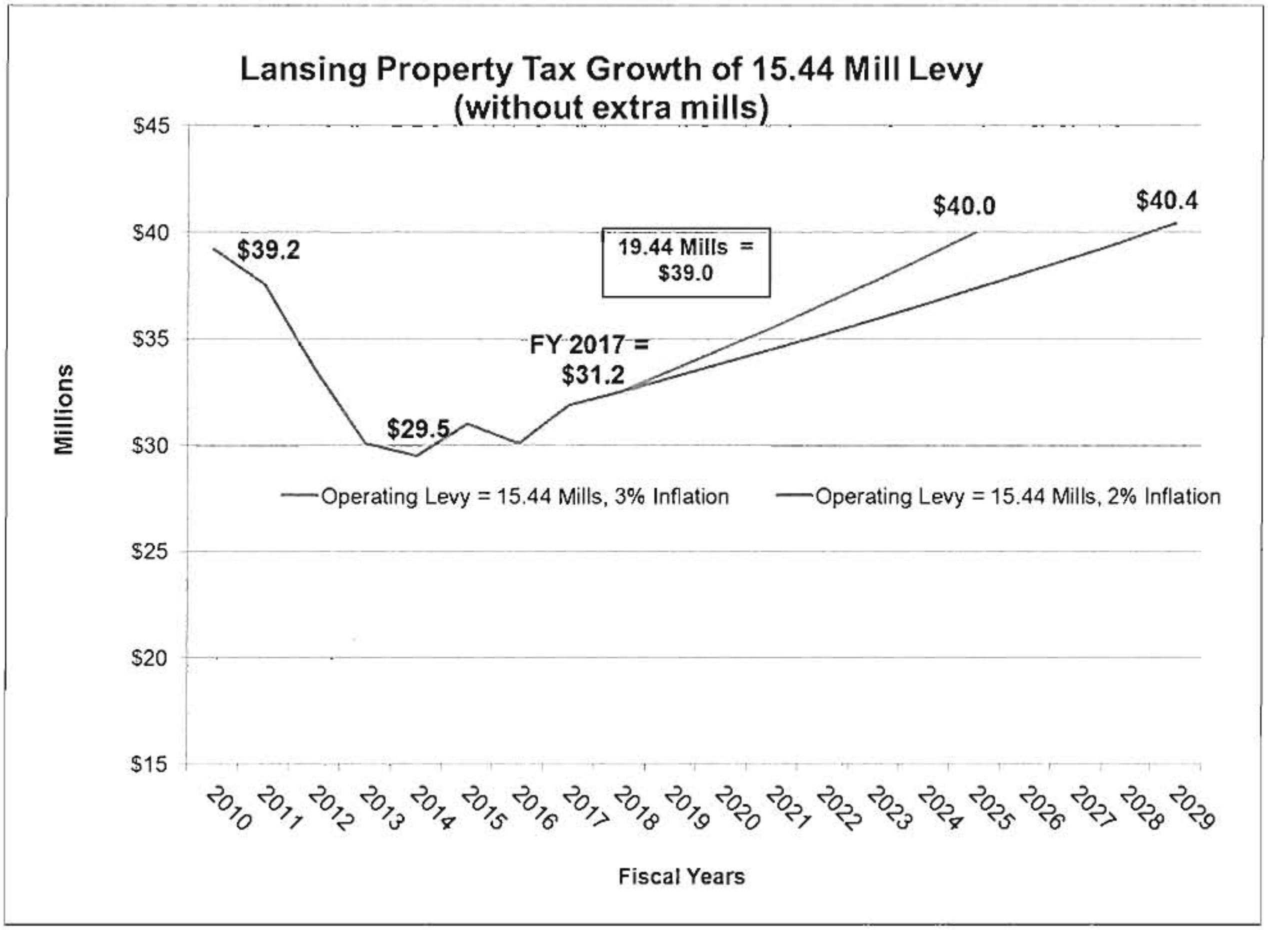


At the same time, due to limitations by the state Headlee Amendment and Proposal A, the City's (and other municipalities') largest General Fund revenue source, the property tax, is limited in growth by the lesser of the rate of inflation or five percent.

During the Great Recession, as property values declined, Lansing's property taxes decreased by 25%, or $9.7 million, over a four-year period, resulting in a four mill voted property tax increase for police, fire, and roads. While that four mill property tax levy substantially offset that loss, it brought the City's operating levy up to 19.44 mills, which within .56 mills of the 20-mill maximum allowed for home-rule cities in the State of Michigan. As a result, the City is unable to increase its operating property tax levy much further.



As demonstrated in the following chart, because of the above-stated state limitations on property tax revenue growth from the state Headlee Amendment and Proposal A, the City anticipates property taxes to increase only 2%-3% over the next several years and that pre-recession property tax revenue levels, net of the extra four mills, will not be reached until 2025 to 2028.



These funding cuts and revenue constraints have generally affected the state's urban core communities more than others. Urban core cities, like Lansing, tend to be older communities, having aged infrastructure; tend to be built-out with limited undeveloped land; tend have higher poverty rates; and tend to have higher legacy (pension and retiree healthcare) costs. These factors are true for the City of Lansing, which was incorporated in 1859 and has twice the number of retirees as current employees.

In response to these challenges, leading up to and during the Great Recession, the City enacted many different changes in City programs, staffing, and organization, including:

- Reducing the City's workforce by 30% since FY 2006, from 1,220 to 867

- Reducing City pension and retiree healthcare cost growth by negotiating increases in employee health insurance premium sharing, healthcare plan changes, and pension contributions
- Reducing City health insurance costs with a wrap program for Medicare-eligible retirees
- Closing 3 fire stations and eliminating associated costs
- Closing Waverly and Red Cedar Golf courses
- Closing Miller Road Senior Community Center
- Closing Washington Ice Dome and Scott House
- Consolidating functions within the City (grounds maintenance, engineering, fleet maintenance, parking enforcement, fire/building inspections)
- Consolidating functions with other governments (911, dive team)
- Entering into cooperative agreements with other governments (police and fire training, purchasing, economic development)
- Expanding mutual aid agreements and shared services studies with adjoining municipalities
- Transferring management of Sycamore Driving Range and Fenner Nature Center to non-profits
- Eliminating leased space by consolidating police Patrol and Investigations Divisions
- Increasing fees
- Implementing new technology to improve efficiency (including cash receipting, code compliance, financial system upgrades, payroll system, computerized traffic ticket system, E-filing for income taxes)
- Implementing energy efficiency measures in City buildings
- Instituting a voter-approved 4.0 mill property tax increase to mitigate further reductions to police, fire and road services

During this time, the City also worked with its unions to reduce the growth of pension and retiree healthcare costs. A recent actuarial study estimates that these efforts have reduced projected costs to by over **$200** million over the next forty years. However, the challenge remains in the projected growth of these costs, in combination with its aging infrastructure, reductions in revenue and revenue constraints in the next fifteen-to-twenty years.

As previously noted, these challenges are not unique to the City of Lansing. Additional information on the effects of state revenue reductions and constraints is available in the Michigan Municipal League's SaveMIcity website.

Staff Paper

Report of the Lansing Financial Health Team

by
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Christina Plerhoples
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Staff Paper 2013-1 March 18, 2013

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[1] The authors would like to thank Ms. Nicolette Bateson and Ms. Angela Bennett for their time and assistance with this research project.

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I. INTRODUCTION

City of Lansing Financial Health Team

MISSION

In an era of economic turmoil that has left some of Michigan's largest cities on the brink of bankruptcy, the city of Lansing remains in a relatively strong financial position that will allow it to perform the essential functions of city government both in the short and long term. However, to keep the city on sound financial footing into the future and to preserve and enhance the community's quality of life, Mayor Virg Bernero's Financial Health Team will conduct a comprehensive review of the city's financial health and make recommendations for strengthening the city's financial position now and in the future.

FINANCIAL HEALTH TEAM MEMBERS

David Hollister, Chair	Prima Civitas Foundation
Mark Alley	Emergent Biosolutions
Jerry Ambrose	City of Flint
John Brown	Jackson National Life
James Butler	MSHDA
Paula Cunningham	Capitol National Bank
Scott Dedic	United Auto Workers Region 1-C
Robert Emerson	McAlvey, Merchant and Associates
Jim Herbert	Neogen Corporation
Chris Holman	Greater Lansing Business Monthly
Dr. Rev. Melvin T. Jones	Union Missionary Baptist Church
Sergio Keck	Lansing School District
Steven C. Liedel	Dykema Law Firm
Joe Ruth	Sparrow Health System
Heather Shawa-DeCook	Demmer Corporation
Ron Simon	Auto-Owners Insurance
Robert Swanson	Michigan Civil Service Commission
Lisa Webb-Sharpe	Lansing Community College

STAFF

Angela Bennett	Interim Finance Director, City of Lansing
Renee Freeman	Office of the Mayor, City of Lansing
Randy Hannan	Chief of Staff, City of Lansing
Dr. Eric Scorsone	Michigan State University

This staff paper reflects the deliberations of the Lansing Financial Health Team. This Team was appointed by Mayor Virg Bernero of the city of Lansing in the fall of 2012. The city of Lansing has experienced several years of ongoing budgetary challenges, having made reductions of over $60 million in its General Fund budget since 2006. Due to continued property value declines, the FY 2013-2014 budget process was shaping up to be another year of budgetary challenges. In this environment of ongoing fiscal stress experienced by the City and other municipalities, the mayor felt it was critical for a group of outside experts to provide him with a roadmap for changes and reforms to city operations, services and financial structure.

The Team's purpose then was to assess the city of Lansing's financial conditions and propose reforms and changes that will ensure the short and long term solvency of the city government. In order to accomplish this purpose, the Team set up three subcommittees including short term solutions, long term solutions and regional solutions. Each group met and deliberated in order to bring forth proposed reforms. This staff paper reflects those deliberations and recommendations. The Team presents this plan as a route for city government to achieve short and long term solvency as well as strengthen the regional economy.

City governments in Michigan have all been facing significant challenges throughout the last decade. These challenges include falling property values and associated tax revenues and falling state aid plus the rising cost of employee compensation, particularly health care costs. This combination of falling or stagnant revenues and higher costs has meant structural deficits for many communities including the city of Lansing. Tough choices have been made including pay cuts and layoffs, deferred capital projects and fewer city services. Now, even these solutions may not be enough and this report focuses its attention on even more broad-based and innovative solutions to the problem of municipal structural deficits in Michigan.

All of these challenges exist within the context of a broken model of municipal finance. For many decades, the state of Michigan has imposed a system of municipal finance that relied heavily on property taxes and state revenue sharing of the state sales tax. Because of state revenue sharing, Michigan municipalities are limited in the types of revenues they receive, the theory being that revenue sharing obviates the need for revenue sources like local sales tax. This model worked relatively well during the heyday of the auto industry. However, a number of factors converged to begin to erode this.

The major factors behind the erosion were the restraints put in place around the property tax system, including the Headlee Amendment to the Michigan Constitution and then later so-called Proposal A. Both of these put major restrictions on the growth of the property tax base and property tax revenues. A second and more recent factor has been the absolute decline in state revenue sharing. As the economy ground to a halt in the first decade of the 21st century, state revenue sharing was cut to address state budget deficits. These revenue forces were playing out in concert with declining population and high fixed costs for legacy infrastructure in major central cities. This combination has led to a broken system of municipal finance, which needs to be addressed by state policy makers. New tools are needed for municipalities to function in the 21^{st} century.

A New Model For Government

Given the financial challenges facing the city of Lansing, a new model is needed to describe how city government will function in the 21^{st} century, given the existing and likely future resource constraints. This new model envisions a city workforce wrapped in the best technology that enables services to be delivered at a high level of efficiency and effectiveness. This new model is based on the likelihood that city governments will likely have a smaller workforce and continue to face financial pressures.

The existing city government model presupposes a specialized and labor-intensive service delivery system. Each service delivery area requires trained specialists in their field, such as building inspectors, code compliance officers, police officers, firefighters, finance officials and accountants, and many other positions. In the past, city governments could not offer the wages that were competitive with the private sector, including items such as profit sharing, bonuses and other private sector perks. Instead, the public sector offered employees good benefits at low cost. This tradeoff made sense for much of the 20^{th} century and helped cities maintain a high quality and productive workforce. This combination of a specialized workforce with adequate compensation was a good model for the 20th century, but is now under threat in the 21st century.

Today, this tradeoff is no longer viable. Economic stress and legislative limitations means city governments have a much harder time raising revenues or sustaining revenue growth over any period of time. Even if the local economy improves, revenues will not likely grow at the same pace as costs in any case. A new model imagines that a smaller but more technology and capital intensive service delivery system replaces the current labor intensive system over some period of time.

One example of this innovative strategy is the city of San Francisco and Code for America. Code for America is a non-profit organization that puts young information technology experts in city government to set up new and innovative solutions to existing problems. In San Francisco, the cooperation of these two entities is leading to new citizen engagement apps for smart phones, putting city data in open access systems for citizens to use and learn from, develop standardized data protocols to improve services and implement a Gov 2.0 system in general throughout the city.

What are the benefits of this transition? The major benefit would be a city workforce that can still accomplish the goals of city government, such as maintaining viable neighborhoods and strengthening public safety, while operating with fewer people and lower costs. This does not mean that people will be compensated less. In fact, the city workforce of the future may see more generous wages and salaries. The boundaries between specializations will be broken down as the tools of information technology, networks and social media combine to create new service delivery models. A city employee may in the medium term future not be a police officer, firefighter or code compliance officer but some combination of these positions. The benefits of specialization are that each person is able to become very good at their job. The downside is that the workflow behind these positions ebbs and flows over the day, week, month and year. The

question now is how both new management strategies combined with information technology can provide the benefits of specialization with a flexible and networked workforce.

Such a strategy will directly involve capturing the insights and wisdom of the citizens and businesses that populate a city. While traditional strategies such as neighborhood watch, electoral volunteers and adopt-a-park programs have been used by cities in the past, new technology and social media enable these strategies to be put into hyper drive. Citizens are the eyes and ears of the city where employees are not able to be and are also the primary drivers of what services are needed where and when in a city. Some of these models cannot be anticipated today, but a city government can begin to invest in capital, technology and workforce training that will enable the city to move nimbly in adopting new strategies as they emerge and perhaps even pioneer some of its own strategies.

In 2007, the city of Lansing implemented the CitiStat performance management model. It is now time to revamp and reemphasize that approach to government and in fact expand its scope. This approach promises to provide both lagged and real-time data to government managers as they seek out efficiencies in their operations. Networked citizens are those who can access the government and government services through a variety of channels whether it be the web, smart phones, a library kiosk or Facebook. This reduces the cost of accessing government services to the users.

Technology greatly expands the ability of employees to use the appropriate tools to deliver the right services to clients at the right time. These employees have the ability to move quickly across service areas and address needs as they arise or are identified. This type of transition may take many years for any city government to achieve. However, in the short term, the city may be able to pilot this type of transitional process in specified service areas. This general model of city government informs many of the recommendations proposed in this report.

History

The city of Lansing, Michigan is located in central Michigan primarily in Ingham County with a small portion located in Eaton County. Lansing is the state capital and has a population of 114,297 (as of 2010). The city's larger metropolitan region contains 464,036 people (also as of 2010) and houses industry in healthcare, manufacturing, insurance, banking and education.

The first settlement was established in 1837, near the confluence of the Grand and Red Cedar River. In 1847, the State Legislature voted to move the state capital from Detroit, and the decision for Lansing was approved in December 1847. The name was changed from the original, "Town of Michigan", to Lansing in 1859. It was incorporated by legislative act on February 15, 1859 and named for a New York State town from which most of the early settlers had migrated. The city grew slowly around the state capitol and mills on the Grand River. As the railroads were built, the industry developed and the city began to grow. The city later became an automobile industry powerhouse, beginning with the founding of Olds Motor Vehicle Company in 1897.

When the American auto industry began to decline in 1980s due to the appearance of foreign car production and sales in the United States, the population of Lansing also began to decline.[i ii] The city's population peaked in the 1970's at about 131,403 and is now down to 114,297 as of 2010.

The present charter of the city of Lansing, adopted in 1978, provides for a strong mayor form of government in which the mayor holds most of the city's administrative powers, subject to legislative authority.[iii] The mayor is elected at-large every four years. The city clerk is also elected every four years. The city council consists of eight members, and includes four members elected from the city's four wards, as well as four "at-large" members elected citywide. Lansing is the only state capital that is not also a county seat.[iv]

The major industries in the Lansing's metropolitan region are now government, education, insurance, healthcare, and automobile manufacturing. The main employers are the State of Michigan, Michigan State University, Sparrow Health System, General Motors, Lansing Community College, McLaren-Greater Lansing Hospital, the Lansing School District, Meijer, Auto-Owners Insurance, and Peckham, a vocational rehabilitation organization.

II. ECONOMIC AND DEMOGRAPHIC HISTORY

Demographics

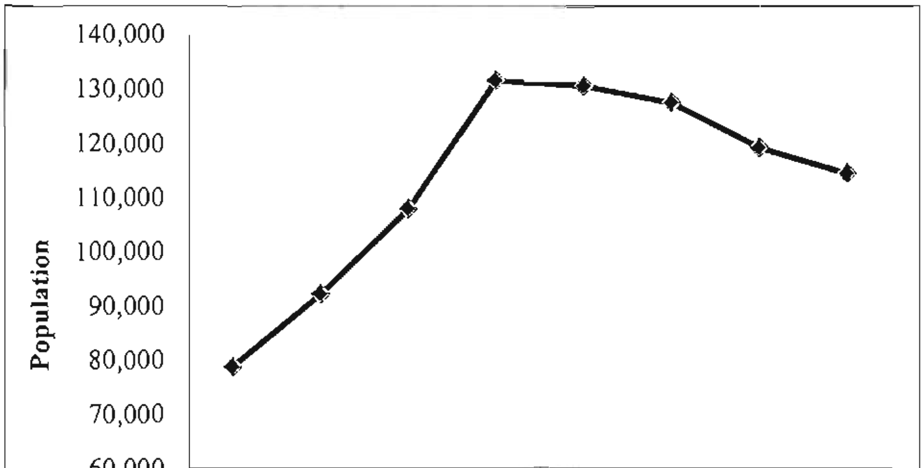
The city of Lansing's population has changed drastically over the past fifty years. In this section we explore the historical changes that have occurred throughout the city and region. These trends will help to predict the city's future revenues and costs and help the city plan for alterations in the size of government to reflect population predictions.

The economic and demographic material presented in this section provides a backdrop for a thorough and comprehensive analysis of the city of Lansing's financial situation. Given population decline, income decline and general stress in the real estate market, we would expect the city government to have experienced some degree of fiscal stress. The question becomes how well did the city respond to this period of fiscal stress and what prognostications can be made regarding the city's fiscal future?

Population

The U.S. Census Bureau reported the fourth decade of double-digit declines in population for the city of Lansing for the 2000s. From 2000 to 2010, the city experienced a decline of 4% in population from 199,128 in 2000 to 114,297 in 2010 (Exhibit II-1). The 1970s, 1980s, and 1990s also saw a population decline of 1%, 2%, and 6% respectively. Previous decades had seen large population increases of 17%, 17%, and 22%.

Exhibit II-1 City Population

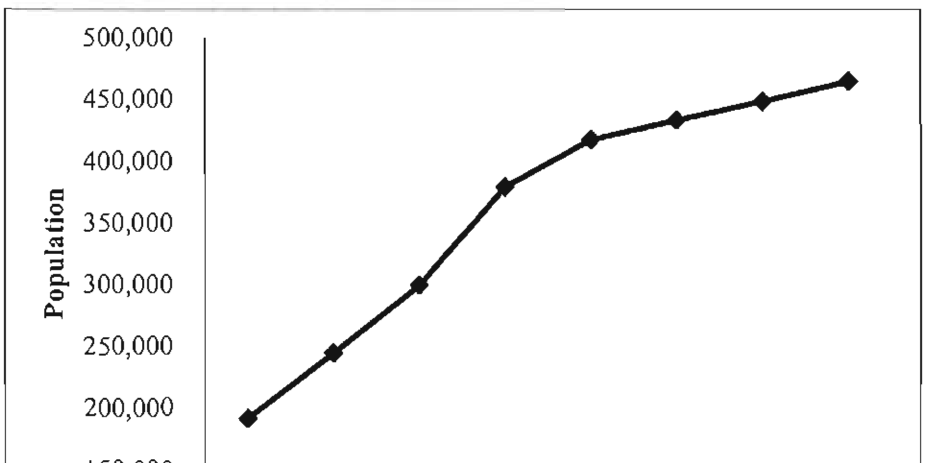


	1940	1950	1960	1970	1980	1990	2000	2010
Population	78,75	92,12	107,8	131,4	130,4	127,3	119,1	114,2

Data source: U. S. Census Bureau

Despite the decline in the city of Lansing's population, the Lansing Metropolitan Statistical Area (MSA) has increased in population each decade since the 1940s (Exhibit II-2). However, this growth has slowed since 1970, when the percent increased changed from 27% in the 1960s to 10% in the 1970s. MSA growth continued to weaken into the 1980s, 1990s, and 2000s, which saw growth rates of 4%, 3%, and 4% respectively.

Exhibit II-2 Lansing-East Lansing Metropolitan Area Population

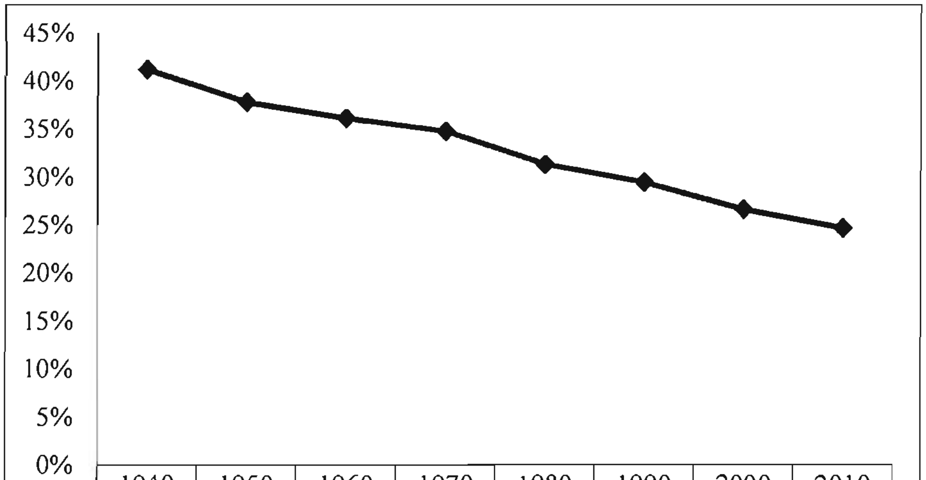


	1940	1950	1960	1970	1980	1990	2000	2010
Population	191,4	244,1	298,9	378,4	416,6	432,6	447,7	464,0

Data source: U. S. Census Bureau

In the 1940s, the city of Lansing contained 41% of the population of the MSA as a whole. By 2010, the number dropped to 25% (Exhibit II-3). This is due to both the city population decline and the MSA population increase.

Exhibit II-3 City Population as a Percent of MSA



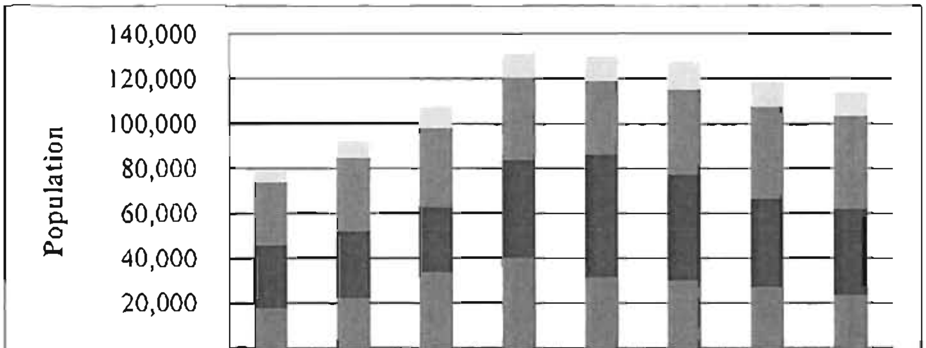
1940	1950	1960	1970	1980	1990	2000	2010
41%	38%	36%	35%	31%	29%	27%	25%

Data source: U. S. Census Bureau

Population Characteristics

Lansing's population has been aging over the past four decades. Exhibit II-4 shows a breakdown of the number of people by age group in Lansing from 1940 through 2010. Even after the city population began to decline in 1970, the number of people 65 years and over continued to increase until the 2000s. The number of people age 35 to 64 also increased during this time period.

Exhibit II-4 Age of Population

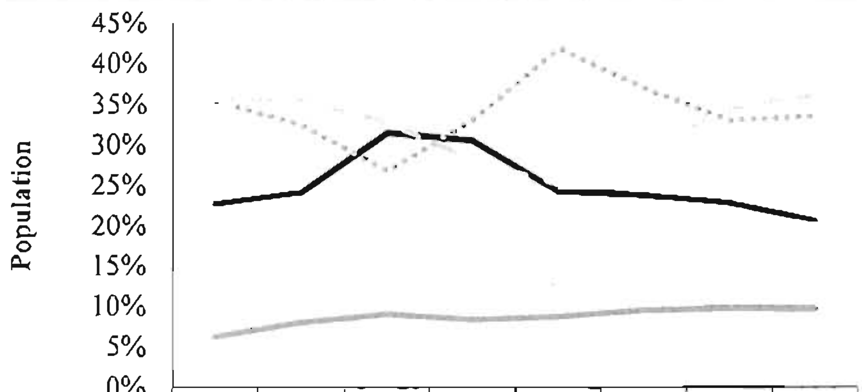


	1940	1950	1960	1970	1980	1990	2000	2010
65 and over	4,951	7,399	9,734	11,03	11,41	12,17	11,60	11,04
35 to 64	28,11	32,67	35,32	36,81	32,82	37,93	41,06	41,31
15 to 34	27,84	29,83	28,86	43,56	54,58	47,00	39,25	38,37
14 and under	17,84	22,22	33,88	40,12	31,59	30,21	27,20	23,56

Data source: U. S. Census Bureau

To see this more clearly, Exhibit II-5 shows the percent of the population in each category in each year. The percent of the population that is older than 65 has been steadily increasing, but at a slow rate, since the 1970s. The percent of the population between the ages of 35 and 64 reached a minimum around 1980, then increased in the 1980s, 1990s, and 2000s. The percent of the population between the ages of 15 and 34 followed the opposite path where it peaked around 1980 then declined in the 1980s, 1990s, and 2000s. And the percent of the population under the age of 14 peaked around 1960, then declined in the subsequent 6 decades. These changes in demographics may have an impact on the demand for city services over time as the population ages. This could include a greater demand for example for EMS services and older adult recreation programming.

Exhibit II-5 Age by Percentage of Population



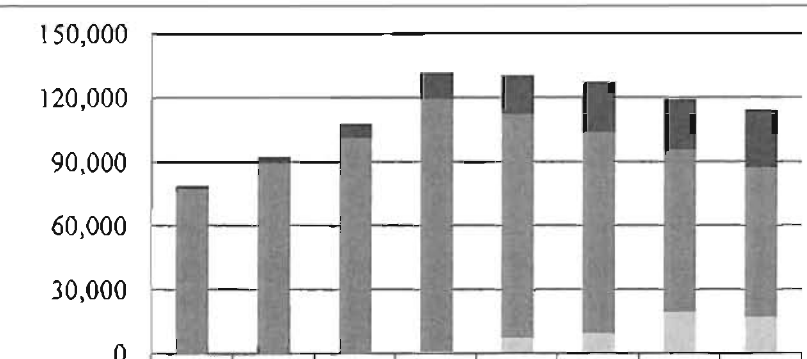
	1940	1950	1960	1970	1980	1990	2000	2010
14 and under	23%	24%	31%	31%	24%	24%	23%	21%
15 to 34	35%	32%	27%	33%	42%	37%	33%	34%
35 to 64	36%	35%	33%	28%	25%	30%	34%	36%
65 and over	6%	8%	9%	8%	9%	10%	10%	10%

14 and under · · 15 to 34 35 to 64 ·65 and over

Data source: U. S. Census Bureau

The racial distribution of the city has also changed since the 1940s as can be seen in Exhibit II-6. The percent of white people in the city went from 97.9% in 1940 to 61.2% in 2010. The city has become more diverse over the last few decades.

Exhibit II-6 Population by Race



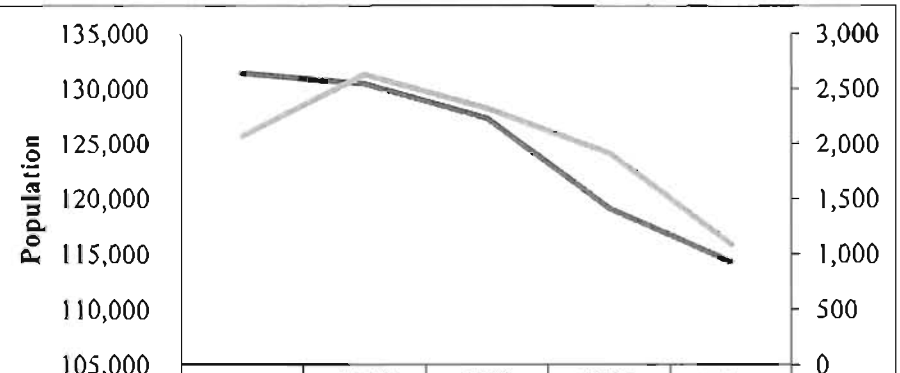
	1940	1950	1960	1970	1980	1990	2000	2010
■ Black/African American	1,638	2,971	6,745	12,23	18,17	23,62	23,64	27,13
White	77,08	89,08	100,8	118,2	104,8	94,13	75,98	69,98
Other	28	75	248	1,025	7,355	9,560	19,49	17,17

Data source: U. S. Census Bureau

City Government Response to Demographic Changes

As the demographics of a city change, the government must alter its budget to reflect these changes. As the population declines and revenues decrease, the government must spend less money. Exhibit II-7 shows the total population of the city and the total number of full time equivalents city employees. With the exception of the 1970s when the number of employees continued to rise even though the city population was declining, the city government has responded fairly well to population change by reducing its total number of employees. Thus unlike some of its peers, the city of Lansing has managed this transitional period quite well. At the same time, this has meant that potentially fewer city services have been available to the remaining population. Further, fiscal strain remains despite the cutbacks in city personnel as the cost per employee has risen dramatically.

Exhibit II-7 Number of Employees and Total Population



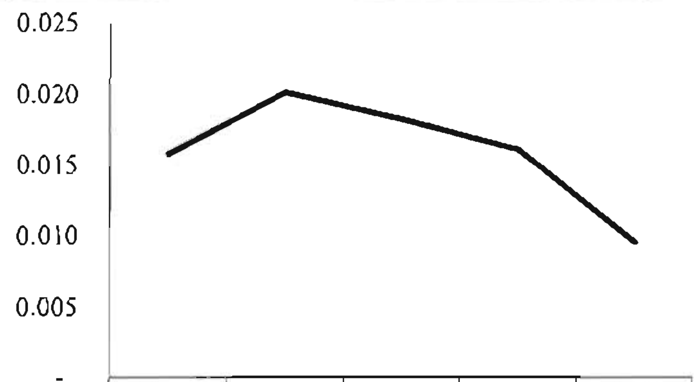
	1972	1980	1990	2000	2010
Population	131,403	130,414	127,321	119,128	114,297
Total FTE	2,074	2,625	2,321	1,916	1,090

Population — Total FTE

Data source. U. S. Census Bureau

To see this more clearly, Exhibit II-8 shows the number of full time equivalent employees per capita from 1972 through 2010. This ratio increased in the 1970s, but then decreased in the 1980s, 1990s, and 2000s, indicating that Lansing has responded well to population decline since the 1980s in terms of number of public employees.

Exhibit II-8 Full Time Equivalent Employees Per Capita



	1972	1980	1990	2000	2010
Employees Per Capita	0.016	0.020	0.018	0.016	0.010

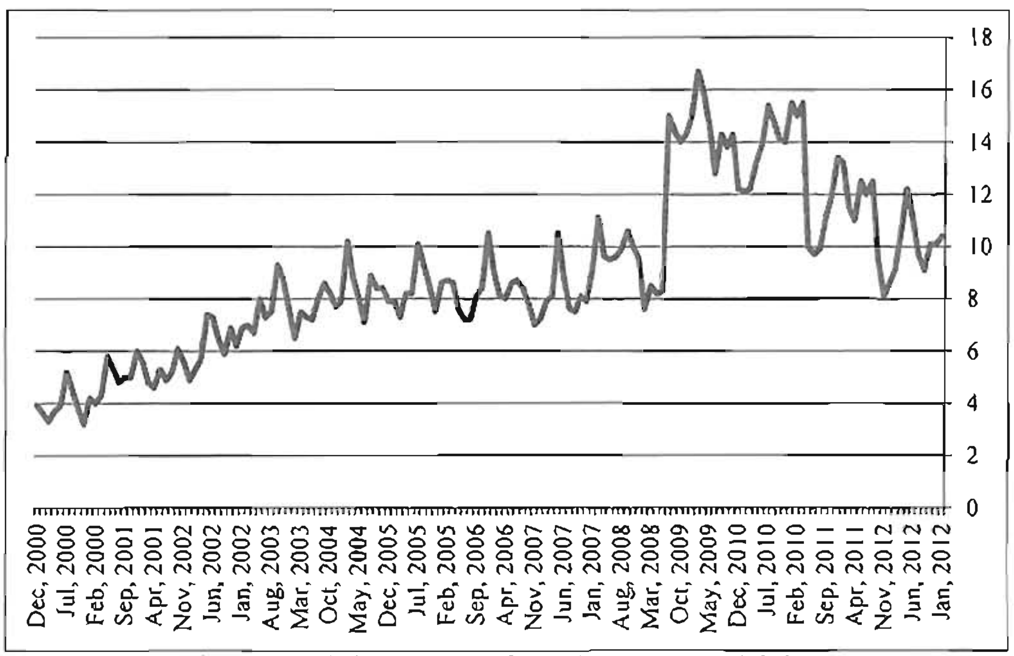
Data source: U. S Census Bureau

Economy

Unemployment and Income

The city of Lansing's jobless rate is returning to pre-recession levels (Exhibit II-9). City level unemployment for 2012 was at 10%, 11th highest in the state. Lansing's jobless rate ranks 5th amongst some benchmark communities (Exhibit II-10).

Exhibit II-9 Jobless Rate



Data source: Michigan Department of Technology, Management & Budget

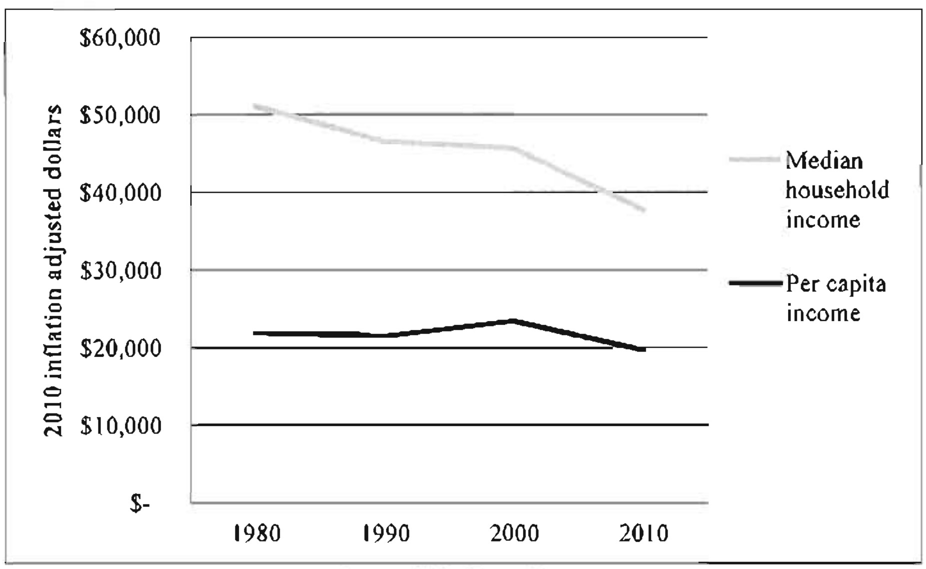
Exhibit II-10 Jobless Rate

Year	Area	Jobless Rate
2012	Detroit city MI	18.2
2012	Flint city MI	16.1
2012	Warren city MI	11.7
2012	Clinton township MI	11.2
2012	Lansing city MI	10
2012	Grand Rapids city MI	9.1
2012	East Lansing city MI	8.4
2012	Sterling Heights city MI	7.7
2012	Dearborn city MI	7.3
2012	Ann Arbor city MI	5.8
2012	Livonia city MI	4.4

Source: Bureau of Labor Statistics

The city of Lansing's median household income in 2010 was $37,666 as shown in Exhibit II-11. This decreased from a median household income of $50,985 in 1980. The per capita income level remained steady since 1980, beginning at $21,866 and ending at $19,673. This difference may be due to the changing structure of the typical household in the city. A higher than average unemployment rate may place a strain on city resources as citizens may demand more government services while simultaneously having fewer resources to pay for such services.

Exhibit II-11 Real Median Household Income and Per Capita Income

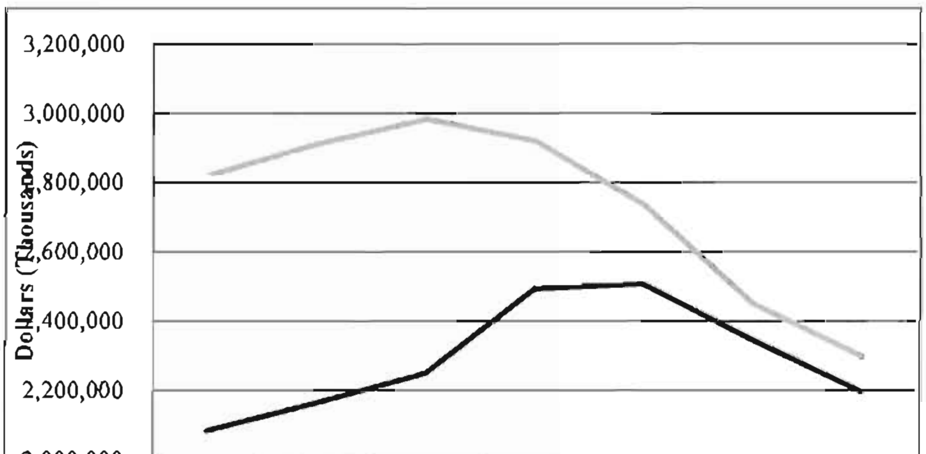


Source: U. S. Census Bureau

Property Values

Like many communities across the state, property values in the city of Lansing have declined drastically since the onset of the Great Recession, as can be seen in Exhibit II-12. Due to the structure of the property tax in Michigan, the total taxable value (TV) of property in the city continued to increase in 2007 and 2008 even though the state equalized value (SEV) of properties was declining. After 2009, however, the taxable value of properties began to fall as well, as the SEV and TV for many properties in the city began to intersect. This reduction in property tax revenue may have bottomed out based on recent data from the city. This is an important trend that will help at least partially in reducing the damage inflicted by falling revenues over the past decade.

Exhibit II-12 State Equalized Value (SEV) and Taxable Value (TV)



	2005	2006	2007	2008	2009	2010	2011
SEV	2,821,1	2,912,2	2,982,8	2,919,1	2,735,2	2,450,4	2,297,5
TV	2,083,8	2,163,6	2,249,1	2,491,3	2,506,5	2,345,5	2,196,8

Data Source: F65 Treasury Database Portal

This reduction in property values means that the property tax burden on the median household in the city has also gone down. In 2010, the median household income was $37,666. The total assessed valuation for residential properties was $1,200,886,000 and the total millage rate paid by residents, inclusive of county taxes, city taxes, and school taxes but not including the 6 mill State Education Tax, was 48.79 mills. Therefore, the total property tax burden for all residential properties was $58,591,227. Since the total number of households in Lansing in 2010 was

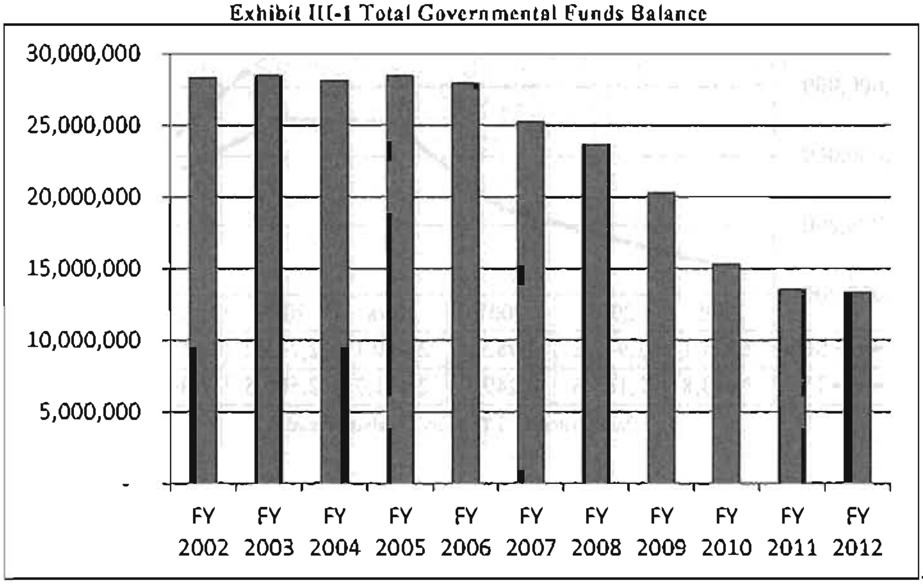
48,450, this means that the average property tax burden per household was $1,209. This equates to 3.2% of the average per capita income.

III. CITY FINANCES

This section focuses on the background of city finances over the last few years. This background was critical in allowing the team to understand the keys sources of fiscal stress and identify points for change and reform. This section covers the General Fund, Special Revenue Funds and Enterprise Funds.

One indicator of a city undergoing fiscal stress is a long-term trend of governmental fund balance depletion, which is a symptom of continuously operating under budget deficits. As of June 30, 2012, city of Lansing's governmental fund balance, excluding capital and debt service funds, is approximately $13.3 million, which is 47% of its balance in 2002. This fund balance number has fallen from $28.2 million in FY 2002. Fiscal stress has meant that the city has reduced overall fund balance by almost $15.0 million in the last nine years. This trend was particularly prevalent as the impact of the Great Recession of 2008-09 began to hit the city. As shown in Exhibit III-1, the city of Lansing has been experiencing significant depletion of governmental fund balance since 2009.

Exhibit III-1 Total Governmental Funds Balance



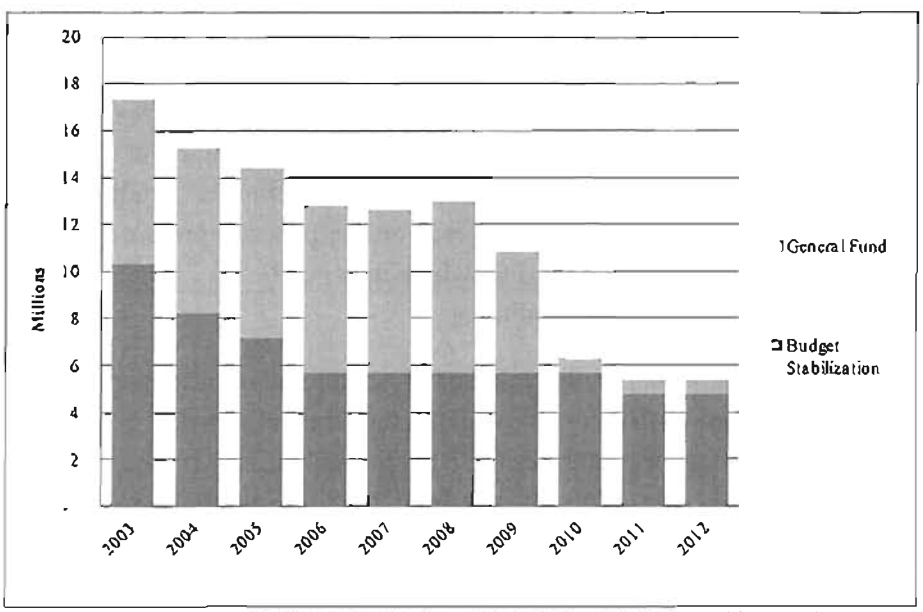
Source: City of Lansing Comprehensive Annual Financial Reports

General Fund

The city of Lansing General Fund is the main discretionary part of the budget and is where general taxes are allocated when collected. It is the main point of focus for most governments when considering fiscal health and stability.

According to the city of Lansing 2012 Comprehensive Annual Financial Report, the city of Lansing's General Fund ended the year with a combined General Fund and Budget Stabilization Fund balance of $5.4 million. Of this amount, the General Fund balance in 2012 was approximately $554,000, and the Budget Stabilization Fund was $4.8 million (Exhibit III-2). As of June 30, 2002, the combined General Fund and Budget Stabilization Fund balance was $17.1 million. Again, this reduction in General Fund Balance is an important indicator of fiscal stress. Generally, local governments are recommended to keep a fund balance reserve of 10 to 15% of revenues or expenditures. At this time, the city total General Fund balance reserve is only approximately 5%. This is well below industry standards as expressed by credit rating agencies and the Government Finances Officers Association (GFOA).

Exhibit III-2 Reserve Funds – Ten Year History of Fund Balance



Source. City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide

The General Fund and reserve fund balances declined from 2002 to 2009. For four consecutive years (2007 through 2010), the city of Lansing was able to operate without relying on its reserve funds. Despite having adopted balanced budgets with significant reductions and without reliance on reserves, higher-than-anticipated revenue losses during the onset of the Great Recession

resulted in a draw-down in reserves from FY 2009-FY 2011, with the highest loss being a $4.6 million deficit in 2010 (Exhibit III-3).

Exhibit III-3 General Fund Revenues, Expenditures, and Changes in Fund Balance (condensed)

Fiscal year	2007	2008	2009	2010	2011	2012
Revenues and transfers in						
Property taxes	$ 35,844,777	$ 36,041,763	$ 36,703,522	$ 37,965,131	$ 36,352,257	$ 32,501,559
Income taxes	28,209,913	31,168,012	29,312,762	27,408,443	28,699,749	27,943,070
State shared revenue	16,369,853	16,369,853	15,981,941	14,214,339	14,214,339	12,710,114
Other	28,556,321	28,622,193	29,669,295	28,558,228	30,113,633	29,529,233
Revenues and transfers in	108,980,864	112,201,821	111,667,520	108,146,141	109,379,978	102,683,976
Expenditures and transfers out						
General Government	26,313,988	26,794,259	26,529,134	25,418,251	23,846,234	22,439,973
Public safety	59,513,582	61,577,212	63,557,003	63,442,190	63,794,594	58,696,097
Other	23,347,329	23,484,048	23,735,598	23,870,144	22,651,122	21,506,194
Expenditures and transfers out	109,174,899	111,855,519	113,821,735	112,730,585	110,291,950	102,642,264
Net change in fund balance (deficit)	$ (194,035)	$ 346,302	$ (2,154,215)	$ (4,584,444)	$ (911,972)	$ 41,712
Fund balance (deficit) - beginning	7,078,185	6,884,150	7,230,452	5,076,237	491,793	5,330,487
Restatement increase					5,750,666	
Fund balance (deficit) - ending	$ 6,884,150	$ 7,230,452	$ 5,076,237	$ 491,793	$ 5,330,487	$ 5,372,199

Source: City of Lansing Comprehensive Annual Financial Reports

The city targets maintaining the General Fund and reserve levels at 10-15% of fund revenues; however, this metric has been less than 6% since 2010.[v] Operating at a low fund level places the city at risk of lacking the ability to adapt to fiscal shocks in the future. In addition low fund balances, cities undergoing chronic fiscal stress may also experience pressure due to spending constraints. Funds may be restricted regarding where they can be allocated and constrain a city's flexibility in addressing unexpected expenditures.

Exhibit III-4 shows constraints in the allocation of General Fund monies over the past ten years. In FY 2011, the city adopted GASB No. 54, which established fund balance classifications. The city did not retroactively adjust the balances for 2003 through 2010 with the updated classifications in its FY 2012. Also, the balance from 2003 through 2010 does not include the Budget Stabilization Fund, which was considered a Special Revenue Fund at the time.

Exhibit III-4 General Fund Constraints (in thousands)

Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Nonspendable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 172	$ 93
Restricted	-	-	-	-	-	-	-	-	41	16
Committed	-	-	-	-	-	-	-	-	178	65
Unassigned	-	-	-	-	-	-	-	-	4,940	5,198
Reserved	945	1,324	2,483	2,443	1,848	1,765	1,320	103	-	-
Unreserved	5,986	5,607	4,710	4,635	5,036	5,465	3,756	389	-	-
Total General Fund	6,931	6,931	7,192	7,078	6,884	7,230	5,076	492	5,330	5,372

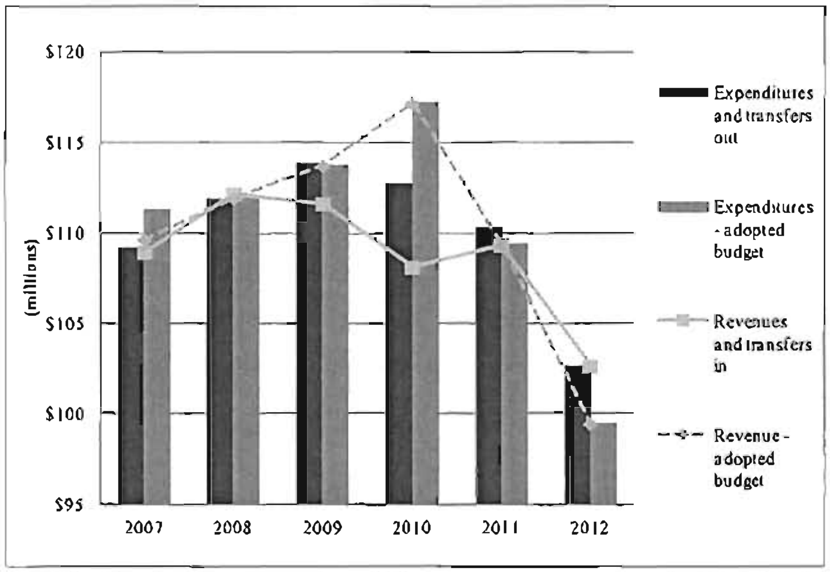
(note for comparison: due to financial reporting changes, "Unreserved" can most closely be compared to "Unassigned")

Source: City of Lansing Comprehensive Annual Financial Reports

In comparing the actual and intended General Fund expenditures and revenues over the last five years, the recent budget shortfalls coincide with greater-than-anticipated declines in revenue (Exhibit III-5). From FY 2007 through 2008, actual expenditures were on-or below-target compared to original budgeted expenditures and revenues were close to original budget. In FY 2009, actual revenues were $2 million less than anticipated revenues, resulting in a $2 million deficit. Similarly, revenues in FY 2010 adopted budget were underestimated by $9 million, the result of higher-than-anticipated reductions in income tax revenue and mid-year reductions by the state in the form of revenue sharing and property tax multipliers for automotive suppliers. Actual expenditures were $4.5 million less than budgeted, which closed the gap by about 50%, but there still was a $4.5 million deficit in FY 2010, reducing the General Fund balance by 90%.

Greater-than-anticipated revenue declines were also experienced in FY 2011. Expenditures and transfers came within the adopted budget, but the revenue shortfall resulted in a $0.9M reduction in reserve funds. In FY 2012, the city underestimated its income tax revenues, but was able to end the year with a $41,712 surplus.

Exhibit III-5 General Fund Revenues and Expenditures – Actual vs. Adopted Budget



Source: City of Lansing Comprehensive Annual Financial Reports and City of Lansing Adopted Budgets

Revenues

Revenues represent incoming resources that can be used to fund government services. These revenues for a Michigan city government are typically general taxes, user fees, interest income, state revenue sharing and other miscellaneous sources. The three primary sources of revenue, and their proportionate share of the city of Lansing General Fund, are currently property tax (31.7%), income tax (27.2%), and state shared revenue (12.4%). In Michigan, municipalities are limited by state law in the types of revenues they can raise. Property taxes for most local governments are the major source of revenue along with state revenue sharing. For a number of Michigan cities, the city income tax has become an important revenue source. Local sales tax is not an option in Michigan. Historically, the state of Michigan has been relatively constrained in allowing for local option taxes as compared to other states.

Property Tax

Property tax in Michigan is assessed on real and personal property. Municipalities are limited in levying property taxes in a few ways. First, the Home Rule City Act of 1909 limits cities in the state of Michigan to levying property taxes of no more than 20 mills for direct municipal services.[vi] Also, the Headlee Amendment, ratified in 1978, limits the authorized millage rate when aggregate property values rise at a faster rate than the rate of inflation.[vii] Increase in property values due to improvements or new construction are not subject to this limit. Finally, in 1994, Michigan voters approved Proposal A, which limited annual increases on individual properties to the taxable value to five percent or the rate of inflation, whichever is lower, until there is a transfer of ownership.[viii]

Compared to the ten most populated local units in Clinton, Eaton, and Ingham Counties, which represent 67% of the population, the city of Lansing levies the second highest homestead tax rate (Exhibit III-6). This may cause the city to be less competitive in attracting residents, which hinders its ability to increase its tax base. For example, a homeowner in the city of Lansing will pay, on average, 12% more than residents in the nine other largest communities. If a residential property has a taxable value of $75,000, the city of Lansing homeowner will pay $4,216. A homeowner in adjacent Lansing Township will pay $3,776.

Exhibit III-6 Millage Rates within Ingham, Eaton, and Clinton Counties for Fiscal Year 2012 (2011 Tax Rates)

				Tax Rates					Annual Bill
Taxing Unit	County	Type of Unit	Population	County	Local	School	State Education	Total	Based on Taxable Value
East Lansing	Ingham	City	48,579	9.21	23.70	26.44	6.00	65.35	$ 4,901
Lansing	**Ingham**	**City**	**114,297**	**9.40**	**20.08**	**20.74**	**6.00**	**56.21**	**$ 4,216**
Lansing	Ingham	Township	8,126	9.52	13.04	25.78	6.00	54.34	$ 4,076
Delhi	Ingham	Township	25,877	9.55	12.38	24.18	6.00	52.10	$ 3,908
Mason	Ingham	City	8,252	9.55	14.81	21.69	6.00	52.05	$ 3,904
Meridian	Ingham	Township	39,688	9.55	11.49	23.60	6.00	50.64	$ 3,798
Charlotte	Eaton	City	9,074	7.59	16.14	19.24	6.00	48.97	$ 3,673
Delta	Eaton	Township	32,408	7.59	6.92	23.35	6.00	43.86	$ 3,290
Bath	Clinton	Township	11,598	5.80	6.93	22.37	6.00	41.09	$ 3,082
DeWitt	Clinton	Township	14,321	5.80	6.67	20.34	6.00	38.82	$ 2,912
Population of Ten Largest Units			**312,220**				**Average Rate**	**50.34**	
As a % of Tri-County Total			**67%**				**Average Tax Bill**		**$ 3,776**

Source: U.S. 2010 Census and Michigan Department of Treasury

According to the Exhibit III-7, property owners in the city of Lansing are subject to the third highest property tax rate, on both a homestead and non-homestead basis, out of the ten most-populated municipalities in Michigan. The direct city rates include levies not subject to the Home Rule City Act, such as solid waste services.

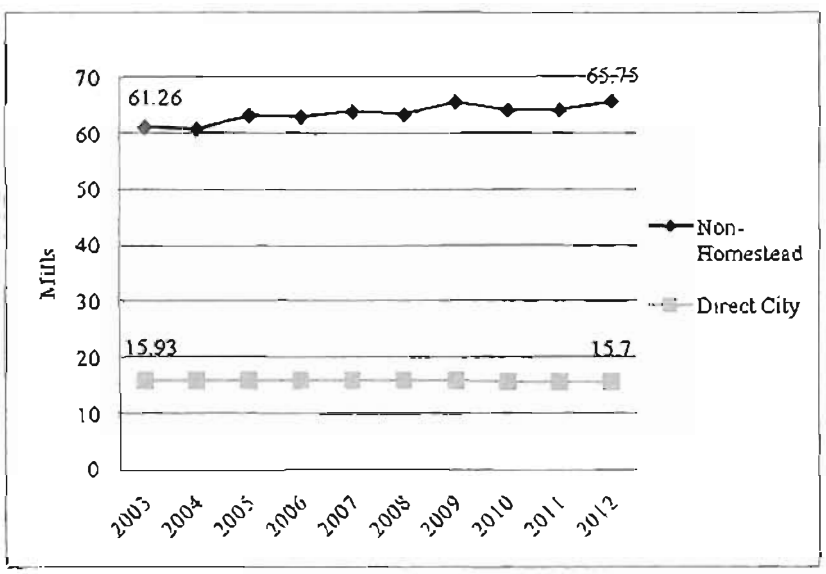
Exhibit III-7 Property and Income Tax Rates for Michigan's Ten Largest Cities – FY 2012 (2011 Tax Rates)

		Property Tax - Millage Rates			Income Tax Rates	
Jurisdiction	Pop. Rank	Non-Homestead	Principal Residence	Direct City	Resident	Non-resident
Detroit	1	85.1106	67.2798	29.51	2.5%	1.25%
Dearborn	8	66.4509	54.0491	21.90	-	-
Lansing	5	65.7612	47.8350	15.70	1.0	0.5
Flint	7	62.8550	44.8550	16.10	1.0	0.5
Clinton Township	10	58.8339	40.8339	12.70	-	-
Ann Arbor	6	58.6096	45.3008	16.57	-	-
Warren	3	55.2611	44.6668	19.89	-	-
Livonia	9	54.1048	36.1048	13.39	-	-
Sterling Heights	4	50.1545	39.5602	12.69	-	-
Grand Rapids	2	47.8921	29.8921	8.37	1.5	0.75

Source: Michigan Department of Treasury and 2012 Comprehensive Annual Financial Reports

Although the millage rate levied for direct city services has remained constant, the total non-homestead millage rate (non-city millages) has increased steadily over time (Exhibit III-8). In November 2011, voters were asked to approve a 4-mill levy to fund police, fire, and road maintenance services in order to mitigate reductions to such services. The proposal passed marginally with 51.9% approval;[ix] a similar ballot proposal was rejected earlier that year in May with only 47.8% approval.[x] During FY2013, this levy will increase the direct city millage to 19.44 mills, which raised the 19.16 mill cap imposed by the Headlee Amendment, and is anticipated to increase General Fund revenue by $7.6 million.[xi] However, this millage also reduces the city's capacity to raise revenue in the future due to the limitations imposed by the Home Rule City Act.

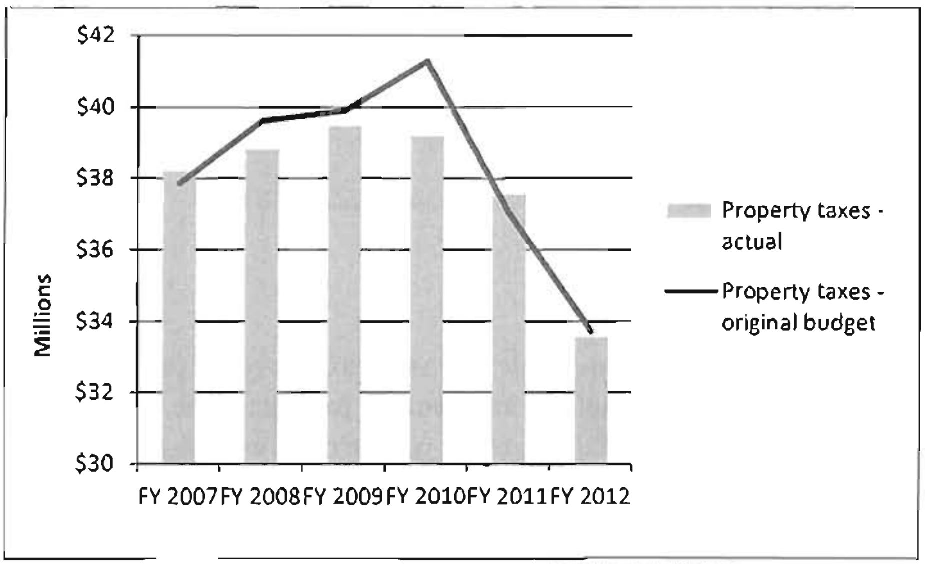
Exhibit III-8 City of Lansing Millage Rates (Fiscal Years)



Source: City of Lansing Comprehensive Annual Financial Reports

As discussed in section I, property values in Lansing have dramatically decreased over the past four years. Exhibit III-9 shows the impact of this with trends of the city's actual and budgeted property tax revenues. Property tax revenues have generally been within $500,000, or 2%, of adopted budgeted amounts, with two exceptions: FY 2008, where lesser amounts were received than anticipated as part of a 425 revenue sharing agreement and FY 2010, when mid-year changes by the State to auto supplier tax multipliers affected those 425 revenue sharing agreements by $1.3 million.

Exhibit III-9 Property Tax Revenue - Adopted Budget vs. Actual

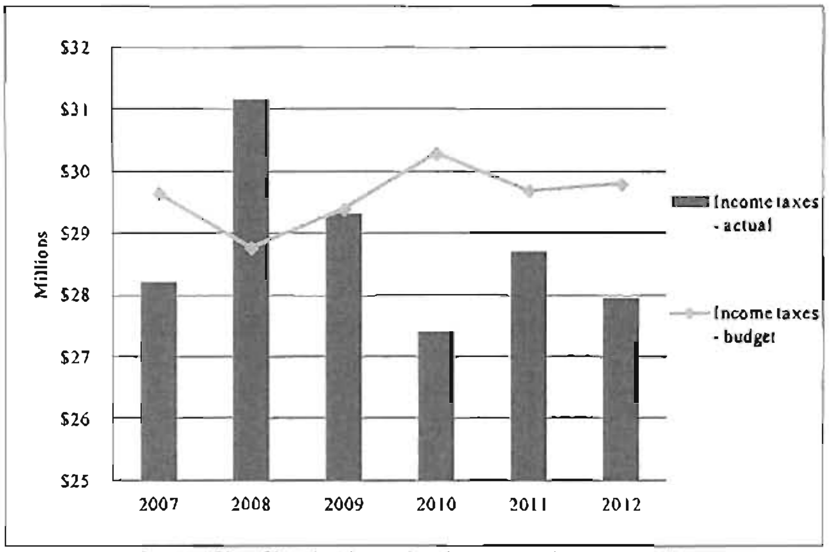


Source: City of Lansing Comprehensive Annual Financial Reports

Income Tax

Of the ten largest cities in Michigan, three are authorized to levy an income tax, which includes the city of Lansing. Effective since July 1, 1968, the income tax rate has been 1% for those who live within the city limits and 0.5% for non-residents who work within the city limits.[xii] The city's ability to estimate income tax revenue has been rather inconsistent over the past six years, as seen below (Exhibit III-10). Since 2010, income tax revenue has been overestimated by $1 to almost $3 million (FY 2010), as a result of the effects of the recession.

Exhibit III-10 Income Tax Revenue - Adopted Budget vs. Actual

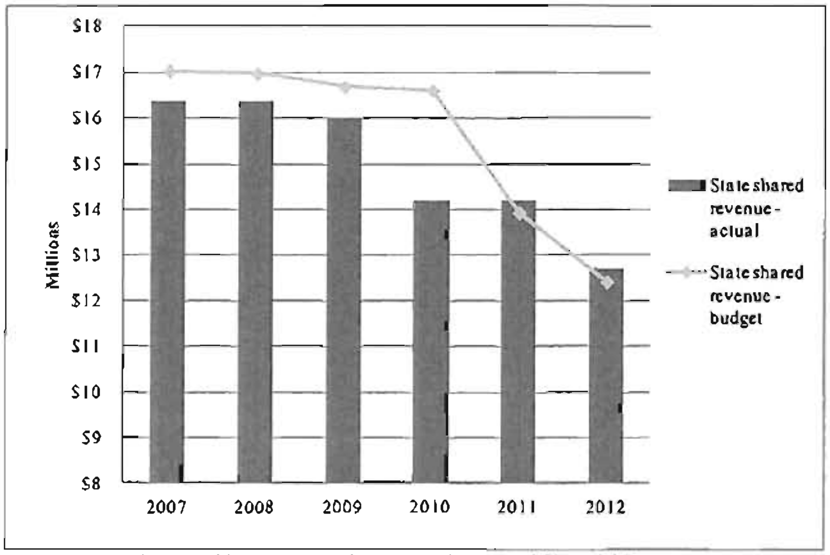


Source: City of Lansing Comprehensive Annual Financial Reports

State Shared Revenue

State shared revenue is generated from a statewide sales tax. Revenue sharing to local governments consists of both constitutional and statutory payments. The constitutional portion is distributed on a population basis, and the statutory portion of revenue sharing is defined by a formula. The Michigan State Legislature budget for 2010 fiscal year cut statutory funding to municipalities across the state, which included a reduction of $1.7 million for the city of Lansing compared to 2009 fiscal year.[xiii] Cuts to revenue sharing from the state resulted in adopted budget shortages of about 4% during FY2007 through FY2009. In 2011 and 2012, the City actually underestimated its state shared revenue. A decade of cuts to statutory revenue sharing over by the State has had a significant impact on Michigan municipalities. In 2001, Lansing received $21 million annually in revenue sharing from the State; in 2012, the amount was $12.5 million, a cumulative loss of over $54 million.

Exhibit III-11 State Shared Revenue - Adopted Budget vs. Actual



Source: City of Lansing Comprehensive Annual Financial Reports

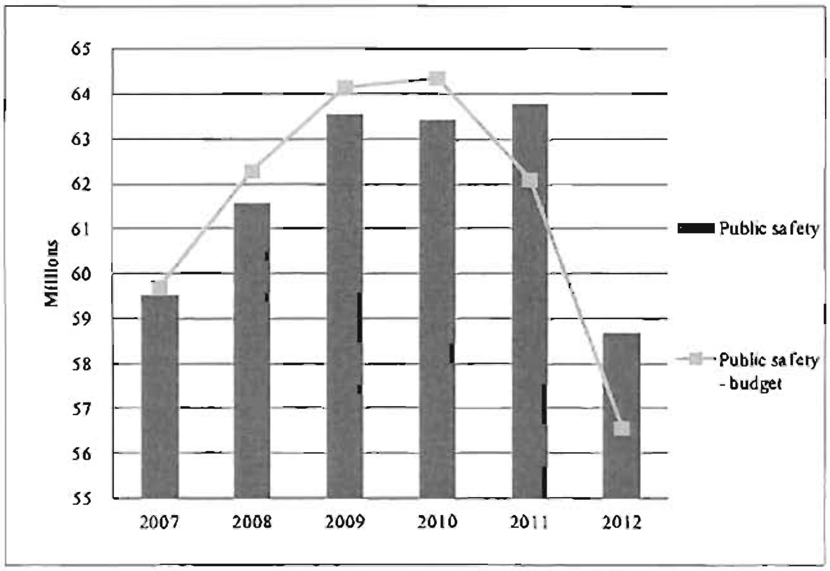
Expenditures

Expenditures represent the use of resources in order to provide government services. This section mostly focuses on General Fund expenditures. The primary General Fund expenditures are public safety and general government services (such as City Council, the Mayor's office, court systems, city attorney, etc.). In 2012, 57.2% of spending was allocated to public safety and 21.9% to general government.

Public Safety

Public safety consists of the majority of the General Fund expenditures. The city managed to spend under the adopted budget in 2007 through 2010 (Exhibit III-12). However, in 2011 expenditures exceeded the adopted budget by about $2 million, due to overtime costs and increases in city-wide health insurance. In FY 2012, the adopted budget anticipated the elimination of statutory revenue sharing and budget cuts to public safety personnel were enacted accordingly. That year, when statutory revenue sharing was added back by the State in the form of the Economic Vitality Incentive Program (EVIP), some of the positions, in conjunction with healthcare concessions by unions, were reinstated by a budget amendment. In both FY 2011 and 2012, Public Safety expenditures came within amended budget amounts. Budgetary challenges have impacted Public Safety budgets. For example, the city closed a total of three fire stations in 2011 and 2012 and closed one police station in 2012.

Exhibit III-12 Public Safety Expenditure - Adopted Budget vs. Actual



Source. City of Lansing Comprehensive Annual Financial Reports

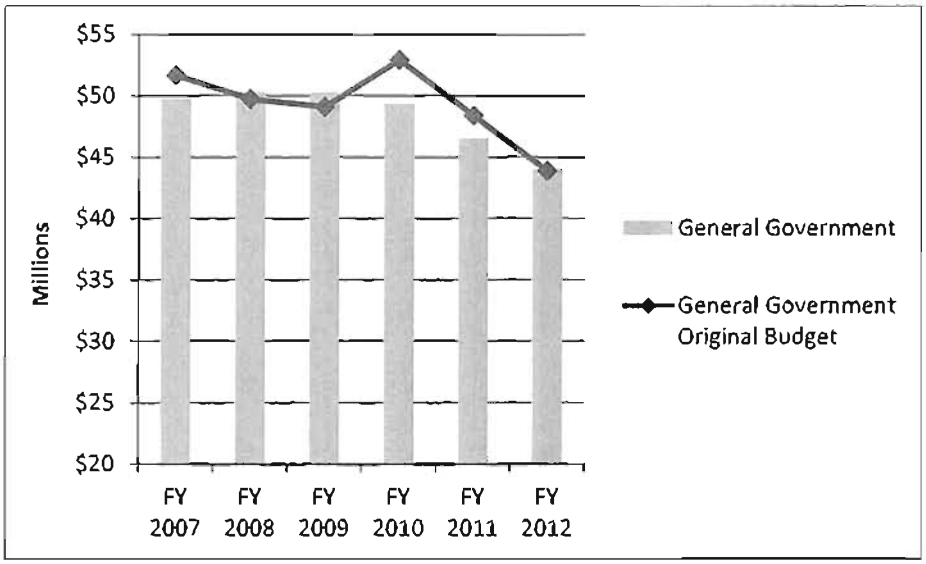
General Government

General government generally compasses the following areas of local government operations:

- Circuit Court Building Rental
- City Attorney's Office
- City Council
- City Clerk's Office
- City Television
- District Court
- Finance Department
- Human Resources
- Internal Audit
- Lansing Entertainment and Public Facilities Authority
- Library Building Rental
- Mayor's Office
- Planning and Neighborhood Development
- Vacancy Factors

General government expenditures have generally been less than original budget over the past six years (Exhibit III-13).

Exhibit III-13 General Government Expenditure - Adopted Budget vs. Actual

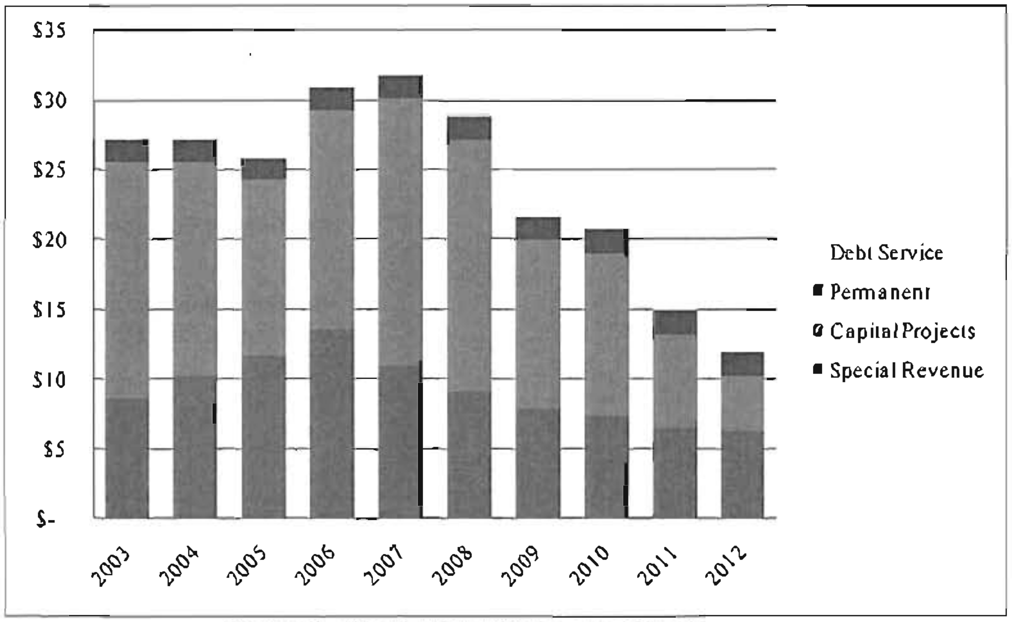


Source: City of Lansing Comprehensive Annual Financial Reports

Special Revenue Funds

Special revenue funds are generally used to track and account for monies tied to grant programs, dedicated millages and other government functions where separate accounting is used. These funds must be used for their specified purpose and are not available for general discretionary usage. Other governmental funds are shown in Exhibit III-14. These include special revenue funds, debt service funds, capital projects funds, and permanent funds. Special revenue funds and capital projects funds comprise the majority of the other governmental funds.

Exhibit III-14 Other Governmental Funds – Ten Year History of Fund Balances



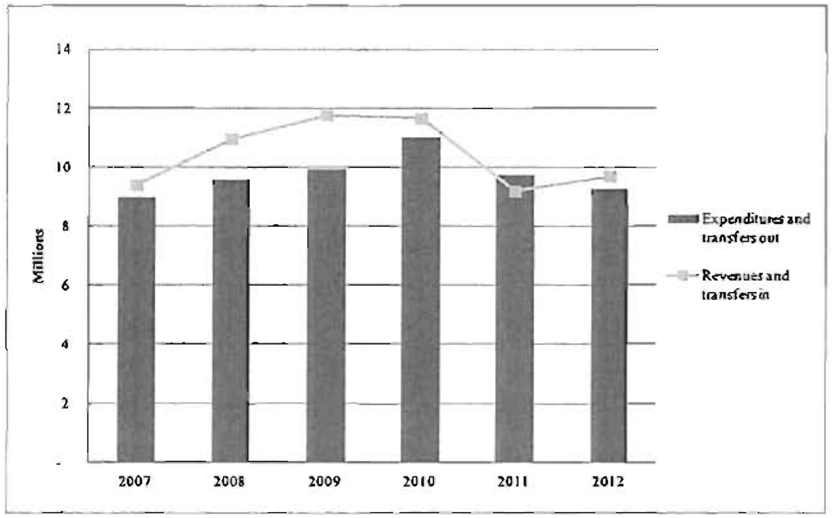
Source: City of Lansing Comprehensive Annual Financial Reports

As of FY2012, special revenue funds consist of the following types of funds:

- Major Streets
- Local Streets
- Drug Law Enforcement
- Community Development Block Grant
- Downtown Lansing, Inc.
- 911 Communications Center
- Building Department
- Parks Department
- Tri-County Metro Narcotics

The main special revenue funds are the Major Streets Fund and the Local Streets Fund. Major Streets Fund supports the City's maintenance of 44 miles of state trunk-lines. The majority of funding is sourced from the State of Michigan through the Gas and Weights tax, subject to Public Act 51 of 1951. In 2009, the fund was also subsidized by $2.3 million in federal stimulus funds from the American Recovery and Reinvestment Act (ARRA), which were budgeted for improvements in 3.5 miles in roads. Occasionally, the Major Streets Fund has also been supported by the General Fund, ranging from $300,000 to $2.2 million in transfers.

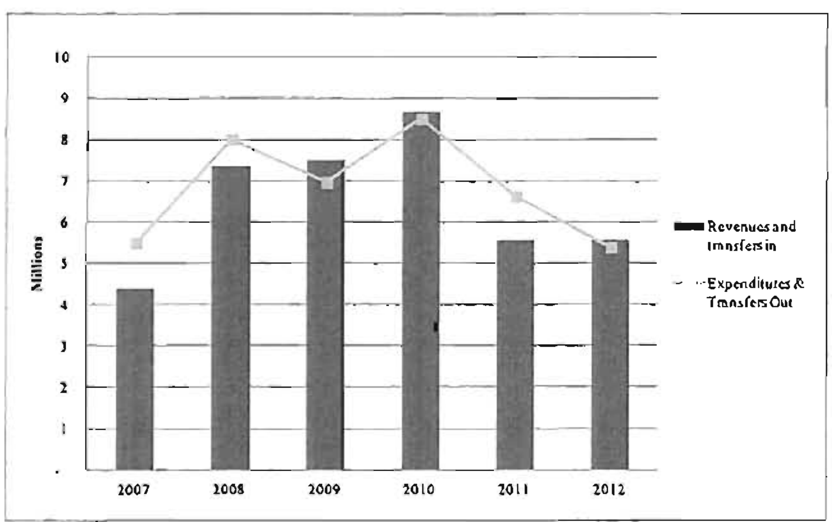
Exhibit III-15 Major Streets Fund Revenues and Expenditures



Source. City of Lansing Comprehensive Annual Financial Reports

The Local Streets Fund is mainly supported by Act 51 Gas and Weight tax revenues from the State of Michigan and transfers from the Major Streets Fund, which have ranged from $1.1 to 2.2 million since 2007. The Local Streets Fund has also received subsidies from the General Fund for debt service, which have declined since 2009 due to budget constraints. Diminishing support from both Act 51 and General Fund, have led to the elimination of road construction projects. The property tax millage that was passed in November 2012 will allocate 1 mill toward local streets maintenance to relieve this burden, from which the city has budgeted $1.9 million in revenues for FY2013.

Exhibit III-16 Local Streets Fund Revenues and Expenditures



Source: City of Lansing Comprehensive Annual Financial Reports

Gas taxes in Michigan have been declining for a number of years as cars become more efficient and fewer people have been driving fewer miles especially during the Great Recession of 2008-09. The state of Michigan recognizes these funding challenges and it has been reported that overall the state has underfunded roads by nearly $3 billion annually. Cities like Lansing have in turn received less funding for roads and thus struggle to maintain this critical infrastructure.

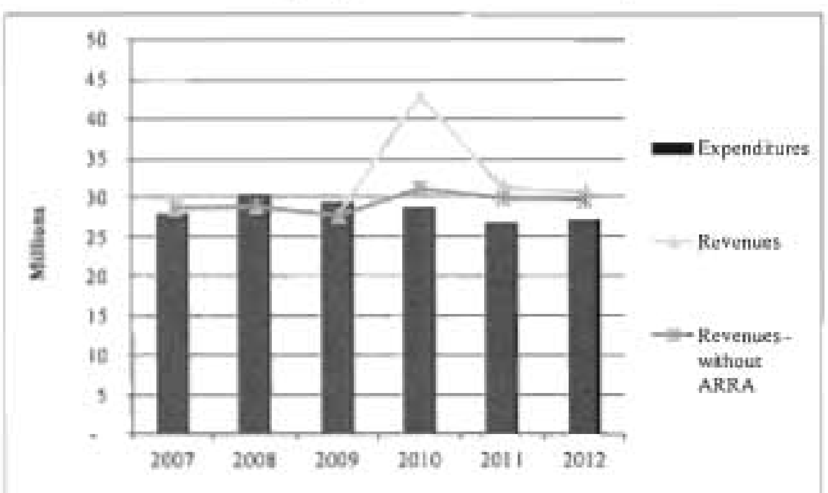
Proprietary (Enterprise) Funds

The city's proprietary funds include the sewage and disposal system, municipal parking system, cemetery, golf, and garbage and recycling collection. Enterprise funds are used for those government operations that are run more like a business entity with specific user charges for services. The user fees that finance these funds are intended to be structured to support day-to-day operations as well as capital improvements; however this is not always the case, as discussed below.

In 2008, the city of Lansing transferred Potter Park Zoo operations to Ingham County, although the city still retained the title to the Zoo property. This resulted in an outgoing transfer of $5.7 million from the zoo enterprise fund.

From 2010 through 2012, the Sewage Disposal System Fund received a total of $16.0 million in American Recovery and Reinvestment Act (ARRA) funds in order to support the Combined Sewer Operations (CSO) project and other smaller projects. The CSO is a 30-year project that was launched in 1991 to separate the sanitary and storm sewer systems in order to prevent sewage overflow into Grand River during high rainfall.[xiv] In addition to receiving federal grants for this project, the city has also generated additional revenue to the Sewage Disposal Fund by raising user rates.

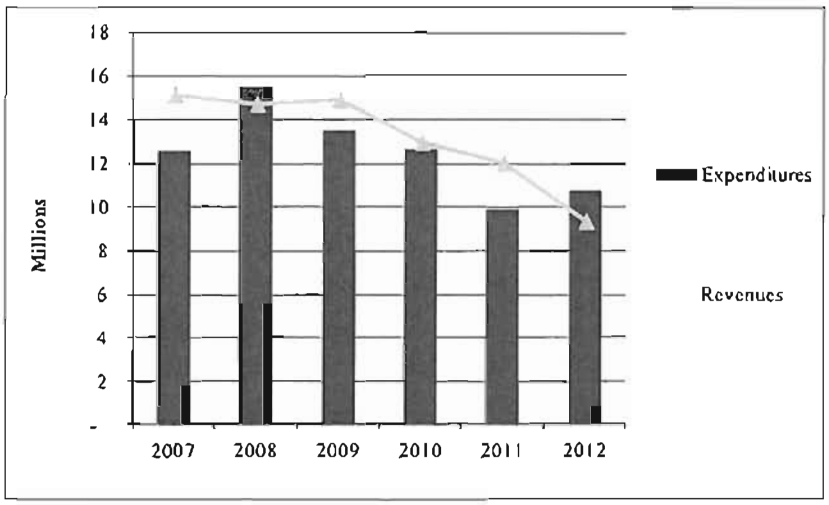
Exhibit III-17 Sewage Disposal Fund Revenues and Expenditures



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

The city's Municipal Parking System Fund has generally been self-sustaining, requiring no transfers from the General Fund. It incurred a $1.3 million operating loss in 2008 due to transfers to the Capital Projects Fund and a $455,000 loss in 2011 due to scheduled maintenance, as part of a five-year maintenance plan. The loss in 2011 was off-set by the conversion of a loan from the State of Michigan into a grant. In 2012, the city's parking system underwent an operating loss of $1.2 million due to scheduled maintenance and an additional $1.4 million loss in net assets due to sale of parking system properties.

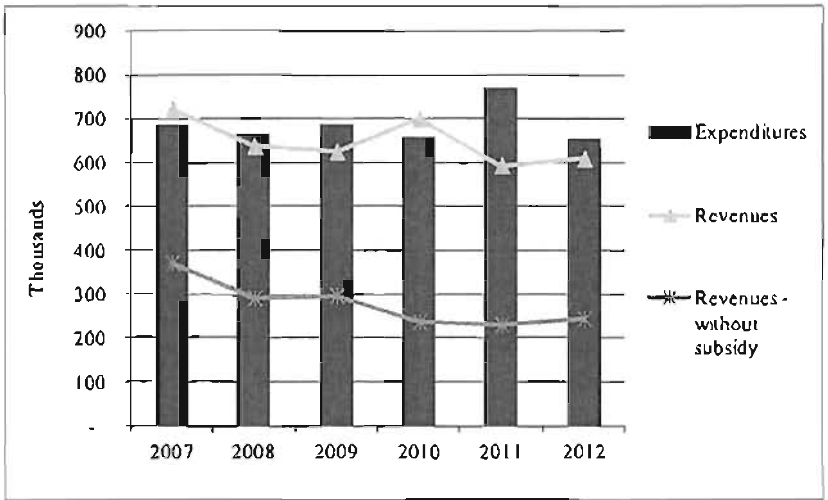
Exhibit III-18 Municipal Parking Fund Revenues and Expenditures



Source City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

Over the past several years, the General Fund and/or the Parks Millage Fund have subsidized the Cemetery Fund. Since 2007, own-sourced revenues have only met 30-50% of annual expenditures. Even with the subsidies, revenues have typically been insufficient to cover expenses (Exhibit III-19).

Exhibit III-19 Cemetery Fund Revenues and Expenditures

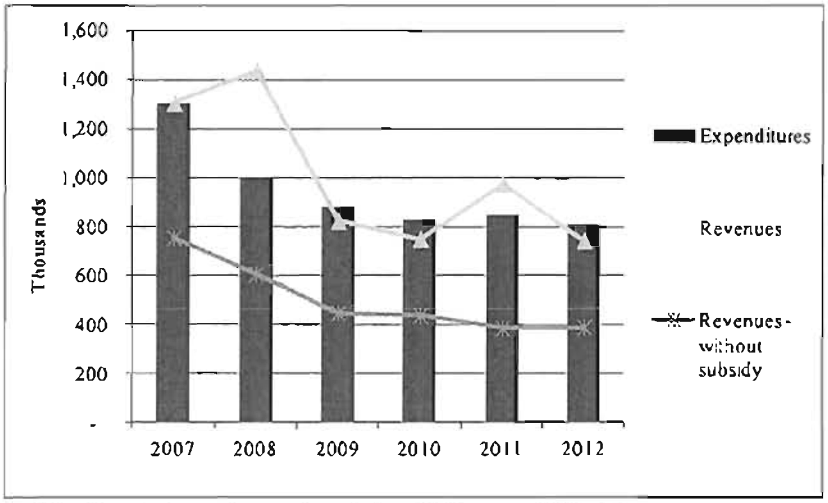


Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

General Fund and Parks Millage Fund also subsidize the Golf Fund since own-sourced revenues are insufficient to cover expenses. Previous efforts to manage costs include closure of the Waverly and Red Cedar golf courses in 2008. Also, in November 2012, voters approved a ballot proposal to authorize the City to sell the Red Cedar Golf Course with 67% approval.[xv] The City plans to sell up to 48 acres of the golf course for redevelopment and use the remaining the land for a storm water management project. The proceeds of the sale would be allocated toward improvements in recreational facilities in Red Cedar Park, support of the storm management project, and/or support the city of Lansing's park system.[xvi]

The city has also pursued partnerships with organizations outside of the Parks and Recreation Department to assist in controlling costs for its remaining facilities, the Groesbeck Golf Course and Sycamore Creek Driving Range. First Tee of Mid-Michigan, a non-profit organization, assumed management of the latter in 2011, and in the spring of 2013, the Lansing Entertainment and Public Facilities Authority (LEPFA) will assume management over marketing and concessions for the Groesbeck Golf Course.

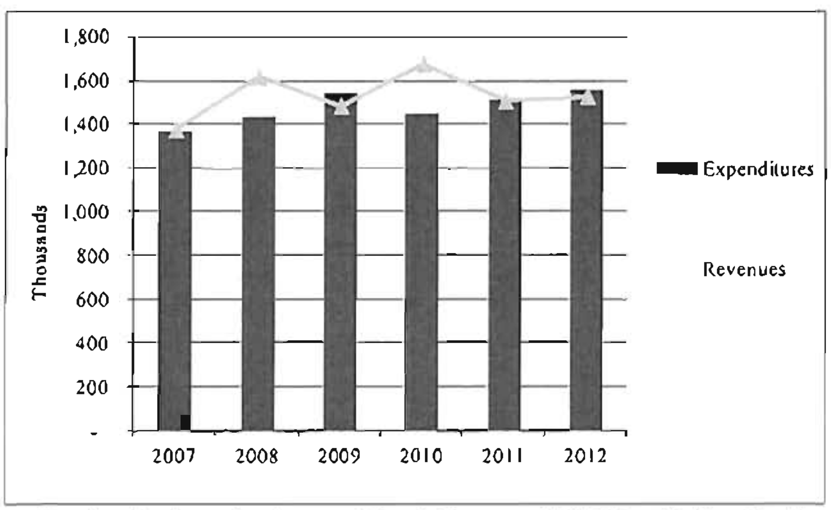
Exhibit III-20 Golf Fund Revenues and Expenditures



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

In general, the Garbage Collection Fund has managed to stay self-sustaining over the last six years. The city raised rates for the 2013 fiscal year in order to offset increased operating costs.

Exhibit III-21 Garbage Collection Fund Revenues and Expenditures

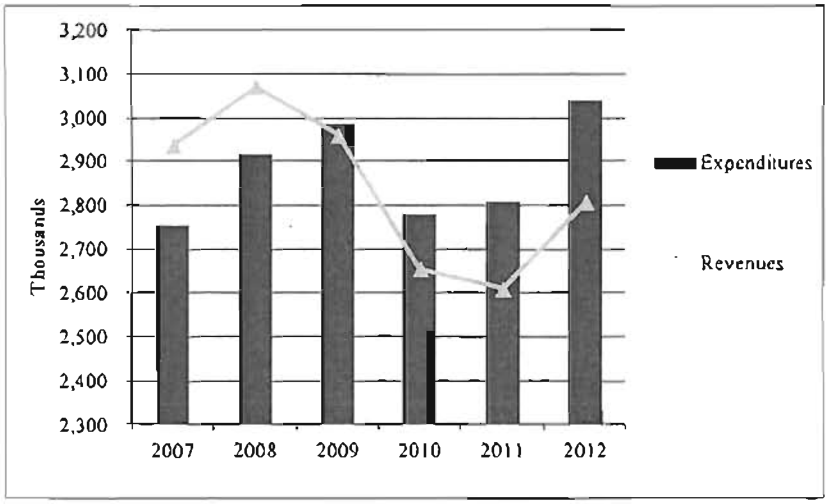


Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

On the other hand, expenditures have exceeded revenues in the Recycling Fund for the past four years (Exhibit III-22). In late 2009, the city launched a pilot program of single-stream recycling, in which all recyclables are collected in one container in the collection truck in order to streamline the collection process. In 2010, the annual fee was reduced from $74.50 to $67, and later in 2012 the fee was increased to $69. In 2012, the city expanded the single-stream process and implemented another pilot program using recycling carts instead of plastic bins. During the

2013 fiscal year, the city plans to expand cart recycling, which will require increasing fees to levels comparative to those in 2007, after accounting for inflation.

Exhibit III-22 Recycling Fund Revenues and Expenditures



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

Internal Service Funds

The city allocates internal service funds for fleet maintenance, engineering, and certain fringe benefits such as retiree health care. Similar to the enterprise funds, these funds should be self-sustaining as long as charges for services are sufficient to cover operating and capital costs.

Exhibit III-23 Internal Service Fund Assets

Fiscal year	2007	2008	2009	2010	2011	2012
Revenues and Transfers In						
Charges for services	$ 58,068,589	$ 58,100,182	$ 59,392,910	$ 60,045,701	$ 65,351,606	$ 64,726,153
Transfers In	3,337,958	673,861	1,726,941	-	-	-
Investment Income	-	-	-	-	5,622	8,041
Gain on sale of capital assets	88,605	124,436	32,310	75,094	108,601	123,066
Revenues and transfers in	61,495,152	58,898,479	61,152,161	60,120,795	65,465,829	64,857,260
Expenditures						
Fleet Maintenance	7,079,971	8,066,722	8,817,129	6,960,819	7,170,594	7,746,441
Fringe Benefits	47,078,497	49,809,983	50,428,650	53,657,193	54,093,450	55,859,083
Engineering	2,806,053	2,408,158	2,411,742	2,476,697	3,041,017	3,056,757
Expenditures and transfers out	56,964,521	60,284,863	61,657,521	63,094,709	64,305,061	66,662,281
Net change in fund balance (deficit)	4,530,631	(1,386,384)	(505,360)	(2,973,914)	1,160,768	(1,805,021)
Fund balance - beginning	8,069,991	12,600,622	11,214,238	10,708,878	7,734,964	8,895,732
Fund balance - ending	$ 12,600,622	$ 11,214,238	$ 10,708,878	$ 7,734,964	$ 8,895,732	$ 7,090,711

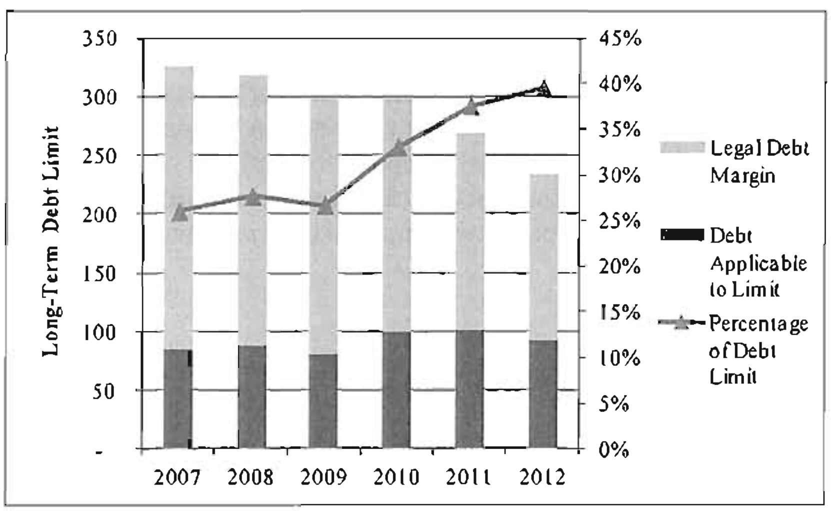
Source: City of Lansing Comprehensive Annual Financial Reports

IV. DEBT

The city of Lansing is fairly well-positioned in terms of long-term debt obligations. The city published in its 2012 Citizens' Guide to City Finances that its general obligation bond ratings are A1 (Moody's) and AA (Standard and Poor's) and its revenue bond ratings are 'Aa3' (Moody's) and AA- (Standard and Poor's). In October 2011, Moody's had downgraded the city's general obligation debt from Aa2, citing declines in valuations and operating under deficits that have depleted General Fund balance,[xvii] as discussed in section II. In December 2012, Standard and Poor's issued a report which upgraded the city's outlook from 'negative' to 'stable' and affirmed its 'AA' bond rating.[xviii] However, the report also cautioned that this rating is subject to the city's response to revenue fluctuations and budget gaps and that it could be downgraded if these issues are not addressed.

Exhibit III-1 illustrates the effect of valuations on the city's long-term debt limit, which is 10% of the assessed value of real and personal property.[xix] Although the nominal debt applicable to the debt limit has remained fairly steady over the past six years, the decline in property values has caused the debt as a percentage of the legal debt limit to rise by 14 percentage points since 2007.

Exhibit IV-1 Long-Term Debt Limit

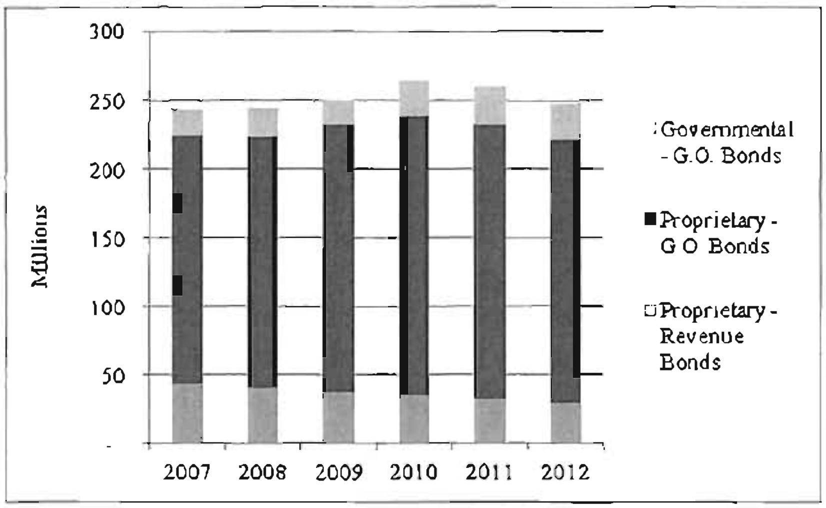


Source: City of Lansing Comprehensive Annual Financial Reports

As of June 30, 2012, the majority of the city's outstanding debt is comprised of bonds for proprietary funds (81%) as opposed to governmental funds (19%). The proprietary fund debt is mostly due to general obligation bonds for the sewer fund for the EPA-mandated Combined

Sewer Overflow (CSO) sewer separation project. Exhibit IV-2 shows a breakdown of the city's general obligation and revenue bond balances.

Exhibit IV-2 Bonded Debt - General Obligation and Revenue Bonds



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

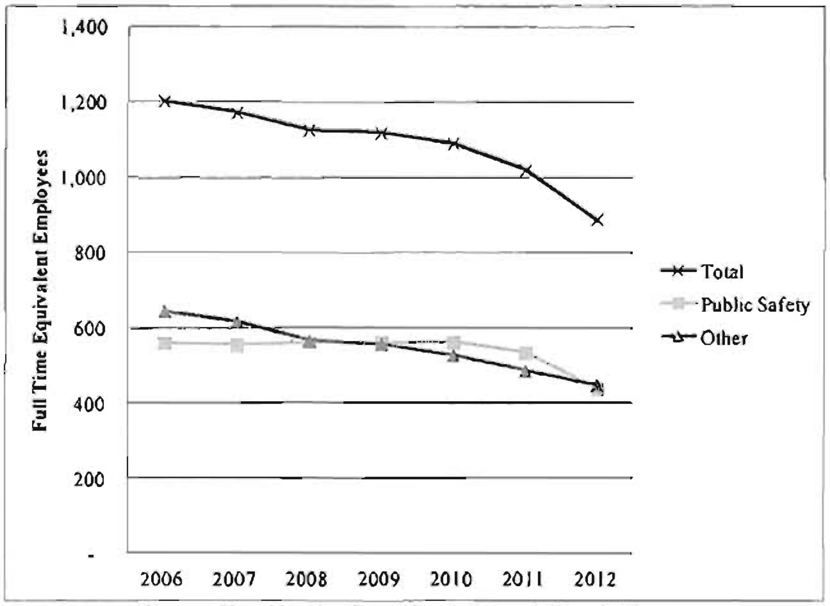
V. PERSONNEL TRENDS AND COSTS

The city of Lansing's budget is primarily driven by personnel costs as the city government, like most local governments, is a labor-intensive operation. Therefore, it is critical that these costs be examined to assess trends and key issues where reforms can be enacted. It should be pointed out that city of Lansing employees have already stepped forward and been willing to reduce their own benefit packages and have been subject to furlough days. Further, the city has reduced the workforce by nearly 30% over the past few years. This section reviews the trends in personnel and personnel costs

Annual Earnings and Benefits

The city of Lansing's payroll has declined by over 300 full-time equivalent employees, about 26%, over the last six years due to attrition, transfers, and layoffs. This breaks down to a 21% reduction in public safety employees and 30% reduction in other city employees.

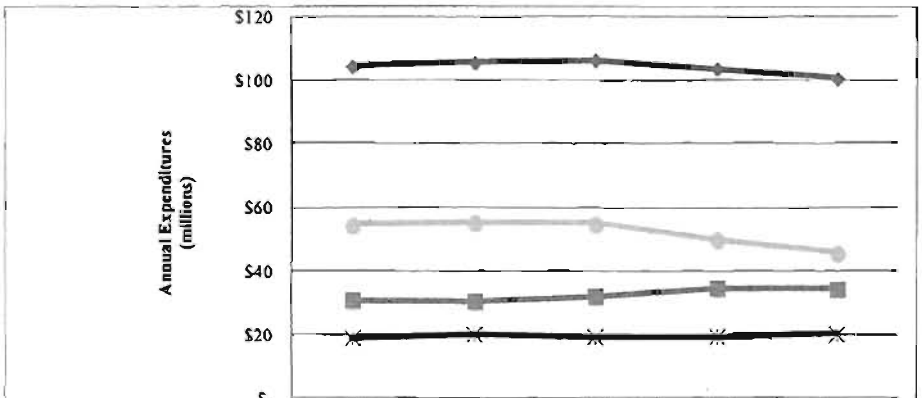
Exhibit V-1 Full Time Equivalent Employees



Source. City of Lansing Comprehensive Annual Financial Report

However, these personnel reductions have not necessarily induced comparative reductions in expenditures. Exhibit V-2 illustrates the overall personnel costs since 2008, which include annual earnings (including overtime), fringe benefits (such as health care, pension, workers compensation, FICA, and life insurance), and retiree health care and other post-employment benefit (OPEB) payments, which cover current premiums and any pre-funding. In addition to staff reductions, the city has attempted to control costs through measures such as furloughs, or reductions in work hours, and reductions in overtime for non-emergency employees. This reduced the base earnings by about 17%, but overall personnel costs have remained fairly constant. This is mainly due to increases in pension costs from 2010 through 2012. This chart provides a relative perspective on the relationship between payments for employee compensation and payments for employees after they retiree for health care coverage.

Exhibit V-2 Annual Earnings and Benefits Expenditures & Retiree Health Care Payments

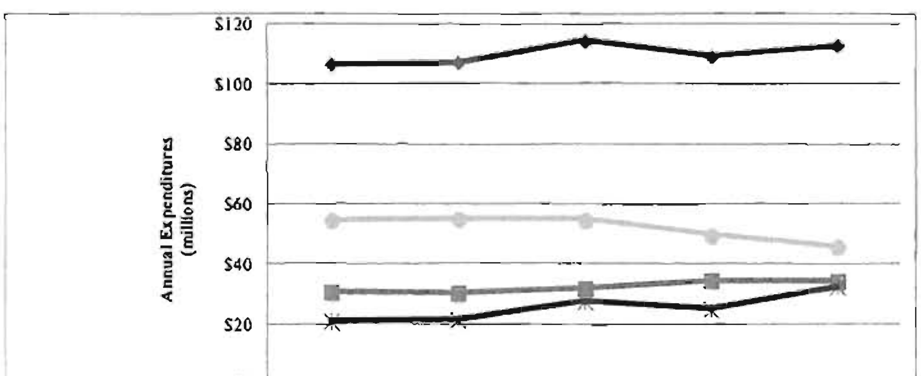


	2008	2009	2010	2011	2012
Annual Earnings	$54.8	$55.3	$55.1	$49.9	$46.0
Employee Benefits	30.9	30.4	32.0	34.6	34.5
Retiree Healthcare Contribution	18.9	20.1	19.3	19.3	20.3
Total Earnings and Benefits	$104.6	$105.7	$106.4	$103.7	$100.7

Source: City of Lansing Finance Department

Exhibit V-3 depicts a more comprehensive assessment of personnel costs by including the retiree health care legacy costs. This exhibit accounts for both the normal cost of benefits for the current year of service and an amortization payment to reduce the Unfunded Actuarial Accrued Liability (UAAL). Since the city has not contributed the full amount of the annual required contribution (ARC) over the years, overall costs have actually increased despite staff reductions.

Exhibit V-3 Annual Earnings and Benefits Expenditures - Retiree Health Care Annual Required Contribution

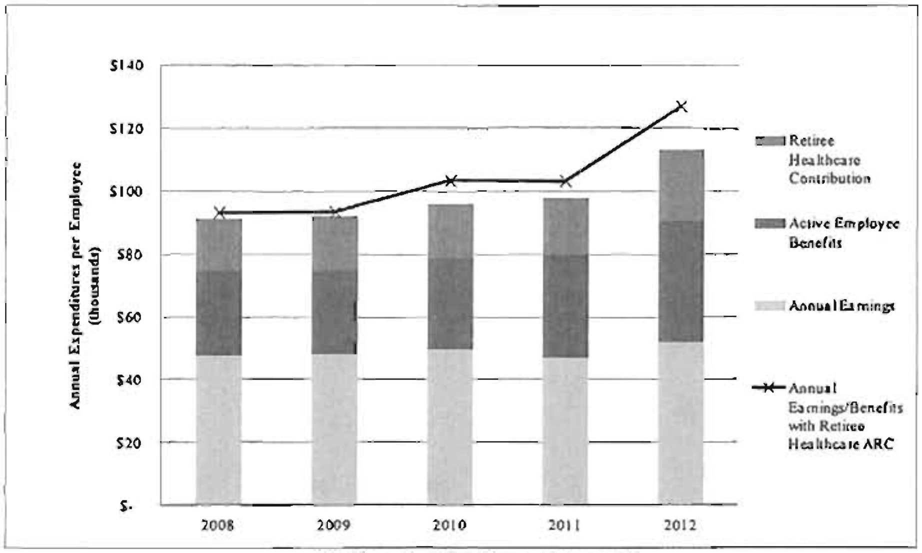


	2008	2009	2010	2011	2012
Annual Earnings	$54.8	$55.3	$55.1	$49.9	$46.0
Employee Benefits	30.9	30.4	32.0	34.6	34.5
Retiree Healthcare Required Contribution	21.0	21.5	27.5	25.1	32.4
Total Earnings and Benefits	$106.7	$107.1	$114.6	$109.5	$112.9

Source: City of Lansing Finance Department

Another illustration of how the city of Lansing's personnel costs have changed over time depicts the costs from Exhibit V-3 and Exhibit V-4 on a per active employee basis. Since 2008, there has been a 24% increase in actual costs per employee and 36% increase in costs taking into account amortized payments to fund the OPEB liabilities.

Exhibit V-4 Earnings and Benefits on a Per Employee Basis



Source: City of Lansing Finance Department

The city of Lansing may potentially realize cost savings for medical benefits in FY 2014. The Publicly Funded Health Insurance Contribution Act (PA 152), passed in September 2011, places limits on public employer contributions to medical benefit plans for active employees.[xx] Public employers can choose between a dollar amount cap based on a formula or pay no more than 80% of the annual health care costs. The has adopted the hard cap option. In August 2012, the Administration recommended and the City Council adopted a resolution that established a base plan healthcare plan for the executive management group with lower rates than the hard cap. That plan includes deductibles and coinsurance, with the option to pay extra for additional coverage or a smaller deductible. The resolution included pre-existing FY 2012 benefit plans in the list of alternative plans; however, continued participation is contingent on payment for the additional cost of coverage.[xvi] The Teamsters Local 214 collective bargaining unit adopted a similar benefit plan, and in October 2012, the City Council passed a resolution that applied this plan structure to City Council staff.[xxi]

Pension Benefits

The city of Lansing has a wide variety of pension plans offered to employees. Like many cities, pension plans were offered as a benefit in order to attract employees to city employment in the face of historically stiff competition from the auto industry in particular. An analysis was undertaken to determine the status of the city's pension systems.

Exhibit V-5 Comparison of Pension Benefits

Patrol Officer Labor Contracts - Pension
As of June 2011

Community	Type	Defined Contribution	Defined Benefit: Multiplier	EE Contribution	Eligibility	Maximum	FAC	COLA
Ann Arbor	DB	n/a	2.75	5.00%	55/5	none	3	No
Grand Rapids	DB	n/a	2.7	8.66% if funded < 100%		80%	5	1% after 5 years
Livonia	DC	11% ER	n/a	n/a	n/a	n/a	n/a	n/a
Southfield	DB	n/a	2.8	3.75%	any age/25	70%	3	No
Sterling Heights			2.8 up to 25 years; 1%/year thereafter	0.00%	any age/25	75%	3	No
Warren	Annuity	n/a	Annuity at 2.5 (25yrs); 1.0 (after 25 yrs)	5.00%	55/25	Scale up to 85% at 30 years	3	Maintain pension at no less than 40% of top paid officer salary
Westland	DB	n/a	2.8 up to 30 years; 1%/year thereafter	5% (if hired after 7/1/07); otherwise 0%	any age/25	none	3	No
Lansing	DB	n/a	3.2	8.50%	50/25	80%	2	$525/year
Battle Creek	DB	n/a	2.5	7.20%	55/25	none	3	E2
Jackson	DB	n/a	2.9	11.24%		none	3 plus 1%/year for each year > 25	No
Muskegon								
hired prior to 7/28/06	DB	n/a	3.0	6.00%	50/25; 55/10	75%	3	No
hired after 7/28/06	DC	10% ER	n/a	6.00%	n/a	n/a	n/a	n/a
Saginaw								
hired prior to 7/1/02	DB	n/a	2.6 up to 25 years	11.50%	any age/20	65%		One time 2.5%
hired after 1/1/02	DC	10% ER	n/a	5.00%	n/a	n/a	n/a	n/a
Pontiac	Annuity	n/a	Annuity at 3.0 (20yrs); 2.5 (next 5yrs); 1.0 (after 25 yrs)	5.00%	50/20	77.50%	n/a	n/a
Flint	DB	n/a	2.6%	5.00%	50/25	62.5	3	No

Abbreviations: Cost of Living Adjsutement (COLAS), Defined Benefit (DB), Defined Contribution (DC), Employee (EE), Employer (ER), and Final Average Compensation (FAC)

Source: Scorsone & Bateson, 2011[xxii]

Defined benefit plan pensions guarantee retiree benefit payments to retirees, with benefit levels being determined by a three part formula. The formula for calculating the annual pension benefit is shown below.

Annual Pension Benefit = **Years of Service** X **Final Average Compen-sation (FAC)** X **Pension Multiplier**

Years of Service - Years of service is based on actual employee service, although sometimes the employee or employer may "buy" years of service at an actuarially determined cost. Unless this is fully funded in advance, it increases the long-term liability.

Final Average Compensation (FAC) – The final average compensation is the average of wages or salary paid to the employee based on a predetermined number of years. Identifying what type of compensation is included in the FAC is important. If it includes overtime, vacation leave payout, longevity, and other pay items, the cost to the employer increases. When the FAC is determined using fewer years, typically the benefit is higher since it is based on highest years. When the FAC period is very short, even small increases in overtime, compensatory time payout, or accrued leave time payout will increase the pension. This is how some retiree's actual pension benefit can be higher than their regular full time pay as an active employee.

Pension Multiplier – The pension multiplier represents a percent of pay for each year of service.

A cost of living adjustment (COLA) provides an annual increase in benefit retirement. A COLA benefit provides a 2% annual increase in pension for retirees. A concern for granting automatic pension increases is that it further constrains future administrations. Employers typically have a pension plan design where they may instead grant a one-time COLA adjustment to retirees.

Based on the most recent actuarial valuations, the city of Lansing incurs the third-largest unfunded pension liability out of the ten largest cities in the state with $218 million (Exhibit V-6). The City also has the lowest funded ratio at 66.9%.

Exhibit V-6 Pension Funding Status for Michigan's Ten Largest Cities - Sorted by Unfunded Actuarial Accrued Liability

Jurisdiction	Population Rank	Population Census	Liability	Unfunded AAL	Funded Ratio
Detroit	1	713,777	$ 7,528,809,731	$ 643,754,129	91.4%
Flint	7	102,434	835,052,000	267,837,000	67.9%
Lansing	**5**	**114,297**	**659,854,217**	**218,260,616**	**66.9%**
Warren	3	134,056	534,599,101	133,133,119	75.1%
Grand Rapids	2	188,040	811,062,755	129,575,222	84.0%
Sterling Heights	4	129,699	384,904,232	98,570,813	74.4%
Ann Arbor	6	113,934	496,770,000	86,061,000	82.7%
Dearborn	8	98,153	489,475,591	58,272,507	88.1%
Clinton Township	10	96,796	114,226,069	8,962,719	92.2%
Livonia	9	96,942	195,105,000	(8,829,000)	104.5%

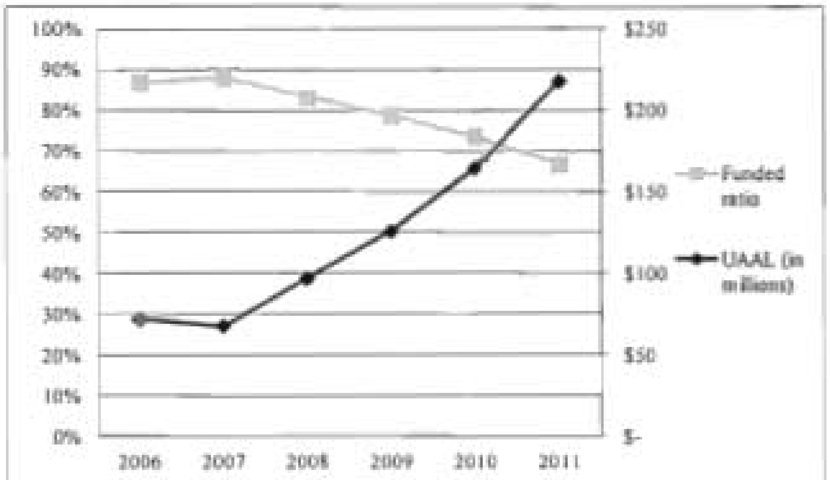
Source: U.S. 2010 Census and 2012 Comprehensive Annual Financial Reports[1]

The city of Lansing's combined pension UAAL for the two systems has increased from $72 million in 2006 to $218 in 2011 which was the time of the last actuarial valuation (Exhibit V-7). The funded ratio fell during this time from 87% to 67%. A significant cause of this decrease in

[1] Data source for the City of Livonia is the 2011 Comprehensive Annual Report, since the 2012 copy was unavailable at the time this report was written.

funding ratios was the 2008 stock market decline, the losses of which are amortized over the succeeding five-year period. Because stock market gains in more recent years are also amortized over the succeeding five years, those gains, which will help increase the funding ratio, have not been fully realized.

Exhibit V-7 Pension Funded Ratio and UAAL



Source: City of Lansing Comprehensive Annual Financial Reports

Only one community in our comparison communities has a defined contribution plan for current employees (Livonia). Two other communities, Muskegon and Saginaw, have recently implemented a defined contribution plan for new hires after a certain date. This is a common way for employers to transition the workforce to defined contribution plans to control long-term costs.

Other Post-Employment Benefits

The city contributes to other post-employment benefits (OPEB) for employees who are eligible to receive pension benefits from the Employees Retirement System and from the Police and Fire Retirement System. The city also contributes to a Voluntary Employee Beneficiary Association (VEBA) trust fund. Based on the most recent actuarial valuations, the city of Lansing incurs the second-largest unfunded OPEB liability out of the ten largest cities in the state with $431 million (Exhibit V-8). The city, despite consistent, albeit significantly lesser-than-needed, prefunding contributions for longer than most other communities, also has the fourth-lowest funded ratio at 9.9%.

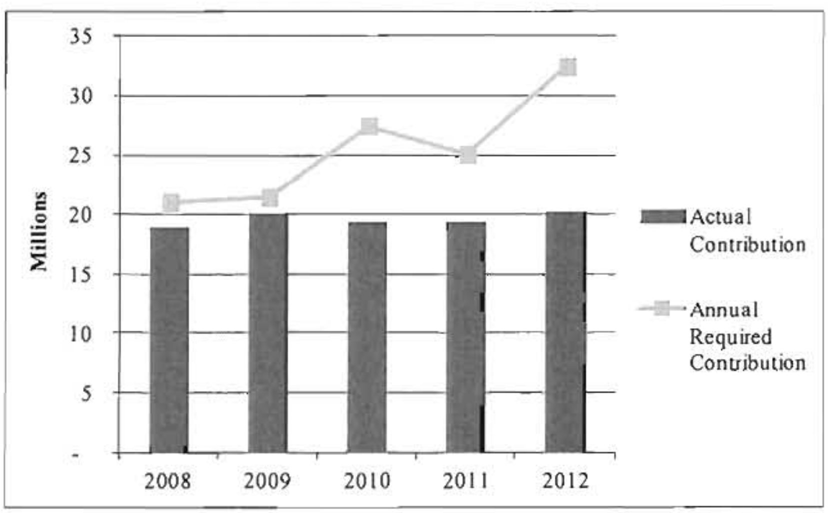
Exhibit V-8 OPEB Funding Status for Michigan's Ten Largest Cities - Sorted by Unfunded Actuarial Accrued Liability

Jurisdiction	Population Rank	Population Census	Liability	Unfunded AAL	Funded Ratio
Detroit	1	713,777	$ 5,718,286,228	$ 5,718,286,228	0.0%
Lansing	**5**	**114,297**	**479,135,588**	**431,776,738**	**9.9%**
Flint	7	102,434	366,832,597	366,832,597	0.0%
Warren	3	134,056	322,084,682	280,243,704	13.0%
Ann Arbor	6	113,934	249,844,000	162,184,000	35.1%
Grand Rapids	2	188,040	168,237,016	161,433,227	4.0%
Dearborn	8	98,153	191,997,781	156,323,331	18.6%
Sterling Heights	4	129,699	178,487,654	139,812,173	21.7%
Livonia	9	96,942	153,223,000	92,862,000	39.4%
Clinton Township	10	96,796	65,453,220	44,939,735	31.3%

Source: U.S. 2010 Census and 2012 Comprehensive Annual Financial Reports[2]

As discussed earlier, the proportion of the ARC that the city has paid to cover OPEB has declined over the last five years, from 90% in 2008 to only 62% in 2012. This has mainly been attributed to the budget constraints that were described in section II. In order to cover other expenditures, the city reduced its contributions relative to the ARC.

Exhibit V-9 Other Post-Employment Benefits - Actual vs. Annual Required Contribution

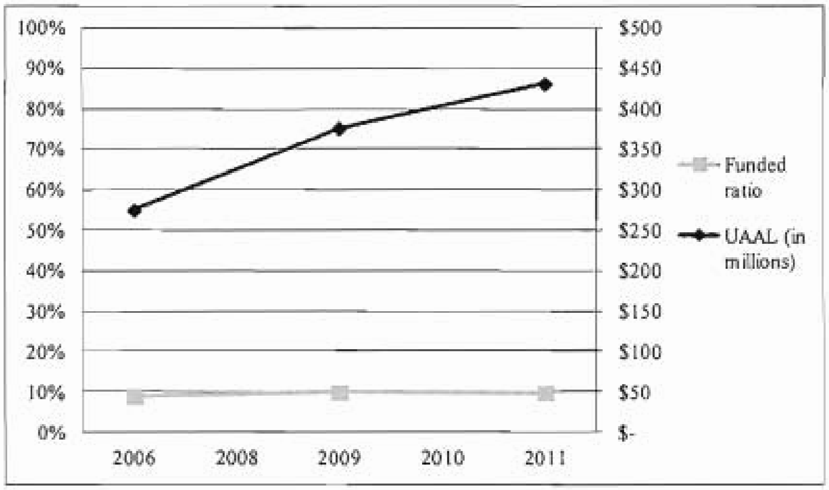


Source: City of Lansing Finance Department and Comprehensive Annual Financial Reports

[2] Data source for the City of Livonia is the 2011 Comprehensive Annual Report, since the 2012 copy was unavailable at the time this report was written.

Since the actuarial valuation in 2006, the city's unfunded OPEB liability has increased by almost 60%, from $276 million to $432 million. The city's contributions levels have maintained funding at around 10%. Unfunded liabilities can be addressed via increased contributions from employees or employers or through changes in the benefit structure.

Exhibit V-10 Other Post-Employment Benefit Funding Status



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

VI. COMMITTEE RECOMMENDATIONS

Short Term Subcommittee

This section is intended to summarize the deliberations of the Lansing Financial Health Team (LFHT) - Short Term Subcommittee. The LFHT was appointed by the mayor of Lansing in the fall of 2012 to begin to provide recommendations to address the short and long term financial stress facing the city government. These recommendations are designed to address the short term deficit facing the city as well as put a down payment on the need to address long term solvency challenges.

The first order of business is determining what services the city must provide and how efficiently they can be provided. It is only after such evaluation that consideration should be given to increasing costs to taxpayers. In the longer-term, the city should regularly examine all of its service delivery mechanisms and determine on a business case basis how they can most efficiently be provided. Property management, assessing, sign shop, street sweeping, billing, and collections are all examples of areas where the city should evaluate the cost/benefit of providing these services with its own staff or through contracts with others.

FY 2014 Budget Recommendations:

1. There must be a continued and increased commitment to aggressively reducing the city's unfunded pension and retiree health care liabilities. Thus, future projection of city revenue and expense gaps should acknowledge these liabilities. Additionally, the FY 2013-14 budget should include an additional financial commitment of $1 million for prefunding retiree health care. This is only a small percent of what would be needed to fully fund the city's pension and OPEB obligations and this should be increased over time. The city should also work to negotiate changes in benefit plans with its unions to address those costs.

2. The city must aggressively pursue the use of technology to improve productivity and improve services. The current level of financial commitment is inadequate, and the FY 2013-14 budget should include a significant additional appropriation to improve the level of technology used in the city. It is recommended that a minimum $1 million investment be made in information technology. Additionally, the city should create a new Chief Information Officer (CIO) position at the cabinet level which is expected to cost $200,000 in total compensation (including benefits). The city should work with the School District to examine the possibility of jointly hiring a CIO to serve both groups. Although this is a substantial investment now, it will make the government more efficient and provide better services, and will save money in the long run.

3. The city's financial reserves are at dangerously low levels. The city should increase these reserves by at $1,000,000 in order to have funding for emergency situations.

4. The city should undertake a facility study in order to determine which facilities are necessary and which can be sold. This should be undertaken in conjunction with the school district. It is estimated that this study will cost $100,000 but that it will result in long term cost savings.

5. A comprehensive fee study for all city services should be undertaken and fees should be set at a level to fully fund each service or a conscious decision should be made to partially subsidize the service. It is estimated that this will cost approximately $100,000.

6. The city should determine the amount of general tax subsidy that is made to support recreational programming, and should take all actions necessary to eliminate that subsidy. There are many other organizations that provide such programming. As in human services, while recreational programming is important, it is not essential for the city to provide when its available resources dictate that it must focus on its essential services of police, fire, roads, and utilities. Eliminating the recreational program General Fund subsidy will result in savings of $1,000,000. The Subcommittee recommends a three-phased in approach so the FY 2013-14 savings will be $300,000.

7. The city should take all actions necessary to eliminate the more than $500,000 annually budgeted as a subsidy for cemetery operations. These actions could include total outsourcing of operations or the sale of the properties. There are numerous competent providers other than the city government. The city currently operates the three cemeteries, for which current charges for services only cover 30-40% of expenditures. The Subcommittee recommends that the city consider outsourcing operations or selling the property. However, the potential negative impacts of outsourcing should be identified before it is implemented. For example, in addition to providing burial plots, private cemeteries market for business by providing services that city cemeteries do not provide, such as sale of monuments and other services. The potential increase in competition may negatively affect monument companies, funeral homes, etc. if the city cemeteries were managed by or sold to private entities.

8. The city's funding for human service agencies as reflected in the current ordinance should be phased out as there are numerous other providers and funders. Support of human services by a municipal entity, while valuable and important, is not an essential service in comparison to police, fire, roads, and utilities. The city currently designates 1.25% of general fund revenue annually to support Lansing area human services organizations. The city had budgeted $1,260,000 to support approximately 60 agencies for FY2013, with contributions ranging from $2,000 to $120,000. Programs funded through this subsidy include homeless shelters, child care, food, clothing, housing assistance, transportation, senior citizen assistance, and legal assistance for indigents, as well as other life skills, employability development, and

health programs. However, it is believed that in the absence of this subsidy, community organizations would fill in the gaps of service provision. This is not the case for fire, police, and infrastructure maintenance. For the FY2014 budget, the Subcommittee recommends to eliminate the 1.25% set-aside by ordinance and instead consider including 75% of that amount (equivalent to 0.9375% of General Fund revenue) in the budget with the condition that allocation decisions be made in comparison to other demands for city services This change will result in savings of $275,000, and eliminating the mandatory set-aside will require human services to compete with all other budget needs.

9. The current schedule of reduced hours of work for non-emergency/non-24 hour personnel should be made permanent, but any further reductions should be made only if an evaluation of impact has concluded that service to the public is not reduced. This change is expected to reduce costs in the General Fund budget by $1,000,000. In addition, a study should be undertaken to determine how much cost savings the city would incur if it instead laid off an equivalent number of employees rather than having reduced work hours for the current number. If the savings are significant and it is feasible to do, this should be implemented instead of the current schedule of reduced work hours.

10. The Building Department Fund is responsible for building, plumbing, electrical, mechanical, and plan review and inspections. Subsidies for building safety from the General Fund have typically been $200,000 - $500,000. During FY2013, the city raised user fees for permits, which has helped reduce the anticipated subsidy to $200,000. Thus, eliminating the subsidy altogether would result in a projected savings of $200,000.

11. The city should take all actions necessary to eliminate the tax subsidy for golf courses. While improvement has been made, the fact remains that there are many golf courses in this area that operate without a general tax subsidy. These include both private clubs, such as the Country Club of Lansing, and privately-owned courses that are open to the public, such as Forest Acres, College Fields, and a suite of four courses owned by Hawk Hollow Golf Properties.

The Golf Fund consists of all revenues and expenditures related to the Groesbeck Golf Course and the Sycamore Driving Range. Previous efforts to control costs include closing two golf courses in 2008 and transferring management of the driving range to a non-profit organization. In FY2013, the city transferred management of marketing and concessions for the Groesbeck Golf Course to the Lansing Entertainment and Public Facilities Authority (LEPFA). However, the Golf Fund will still receive a $350,000 subsidy from the Parks Millage Fund in order to cover expenditures;. the Golf Course seems unable to compete with private courses in the area because it does not have a banquet facility. The Subcommittee recommends selling or transferring management of these entities which may require special attention to timing so that the course does not fall into disrepair and sell at a lower profit.

12. Consolidation of services among agencies of the city with a specific focus on the Board of Water and Light should be done. This change alone is estimated to save the General Fund budget approximately $100,000.

13. Funding for fire services should be examined to determine that the current level of funding is necessary to provide an adequate level of service. It is estimated that staffing changes can be undertaken with an acceptable impact on services. In addition, consolidation efforts with other fire departments within the region should be pursued. A recent study undertaken by Plante Moran found that fire department collaboration is an attractive option for all communities that participated in the study, including Lansing. The study found that economies of scale can exist within contiguous communities for fire and EMS and that, through collaboration, municipalities can deliver improved fire protection and EMS services at a reduced cost. Based on these findings, the Subcommittee recommends a reduction in fire department funding of $2,000,000.

14. It is estimated that police funding reductions can be undertaken with an acceptable impact on services. According to the FY2011 report from the Michigan Local Government Benchmarking Consortium, the city's police department costs per resident and per full-time equivalent (FTE) officer are 35% and 20% higher than the sample average, respectively. Based off of the 2011 data, the city would need to reduce its expenditures by about $7,900,000 to match the average costs per resident or by about $6,000,000 to match the average costs per FTE officer. The city also has 10% more FTE officers per 1,000 people served than average, but 2.5% fewer calls for service. However, efforts to match the performance of comparison municipalities should be implemented gradually since the city's response time to both emergency and non-emergency calls are greater than average, and sweeping cuts may negatively impact the quality and efficiency of police services. In order to provide the police department with a realistic starting point for developing innovative ways to improve efficiency without making major compromises in service quality, the Subcommittee recommends a $1,000,000 reduction in police department funding, which is 3% of its FY2013 budget.

15. Efforts to contain health care costs must continue. Thus, proposed changes to health care for police should be pursued aggressively and included in the budget, with explicit offsetting reductions if changes are not accomplished. This includes a recommendation that active police union employees adopt a health care benefit plan that complies with the PA 152 hard cap, a year before their contract expiration, which will save the city $700,000.

16. Based upon the comprehensive fee study, it is estimated that the city should be able to raise an additional $175,000 from increases to other fees that have not been adequately increased over time.

17. The city and the Board of Water and Light should move to a user fee concept to pay for the use of hydrants and street lights. It is standard practice in many communities to charge the users for these services. The projected annual increase in fees will be approximately $45 and $1,394 for residential and commercial BWL customers, respectively. However, because property values and thus property taxes have diminished drastically since the Great Recession, this fee increase will likely be offset by the reduction in other taxes felt by city residents and business owners. For example, the property tax levied on a property with a taxable value of $70,000 is projected to decrease by $31. These changes will result in a permanent reduction in General Fund expenditures that is estimated to be $5,500,000.

18. The Lansing Entertainment and Public Facilities Authority (LEPFA) manages the Lansing Center, the Lansing City Market, and the Cooley Law Stadium. The General Fund currently transfers $1,100,000 to LEPFA and $500,000 to the stadium to assist in covering operating costs. Current debt service for the stadium ends in FY2014, which may reduce expenditures, but will likely be replaced by new debt for capital improvements. The city's subsidy of the Lansing Center is unsustainable. However, if the city were to cease funding for the Lansing Center it would likely shut down, divesting the downtown of a venue for attracting conventions and commerce. There are alternative funding sources that should be explored to keep the convention center open.

Currently, the Lansing Center indirectly receives bed tax support through funds disbursed by the Greater Lansing Convention and Visitors Bureau (GLCVB), which receives 80% of the bed tax receipts that Ingham County collects under Public Act 263 of 1974. Under Public Act 180 of 1991 (PA 180), the city of Lansing is authorized to levy a bed tax of no more than 1% of gross receipts or a car rental tax of no more than 2% of gross receipts for supporting sports stadia and convention facilities, which is subject to voter approval. The 425 tax-sharing agreement to conditionally transfer the Capital Region International Airport from DeWitt Township to the city of Lansing may facilitate this recommendation since it allows the city to levy and collect taxes on this property. The Airport serves as a source of car rental business and thus, a potential source of car rental tax revenue. However, according to the sharing agreement, the city may be required to remit 50% of such revenues to DeWitt Township.

Other cities have funded their convention centers through similar means. For instance, the COBO Center in Detroit, MI relies on a bed tax levied by Wayne, Macomb, and Oakland Counties in order to subsidize bonds sold for an expansion to the facility. The convention center in Columbus, Ohio is funded by the county. The San Diego Convention Center is undergoing a $520 million expansion that is being funded by hotel taxes ($35 million per year), the city ($3.5 million per year), and the San Diego Unified Port District ($3 million annually for 20 years).

In accordance with existing policy, the Subcommittee recommends that the city pursue an addition to the bed tax and/or levy a car rental tax that will raise $100,000 and reduce the General Fund subsidy for the Lansing Center. The city should take into account potential impacts on smaller inns and other issues raised when Wayne County proposed these taxes in 1996. Further, the Subcommittee recommends that the city move toward completely eliminating the General Fund subsidy of the Lansing Center over the next few years.

The following is a summary of the short term committee recommendations:

	Deficit Projection	$9,000,000
	New Investments:	
1.	Additional Prefunding of Legacy Costs	1,000,000
2.	Information Technology and CIO	1,000,000
3.	Financial Reserves	1,000,000
4.	Facility Improvements	100,000
5.	Comprehensive Fee Study	100,000
	Investments Total	$3,400,000
	Total Deficit Plus New Investments	$12,200,000
	Proposed Savings:	
6.	Phase Out Recreational Programming Subsidy	$300,000
7.	Eliminate Cemetery Subsidy	$500,000
8.	Phase Out Human Services Support	$275,000
9.	Make Permanent a 4 1/2 Day Work Week	$1,000,000
10.	Eliminate Building Inspection Subsidy	$200,000
11.	Eliminate Golf Subsidy	$350,000
12.	BWL Administrative Consolidation (GF Cost Savings)	$100,000
13.	Reduce Fire Funding	$2,000,000
14.	Reduce Police Funding	$1,000,000
15.	Police Health Care Restructuring	$700,000
16.	Other Fee Increases	$175,000
17.	BWL Revenue Adjustment (GF Cost Savings)	$5,500,000
18.	Car Rental and Bed Tax Increase (Reduce Lansing Center Subsidy)	$100,000
	Total Proposed Savings	$12,200,000

Long Term Subcommittee

The city lacks the ability to implement many of the following recommendations on a unilateral basis. Many recommendations relating to the terms and conditions of employment of city employees will require negotiations through the collective bargaining process and agreement with representatives of city employees. Some recommendations may be subject to binding arbitration under state law before implementation. In addition, the Michigan Constitution prohibits diminishing or impairing accrued pension benefits.

Pension Systems and Benefits

1. Some city employees do not currently participate in Social Security. The city and its employees should move toward 100% participation in the Social Security program and then reduce pension costs incurred by the city to offset non-participation in Social Security.

2. The city should conduct a thorough evaluation of its defined pension systems and implement changes for both current and future city employees. The efforts should focus on reduced costs, best practices, and the financial sustainability of benefit levels. As part of this process, the city and its employees should consider all of the following:

a. Adjusting the multiplier used in determining the pension benefit based upon the age of an employee at retirement;

b. Pension multipliers should be evaluated with other well-managed defined benefit pension systems in Michigan and elsewhere to identify best practices in establishing multipliers.

c. Dissuade spiking in pension benefits by basing pension benefit on average compensation over a period of 5 or more years, or over the total period of employment, rather than final salary;

d. Increase eligible retirement ages consistent with other public and private sector employers;

e. Evaluate the financial viability of moving new city employees to a defined contribution retirement benefit and/or offering such an option to current employees;

f. Evaluate the financial viability of moving new city employees to a hybrid defined benefit/defined contribution retirement plan and/or offering such an option to current employees; and

g. Evaluate whether the administration or investment responsibilities for the pension systems, or both, could be more efficiently and effectively performed by others rather than by current city boards and personnel. This evaluation should include evaluation of both a potential transfer to the Michigan Municipal Employees' Retirement System, as has successfully occurred in many other Michigan communities, or to another governmental entity, such has the city of Kalamazoo, which has a strong performance track record. Other cities moving from city-administered systems have realized substantial savings.

Retiree Health Care

3. Currently city retirees receive a health care benefit during retirement established on the date of retirement, requiring the city to administer of different health care plans. The city should move to a single health care plan for all city retirees receiving health care benefits that is consistent with the standard plan provided to active city employees.

4. Move to a uniform schedule for vesting in retiree health care benefits, consistent with best practices in other communities..

5. Consistent with other governments and the private sector, the city should move to a defined retirement health care benefit contribution for retired city employees, at a minimum for new city employees. This may take the form of a lump-sum payment or an annual fixed contribution to a health savings account. Closing the retiree health care plan for new employees will result in an immediate actuarial savings for the city. The Commission on Retiree Healthcare Benefits for the City of Chicago recently recommended that the city end the provision of health care benefits to retirees in 2014 when the employees have the ability to purchase coverage through the Illinois State Health Exchange. The city should conduct a similar analysis for Lansing.

6. After moving to a defined retirement health care benefit, the city should consider whether the issuance of bonds to finance the city's significant unfunded obligations for retiree health care is financially advisable.

Health Care Benefits

7. When city employees are involved in auto accidents, the city should require that primary health coverage be provided through auto insurance and not the city's health care plan.

8. The city should implement an aggressive and on-going program to audit dependents of city employees to assure only those eligible receive health care benefits.

9. The city should require implementation of a program to incentivize employee with health care coverage under a plan provided by the employer of his or her spouse to obtain health care benefits from the spouse's plan, where the city hold-harmless the city employees from any reduced benefits under the spouse's plan.

10. The city should move to a uniform health care benefit plan with a simplified plan design for all city employees. The plan should include a traditional self-insurance option, a health maintenance organization option, and a high deductible option supplemented with a health savings account.

11. The city should actively participate in the activities of the Michigan Municipal Services Authority (MMSA) to establish a statewide health insurance pool for government employees through its virtual health and wellness initiative. When operational, this program has significant potential to provide cost savings to the city and its employees.

12. When evaluating health insurance plan changes, the city should include the economic impact on the city when any change in providers.

13. The city should implement new health and wellness initiatives to reduce health care costs. The city should attempt to implement with another city a health and wellness challenge competition to incentivize behavior like that currently underway between the city of Chicago, Illinois and the city of San Antonio, Texas. This competition was supported by a $5 million grant from a private foundation.

14. The city should contract with a third party to review claims and manage costs under the city's self-insurance program.

15. The city should adopt more aggressive drug formulary management and drug utilization protocols, improved prior authorization and other demand management tools.

Workforce

16. With a recommendation by the Short Term Solutions Group that the current reduced work schedule for city employees be made permanent, it is recommended that in the longer term this change be fully recognized as structural reduction in the number of city employees. Employees should be restored to a full work schedule but the number of authorized city employees should be reduced accordingly. A reduced city workforce reduces the space needed in City Hall.

Technology

17. The city should participate in the Michigan Municipal Services Authority's initiative to create a cloud-based financial management system for local governments.

18. The city should move to a cloud-based office software suite such as Microsoft Office 365 or Google Apps for Government. The city of Chicago reports that its move to Microsoft Office 365 will save $1.3 million over 4 years. Chicago Public Schools indicates that its move to Google Apps will save $2 million per year.

Facilities

19. Lansing's City Hall was built and designed for a different era when services provided in a different way involving many more employees. Given the age of the building and many of its vital systems and the likely need for significant repairs and updates, the city should immediately undertake a study as to whether city services could be more effectively delivered from another location, financed in part by the sale of the current City Hall property. Any new location should be designed not just to serve the needs of the city but also function as a center for multi-jurisdictional and regional governance and cooperation, including, but not limited to, enhanced coordination with the Lansing School District, Ingham County, and others in the delivery of governmental services.

Efficient Provision of Non-Core Functions

20. The city should undertake an effort to determine if certain non-core functions currently performed directly by city employees could be instead performed more efficiently by the private section. In evaluating costs and benefits, city employees should be afforded the opportunity to bid on work, and the impact of moving functions outside of city government on legacy costs

such as post-retirement benefits should be analyzed. Areas for initial consideration should include:

- Parking;
- Waste hauling;
- Ambulance / Emergency Medical Services;
- Information Technology; and
- Accounting services.

Maximizing City Revenue

21. The city of Lansing is the seat of state government under the Michigan Constitution. As such, the city should actively encourage the State to locate its employees within the city. The city should maintain an inventory of properties within the city that could meet the needs of state department and agencies and should regularly interface with state officials on the state's future needs.

22. The city should authorize and actively seek advertising on city buildings, property, vehicles and websites to generate additional revenue to provide vital services to Lansing residents.

23. The city currently provides law enforcement and fire protection services to public educational entities within the city that provide no financial support to the city to support those services. The city should pursue authorization to assess a public safety fee on students attending public institutions of higher education within the city to cover the costs of those services. The state of Michigan, as an example, provides the city with fire protection grants to partially cover the public safety costs incurred by the city in protecting state employees and facilities.

24. The city should develop an initiative, possibly in partnership with the Ingham County Land Bank, to encourage college, university and law school students to purchase and invest in housing in the city of Lansing.

25. The city should develop an initiative to encourage trade associations and other similar organizations interacting regularly with state government to locate at the seat of state government, in the city of Lansing.

26. The city should modify its income tax to allow collection of the tax by the state on behalf of the city, eliminating a separate income tax withholding and filing process for the city.

27. The city should support state legislation to move to a formula for distributing state revenue sharing to local governments based upon population density rather than a per capita distribution.

Regional Subcommittee

Regional cooperation, collaboration and consolidation in the Lansing metropolitan area has been a topic of discussion, as well as action, for decades. Today, however, regionalism has become a more urgent imperative, driven by unprecedented financial pressures on local units of government to provide public services in the most efficient, cost-effective manner possible.

Beyond providing essential public services more efficiently, a key dimension of regionalism is sharing the benefits of economic development between neighboring jurisdictions. One of the Lansing region's first and most successful regional initiatives was the P.A. 425 tax-sharing agreement between General Motors, the city of Lansing and Delta Township for the construction of GM's Lansing Delta Assembly Plant.

The Lansing-Delta agreement became the template for subsequent 425 agreements successfully negotiated between Lansing and Alaiedon Township for the construction of the Jackson National Life headquarters, and between Lansing and DeWitt Township for the creation of the Next Michigan Development Zone (aka "Aerotropolis") at Capital Region International Airport.

Another recent regional initiative is the shared fire services study commissioned by the cities of Lansing, East Lansing and the neighboring townships of Lansing, Delta and Delhi. Lansing and East Lansing, entering their second year of a shared fire chief, are systematically evaluating the prospects for greater coordination between their fire departments, facilitating the process of synchronizing two similar but different organizations. All of the regional partners in this important endeavor have our strong support and encouragement to continue moving forward along the path outlined in the fire study, including the possible merger of one or more existing departments if it means that fire protection can be provided more efficiently and cost-effectively.

The Subcommittee applauds these efforts, and thanks the leaders in both the public and private sectors who are pursuing them. We recognize that regionalism is often complex and challenging, even under the best of economic conditions. Yet there is still more to do as the economic imperatives of our times and the broken model of municipal financing in Michigan push us toward finding new ways to provide essential public services more efficiently and cost-effectively.

The Subcommittee spent a number of months assessing the prospects for future regional initiatives between Lansing and neighboring jurisdictions. Perhaps our most important conclusion is that this vital work must continue. Toward this end, the Subcommittee encourages Mayor Bernero to join with other regional leaders in establishing a forward-looking, ongoing regional initiative to study the potential and evaluate the business case for future regional initiatives, including the possible regional consolidation of key public services or even jurisdictions.

In the course of our review, the Regional Subcommittee interviewed numerous regional leaders from both the public and private sectors. Productive and insightful conversations were held on a wide range of topics, many of which are encapsulated in the specific recommendations of the Subcommittee.

The Subcommittee has identified several areas in which the region can better work together to provide more efficient, cost-effective services that maintain or even enhance current service levels. The subcommittee met with representatives from the Lansing School District, Clinton County and Eaton County to discuss ways that the city of Lansing can work with the other entities to improve efficiency.

The Lansing School District is looking to create a strategically-located, consolidated secondary school campus. They would also like to right-size their office facilities. They welcome a partnership with the city of Lansing to tackle these issues.

The Lansing School District also has a need to streamline in three areas: operational support, instructional programs, and infrastructure. Operational support includes services such as food services, a regional kitchen, custodial services, and grounds maintenance. Instructional programs include special education and career technology education. Infrastructure areas include personnel, payroll and benefits, procurement, information technology, legal counsel, and public relations.

The two most promising ways in which the Lansing School District and the city of Lansing can cooperate are in the sharing of an administration building and an information technology delivery system with a joint Chief Information Officer.

Clinton and Eaton Counties are also open to regionalism. However, they believe that regionalism should be approached through small steps. Many residents in Lansing suburbs do not see their survival being dependent on the city of Lansing, even though these areas are dependent upon and driven by the success of Lansing.

Business leaders in the city of Lansing feel that Lansing lacks a unified vision for regional cooperation and that Lansing's current financial situation must be resolved in order to gain the support and trust of outlying areas.

The Regional Subcommittee identified the following as areas that are ripe for further exploration:

1. In accord with the Long Term subcommittee recommendation relative to City Hall, the city and school district should explore the possibility of establishing a combined facility for municipal offices and school offices.

2. The city and school district should collaborate on a shared technology upgrade and hire a joint Chief Information Officer (CIO).

3. The city and school district should explore additional areas of collaboration, including key operational areas and infrastructure needs where economies of scale and cost-savings can be obtained, such as personnel, procurement, IT, public relations and legal counsel.

4. District court functions for the city are currently housed within City Hall. The city should support state legislation combining the three separate district courts in Ingham County into a single county-wide district court, allowing the elimination of one or more district judgeships within the county through attrition. A similar consolidation was recently and successfully implemented in Kalamazoo County.

5. The city should continue to work toward greater cooperation, collaboration and possible merger of the Lansing and East Lansing Fire Departments, as well as other local jurisdictions, in accord with the regional Fire Services Study. In the interim, the city should reorganize the delivery of Lansing fire services to facilitate the establishment of a regional authority for the provision of such services with East Lansing and other communities in the region. Area business and government leaders have a particular interest in the negotiations with Lansing fire unions and bringing staffing and cost more in line with regional standards.

6. The city should consider a service agreement with the county sheriff for the operations of the city's detention facilities and engage in a longer-term evaluation of establishing a consolidated courts and detention facility that would serve the major communities of the Lansing region.

7. To more efficiently deploy law enforcement assets, the city should evaluate joining the Courts and Law Enforcement Management Information System (CLEMIS) operated by Oakland County and effectively serving communities throughout Southeast Michigan.

8. Related to the Long-Term subcommittee recommendation concerning the efficient provision of non-core services by private entities, the city should also undertake an effort to determine if core and non-core functions could be performed more efficiently by the public sector on a regional basis.

9. The city of Lansing should seek state legislation authorizing a new form of agreement for the conditional transfer of land under 1984 PA 425. Existing 425 agreements between the city, Jackson National Life and Alaiedon Township, and between the city, General Motors and Delta Township, greatly benefit the city, neighboring jurisdictions and the companies. State law should be amended to allow the city to enter into a new form of agreement with the Director of the Department of Technology, Management and Budget (DTMB) to allow property such as the state's Secondary Complex to be conditionally transferred to the city.

10. City assets with regional benefits should be funded on a regional basis. For example, both the Lansing Convention Center and the Thomas Cooley Stadium benefit communities and residents throughout the region, but direct operational support is provided only by the city. Under state law, convention centers in both Detroit and Grand Rapids are operated by regional authorities. The city should work to amend state law to provide Lansing with the same tools.

11. The city should fully explore moving parks and recreation functions to a regional or multi-jurisdictional entity. Many city recreational resources, such as the River Trail, are regional resources benefitting the entire region. This effort should be supplemented by a formalized park adoption program in partnership with the private and nonprofit sectors.

12. The Regional Subcommittee recommends that the Mayor establish an ongoing regional initiative to systematically evaluate the potential for regional cooperation, collaboration and consolidation, and to build the business case for specific measures that would regionalize public services where there are demonstrated cost efficiencies and/or service level enhancements. The initiative will require staff support from one or more of our major institutions of higher education, or another research-based organization that focuses on the revitalization of urban core communities. The initiative will also require funding for the research and evaluation phase. Significant financial support may be available from the state of Michigan's Competitive Grant Assistance Program (CGAP), which seeks to assist communities in evaluating and implementing regional solutions to the challenges of providing robust public services in an era of limited resources, or from private foundations in the form of grants.

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CITY OF LANSING, MICHIGAN
PENSION PLAN ANALYSIS

September 26, 2017

Segal Consulting

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City of Lansing, Michigan

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September 26, 2017

Mayor Virg Bernero
City Hall
124 W Michigan Avenue
Lansing, MI 48933

Re: Final Pension Plan Analysis Report

Dear Mayor Bernero:

We are pleased to present the final report of Segal's analysis of the City of Lansing's pension plans. This analysis provides a detailed review of the City's pension plans, including the actuarial assumptions and methods used in determining the City's contributions. This report includes the following:

1. ***Methods and assumptions review*** – an analysis of the actuarial assumptions and a review of the actuarial methods utilized in determining the funded status and accrued liability for compliance with generally accepted actuarial principles.

2. ***Peer group benchmarking*** – a detailed comparison of the City's plans with other cities' plans in the State of Michigan.

3. ***Plan design and funding approach alternatives*** – a discussion of other means of retirement benefit delivery and alternate strategies for funding the plans.

This review was conducted under the supervision of Kim Nicholl, a Fellow of the Society of Actuaries, a member of the American Academy of Actuaries, and an Enrolled Actuary under the Employee Retirement Income Security Act (ERISA). This review was conducted in accordance with the standards of practice prescribed by the Actuarial Standards Board.

The assistance of the City of Lansing's staff is gratefully acknowledged.

We appreciate the opportunity to serve as an independent actuarial advisor for the City of Lansing and we are available to answer any questions you may have on this report.

Sincerely,

Kim Nicholl, FSA, FCA, MAAA, EA
Senior Vice President, Public Sector
Retirement Practice Leader

Brad Ramirez, FSA, FCA, MAAA, EA
Vice President and Actuary

Matthew A. Strom, FSA, MAAA, EA
Vice President and Actuary

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Enclosure

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1 Executive Summary

The City of Lansing (City) is seeking analysis and recommendations for potential ways to mitigate the cost and liability of its outstanding pension obligations and retiree healthcare and other post-employment benefits ("OPEB") obligations, both present and future.

Segal Consulting (Segal) was engaged by the City to perform this analysis. This report will concern itself with the pension plans currently sponsored by the City. The analysis of the OPEB plans will be provided under separate cover. As of the December 31, 2015 actuarial valuations, the City sponsors two defined benefit pension plans:

- Police & Fire Retirement System ("Police and Fire")
- Employees' Retirement System ("Employees'")

The City's actuary recently performed a five-year experience analysis of both Plans in order to improve the accuracy of the Plans' actuarial valuation assumptions. This study resulted in an increase in projected contributions for both Plans.

The objectives of this study are as follows:

- Review the actuarial assumptions used in the valuation of the City's retirement plans
- Evaluate the City's current pension benefit plan designs, including the efficiency of benefit delivery
- Discuss appropriate plan design/structure alternatives to the structure currently in place, including hybrid plans, defined contribution plans and other alternatives
- Benchmark the design and funding aspects of the pension plans relative to a peer group
- Develop alternative funding approaches to increase financial stability of the City's retirement plans
- Develop recommendations for the City's consideration

Segal reviewed the plans' actuarial assumptions and methods. We performed this analysis based upon the plans' valuation reports as prepared by the plans' actuaries, Boomershine Consulting Group, LLC ("Boomershine"). As part of this review, Segal did not independently replicate Boomershine's calculations, and can only comment on the assumptions and methods as presented in the valuation reports and other supplemental material. Segal did not include an analysis of detailed actuarial data and this report is limited to review and reliance on existing actuarial reports and experience studies.

In addition, we reviewed the Actuarial Assumption Review and Experience Studies covering the period January 1, 2012 through December 31, 2015, which was prepared by Boomershine after the most recent 2015 valuations. The assumptions and methods recommended in these studies

were not incorporated into the valuation reports that we reviewed. However, we have noted where the experience study recommendations address the issues we observed.

The assistance of the City in creating this report is gratefully acknowledged.

The key findings of this report are below along with recommendations of areas that need additional review.

- The current actuarial valuation assumptions and methods appear to be reasonable and comply with relevant actuarial standards of practice. We recommend the following:
  - Review the inflation assumption and give consideration to whether the assumption should be lowered – the experience studies recommended lowering the inflation assumption from 3.10% to 2.75%. The Employees' Plan lowered this assumption to 2.925% with the stated intention of lowering the rate to 2.75% next year. The Police and Fire plan lowered this assumption to 2.85% with the stated intention of lowering the rate to 2.75% next year.
  - Monitor the investment return assumption, particularly given that the inflation assumption is on the high side of reasonableness – the experience studies recommended lowering the investment return assumption from 7.60% to 7.25%. The Employees' Plan lowered this assumption to 7.40% with the stated intention of lowering the rate to 7.25% next year. The Police and Fire plan lowered this assumption to 7.35% with the stated intention of lowering the rate to 7.25% next year.
  - Consider updating the mortality assumptions to the most recent Society of Actuaries' mortality and generational mortality improvement scale – the experience studies recommended updating the mortality tables.
  - Consider whether a corridor around the market value of assets should be included in the asset smoothing method

- The City's pension plans are similar to the plans of the peer group, and are funded on a similar basis. The City's pension multiplier for new participants is lower than those within the peer group for defined benefit plans but is supplemented by a Defined Contribution plan. The City's plans use similar assumptions and funding methods to those in the peer group, with the City's plans' assumptions being slightly more conservative than the overall group.

- There are many items to consider when transitioning to a defined contribution plan (DC) or a hybrid plan. While defined benefit (DB) plans are a more efficient mechanism for delivery of pension benefits, the contributions can be volatile due to investment performance and demographic changes, as the employer retains these risks. DC contributions are typically fixed as a percentage of payroll, and the employee bears the investment and demographic risks. Hybrid plans share these risks between the employer and employee. Before considering any changes to the current systems, it is important that the City balance the risks of their benefit plans with the goals of the City and its stakeholders.

- Retirement benefits are one of the tools that employers can use to manage its workforce. Plan design can attract, motivate, and retain talent. Plan design can also encourage individuals to terminate employment or to retire. Employers need to assess their current and future workforce needs and then design retirement arrangements that support those needs. Generally, DB plans encourage longer-term employment but may not be as useful as DC plans in attracting workers who do not intend to remain with an employer for a long period

and desire portability. Hybrid plans can be attractive options as they combine the attributes of both DC and DB plans. Knowing what the workforce goals are is essential to a viable retirement benefit strategy, and if changes are needed to the overall retirement structure.

> The pension plans' unfunded liabilities represent benefit promises already made to active and retired employees. As of December 31, 2015, these unfunded liabilities are amortized over a closed 26-year period, decreasing by one year each year to an ultimate period of 15 years; at which point the amortization period will become a rolling 15-year amortization period. The experience study for the Employees' Plan recommends changing the ultimate period to 10 years. The experience study for the Police and Fire Plan recommends retaining the 15-year ultimate period. This means that the amortization period will remain at 15 years for the Employees' Plan and 10 years for the Police and Fire Plan and the plans will **never** be fully funded. Contributions toward the unfunded liabilities are based upon a payroll growth assumption of 3.10% per year. This means that the payments toward the unfunded liabilities will increase by this amount each year, which is intended to mirror the actual growth in member payroll. The payroll growth assumption and the actual increase in payroll each year determine how quickly the unfunded liabilities of the plans are amortized. The experience studies recommend lowering the payroll growth assumption to 2.75%. This assumption should be closely monitored and consideration should be given to adopting a funding policy that targets 100% funding over a reasonable period.

> If the existing plans were to be completely closed to new members, with new hires entering a DC plan, the closed group's active payroll would decrease. Since the current plans are being funded as a percent of payroll, including payroll for future members, this would result in an immediate need to accelerate DB contributions. Alternatively, the City could adopt a different funding policy not related to payroll.

> The unfunded liabilities of the plans would not be affected by transitioning to a DC or hybrid plan. Any plan changes would only affect active members' future benefits. The normal cost represents the value of benefits accruing for active members. A portion of the normal cost is funded by member contributions. The remaining portion is funded by the City. The City's normal cost rate is 7.2% of payroll for Employees' and 14.2% of payroll for Police and Fire. The normal cost portion of the City's contribution is $1.7 million for Employees' and $3.8 million for Police and Fire for a total of $5.5 million. Reductions in future benefits for active members would lower the City's normal cost contributions of $5.5 million. As an example, if the value of benefit accruals were reduced by 10% for all active members, the reduction in the City's contribution would be $550,000.

> The unfunded actuarial accrued liability, which totals $250 million, will not be affected by reducing new members' benefits. This liability will need to be paid by the City.

> The City could accelerate its contributions to the pension plans, which would reduce future contributions. However, like other Michigan municipalities, the City of Lansing is challenged in its revenue structure, which limits its ability to do so.

2 Background

The Employees' Plan has a Funding Ratio (actuarial value of assets divided by liabilities) of 57.0%. The plan has 981 inactives and 371 active participants, and over 80% of the Plan's liability is devoted to inactive members. As a result, a significant portion of annual contributions is made toward benefits earned in previous years. Of the total projected City contribution of $10.2 million for 2016, only $1.7 million represents benefits earned for actives during the year.

The Police and Fire plan faces similar challenges. The Funding Ratio is 71.3%, and inactives represent approximately 75% of the Plan's liability. Of the total projected City contribution of $11.5 million, only $3.8 million represents new benefits earned.

Chart 1 - Employees' System 12/31/2015 Actuarial Accrued Liability

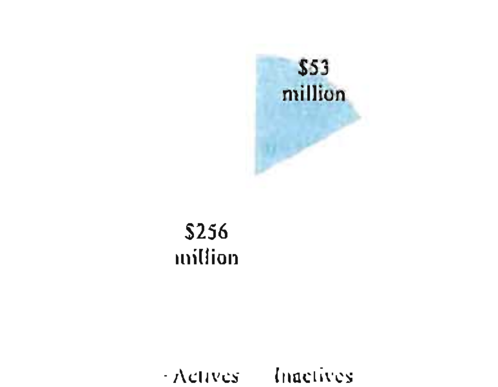
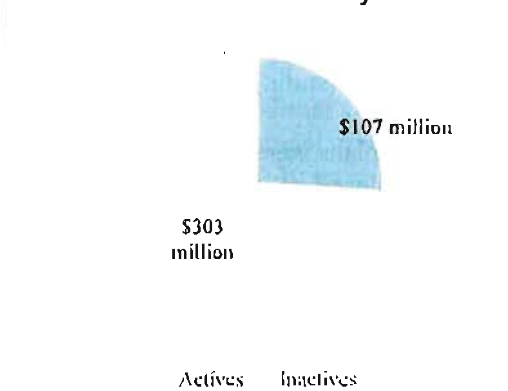
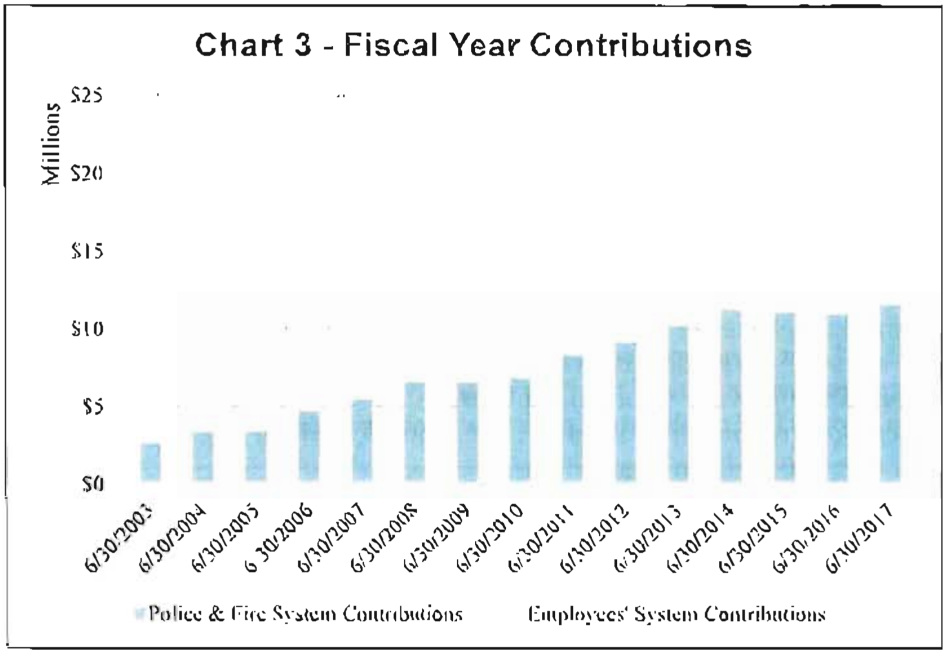


Chart 2 - Police and Fire System 12/31/2015 Actuarial Accrued Liability



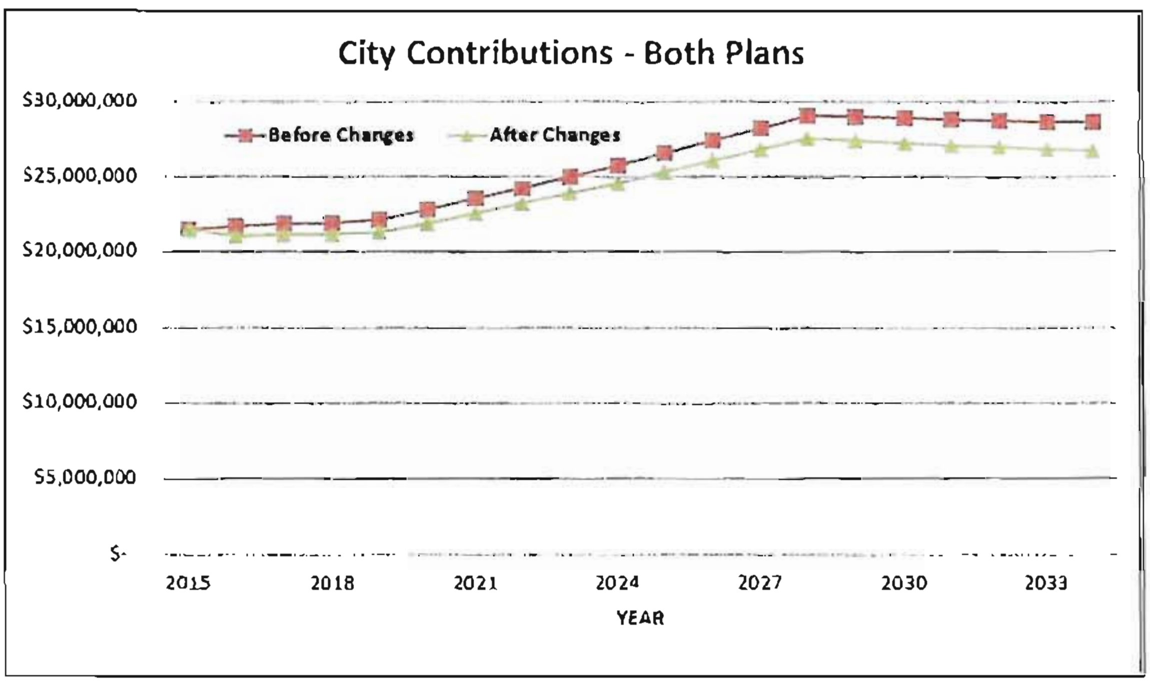
Because the majority of liability is devoted to inactive benefits, the total elimination of benefits for actives going forward would result in a reduction of $5.5 million per year. However, the remaining unfunded liability would remain and continued payments would be necessary.

Contributions to fund these and retiree health obligations have increased dramatically over the last ten years, and currently comprise 35% of the city's budget. Projections indicate that the contributions will increase significantly for the next several years. As with other cities across the country, this presents a challenge in light of cuts in state funding and legal restrictions on revenue growth.



The City has made a number of changes to collective bargaining agreements that have impacted the Plans, including increasing employee contributions and lowering the retirement benefit formula. Because most of these changes apply to new hires after a certain date, the cost savings are recognized slowly over time as active employees are replaced by those subject to the new provisions.

Chart 4 - Projected Contributions



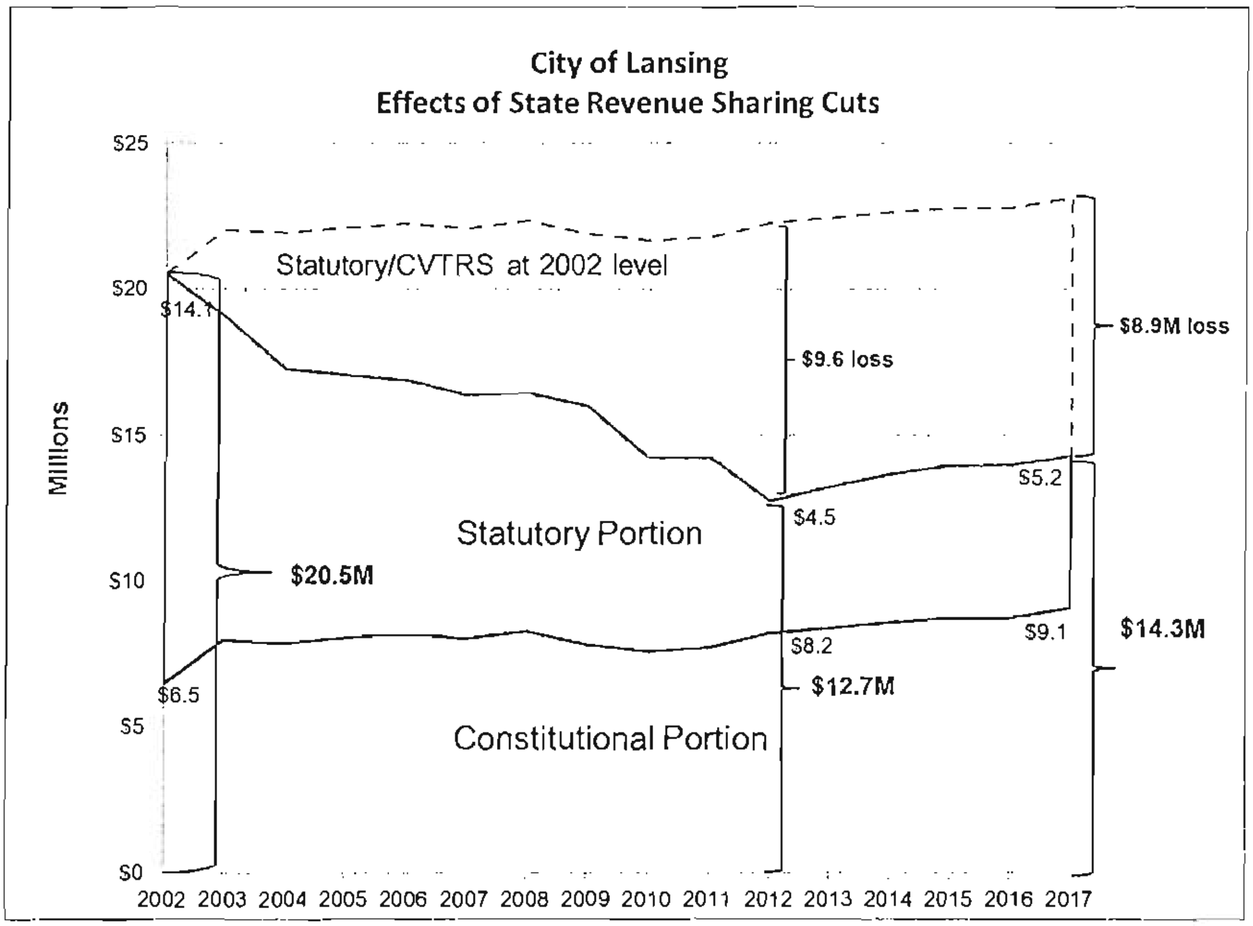
Source: "The City of Lansing Employees' Retirement System and Police and Fire Retirement System Analysis of Recent Benefit Changes" by Boomershine Consulting Group, March 2, 2015

City Resource Challenges

The City of Lansing, like other Michigan municipalities, is challenged in its revenue structure. The structure for Michigan's municipal funding is based on centralization of taxation and revenue diversification at the state level, with municipalities having limitations on ability to raise revenues. A prime example is sales taxes: in many other states, municipalities can levy sales taxes; in the state of Michigan, only the state is allowed to levy sales tax. This structure was predicated on revenue sharing by the state with its municipalities.

Preceding and through the Great Recession, as the State of Michigan ran into its own budgetary challenges, the statutory portion of revenue sharing to municipalities by the state was reduced by approximately $8.1 billion. For the City of Lansing, these cuts have amounted more than $6 million in real dollars *annually* for the City, and almost $9 million annually when adjusted for inflation, or over $104 million from 2002-2017.

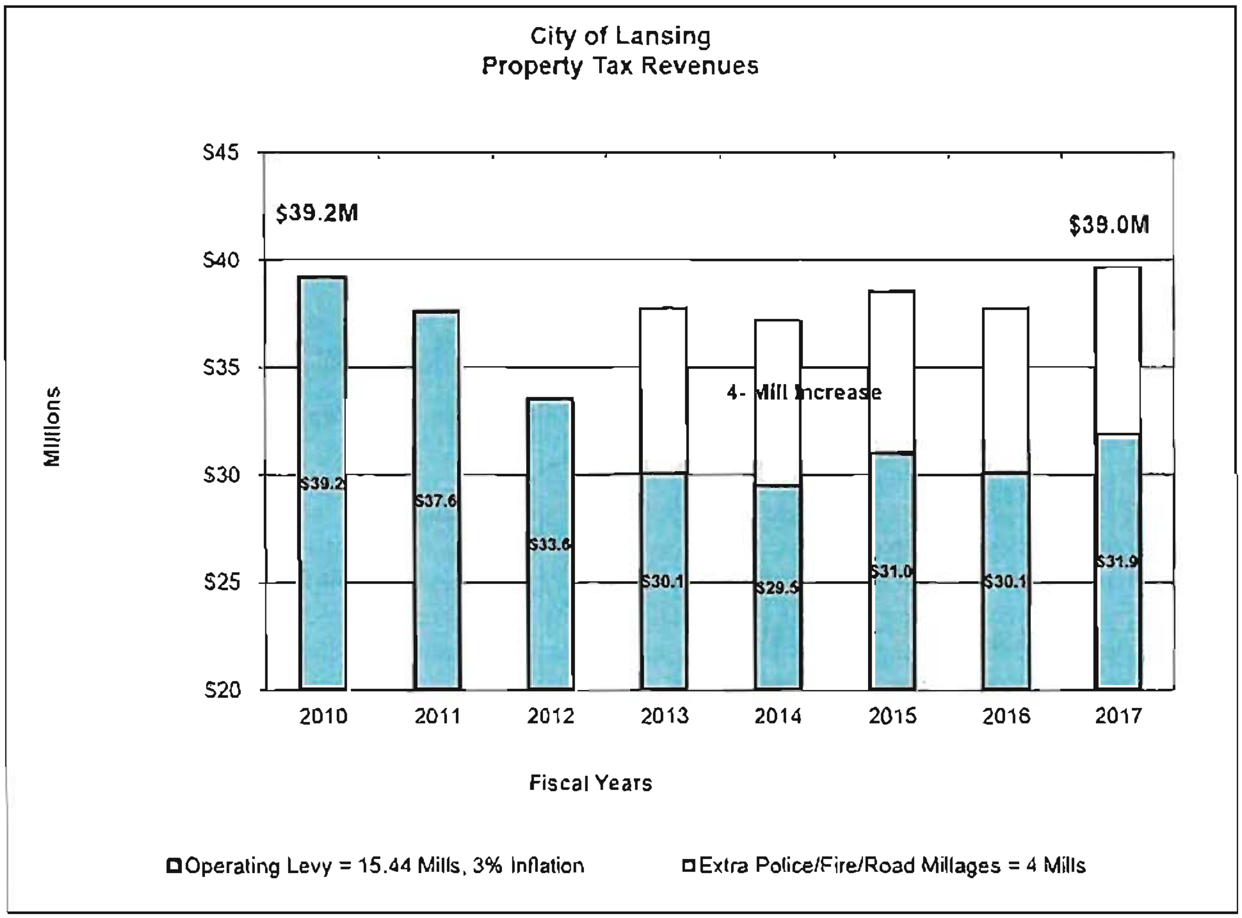
Chart 5 – Effect of State Revenue Sharing Cuts



At the same time, due to limitations by the state Headlee Amendment and Proposal A, the City's (and other municipalities') largest General Fund revenue source, the property tax, is limited in growth by the lesser of the rate of inflation or five percent.

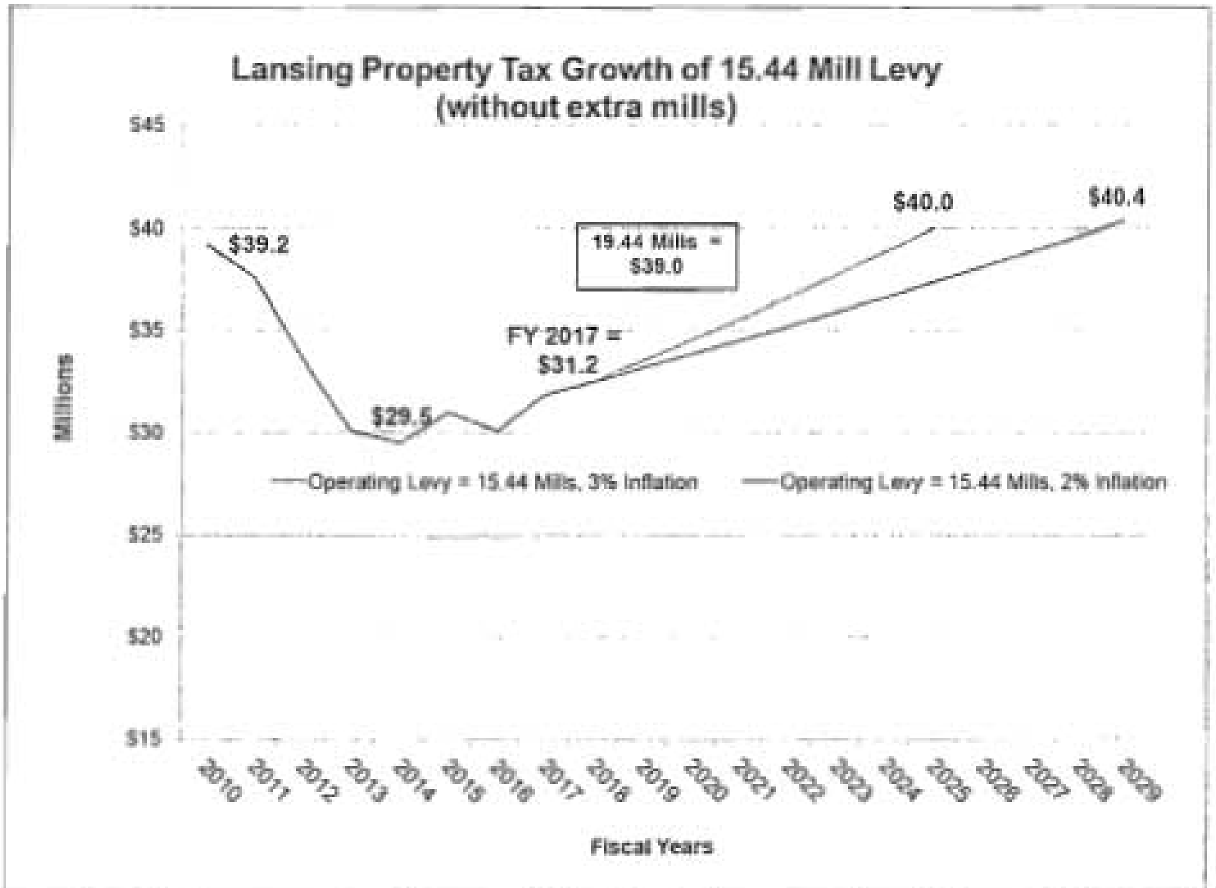
During the Great Recession, as property values declined, Lansing's property taxes decreased by 25%, or $9.7 million, over a four-year period, resulting in a four mill voted property tax increase for police, fire, and roads. While that four mill property tax levy substantially offset that loss, it brought the City's operating levy up to 19.44 mills, which within .56 mills of the 20-mill maximum allowed for home-rule cities in the State of Michigan. As a result, the City is unable to increase its operating property tax levy much further.

Chart 6 – Property Tax Revenues



As demonstrated in the following chart, because of the above-stated state limitations on property tax revenue growth from the state Headlee Amendment and Proposal A, the City anticipates property taxes to increase only 2%-3% over the next several years and that pre-recession property tax revenue levels, net of the extra four mills, will not be reached until 2025 to 2028.

Chart 7 – Property Tax Growth



These funding cuts and revenue constraints have generally affected the state's urban core communities more than others. Urban core cities, like Lansing, tend to be older communities, having aged infrastructure; tend to be built-out with limited undeveloped land; tend have higher poverty rates; and tend to have higher legacy (pension and retiree healthcare) costs. These factors are true for the City of Lansing, which was incorporated in 1859 and has twice the number of retirees as current employees.

In response to these challenges, leading up to and during the Great Recession, the City enacted many different changes in city programs, staffing, and organization, including:

- Reducing the City's workforce by 30% since FY 2006, from 1,220 to 867
- Reducing City pension and retiree healthcare cost growth by negotiating increases in employee health insurance premium sharing, healthcare plan changes, and pension contributions
- Reducing City health insurance costs with a wrap program for Medicare-eligible retirees
- Closing 3 fire stations and eliminating associated costs

- Closing Waverly and Red Cedar Golf courses
- Closing Miller Road Senior Community Center
- Closing Washington Ice Dome and Scott House
- Consolidating functions within the City (grounds maintenance, engineering, fleet maintenance, parking enforcement, fire/building inspections)
- Consolidating functions with other governments (911, dive team)
- Entering into cooperative agreements with other governments (police and fire training, purchasing, economic development)
- Expanding mutual aid agreements and shared services studies with adjoining municipalities
- Transferring management of Sycamore Driving Range and Fenner Nature Center to non-profits
- Eliminating leased space by consolidating police Patrol and Investigations Divisions
- Increasing fees
- Implementing new technology to improve efficiency (including cash receipting, code compliance, financial system upgrades, payroll system, computerized traffic ticket system, E-filing for income taxes)
- Implementing energy efficiency measures in City buildings
- Instituting a voter-approved 4.0 mill property tax increase to mitigate further reductions to police, fire and road services

Noteworthy is the fact that the City's FY 2018 General Fund Budget is still less than the budget proposed by former Mayor Hollister in **FY 1999**, when adjusted for inflation.

During this time, the City also worked with its unions to reduce the growth of pension and retiree healthcare costs. A recent actuarial study estimates that these efforts have reduced projected costs to by over **$200** million over the next forty years. However, the challenge remains in the projected growth of these costs, in combination with its aging infrastructure, reductions in revenue and revenue constraints in the next fifteen-to-twenty years.

As previously noted, these challenges are not unique to the City of Lansing, especially within the State of Michigan.

3 Assumption Review

The valuation of a defined benefit pension plan is dependent upon assumptions of future experience. These assumptions are utilized in order to project the benefits that will be paid from the system. Using these projections, organizations make contributions under a funding policy that will timely fund the benefits as they are payable.

It is important to note that the assumptions used in the valuation do not affect the benefits that are promised to participants. Ultimately, the "true cost" of a pension plan will be the benefits that are paid to its participants. Assumptions are used, along with the plan's funding policy, to determine how to fund the pension plan over time in accordance with the governing entity's budgetary concerns and risk profile.

Assumptions are the actuary's best estimate of future events and are rarely perfectly accurate. It is important that the assumptions used in these calculations are monitored and modified as appropriate so that the true cost of the benefits paid is being accurately measured.

For the purposes of this study, we evaluated the following reports:

- City of Lansing Employees' Retirement System Actuarial Valuation for Funding and Contributions as of December 31, 2015 (prepared October 2016)
- City of Lansing Police and Fire Retirement System Actuarial Valuation for Funding and Contributions as of December 31, 2015 (prepared October 2016)
- City of Lansing Employees' Retirement System Actuarial Assumption Review and Experience Study Covering January 1, 2012 through December 31, 2015 (prepared December 2016)
- City of Lansing Police and Fire Retirement System Actuarial Assumption Review and Experience Study Covering January 1, 2012 through December 31, 2015 (prepared December 2016)

The reports were produced by the Boomershine Consulting Group ("Boomershine"), the plans' actuaries.

Segal's analysis of the assumptions and methods was based upon those reported in the valuation reports and recommended in the experience study reports as prepared by Boomershine. Segal did not independently perform a replication of these valuations or the analysis of experience.

There are two types of actuarial valuation assumptions: demographic and economic. Demographic assumptions are used to model the expected individual behavior of plan participants and include assumptions for retirement, disability, withdrawal, and mortality. Economic assumptions are used to model more global financial effects, such as rates of inflation, rates of return on assets, and salary increases.

Inflation Assumption

The inflation assumption underlies every other economic assumption. It is important that the inflation assumption be consistent throughout all of the economic assumptions. In fact, most actuaries start the economic assumption-setting process by specifying the inflation assumption and then building the other economic assumptions from that amount (referred to as the "building-block method").

The inflation assumption may also directly affect other valuation elements, including cost-of-living increases and the amortization of the unfunded liabilities. If plan cost-of-living increases are tied to inflation, the assumption will determine the amount of projected increases in retirement benefits each year. The Plans' cost-of-living increases are linked to actual inflation.

The inflation assumption has been reduced from 3.10% to 2.925% for the Employees' Plan and from 3.10% to 2.85% for the Police and Fire Plan. These assumptions are consistent with historic averages. However, recent years have seen historically low inflation--the CPI-W increased approximately 1.8% per year from 2006-2016. Horizon's 2016 Survey of Capital Market assumptions indicates that the average median inflation is expected to be 2.31% over the next 20 years with expectations ranging from 2.00% to 2.80%. As of June 2016, the difference between the yields on US Treasury bonds with and without inflation indexing is 1.61%, which represents one measure of the financial market's current expectation of inflation over the next 30 years. The 2016 OASDI Trustees Report uses three inflation assumptions to project its future financial status:

- Low inflation of 2.00%
- Moderate inflation of 2.60%
- High inflation of 3.2%

The median inflation assumption for the 160 public pension plans that are included in the Public Plans Database (collected by the Center for Retirement Research at Boston College) is 3.05%.

The experience studies recommend a decrease to the inflation assumption, from 3.10% to 2.75%, which we believe are reasonable. The plans' inflation assumptions have been reduced to 2.92% for the Employees' Plan and 2.85% for the Police and Fire Plan and appear to be reasonable. We understand that the boards' intent is to lower the inflation assumptions to 2.75% in 2018. Because of the importance of the inflation assumption, we recommend that these assumptions be evaluated on an ongoing basis.

Investment Return Assumption

The investment return assumption is of key importance to the actuarial valuation. For public sector funding valuations, benefit payments are typically discounted at the same interest rate as the investment return assumption. In order for this discounting to be valid, the investment return assumption must be supported by the underlying asset mix of the fund. In other words, the rate of return of a pension plan's assets over the projection period should match the plan's rate of return assumption.

The investment return assumption has a large effect on plan funding. A drop in the investment return assumption corresponds with an immediate increase in the plan's liabilities. Typically, a 1% decrease in the assumption results in an immediate 10%-15% increase in Actuarial Accrued Liability.

Using a relatively high investment return assumption will result in lower liabilities and lower current contributions. The fund's projected market returns will be expected make up for the lower contributions. However, it actual investment returns are lower than the assumption, the contributions will increase. Using a relatively low investment return assumption will result in higher liabilities and higher current contributions. The fund's higher contributions will be expected to make up for the lower projected returns. In addition, a lower investment return assumption may result from a desire for the plans to take on less risk in their investment portfolios.

There are significant risks in not meeting the investment rate of return assumption. If the plan consistently underperforms the assumed rate of return, funding will not occur in accordance with the plan's policy. Future contributions will need to be higher in order to balance the lower returns.

The City's investment return assumption has been reduced from 7.60% to 7.40% for the Employees' Plan and from 7.60% to 7.35% for the Police and Fire Plan. These assumptions are within industry standards as the majority of public sector pension plans use an investment return assumption between 7.00% and 7.75%. In recent years, many public sector plans have lowered this assumption in light of recent economic events. The City and its advisors should continue to carefully monitor returns to verify that the plans' asset mixes support the use of this assumption.

The experience studies recommend that the investment return assumption be lowered from 7.60% to 7.25% along with lowering the inflation assumption. We believe this assumption would be reasonable. The plans' investment assumptions have been reduced to 7.40% for the Employees' Plan and 7.35% for the Police and Fire Plan and appear to be reasonable. We understand that the boards' intent is to lower the investment return assumptions to 7.25% in 2018. Because of the importance of the investment return assumption, we recommend that these assumptions be evaluated on an ongoing basis.

Mortality Assumption

The assumptions for mortality attempt to accurately project how long plan members will live. Since defined benefit plans pay benefits until a retiree and/or beneficiary dies, increases in life expectancies result in benefits being paid for a longer period and increased liabilities.

Because only the largest pension plans are able to provide enough mortality exposure to develop their own assumptions, industry standard mortality tables are typically used for actuarial valuations. In addition, plans often use different tables for healthy and disabled members, reflecting the higher mortality observed for those that retire with a disability pension.

There have been significant improvements in mortality over the last several decades. It is common for actuaries to use mortality tables that have a built-in projection scale, so that mortality is assumed to improve over time. In fact, Actuarial Standards of Practice now specify that pension plan actuaries explicitly reflect the effects of mortality improvement in retirement plan valuations, unless there is a specific reason for not doing so.

The Employees' Plan uses the RP-2000 Combined Healthy Mortality Tables set back one year for females, with projection to 2023 using 50% of Scale BB. For disabled members, the corresponding Disability Tables are used with projection to 2008 using Scale BB.

The Police and Fire Plan uses the RP-2000 Combined Tables with Blue Collar Adjustments, with projection to 2029 using 50% of Scale BB. For disabled members, the corresponding Disability Tables are used with a five-year setback for males and projection to 2008 using Scale BB. Future improvements in mortality are anticipated by projecting these tables to 2021 (for Police and Fire) and to 2023 (for Employees) using 50% of Scale BB. Projection of the tables to a specific year will allow for some projection of future mortality, but not the total amount of projection that is implied by the Scale.

Since the previous experience study, the Society of Actuaries has published the RP-2014 mortality table as well as a generational mortality improvement scale (MP-2016).

We recommend that consideration be given to updating the mortality assumptions to a more recent mortality table and generational improvement scale. The experience studies recommend maintaining the current tables (RP-2000) and applying Scale BB in full to 2026. Based upon the data in the experience study, this table appears to allow for a reasonable margin for improvement. We believe that the recommended assumption is reasonable.

Asset Smoothing Method

Pension plans often use smoothing methods to dampen the short-term effects of asset returns. The Employees' and Police and Fire Plans use a five-year smoothing mechanism, which is the most common period used in the public sector.

As part of the asset smoothing mechanism, some plans apply an additional "corridor" so that the smoothed value of assets does not differ from the market value of assets by more than a set amount. A common example of a corridor would be 80% to 120%, meaning that the actuarial value of assets cannot be less than 80% of the market value nor more than 120% of market value. We note that no corridor is applied in the Employees' and Police and Fire plans asset smoothing method. However, the smoothing period is short enough that the application of a corridor would only occur in rare circumstances, such as the 2008 market crash.

Actuarial Standards of Practice specify that asset smoothing methods be unbiased, reflect market returns in a systematic matter, and result in an actuarial asset value that falls within a reasonable range of market value. The City's methodology satisfies these requirements.

The asset smoothing method is reasonable. Consideration may be given to the application of an 80% to 120% corridor.

Funding Method

In order to determine the Actuarial Accrued Liability, the actuary must apply a funding method to assign benefits to past and future service. There are several methods commonly used in this process. For the Employees' and Police and Fire Plans, the Entry Age Actuarial Cost Method is used. This method is the most commonly used allocation method in the public sector and results in relatively stable contributions as a percent of payroll.

The amortization period of both the Employees' and Police and Fire Plans is **partially** closed with 26 years remaining as of December 31, 2015. The partially closed amortization period means that the funding period will decrease each year, and according to the plans' funding policies, will decrease until the remaining period is 15 years at which point it will remain at 15 years. Closed periods have the feature that every dollar of unfunded liability will be retired by a certain date, although required contributions can become very volatile in the final years of the amortization period. This volatility can be managed through a funding policy that tracks the source of change in unfunded liability by year and amortizes each year's change in unfunded liability over a closed period.

The plans will use an open 15-year amortization period when there are 15 years remaining in the funding period (December 31, 2026). The experience study recommends changing the length of this period to 10 years for the Employees' Plan. Open amortization periods are often used in the public sector, but are not expected to fully amortize the unfunded liabilities by a specified date. An important concept in funding pension plans is "negative amortization".

When unfunded liability payments are made as a percent of payroll, the dollar amount of payments rise over time as the payroll base increases. Because smaller payments are made at the beginning of the payment period, the unfunded liability will increase for several years, then rapidly decrease in the last few years of the period. This is a result of the payments in early years not being sufficient enough to pay the interest accruing on the unfunded liability. While this type of payment stream is often used to fund public sector plans, it is important that stakeholders understand this effect.

Payments on the plans' unfunded liabilities are made using a projection of future payroll increases for the groups. This is done in order to reflect the growth of payroll over the payment period. The City's plans use assumptions of 2.92% and 2.85% annual payroll growth. This means that the current payment calculation assumes that total payroll will grow at a rate of 2.92% or 2.85%% per year over the payment period. In years where total payroll growth is less than the assumption, payments toward the unfunded will be less than assumed. This will have the effect of increasing required payments in the future.

An alternative to funding the plans on a percent-of-pay basis would be to make payments on the unfunded liability on a "flat-dollar" basis. This method would amortize the unfunded with an unchanging payment over the period, similar to a home mortgage. Though the dollar amount would remain the same, the payments as a percent of payroll would decrease as the period goes on. This would have the effect of paying the unfunded liability more quickly, but would result in significantly higher payments in early years.

The assumption of 2.92% or 2.85% annual payroll growth (and 2.75% as recommended by the experience studies) is consistent with other entities in the public sector. As shown in the peer group analysis, the City's assumptions are lower than any of the comparable plans in the peer group. Because of the importance of this assumption to payments made on the unfunded liabilities, we recommend that this assumption be carefully monitored, particularly if payroll increases are expected to be lower than the assumption.

The City should be aware of the effect of the negative amortization inherent in making unfunded liability payments as a percent of payroll.

We recommend that the plans evaluate the use of an open amortization period when the plans reach the 15-year (or 10-year) open funding period in 2026. We recommend that consideration be given to adopting a funding policy that targets 100% funding over a reasonable time period. Due to the importance of the payroll growth assumption on unfunded liability payments, we recommend that it be carefully monitored.

Retirement Rates

The retirement rates used in the valuation appear to be reasonable. We note the following points for consideration.

- The retirement assumptions for the Employees' System are split by group (UAW/Others) and by age. Many public sector systems see higher retirement rates in the early years of retirement eligibility, especially in the first year. If this behavior is being observed, the actuary may consider applying an ultimate rate for the first year of eligibility to reflect these retirements.

- It appears that the City has mandatory retirement ages for Police (60) and Firefighters (70), but it is unclear from the report whether these age limits are being taken into account in the valuation assumptions. If these limits are being applied, they should be noted in the report.

The experience studies recommend changes to some of the rates currently used and the data indicate that the new assumptions match recent experience. We believe that the recommended assumptions appear to be reasonable.

Other Assumptions

The other assumptions used in the valuations appear to be reasonable. We note the following:

- The Employees' System and the Police and Fire System both provide special benefits for active deaths that are incurred in the line of duty. However, the valuation does not specify what percentage of active deaths are considered to be duty-related. In contrast, the percentage assumption for duty disabilities is stated in both reports. The percentage assumption for duty deaths should also be stated.

In general, we conclude the assumptions and methods used in the valuation appear to be reasonable and comply with relevant standards of practice. The recommended assumptions in the experience studies also appear to be reasonable. We recommend the following:

- **Review the inflation assumption and give consideration to whether the assumption should be lowered as recommended in the experience studies**

- **Monitor the investment return assumption and consider lowering the assumption as recommended in the experience studies**

- **Consider updating the mortality assumptions to the most recent Society of Actuaries' mortality table and generational mortality improvement scale as recommended in the experience studies**

- Consider whether a corridor around the market value of assets should be included in the asset smoothing method

- Evaluate the use of an open amortization period when the plans reach the 15-year open funding period (or 10-year as recommended in the experience study) in 2026. Consider adopting a funding policy that targets 100% funding over a reasonable time period. Monitor the payroll growth assumption to ensure that it remains consistent with actual increases in payroll.

- Consider refinements to the retirement assumptions as noted above

4 Peer Group Benchmarking

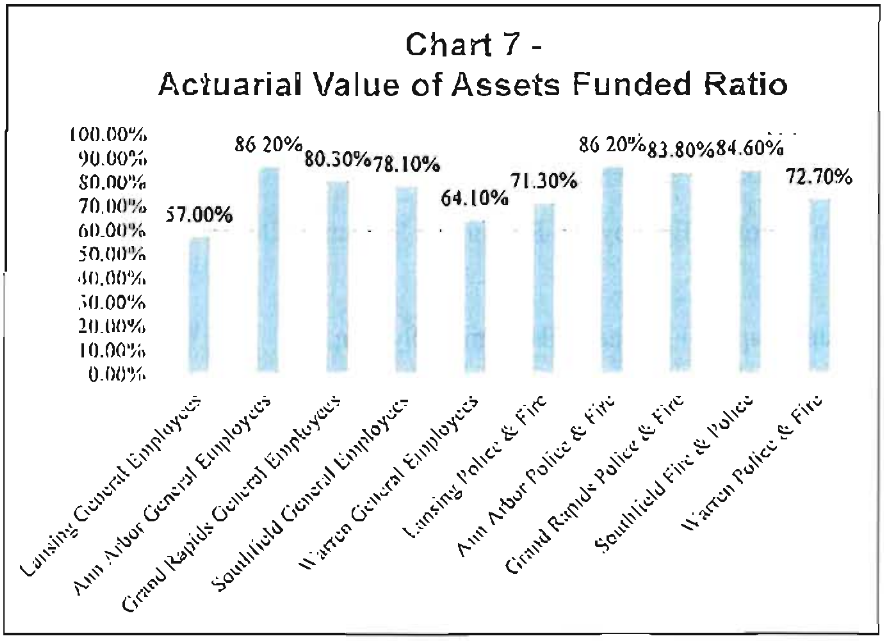
In order to compare the adequacy of plan design, funding methods, benefit provisions, and other features of the City of Lansing Retirement Systems, we have assembled information from other retirement programs, as directed. This peer group consists of seven plans from four cities in Michigan. The seven plans included are:

- City of Ann Arbor — Employees' Retirement System (includes General, Police, and Fire members)
- City of Grand Rapids — General Retirement System
- City of Grand Rapids — Police and Fire Retirement System
- City of Southfield — Employees Retirement System
- City of Southfield — Fire and Police Retirement System
- City of Warren — Employees Retirement System
- City of Warren — Police and Fire Retirement System

The information used in this analysis was drawn from the following reports:

- "City of Ann Arbor Employees' Retirement System June 30, 2015 Actuarial Valuation of Pension Benefits" prepared by Buck Consultants, November 2015
- "City of Grand Rapids General Retirement System 48th Annual Actuarial Valuation Report June 30, 2015 – Revised" prepared by Gabriel Roeder Smith, March 2016
- "City of Grand Rapids Police and Fire Retirement System 49th Annual Actuarial Valuation December 31, 2015" prepared by Gabriel Roeder Smith, April 2016
- "City of Southfield Employees Retirement System Fiftieth Actuarial Valuation Report as of June 30, 2015" prepared by Gabriel Roeder Smith, November 2015
- "City of Southfield Fire and Police Retirement System 63rd Actuarial Valuation Report as of June 30, 2015" prepared by Gabriel Roeder Smith, November 2015
- "City of Warren Employees Retirement System Summary Annual Report December 31, 2014"
- "City of Warren Police and Fire Retirement System Summary Annual Report December 31, 2014"

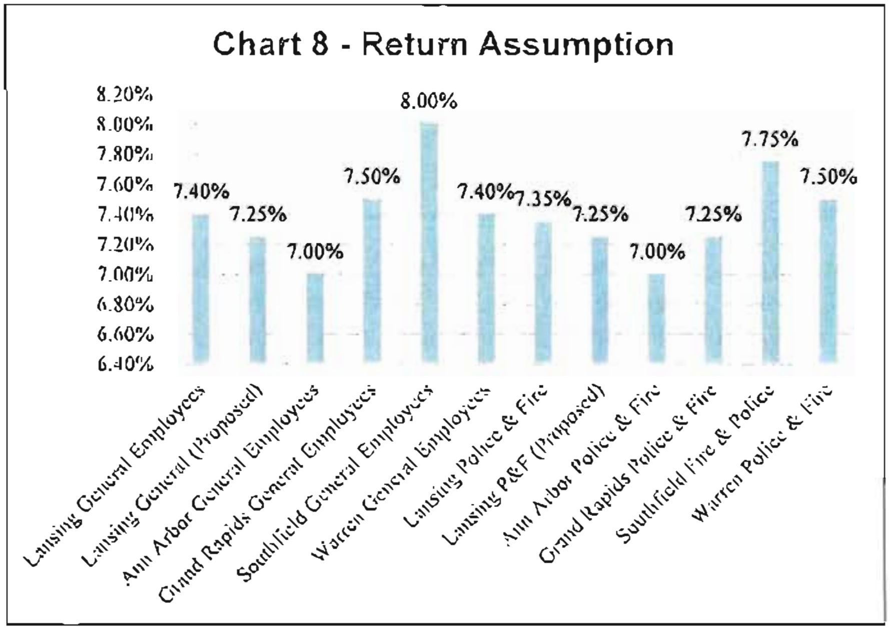
A summary of actuarial assumptions/methods and plan provisions is provided in the tables below.



Lansing's plans have the lowest funded ratios of the plans in the study for both General Employees and Police & Fire.

Table 1 - Asset Smoothing		
Plan	**Smoothing Period**	**Corridor**
Lansing General Employees	5 years	None
Ann Arbor General Employees	5 years	None
Grand Rapids General Employees	5 years	None
Southfield General Employees	5 years	None
Warren General Employees	4 years	None
Lansing Police & Fire	5 years	None
Ann Arbor Police & Fire	5 years	None
Grand Rapids Police & Fire	5 years	None
Southfield Fire & Police	6 years	None
Warren Police & Fire	4 years	None

All of the plans use an asset smoothing period of 4-6 years, which is also consistent with industry norms. None of the plans apply a corridor in the calculation of the actuarial value of assets.



The rate of investment return assumptions used by the plans are in the range of 7.00%-8.00%, which is consistent with other state and local pension funds in the industry. The investment return assumption for the Lansing plans is 7.60% and the information in this section is based on that assumption. The Employees' Plan lowered this assumption to 7.40% with the stated intention of lowering the rate to 7.25% next year. The Police and Fire plan lowered this assumption to 7.35% with the stated intention of lowering the rate to 7.25% next year. The decrease in the investment return assumptions will result in a decrease in the funded ratio and an increase in the liabilities and contribution rates.

Table 2 - Amortization of Unfunded Liabilities			
Plan	Amortization Method	Payroll Growth	Amortization Period
Lansing General Employees	Level % of pay	3.10%	Partially Closed – 27 years reduced by one year each year until 15 years, when the period remains at 15
Ann Arbor General Employees	Level % of pay	3.50%	Closed – 25 years
Grand Rapids General Employees	Level dollar	N/A	Closed – 30 years
Southfield General Employees	Level % of pay	3.50%	Closed – 25 years
Warren General Employees	Level % of pay	4.00%	Closed over active working lifetime
Lansing Police & Fire	Level % of pay	3.10%	Partially Closed – 27 years reduced by one year each year until 15 years, when the period remains at 15

Ann Arbor Police & Fire	Level % of pay	3.50%	Closed – 25 years
Grand Rapids Police & Fire	Level % of pay	3.50%	Closed – 30 years
Southfield Fire & Police	Level % of pay	4.00%	Closed – 22 years
Warren Police & Fire	Level % of pay	5.00%	Closed – 25 years

All of the plans use a closed period for the amortization of unfunded liabilities, and all but one (Grand Rapids General) calculate the required contribution as a percent of payroll. Closed periods amortize unfunded liabilities more rapidly than open periods, which may not ever amortize the unfunded liability. Lansing's plans have the additional mechanism that the funding period will become open when the closed period reaches 15 years.

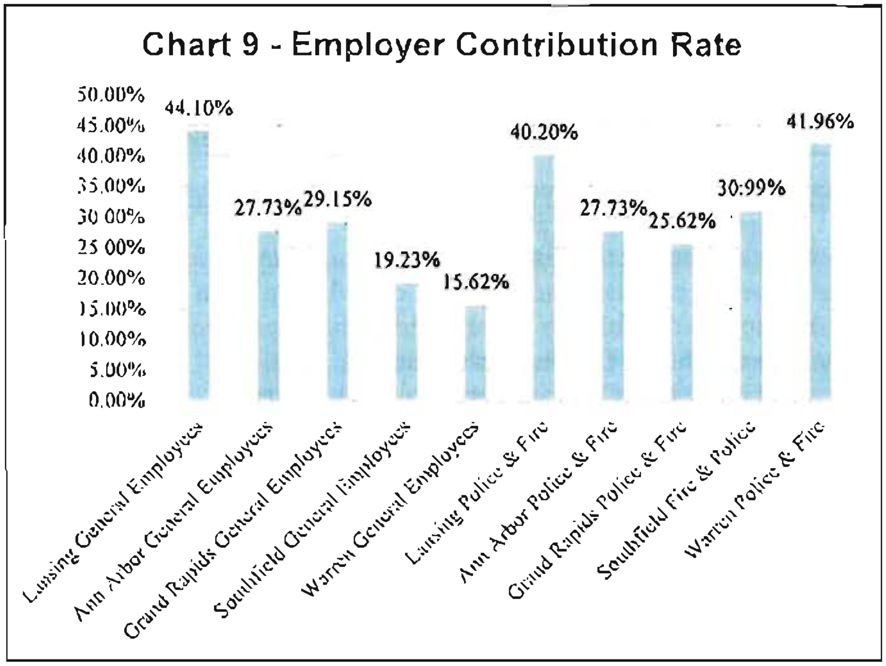
The payroll growth (inflation) assumption has been reduced from 3.10% to 2.925% for the Employees' Plan and from 3.10% to 2.85% for the Police and Fire Plan. Lansing has the lowest inflation assumptions, with other cities using rates up to 5.00% per year. Grand Rapids uses a flat-dollar amortization of unfunded liabilities, and hence does not apply an inflation adjustment in the context of financing the unfunded liability.

All employers are currently making contributions in accordance with their funding policies and actuarial valuations.

Table 3 - Employee Contributions

Plan	**Employee Contribution Rate**
Lansing General Employees	2.95% - 6.50% by job classification and tier
Ann Arbor General Employees	6.00%
Grand Rapids General Employees	4.22% - 11.54% by benefit election, job classification, and tier
Southfield General Employees	AFSCME 5.41%, all others 5.00%
Warren General Employees	None
Lansing Police & Fire	7.00% - 9.52% by job classification and tier
Ann Arbor Police & Fire	6.00%
Grand Rapids Police & Fire	9.86% - 10.70% by job classification; lower if funded percentage exceeds 100%
Southfield Fire & Police	3.00% or 5.00% based upon group and tier; no contributions for Fire Chief
Warren Police & Fire	3.67%

Employee contributions vary, from no contribution (Warren Employees) to 11.54% of payroll (Grand Rapids Emergency Communication Supervisors).



Lansing employer contribution rates are relatively high within the peer group, representing the highest rate (44.10% of covered payroll) for general employee groups and the second-highest rate (40.20%) for police and fire groups. This is a result of many factors, including the underlying benefits of the plans, the historical funding, and the current asset levels.

Table 4 - Retirement Eligibility		
Plan	**Normal Retirement Age**	**Early Retirement Age**
Lansing General Employees	New Plan: Age 50 with 25 years of service or at age 58 with 8 years of service	N/A
Ann Arbor General Employees	Age 50 with 25 years of service, or age 60 with 5 years of service (10 years for Tier 2)	Age 50 with 20 years of service
Grand Rapids General Employees	30 years of service, or age 62 and 8 years of service. Effective January 1, 2001, members covered by the Emergency Communications Operators Bargaining Unit may retire after age 55 and 8 years of service.	20 years of service, or age 55 and 10 years of service
Southfield General Employees	Tier II: Age 57 with 25 years of service, age 62 with 20 years of service, or age 65 with 10 or more years of service	Tier II: Age 57 with 20 or more years of service or age 60 with 10 years of service.
Lansing Police & Fire	Age 55 or 25 years of service, for FOP-NS hired on or after August 1, 2014, age 50 with 25 years of service	N/A
Ann Arbor Police & Fire	25 years of service, or age 55 with 5 years of service (10 years for Tier 2)	Age 50 with 20 years of service
Grand Rapids Police & Fire	Police: age 50 and 10 years of service. Firefighters: age 55 with 10 years of service.	Age 50 and 10 years of service
Southfield Fire & Police	20 years of service regardless of age	N/A
Warren Police & Fire	Unknown	Unknown
Note: Benefit information not available for City of Warren		

Table 5 - Retirement Benefits		
Plan	**Final Average Compensation**	**Benefit Multiplier**
Lansing General Employees	Highest annual compensation paid over 2 consecutive years of credited service within the last 10 years	1.25% to 2.8% based upon employee group and tier
Ann Arbor General Employees	Highest 3 consecutive years out of last 10 (last 5 for Tier 2)	2.5%
Grand Rapids General Employees	Highest 3 calendar years, with exceptions by group	1.8% to 2.7% based upon group, tier, and year of accrual
Southfield General Employees	Tier II: Highest 5 consecutive years out of last 10	Tier I: 2.0% (maximum benefit of 70% of FAC)
Lansing Police & Fire	Highest annual compensation paid over 2 consecutive years of credited service	2.5% - 3.2% based on employee group and tier
Ann Arbor Police & Fire	Highest 3 consecutive years out of last 10 (last 5 for Tier 2)	2.75%
Grand Rapids Police & Fire	Highest 3 consecutive years, increased by adjustment factors	2.0% - 2.8% based on employee group and tier
Southfield Fire & Police	Highest 3 or 5 years based upon group and tier	2.5% or 2.8% based upon group
Note: Benefit information not available for City of Warren		

The newest tier for the Lansing plans have a lower multiplier than the other members of the peer group. However, the newest tier of Lansing members also participate in a DC plan. Our analysis is confined to the defined benefit plans of each city.

All of the plans offer traditional defined benefits derived from years of service and final average compensation. Both Lansing plans have the shortest averaging period for final average compensation among the plans in the peer group. Use of a shorter averaging period results in higher average compensation, leading to higher benefits and liabilities.

Table 6 - Early Retirement Reductions	
Plan	**Reductions**
Lansing General Employees	N/A
Ann Arbor General Employees	.33% per month from the earlier of age 60 or 25 years of service
Grand Rapids General Employees	Actuarially reduced from age 62
Southfield General Employees	.50% per month from age 62 with 20 years of service or age 65 with 10 years of service
Lansing Police & Fire	N/A
Ann Arbor Police & Fire	.33% per month from the earlier of age 55 or 25 years of service
Grand Rapids Police & Fire	Actuarially reduced from age 55
Southfield Fire & Police	N/A
Note: Benefit information not available for City of Warren	

Table 7 - Post-Retirement Increases	
Plan	**Increases**
Lansing General Employees	Financed by Members' Benefit Fund, subject to limits and reductions
Ann Arbor General Employees	Ad-hoc, funded by financial gains
Grand Rapids General Employees	1.0% subject to 4-7 year delays by group
Southfield General Employees	None
Lansing Police & Fire	$525 (annual) per year, subject to limits and reductions
Ann Arbor Police & Fire	Ad-hoc, funded by financial gains
Grand Rapids Police & Fire	1.0% or 1.5% subject to 2 or 5 year delays by group
Southfield Fire & Police	Additional benefits provided through Reserve for Inflation Equity
Note: Benefit information not available for City of Warren	

Most of the plans offer some level of post-retirement increases. In some cases, the increases are limited by increases in the CPI or asset reserves that are specifically set aside for these increases.

In general, the plans in the peer group are very similar in design and funding. Lansing's benefit multiplier for new hires is lower than those in the peer group, but the final average salary period is shorter than the other plans and the City also provides benefits in the form of a DC plan for newly hired general employees. The assumptions Lansing uses in the actuarial valuation are similar to the other plans in the peer group. Lansing's plans have lower funded percentages than the other plans in the peer group.

5 Benefit Efficiency & Plan Design Alternatives

Defined Benefit Plans, Defined Contribution Plans, and Hybrid Plans

Governmental employers sponsor retirement plans in order to provide post-retirement income to their employees through pre-retirement contributions. These plans can be divided into three main categories: defined benefit (DB) plans, defined contribution (DC) plans, and hybrid plans. These classifications are defined by the forms of benefits that are provided and by the funding mechanisms used to supply those benefits.

Defined benefit plans are common in the public sector and are often referred to as "traditional" pension plans. Under a DB plan, the pension amount is defined by formula at retirement for each participant. The benefit is commonly based upon factors such as the participant's age, service, and salary at retirement. The contributions necessary to fund these benefits are adjusted, as needed, to ensure adequate funding of benefits. DB plans typically pay benefits as a monthly annuity for the life of the retiree, often with additional survivor benefits that can be elected upon retirement. Additional options that may be offered in DB plans include active death and disability benefits ("ancillary benefits"), subsidized early retirement benefits, and post-retirement cost-of-living adjustments. From the employer perspective, the amount of benefits that will be paid from the plan will drive the ultimate costs.

Defined contribution plans are common in the private sector, often in the form of a 401(k) plan or in the public sector, in the form of a supplemental 457(b) plan, referring to the sections of the IRS code that govern their administration. Under a DC plan, the contributions into the trust are fixed and the amount of benefits that each participant receives is unknown. At retirement, the benefit is simply the total of contributions allocated to the employee, with interest. DC plans typically pay a lump sum amount at retirement, although some DC plans also offer annuity options. Since the participant's benefit is defined to be their account balance, disability and death benefits are limited to this amount. Unlike DB plans, DC plans sometimes provide an active employee access to funds through loans or hardship distributions. From the employer perspective, the ultimate cost of the plan is fixed and the individual account balances will determine the amount of benefits that will be paid to individual employees from the plan.

Hybrid plans have a combination of defined benefit and defined contribution attributes. Hybrid plans have gained popularity in the last few decades, and are in effect for state employees in Oregon, Georgia, Utah, Washington, and Nebraska, among others. Examples of hybrid plans include DB/DC offset plans, cash balance plans, combined plans, and variable annuity plans. Hybrid plans can result in reduced cost volatility to the employer, depending upon how they are structured.

In most cases, DC plans are designed to have lower employer costs than DB or hybrid plans. The lower cost structure is a result of the transfer of risks from the employer to the employees. If a DB plan and a DC plan have the same employer cost, the benefits provided from a DC plan are lower than benefits provided from a DB plan. This is because there is a pooling of certain risks (such as longevity) in a DB plan that does not exist in a DC plan.

In a DB plan, primarily the employer assumes the risks, while in a DC plan the risks are borne by the employee. Hybrid plans were developed in part to share these risks between employers and employees.

Defined benefit plans have proven to be an efficient system for delivery of retirement benefits. Typically, defined contribution plans cannot provide the same level of benefits per dollar of cost as defined benefit plans. Some of the main reasons are as follows:

- Defined benefit plans provide significant cost-sharing by spreading mortality risk over a large pool of members. Defined contribution accounts are individually assigned and must be managed so that the retiree does not outlive his or her benefits.
- In practice, individually managed accounts can expect higher administrative costs and lower investment returns than a professionally managed defined benefit plan with a longer time horizon.
- Defined contribution accounts suffer from "leakage" as funds are used for purposes other than retirement.
- In a defined contribution plan, there is a higher cost of converting an account balance to an annuity at market rates or else members must assume the longevity risk of benefits.
- Defined contribution plans cannot provide pre-retirement death benefits or disability benefits at comparable costs and benefit levels as provided under a defined benefit plan.

While more efficient, defined benefit plans do bring a significant level of risk to employers, who are ultimately responsible for making required contributions in most cases. Because of this, many corporations have frozen participation in their defined benefit plans or shut them down entirely. This is often difficult in the public sector due to the contractual nature of the benefits.

Workforce Management

An important issue in employee retirement and benefit plans is the effect that the plans have on employee behavior. As part of a compensation package, employers use retirement plans to help attract and retain qualified employees. This is especially important in the public sector, where potential hires often have an expectation of participating in attractive retirement plans to make up for lower compensation than in the private sector. Due to onerous IRS and accounting rules and the high volatility associated with these measurements, private companies have mostly eliminated their DB plans and moved to DC plans. This has made DB plans (and hybrid plans that offer a meaningful DB benefit) an attractive feature for potential hires found predominantly in the public sector.

In some cases, DC plans may be more attractive to new hires. The portability feature of DC plans allows the participant to take the DC account balance when leaving service. This differs from a DB plan, where benefits payable upon withdrawal before retirement are typically smaller. This portability can make a DC plan a more attractive option to younger employees who may not plan to work with the same organization for an extended period. Recent trends indicate that employees' tenure with each employer is shorter than it was in the past.

Mid-career employees who are closer to retirement will often prefer the benefits provided by DB plans. Because their working lifetimes are shorter, these employees may not be as attracted to portable benefits. Instead, they may be more likely to find value in the lifetime benefits that DB plans provide.

In general, moving from a DB or hybrid plan to a DC plan will reduce the employer's ability to attract qualified employees to the extent that potential employees find DB plans valuable. This may have less of an effect for younger employees who value the portability of the DC plan benefits.

Because many hybrid plans have DB and DC features, these types of plans can be attractive to both older and younger new hires. Younger hires who plan to withdraw earlier will find the DC portion of the benefit attractive, while older hires who plan to work until retirement age will find the DB portion valuable.

The City of Lansing plans has DB plans. The multipliers for some new member groups have been reduced and are supplemented by participation in a DC plan. These benefits are expected to attract and retain older new hires and certain younger employees, depending on their preference.

The provisions of DB plans may also be used to affect employee behavior after the date of hire. Subsidized benefits like early retirement may encourage employees to retire when certain age or service thresholds are met. For example, a DB plan that offers an unreduced early retirement benefit at age 62 will invariably see a spike in retirements at age 62. To the extent that the employers whose employees participate in the plan desire that their employees leave active service at the age of 62, this would be an effective tool for workforce management. However, if not carefully considered, early retirement benefits can result in unwanted workforce implications. For example, an unreduced retirement benefit at a set level of service (30 years, for example) may have the effect of encouraging the retirement of participants who are at their most valuable to the organization. Participants who were hired at a young age would reach the service threshold in their early 50s, and would then be encouraged by the plan to retire. These employees may still be productive, and the costs of hiring and training new hires to fill these positions may be prohibitive. In short, this feature may have the effect of causing the employer's best employees to leave.

DC plans do not provide subsidized early retirement benefits, as the account balance structure of a DC plan benefit does not allow for these types of benefits. The DC plan structure does not allow for a retirement age that is considered "normal". In fact, if DC participants experience poor returns, they may be required to work well into old age.

DC plans are also unable to influence workforce behavior is through special retirement benefits, or "windows". Windows can be structured to target a group of employees to encourage their retirement during a specific period. This may be desirable for employers who would prefer that a group of employees leave active service. Windows will increase the liabilities of the DB plan as they encourage employees to retire sooner than expected and with an increased benefit.

The Lansing Plans provides for a "normal" retirement age and may assist with workforce management. If new employees are moved to a DC plan, it may be more difficult to address workforce management issues through the plan.

Transition

The effect of transition from one plan structure to another must also be considered when contemplating a plan change. Changing benefit structures for participants hired after a certain date will result in new plan "tiers" that will need to be maintained separately from the existing tiers. As a result, there may be an increase in actuarial valuation and administrative costs.

In the case of a transition from a DB plan to a DC plan, the administrative processes would need to be modified to include any new DC plans. Lansing has DC plans in place and therefore would need to amend the current DC plan administration structure to reflect the new provisions.

In addition, the plan change must be clearly communicated to employees. This is especially true if employees are given a choice between two plans. Since the City currently has tiers of employees, the staff has likely dealt with many of these transition issues in the past. This experience would likely reduce the effect of future transitions.

From a cost perspective, closing the DB plan to new members could have significant cost impacts on the current DB plan. If the current plan were closed to new members and the payroll for new DC members is not used in the amortization of the current UAAL, the payroll for the current plan would decline rather than grow during the remaining funding period. As a result, the amortization component would have to be determined as a level percent of declining payroll or as a level dollar amount. This creates a significant increase in the UAAL amortization rates as a percent of payroll.

Lansing's Plan Liabilities and Impact on Design Alternatives

The following table shows highlights from the December 31, 2015 actuarial valuations:

Table 9 – Summary of Valuation Results ($ in millions)		
	Employees' Retirement System	**Police and Fire Retirement System**
1. Actuarial Accrued Liability		
a) Active Employees	$ 68.6	$ 107.0
b) Retirees and Inactive Members	240.2	303.2
c) Total	$308.8	$410.2
2. Actuarial Value of Assets	176.0	292.5
3. Unfunded Actuarial Accrued Liability	$132.8	$117.7
4. Funded Ratio	57.0%	71.3%
5. City Normal Cost Rate	7.2%	14.2%
6. Active Member Payroll	$23.9	$27.9
7. City Contribution Dollars		
a) Normal Cost	$1.7	$3.8
b) Payment toward Unfunded	8.5	7.7
c) Total	$10.2	$11.5

We observe the following about the Plans' financial condition:

- Any plan changes would only affect active members' future benefits. The normal cost represents the value of benefits accruing for active members. The City normal cost rate is 7.2% of payroll for Employees' and 14.2% of payroll for Police and Fire. The normal cost portion of the City's contribution is $1.7 million for Employees' and $3.8 million for Police and Fire for a total of $5.5 million. Reductions in future benefits would affect the City's contributions of the normal cost of $5.5 million. As an example, if the value of benefit accruals were reduced across the Board by 10% for active members, the reduction in the City's contribution would by $550,000.

- The unfunded actuarial accrued liability, which totals $250 million, represents benefits that have already been earned. These benefits will not be affected by reducing future benefits. As mentioned above, new benefits accrue at the rate of approximately $5.5 million per year. This unfunded liability will need to be paid by the City over a reasonable amortization period to ensure that promised benefits are secure.

- One of the ways to affect the unfunded actuarial accrued liability is to reduce benefits to retirees. This option is not being considered in this study, as it is our understanding that this type of plan change is not legal in the State of Michigan. It is important to note that reducing these benefits would affect retirees' income on which they depend for living expenses.

The City should consider whether a change in the delivery of retirement benefits for its active members should be modified from the current defined benefit structure given the minor impact a change would have on the contribution requirements. A change to a defined contribution plan would ultimately set the City's contribution at a certain percentage of payroll. However, the unfunded liability of the plans will need to be funded over a reasonable amortization period and the transition period to a 100% defined contribution plan will take many years. The City should consider whether this change in retirement benefit delivery, that will take many years to realize any significant reduction in contribution, is worthwhile. Furthermore, the City should consider whether the shifting of all retirement risks to its employees is appropriate and consistent with its workforce management goals.

Defined Benefit Plan Changes

In addition to changing the structure of benefits, many organizations have taken the approach of enacting changes to their defined benefit plans in order to reduce costs and lower contribution volatility. In many cases, plan changes are made for employees hired after a certain date, creating a new "tier" of benefits. This can slow down the financial effects of these changes, as cost savings are realized only as current employees leave active service and are replaced by new employees over time.

Some of the more common changes made to defined benefit plans are as follows:

- **Contribution increases**: Plan funding levels can be improved by increasing required contributions by employers, employees or both. In some cases, increases have been accompanied with caps on the amount that the employer will pay, with the rest of the actuarially recommended contribution being the responsibility of employees. This helps

to reduce the volatility of employer contributions, but increases the burden on employees. Employee contribution increases are often perceived as a decrease in pay and can affect the ability of plans to retain employees.

- **Benefit changes**: These changes are made to the mechanisms that determine the amount of retirement (for example, lowering the benefit multiplier from 1.80% to 1.25%). These changes are simple and are typically easy to implement. As with any change, a reduction in benefits can be negatively perceived by employees and conflict with workforce management objectives. The City has made similar changes for new hires with a supplemental DC arrangement for some groups.

- **Cost of Living Increases**: Unlike the private sector, many public sector plans have cost-of-living adjustments ("COLAs") that increase the amount of benefits as retirees age. This helps maintain benefit security, but can be quite expensive. A 1% ongoing COLA on all benefits can result in a 10%-15% increase in liabilities or more. Many plans have lowered costs by reducing COLAs for non-retirees through limiting increases to inflation, tying them to favorable asset returns, or removing them outright. In some cases, COLAs for current retirees have been lowered. In many cases, these changes have legally challenged with mixed results in courts.

- **Eligibility changes**: These changes are made to the eligibility for benefits (for example, raising the minimum retirement age from 55 to 60). While the ultimate benefit is not affected, the number of payments is reduced since younger retirements are not allowed. These can be a source of significant cost savings, but workforce management issues are very important. As an example, raising the retirement age for a plan that covers police and fire employees only makes sense if the underlying organization has a policy for allowing these employees to work past that age.

- **Compensation adjustments**: Another method for reducing liability is by changing the compensation used in determining the benefit (for example, using more years in the average compensation calculation). Other adjustments have been made to reduce the effect of "spiking", or the deliberate increase in compensation near the end of an employee's career to increase pension benefits. While anti-spiking provisions can be important tools in promoting plan fairness, their effects on costs are usually limited.

Any changes to the plan must balance cost savings with workforce management as discussed above. The plan's goals of attracting and retaining productive employees should always be taken into account when a plan change is considered.

6 Funding Approaches

Amortization Methods

The goal of an appropriate funding policy is to fund the benefits payable from the plan over a reasonable time period. For the purposes of generational equity, the amortization period should also be related to the working lifetime of the group being covered. An appropriate funding policy results in a contribution that funds the Normal Cost (*i.e.*, the cost of benefits accruing in the current year) and includes a payment towards the UAAL, which is the amount for which assets are insufficient to cover the benefits that have been earned in the past. Some commonly used methods of amortization are discussed below.

A "closed" amortization period will reduce the UAAL of the plan over a set timeframe, ending at a specific future date. A closed period has the advantage of effectively amortizing the liability in a predictable manner, but can result in volatile contributions, as the remaining period gets smaller.

An "open" amortization period re-amortizes the UAAL of the plan each year over the same period as the previous year. The contributions under an open amortization period are less volatile than with a closed period, but the UAAL is not amortized as quickly as with a closed period and may never be amortized. Depending on the amortization period, the UAAL may increase under an open amortization period. Open amortization periods are commonly used in the public sector.

A "level percent of payroll" amortization expresses the amortization payments over the future payroll of the group. An assumption must be made about the increase in payroll that is expected to occur over the amortization period. While the payments are expected to be level as a percent of pay, the amount of the payments is smaller in the earlier years of the amortization period and larger in the later years. This can result in a "negative amortization", where the UAAL grows during the first years of the amortization period. Typically, negative amortization occurs until the amortization period reaches about 15 years. The level percent of payroll amortization method generally results in a stable contribution rate. However, if actual payroll increases are less than expected, the payments are lower and future contributions as a percentage of payroll will increase. In addition, combining the level percent of payroll method with an open amortization period will result in the UAAL increasing every year in the future.

A "level dollar" amortization expresses the amortization payments as a fixed dollar amount over the amortization period. A typical example is a home mortgage payment, where a fixed amount is paid each month. This results in greater payments at the beginning of the period than with the level percent of payroll method. While the payments reduce the UAAL more quickly in the early years of the amortization period, the payments do not remain constant as a percent of payroll.

In some cases, retirement systems use a combination of the methods above in their funding policies. A common example is to use a short, closed period for a one-time benefit adjustment or window, while amortizing the remaining UAAL over a longer, open period. Another option is using fixed-length closed periods to amortize changes in the UAAL each year.

The Employees' and Police and Fire plans use a closed funding method with payments based upon a level percent of payroll. Additionally, when the funding period decreases to 15 years remaining, the funding method will then become an open 15-year period. The experience study recommends lowering this open period for the Employees' Plan to 10 years.

The City has many other options to either accelerate payments toward the plans' UAAL. Payments toward the unfunded liabilities of the Plans could be accelerated by the following changes to the valuation assumptions and methods, among others:

- Shortening the amortization periods of the plans (26 years remaining as of December 31, 2015)
- Lowering the payroll growth assumption (2.92%/2.85% per year) – the experience studies recommend lowering this assumption
- Lowering the rate of return assumption (7.40%/7.35% per year) – the experience studies recommend lowering this assumption

Changing the assumptions or amortization period as suggested will result in higher contributions in the short term. However, the accelerated contributions will earn investment returns and will lower future contributions. Ultimately, the City must determine the methods of funding the plans that provides for systematic funding while meeting the risk profile of the City and its stakeholders.

We recommend the City consider whether increasing contributions would be desirable as a mechanism for reducing future contributions.

We recommend that the City evaluate the use of an open amortization period when the plans reach the 15-year open funding period (or 10-year as recommended by the experience study) in 2026. The City should also consider adopting a funding policy that targets 100% funding over a reasonable time period.

7 Challenges, Conclusions and Recommendations

Based upon the analysis performed above, Segal has the identified the following challenges, conclusions and recommendations:

Challenges

The City faces the following challenges that make it difficult to achieve a meaningful reduction in the liabilities of and contributions to the plans:

1. The plans combined have 720 active members and 1,632 retirees and beneficiaries. The ratio of member in pay status to active members is 2.3.

2. The total actuarial accrued liability of the plans is $719 million, of which $543 million or 76% is attributable to retirees and beneficiaries.

3. The unfunded actuarial accrued liability as of December 31, 2015 is $250 million. The City contribution as of December 31, 2015 is $21.8 million, of which $16.8 million is toward the unfunded liability of $250 million. The remaining $5.5 million is to fund the annual pension benefit accrual for active members. If pension benefits were frozen for active members (i.e., active members would accrue no additional benefits) the reduction in annual contributions would be $5.5 million.

4. Because of the state limitations on property tax revenue growth, from the state Headlee Amendment and Proposal A, the City anticipates its largest revenue source accounting for 31% of General Fund Revenues, to increase only 2%-3% over the next several years and that pre-Recession property tax revenue levels, net of the extra four mills, will not be reached until 2025 to 2028. Further challenging Lansing and Michigan municipalities, municipal revenue sharing by the State of Michigan has been reduced over the past 15 years by more than $6 million in real dollars annually for the City, and almost $9 million annually when adjusted for inflation (see Background section on pages 9-12).

Conclusions and Recommendations

1. We conclude the assumptions and methods used in the valuation appear to be reasonable and comply with relevant standards of practice. We recommend the following:

   - Monitor the investment return assumption, particularly given that the inflation assumption is on the high side of reasonableness, as recommended in the experience studies. The fund is moving to lower this assumption in accordance with the recent experience study. Many public plans have lowered the investment return assumption in response to market conditions. Lowering the investment return assumption results in an increase in the actuarial accrued liability.

- Consider updating the mortality assumptions to the most recent Society of Actuaries' mortality and generational mortality improvement scale as recommended in the experience studies. An update to the mortality table would result in an increase in the actuarial accrued liability, in the range of 2% to 4%.

- Consider whether a corridor around the market value of assets should be included in the asset smoothing method.

- Evaluate the use of an open amortization period when the plans reach the 15-year open funding period (or 10-year as recommended by the experience study) in 2026. Consider adopting a funding policy that targets 100% funding over a reasonable time period. Monitor the payroll growth assumption to ensure that it remains consistent with actual increases in payroll.

- Consider refinements to the retirement assumptions as discussed in the report

2. The City should consider whether a change in the delivery of retirement benefits for its active members should be further modified from its current structure keeping in mind its workforce management goals for recruitment and retention.

3. The City could consider whether a pension obligation bond would be a means to fund the pension plans. There are a number of issues related to pension obligation bonds including that the bonds need to be issued as taxable bonds and there is a risk that there is a major market correction when the bond proceeds are invested. Some municipalities have seen total costs, including bond debt service, increase after a pension obligation bond is issued. Furthermore, the debt service is a fixed cost and must be paid each year regardless of investment returns.

4. Ideally, the City could consider accelerating its contributions to the pension plan; however, it is recognized that this may not be practical, given the City's much larger unfunded liability for retiree healthcare and significant resource constraints noted on pages 9-12 of the Background section. Measures the City could consider include:

   - Sale of City assets, which would a one-time, non-recurring source.

   - Increase in the City's income tax rates, although it is understood that to do so, changes would need to be made to State of Michigan legislation.

   - Levying a property tax millage, either within its operating millage or by special millage allowed under State of Michigan Public Act 345 of 1937 for police and fire pensions. It is understood from City officials that the City Charter maximum operating property tax levy is 20.0 mills, and the City is currently levying 19.44 mills. It is also understood from City officials that 1.0 mill currently generates approximately $2.0 million and equates to a $50 annual increase for a taxpayer owning a house valued at $100,000.

   - Levying a local sales tax, which would require a change in State of Michigan legislation, as it is understood to currently be prohibited at the municipal level.

5. The City could consider exploring the transfer of public assets or the revenue generated as sources to fund the pension plans. In the private sector, corporations have made in-kind contributions – non-cash assets such as securities and real estate to fund their retirement plans. US Steel contributed 170,000 acres of timberland to meet its pension liabilities. Pan American World Airways transferred the lease for its flagship terminal at New York's Kennedy Airport to its pension funds. The public sector has begun to implement or consider alternative revenue sources. Some strategies are as follows:

   - The private sector's practice of transferring assets to pension funds was cited in a New Jersey proposal to fund the state's beleaguered public pension plans with revenues from the state's lottery.

   - In Canada, the Ontario Teachers' Pension Plan owns the licenses to operate both the British and Irish national lotteries. These assets were not in-kind contributions but rather a direct investment aimed at boosting the pension fund's returns.

   - In 2010, the Pittsburgh City Council irrevocably dedicated parking revenues to the city's three employee pension funds for 31 years. The city effectively transferred the value of asset ownership to the pension plan without requiring it to assume the risks of ownership or management responsibilities.

   - The City of Hartford, Connecticut plans to donate a 600-acre public park, which does not produce revenue, as partial payment of the city's annual required contribution to the Municipal Employees Retirement Fund.

   - One of the most profitable in-kind contributions made to a pension fund was the conveyance in 2011 of a toll-road network owned by Australia's Queensland state government to the state's pension fund. Queensland Investment Corporation, the fund's manager, restructured the business, added two additional roads to the toll network and sold the asset three years later at a $3.8 billion profit for the pension fund.

The City must weigh these recommendations and its options with the costs of doing nothing. As demonstrated on Chart 3 of the Background section, pension contributions have tripled over the past fourteen years and, even with recent collective bargaining changes, are currently projected to increase another six million in the next twelve years. In light of the City's revenue constraints, combined with retiree healthcare obligations, pension funding obligations could have the effect of crowding out available resources for City services, as well as or in combination with, the path of emergency financial management or bankruptcy, as experienced by some other Michigan communities.

Michigan Department of Treasury
5597 (08-18)

Protecting Local Government Retirement and Benefits Act
Corrective Action Plan:
Retirement Health Benefit Systems

Issued under authority of Public Act 202 of 2017.

1. MUNICIPALITY INFORMATION

Local Unit Name: City of Lansing Six-Digit Muni Code: 332020

Retirement Health Benefit System Name: Lansing Employee's Retirement OPEB System

Contact Name (Administrative Officer): Angela Bennett

Title if not Administrative Officer: Finance Director

Email: angela.bennett@lansingmi.gov Telephone: (517) 483-4511

2. GENERAL INFORMATION

Corrective Action Plan: An underfunded local unit of government shall develop and submit for approval a corrective action plan for the local unit of government. The local unit of government shall determine the components of the corrective action plan. This Corrective Action Plan shall be submitted by any local unit of government with at least one retirement health benefit system that has been determined to have an underfunded status. Underfunded status for a retirement health system is defined as being less than 40% funded according to the most recent audited financial statements, and, if the local unit of government is a city, village, township, or county, the annual required contribution (ARC) for all of the retirement health systems of the local unit of government is greater than 12% of the local unit of government's annual governmental fund revenues, based on the most recent fiscal year.

Due Date: The local unit of government has **180 days from the date of notification** to submit a corrective action plan to the Municipal Stability Board. The Board may extend the 180-day deadline by up to an additional 45 days if the local unit of government submits a reasonable draft of a corrective action plan and requests an extension.

Filing: Per Sec. 10(1) of the Act, this Corrective Action Plan must be approved by the local government's administrative officer and its governing body. ***You must provide proof of your governing body approving this Corrective Action Plan and attach the documentation as a separate PDF document.*** Per Sec. 10(4) of the Act, failure to provide documentation that demonstrates approval from your governing body will result in a determination of noncompliance by the Board.

The submitted plan must demonstrate through distinct supporting documentation how and when the local unit will reach the 40% funded ratio. Or, if the local unit is a city, village, township, or county, the submitted plan may demonstrate how and when the ARC for all of the retirement healthcare systems will be less than 12% of annual governmental fund revenues, as defined by the Act. Supporting documentation for the funding ratio and/or ARC must include an actuarial projection, an actuarial valuation, or an internally developed analysis. The local unit must project governmental fund revenues using a reasonable forecast based on historical trends and projected rates of inflation.

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

The subject line of the email(s) should be in the following format: **Corrective Action Plan-2017, Local Unit Name, Retirement System Name** (e.g. Corrective Action Plan-2017, City of Lansing, Employees' Retirement System OPEB

Plan). 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 application(s).

Municipal Stability Board: The Municipal Stability Board (the Board) shall review and vote on the approval of a corrective action plan submitted by a local unit of government. If a corrective action plan is approved, the Board will monitor the corrective action plan for the following two years, and the Board will report on the local unit of government's compliance with the Act not less than every two years.

Review Process: Following receipt of the email by Treasury, the Board will accept the corrective action plan submission at the next scheduled meeting of the Board. The Board shall then approve or reject the corrective action plan within 45 days from the date of the meeting.

Considerations for Approval: A successful corrective action plan will demonstrate the actions for correcting underfunded status as set forth in Sec. 10(7) of the Act (listed below), as well as any additional solutions to address the underfunded status. Please also include steps already taken to address your underfunded status, as well as the date prospective actions will be taken. A local unit of government may also include in its corrective action plan a review of the local unit of government's budget and finances to determine any alternative methods available to address its underfunded status. A corrective action plan under this section may include the development and implementation of corrective options for the local unit of government to address its underfunded status. The corrective options as described in Sec. 10(7) may include, but are not limited to, any of the following:

(i) Requiring cost sharing of premiums and sufficient copays.

(ii) Capping employer costs.

Implementation: The local unit of government has up to 180 days after the approval of a corrective action plan to begin to implement the corrective action plan to address its underfunded status. The Board shall monitor each underfunded local unit of government's compliance with this act and any corrective action plan. The Board shall adopt a schedule, not less than every 2 years, to certify that the underfunded local unit of government is in substantial compliance with the Act. If the Board determines that an underfunded local unit of government is not in substantial compliance under this subsection, the Board shall within 15 days provide notification and report to the local unit of government detailing the reasons for the determination of noncompliance with the corrective action plan. The local unit of government has 60 days from the date of the notification to address the determination of noncompliance.

3. DESCRIPTION OF PRIOR ACTIONS

Prior actions are separated into three categories below: System Design Changes, Additional Funding, and Other Considerations. Please provide a brief description of the prior actions implemented by the local government to address the retirement system's underfunded status within the appropriate category section. Within each category are sample statements that you may choose to use to indicate the changes to your system that will positively affect your funded status. For retirement systems that have multiple divisions, departments, or plans within the same retirement system, please indicate how these changes impact the retirement **system** as a whole.

- **Please Note:** If applicable, prior actions listed within your waiver application(s) may also be included in your corrective action plan.

Please indicate where in the attached supporting documentation these changes are described and the impact of those changes (i.e. what has the local unit of government done to improve its underfunded status, and where can we find the proof of these changes in the supporting documentation?).

Note: Please provide the name of the system impacted, the date you made the change, the relevant page number(s) within the supporting documentation, and the resulting change to the system's funded ratio.

Category of Prior Actions:

☒ **System Design Changes** - System design changes may include the following: Changes to coverage levels (including retiree co-payments, deductibles, and Medicare eligibility), changes to premium cost-sharing, eligibility changes, switch to defined contribution retiree health care plan, changes to retiree health care coverage for new hires, etc.

Sample Statement: *Benefit levels of the retired membership mirrors the current collective bargaining agreement for each class of employee. On **January 1, 2017**, the local unit entered into new collective bargaining agreements with the **Command Officers Association** and **Internal Association of Firefighters** that increased employee co-payments and deductibles for healthcare. These coverage changes resulted in an improvement to the retirement system's funded ratio. Please see page **12** of the attached actuarial analysis that indicates the system is **40%** funded as of **June 30, 2017**.*

Attachment 2a demonstrates the actuarial projection of funding levels for the Lansing ERS OPEB system, with 40% funding projected in year 2027.
Included as Attachment 6a(1) is a list of changes made to actuarial assumptions and benefit levels of the ERS OPEB system over the past several years.

☐ **Additional Funding** – Additional funding may include the following: paying the annual required contribution in addition to retiree premiums, voluntary contributions above the annual required contribution, bonding, millage increases, restricted funds, etc.

Sample Statement: *The local unit created a qualified trust to receive, invest, and accumulate assets for retirement healthcare on **June 23, 2016**. The local unit of government has adopted a policy to change its funding methodology from Pay-Go to full funding of the Annual Required Contribution (ARC). Additionally, the local unit has committed to contributing **$500,000** annually, in addition to the ARC for the next five fiscal years. The additional contributions will increase the retirement system's funded ratio to **40%** by **2022.** Please see page **10** of the attached resolution from our governing body demonstrating the commitment to contribute the ARC and additional **$500,000** for the next five years.*

☒ **Other Considerations** – Other considerations may include the following: outdated Form 5572 information, actuarial assumption changes, amortization policy changes, etc.

Sample Statement: *The information provided on the Form 5572 from the audit used actuarial data from **2015**. Attached is an updated actuarial valuation for **2017** that shows our funded ratio has improved to **42%** as indicoted on page **13**.*

The City has had the Lansing Financial Health Team (FHT) in place since 2012 for funding improvement necessity beyond the PA 202 minimums. OPEB study performed by the City, in conjunction with the FHT, is included as Attachment 6a(4).
Information on budgetary restructuring in response to revenue losses is included as Attachment 6a(2).

4. DESCRIPTION OF PROSPECTIVE ACTIONS

The corrective action plan allows you to submit a plan of prospective actions which are separated into three categories below: System Design Changes, Additional Funding, and Other Considerations. Please provide a brief description of the prospective actions implemented by the local government to address the retirement system's underfunded status within the appropriate category section. Within each category are sample statements that you may choose to use to indicate the changes to your system that will positively affect your funded status. For retirement systems that have multiple divisions, departments, or plans within the same retirement system, please indicate how these changes impact the retirement **system** as a whole.

Please indicate where in the attached supporting documentation these changes are described and the impact of those changes (i.e. what will the local unit of government do to improve its underfunded status, and where can we find the proof of these changes in the supporting documentation?).

Category of Prospective Actions:

☒ **System Design Changes** - System design changes may include the following: Changes to coverage levels (including retiree co-payments, deductibles, and Medicare eligibility), changes to premium cost-sharing, eligibility changes, switch to defined contribution retiree health care plan, changes to retiree health care coverage for new hires, etc.

Sample Statement: *The local unit will seek to align benefit levels for the retired membership with each class of active employees. Beginning with **summer 2018** contract negotiations, the local unit will seek revised collective bargaining agreements with the **Command Officers Association** and **Internal Association of Firefighters** to increase employee co-payments and deductibles for healthcare. These coverage changes would result in an improvement to the retirement system's funded ratio. Please see page **12** of the attached actuarial analysis that indicates the system would be **40%** funded by **fiscal year 2020** if these changes were adopted and implemented by **fiscal year 2019**.*

The City investigated use of an HRA model for Medicare-eligible retirees which could reduce the liability by 25%-36% in the short-term and 48%-67% in the longer term; ability precluded by prior collective bargaining agreement language.
All of the City's collective bargaining agreements will be negotiated this next year. As a part of those negotiations, the City is considering further pension changes, including former (see Attachment 6a(3)) and ongoing/new OPEB recommendations from the Lansing Financial Health Team, including consideration of a high-deductible/HRA model for current employees and applicable retirees/future retirees, as well as an OPEB study conducted in 2017 (see Attachment 6a(4)), in recognition of necessity of funding improvement beyond the State threshold of 40% funding.

☒ **Additional Funding** – Additional funding may include the following: meeting the annual required contribution in addition to retiree premiums, voluntary contributions above the annual required contribution, bonding, millage increases, restricted funds, etc.

Sample Statement: *The local unit will create a qualified trust to receive, invest, and accumulate assets for retirement healthcare by **December 31, 2018**. The local unit of government will adopt a policy to change its funding methodology from Pay-Go to full funding of the Annual Required Contribution (ARC) by **December 31, 2018**. Additionally, beginning in fiscal year 2019, the local unit will contribute **$500,000** annually in addition to the ARC for the next five fiscal years. The additional contributions will increase the retirement system's funded ratio to **40%** by **2022**. Please see page **10** of the attached resolution from our governing body demonstrating the commitment to contribute the ARC and additional **$500,000** for the next five years.*

The City has instituted a General Fund fund balance policy specifying that fund balance amounts in excess of 15% of General Fund expenditures will be contributed as additional payments to its pension and OPEB systems (see page 12 of Attachment 4a).

☒ **Other Considerations** – Other considerations may include the following: outdated Form 5572 information, actuarial assumption changes, amortization policy changes, etc.

Sample Statement: *Beginning in **fiscal year 2019**, the local unit will begin amortizing the unfunded portion of the healthcare liability using a **level-dollar amortization method over a closed period of 10 years**. This will allow the health system to reach a funded status of **42%** by **2022** as shown in the attached actuarial analysis on page **13**.*

The City continues to evaluate City service delivery for cost efficiencies and joint venture/collaboration/regional opportunities.

5. CONFIRMATION OF FUNDING

Please check the applicable answer:

Do the corrective actions listed in this plan allow for *(insert local unit name)* ______________________________
to make, at a minimum, the retiree premium payment, as well as the normal cost payments for all new hires (if applicable), for the retirement health benefit system according to your long-term budget forecast?

☒ **Yes**
☐ **No**
If No, Explain

6. DOCUMENTATION ATTACHED TO THIS CORRECTIVE ACTION PLAN

Documentation should be attached as a .pdf to this corrective action plan. The documentation should detail the corrective action plan that would be implemented to adequately address the local unit of government's underfunded status. Please check all documents that are included as part of this plan and attach in successive order as provided below:

Naming convention: when attaching documents please use the naming convention shown below. If there is more than one document in a specific category that needs to be submitted, include a, b, or c for each document. For example, if you are submitting two supplemental valuations, you would name the first document "Attachment 2a" and the second document "Attachment 2b".

Naming Convention	Type of Document
☒ Attachment – 1	**This Corrective Action Plan (Required)**
☒ Attachment – 1a	**Documentation from the governing body approving this Corrective Action Plan (Required)**
☒ Attachment – 2a	**An actuarial projection, an actuarial valuation, or an internally developed analysis, which illustrates how and when the local unit will reach the 40% funded ratio. Or, if the local unit is a city, village, township, or county, ARC will be less than 12% of governmental fund revenues, as defined by the Act. (Required)**
☐ Attachment – 3a	Documentation of additional payments in past years that is not reflected in your audited financial statements (e.g. enacted budget, system provided information).
☒ Attachment – 4a	Documentation of commitment to additional payments in future years (e.g. resolution, ordinance)
☐ Attachment – 5a	A separate corrective action plan that the local unit has approved to address its underfunded status, which includes documentation of prior actions, prospective actions, and the positive impact on the system's funded ratio
☒ Attachment – 6a	Other documentation, not categorized above

7. CORRECTIVE ACTION PLAN CRITERIA

Please confirm that each of the four corrective action plan criteria listed below have been satisfied when submitting this document. Specific detail on corrective action plan criteria can be found in the Corrective Action Plan Development: Best Practices and Strategies document.

Corrective Action Plan Criteria	Description
☒ Underfunded Status	Is there a description and adequate supporting documentation of how and when the retirement system will reach the 40% funded ratio? Or, if your local unit is a city, village, township, or county, how and when the ARC of all retirement healthcare systems will be less than 12 percent of governmental fund revenues?
☒ Reasonable Timeframe	Do the corrective actions address the underfunded status in a reasonable timeframe (see CAP criteria issued by the Board)?
☒ Legal and Feasible	Does the corrective action plan follow all applicable laws? Are all required administrative certifications and governing body approvals included? Are the actions listed feasible?
☒ Affordability	Do the corrective action(s) listed allow the local unit to make the retiree healthcare premium payment, as well as normal cost payment for new hires now and into the future without additional changes to this corrective action plan?

8. LOCAL UNIT OF GOVERNMENT'S ADMINISTRATIVE OFFICER APPROVAL OF CORRECTIVE ACTION PLAN

I, Andy Schor, as the government's administrative officer (insert title) Mayor (Ex: City/Township Manager, Executive director, and Chief Executive Officer, etc.) approve this Corrective Action Plan and will implement the prospective actions contained in this Corrective Action Plan.

I confirm to the best of my knowledge that because of the changes listed above, one of the following statements will occur:

☒ The Lansing ERS OPEB System **(Insert Retirement Healthcare System Name)** will achieve a funded status of at least 40% by Fiscal Year 2027 as demonstrated by required supporting documentation listed in section 6.

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

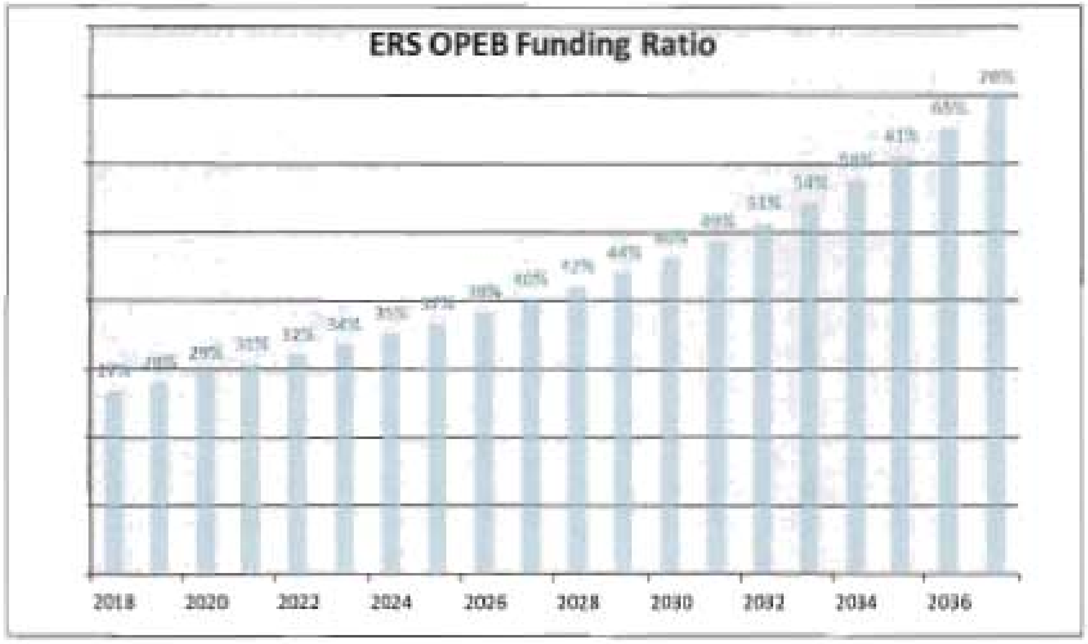
☐ The ARC for all of the retirement healthcare systems of ____________________ **(Insert local unit name)** will be less than 12% of the local unit of government's annual governmental fund revenues by Fiscal Year __________ as demonstrated by required supporting documentation listed in section 6.

Signature ____________________________ Date ____________________

Attachment 1a – City Council Corrective Plan Approval Resolution

City of Lansing ERS OPEB Funding Projection, *Prepared by Boomershine Consulting Group*

Baseline Scenario (no gains or losses, no changes in assumptions/methods)



The projection of funding shown above is based on the January 1, 2016 valuation projected forward, based on the benefit provisions and actuarial assumptions outlined in the valuation report. The above reflects the City's current funding strategy of paying benefits as well as contributing a percentage of payroll to the OPEB Fund.

This projection has been completed in in accordance with generally accepted actuarial principles and practices. The undersigned is a member of the American Academy of Actuaries, and meets the Qualification Standards to provide the actuarial opinions herein.

Gregory M. Stump

Gregory M. Stump, FSA, EA, FCA, MAAA
Chief Actuary
Boomershine Consulting Group

RESOLUTION #2018-142

BY COMMITTEE OF THE WHOLE
RESOLVED BY THE CITY COUNCIL OF THE CITY OF LANSING

WHEREAS, in conformance with Article 7, Section 7-101 of the City Charter, on March 26, 2018, the Mayor submitted a proposed budget for the 2018/2019 fiscal year, which spans from July 1, 2018 through June 30, 2019; and

WHEREAS, the City Council held a series of televised public hearings to review Mayor's budget recommendations; and

WHEREAS, the City Council held special Committee of the Whole meetings during evening hours at the Foster Community Center on May 10, 2018 and at the Alfreda Schmidt Community Center on May 15, 2018, and as part of the Council meeting to provide opportunities for citizens to comment on the proposed City budget; and

WHEREAS, in accordance with City Charter and the State Uniform Budgeting and Accounting Act, notice was published and a public hearing was held on May 14, 2018, for the fiscal year 2018/2019 budget and capital improvements program; and
WHEREAS, Public Act 2 of 1968 of the State of Michigan, as amended, provides that the budget resolution of the City shall set forth the total number of mills to be levied under the General Property Tax Act, the estimated revenues, by source, and amounts appropriated to defray expenditures and meet the liabilities of the City for the ensuing fiscal year; and

WHEREAS, the City Council desires to establish certain budget policies for the fiscal year 2018/2019,

NOW, THEREFORE, BE IT RESOLVED that 19.70 mills be levied under the General Property Tax Act for fiscal year 2018/2019 as follows:

City Operating: 19.44
City Debt: .26

BE IT FURTHER RESOLVED that the City's sewage rate shall be increased by 3.0% for FY 2018/2019;

BE IT FURTHER RESOLVED that the following changes to the City's fee and charges be adopted:

	From Current FY 2018	To Adopted FY 2019
Fire Department		
Ambulance Fee - Advanced Life Support 2	$ 900.00	$ 1,150.00
Ambulance transport mileage (per mile)	$ 13.50	$ 16.50
EMS Report Fee	$ 4.00	$ 10.00
Economic Development & Planning - Building Safety		
Non-FOIA Search and Copy Charge (per 15 minutes)	new fee	$ 10.00
Non-FOIA Search and Copy Charge - CD/DVD (each)	new fee	$ 2.00
Economic Development & Planning - Parking System		
South Capitol Ramp Permits (Monthly)		
Reserved	$ 135.00	$ 141.00
Covered	$ 107.00	$ 115.00
Roof	$ 85.00	$ 90.00
Basement	$ 112.00	$ 120.00
North Grand Ramp Permits (Monthly)		
General	$ 128.00	$ 140.00
Reserved	$ 150.00	$ 160.00
Roof	$ 93.00	$ 110.00
North Capitol Ramp Permits (Monthly)		
General	$ 93.00	$ 110.00
Townsend Ramp Permits (Monthly)		
Reserved Basement/Level 1	$ 167.00	$ 170.00
General, Levels 2-5	$ 143.00	$ 150.00
General, Levels 6-8	$ 130.00	$ 133.00

Transient Parking Rates	From Current FY 2018	To Adopted FY 2019
VIP Hourly Rate per half-hour (all ramps)	$ 0.70	$ 1.05
Hourly rate per half hour (Townsend, South Capitol, North Capitol R	$ 1.00	$ 1.25
Hourly rate per half hour (North Grand Ramp)	$ 1.00	$ 1.50
Daily Maximum (Townsend, South Capitol, North Capitol Ramps)	$ 10.00	$ 12.50
Daily Maximum (North Grand Ramp)	$ 10.00	$ 15.00
Lot Rates (Monthly)		
Lot #1	$ 75.00	$ 85.00
Lot #49	$ 50.00	$ 60.00
Lot #49A	$ 50.00	$ 60.00
Lot #50	$ 22.00	$ 30.00
Lot #52	$ 63.00	$ 70.00
Lot #53	$ 63.00	$ 70.00
Lot #55	$ 68.00	$ 80.00
Lost Ticket Rates		
North Capitol Ramp	$ 10.00	$ 12.50
Townsend, South Capitol Ramps	$ 10.00	$ 25.00
North Grand Ramp	$ 20.00	$ 30.00

Office of Community Media

Inflatable Movie Screen & Equipment Rental - free community events	new fee	$ 500.00
Inflatable Movie Screen & Equipment Rental - ticketed events	new fee	$ 1,000.00
Media Center theatre space rental - professional video or ticketed eve	new fee	$ 500.00
Media Center theatre space rental - free community event (per hour)	new fee	$ 20.00
Media Center theatre space rental - non-commercial production, non-business hours (per hour)	new fee	$ 20.00
Backpack studio rental - commercial production (per day)	new fee	$ 100.00
Intermediate Production class - Resident	new fee	$ 55.00
Intermediate Production class - Nonresident	new fee	$ 105.00
Camera Package Rental - commercial production	new fee	$ 100.00
Live Production Trailer with final edited product with staff and equipme	new fee	$ 1,750.00

Parks & Recreation Department

	From	To
Marshall Park Sand Volleyball - no equipment (per hour)	$ 5.00	$ 10.00
Marshall Park Sand Volleyball - with equipment (per hour)	$ 8.00	$ 15.00
Frances Park Pavilion Rental - 1/2 Pavilion, 1/2 Day Weekday	Change in rate structure	$ 70.00
Frances Park Pavilion Rental - 1/2 Pavilion, 1/2 Day Weekend		$ 80.00
Frances Park Pavilion Rental - Full Pavilion, 1/2 Day Weekday		$ 115.00
Frances Park Pavilion Rental - Full Pavilion, 1/2 Day Weekend		$ 135.00
Frances Park Pavilion Rental - Full Pavilion, Full Day - Weekday		$ 190.00
Frances Park Pavilion Rental - Full Pavilion, Full Day - Weekend		$ 220.00
Frances Park Pavilion Rental - 1/2 Pavilion, 1/2 Day Holiday		$ 100.00
Frances Park Pavilion Rental - Rental of 1/2 Pavilion Full Day Holiday		$ 165.00
Frances Park Pavilion Rental - Full Pavilion, Full Day Holiday		$ 275.00
Frances Pavilion Clean Up Fee Rental - Deposit for Clean Up Forfeite		$ 50.00
Hunter Park Pavilion Rental - 1/2 Day Weekday/Weekend		$ 35.00
Hunter Park Pavilion Rental - Full Day Weekday/Weekend		$ 60.00
Hunter Park Pavilion Rental - 1/2 Day Holiday		$ 65.00
Hunter Park Pavilion Rental - Full Day Holiday		$ 110.00
Moores Park Pavilion Rental - 1/2 Day, Weekday/Weekend		$ 45.00
Moores Park Pavilion Rental - Full Day Weekday/Weekend		$ 70.00
Moores Park Pavilion Rental - 1/2 Day Holiday		$ 75.00
Moores Park Pavilion Rental - Full Day Holiday		$ 125.00
Washington Park Pavilion Rental - 1/2 Day, Weekday/Weekend		$ 45.00
Washington Park Pavilion Rental - Full Day Weekday/ Weekend		$ 70.00
Washington Park Pavilion Rental - 1/2 Day Holiday		$ 75.00
Washington Park Pavilion Rental - Full Day Holiday		$ 125.00
Adado Riverfront Park Rental	$ 150.00	$ 500.00
Grand River Park Boat Slip Rental - Resident	$ 200.00	$ 220.00
Grand River Park Boat Slip Rental - Nonresident	$ 400.00	$ 420.00
Turner Dodge - Teas	$ 15.00	$ 19.00
Turner Dodge / First Floor Rental - Resident (per hour)	$ 110.00	$ 120.00
Turner Dodge / First Floor Rental - Non-Resident (per hour)	$ 125.00	$ 135.00
Turner Dodge / Entire House Rental - Resident (per hour)	$ 145.00	$ 155.00
Turner Dodge / Entire House Rental - Non-Resident	$ 160.00	$ 170.00
Special Recreation - Road Rally	$ 75.00	$ 100.00
Community Center - Kids cooking class	$ 20.00	$ 30.00

SEPA Late Fee - Adado Riverfront Park <30 days from event		new fee	$	150.00
SEPA Late Fee - Rivertrail Rental <30 days from event		new fee	$	125.00
Adult Men's Baseball League - Age 30+	$	907.00	$	1,007.00
Adult Men's Baseball League - Age 40+	$	907.00	$	1,007.00
Adult Men's Baseball City League	$	1,249.00	$	1,350.00
Girl's Wildcat Softball, before May 10 - Resident	$	30.00	$	40.00
Girl's Wildcat Softball, before May 10 - Nonresident	$	35.00	$	45.00
Girl's Wildcat Softball, after May 10 - Resident	$	40.00	$	50.00
Girl's Wildcat Softball, after May 10 - Nonresident	$	45.00	$	55.00
Baseball Field Rentals - Youth Tournaments (per game)	$	30.00	$	100.00
Baseball Field Rentals - Adult Tournaments (per game)	$	35.00	$	120.00
Public Service Department Refuse and Recycling Funds:				
Refuse Bags:				
Individual Bags	$	2.00	$	2.25
5 bags	$	10.00	$	11.25
Carts:				
21 gallon cart	$	40.00	$	42.00
32 gallon cart	$	43.00	$	44.00
65 gallon cart	$	48.00	$	49.00
95 gallon cart	$	54.00	$	55.00
Blue cart late fee	$	5.00	$	10.00
Recycling Fee	$	98.50	$	105.00
Recycling Commercial Fee (per quarter)	$	47.00	$	52.00
Recycling Fee - Special Events, Cart Rental	$	10.00	$	15.00
Recycling Fee - Special Events, Noncompliance (contamination)		new fee	$	10.00

BE IT FURTHER RESOLVED that the following appropriations and revenue projections are adopted as the City's budget for the FY 2018/2019 fiscal year:

	FY 2019 Proposed	Council Changes	FY 2019 Adopted
Estimated Revenues			
Property Taxes	$ 40,315,000		$ 40,315,000
Income Taxes	38,500,000		38,500,000
State Shared Revenues	19,196,700		19,196,700
Licenses and Permits	1,677,000		1,677,000
Charges for Services	9,017,200	10,000	9,027,200
Fines and Forfeitures	2,456,100		2,456,100
Interest and Rents	205,000		205,000
Return on Equity	22,500,000		22,500,000
Other Revenue	333,000		333,000
Transfers	100,000		100,000
Use of/(Contribution to) Fund Balance	-		-
Total Revenue	$ 134,300,000	$ 10,000	$ 134,310,000

Appropriations

City Council						
Personnel	$	494,573			$	494,573
Operating		219,427				219,427
Total	$	714,000	$	-	$	714,000
Internal Audit						
Personnel	$	182,261			$	182,261
Operating		12,639				12,639
Total	$	194,900	$	-	$	194,900
Courts						
Personnel	$	5,186,717			$	5,186,717
Operating		1,418,783				1,418,783
Total	$	6,605,500	$	-	$	6,605,500
Mayor's Office						
Personnel	$	1,076,326			$	1,076,326
Operating		220,474				220,474
Total	$	1,296,800	$	-	$	1,296,800
Office of Community Media						
Personnel	$	431,375			$	431,375
Operating		38,525				38,525
Total	$	469,900	$	-	$	469,900
City Clerk' Office						
Personnel	$	955,857			$	955,857
Operating		241,143				241,143
Total	$	1,197,000	$	-	$	1,197,000
Neighborhood and Citizen Engagement						
Personnel	$	540,790			$	540,790
Operating		322,710				322,710
Total	$	863,500	$	-	$	863,500
Economic Development and Planning						
Personnel	$	2,576,020	$	70,000	$	2,646,020
Operating		2,415,280		(40,000)		2,375,280
Total	$	4,991,300	$	30,000	$	5,021,300
Finance						
Personnel	$	4,208,563			$	4,208,563
Operating		1,263,037				1,263,037
Total	$	5,471,600	$	-	$	5,471,600
Human Resources						
Personnel	$	1,239,243			$	1,239,243
Operating		878,757				878,757
Total	$	2,118,000	$	-	$	2,118,000
City Attorney						
Personnel	$	1,905,589			$	1,905,589
Operating		262,711				262,711
Total	$	2,168,300	$	-	$	2,168,300
Police						
Personnel	$	36,508,691			$	36,508,691
Operating		6,684,609				6,684,609
Total	$	43,193,300	$	-	$	43,193,300

Fire						
Personnel	$	29,283,556	$	(20,000)	$	29,263,556
Operating		4,866,344				4,866,344
Total	$	34,149,900	$	(20,000)	$	34,129,900
Public Service						
Personnel	$	2,857,678			$	2,857,678
Operating		8,714,822				8,714,822
Total	$	11,572,500	$	-	$	11,572,500
Human Relations & Community Service						
Personnel	$	1,427,118			$	1,427,118
Operating		171,182				171,182
Total	$	1,598,300	$	-	$	1,598,300
Parks & Recreation						
Personnel	$	4,947,423			$	4,947,423
Operating		3,353,577				3,353,577
Total	$	8,301,000	$	-	$	8,301,000
Human Services						
Operating	$	1,660,000			$	1,660,000
Total	$	1,660,000	$	-	$	1,660,000
City-Supported Agencies						
Operating	$	381,400			$	381,400
Total	$	381,400	$	-	$	381,400
Non-Departmental						
Vacancy Factor	$	(500,000)			$	(500,000)
Library Lease		150,000				150,000
Debt Service		1,154,000				1,154,000
Transfers		6,548,800				6,548,800
Total	$	7,352,800	$	-	$	7,352,800
Total Appropriations	$	134,300,000	$	10,000	$	134,310,000

II. SPECIAL REVENUE FUNDS

MAJOR STREETS FUND

Estimated Revenues			
Gas & Weight Tax Receipts	$ 9,588,800		$ 9,588,800
Utility Permit Fees (Metro Act)	450,000		450,000
Reimbursements	959,000		959,000
Miscellaneous Revenue	45,000		45,000
Transfer from Other Funds	100,000		100,000
Use of/(Contribution to) Fund Balance	1,811,200		1,811,200
Total Revenue	$ 12,954,000	$ -	$ 12,954,000
Appropriations			
Personnel	$ 3,003,107		$ 3,003,107
Operating	3,824,693		3,824,693
Capital	2,700,000		2,700,000
Debt Service	526,200		526,200
Transfers	2,900,000		2,900,000
Total Appropriations	$ 12,954,000	$ -	$ 12,954,000

LOCAL STREETS FUND

Estimated Revenues			
Gas & Weight Tax Receipts	$ 3,196,200		$ 3,196,200
Reimbursements	200,000		200,000
Miscellaneous Revenue	120,000		120,000
Transfer from Other Funds	5,270,000		5,270,000
Use of/(Contribution to) Fund Balance	(125,200)		(125,200)
Total Revenue	$ 8,661,000	$ -	$ 8,661,000
Appropriations			
Personnel	$ 3,042,012		$ 3,042,012
Operating	2,371,588		2,371,588
Capital	2,520,000		2,520,000
Debt Service	727,400		727,400
Total Appropriations	$ 8,661,000	$ -	$ 8,661,000

STADIUM FUND

Estimated Revenues			
Operating Revenues	$ 400,000		$ 400,000
Stadium Naming Rights	120,000		120,000
Reimbursements	125,000		125,000
Transfers In	512,000		512,000
Use of/(Contribution to) Fund Balance	-		-
Total Revenue	$ 1,157,000	$ -	$ 1,157,000
Appropriations			
Debt Service	$ 1,157,000		$ 1,157,000
Total Appropriations	$ 1,157,000	$ -	$ 1,157,000

BUILDING DEPARTMENT FUND

Estimated Revenues			
Licenses & Permits	$ 2,592,200		$ 2,592,200
Charges for Services	2,500		2,500
Miscellaneous	300		300
Use of/(Contribution to) Fund Balance	(25,000)		(25,000)
Total Revenue	$ 2,570,000	$ -	$ 2,570,000
Appropriations			
Personnel	$ 2,029,226		$ 2,029,226
Operating	540,774		540,774
Total Appropriations	$ 2,570,000	$ -	$ 2,570,000

CDBG FUND

Estimated Revenues			
Federal Grants	$ 2,850,968		$ 2,850,968
General Fund Transfer	152,530		152,530
Total Revenue	$ 3,003,498	$ -	$ 3,003,498
Appropriations			
Personnel	$ 1,058,885		$ 1,058,885
Operating	1,944,613		1,944,613
Total Appropriations	$ 3,003,498	$ -	$ 3,003,498

HOME GRANT FUND

Estimated Revenues			
Federal Grants	$ 1,689,435		$ 1,689,435
General Fund Transfer	26,720		26,720
Total Revenue	$ 1,716,155	$ -	$ 1,716,155
Appropriations			
Personnel	$ 201,697		$ 201,697
Operating	1,514,458		1,514,458
Total Appropriations	$ 1,716,155	$ -	$ 1,716,155

EMERGENCY SHELTER GRANT FUND

Estimated Revenues			
Federal Grants	$ 167,605		$ 167,605
General Fund Transfer	-		-
Total Revenue	$ 167,605	$ -	$ 167,605
Appropriations			
Operating	$ 167,605		$ 167,605
Total Appropriations	$ 167,605	$ -	$ 167,605

FEDERAL DRUG LAW ENFORCEMENT SPECIAL REVENUE FUND

Estimated Revenues			
Drug Forfeitures	$ -		$ -
Use of/(Contribution to) Fund Balance	108,000		108,000
Total Revenue	$ 108,000	$ -	$ 108,000
Appropriations			
Personnel	$ -	$ -	$ -
Operating	108,000	-	108,000
Total Appropriations	$ 108,000	$ -	$ 108,000

STATE/LOCAL DRUG LAW ENFORCEMENT SPECIAL REVENUE FUND

Estimated Revenues			
Drug Forfeitures	$ -		$ -
Use of/(Contribution to) Fund Balance	523,600		523,600
Total Revenue	$ 523,600	$ -	$ 523,600
Appropriations			
Operating	$ 523,600	$ -	$ 523,600
Transfers	-		-
Total Appropriations	$ 523,600	$ -	$ 523,600

DRUG LAW ENFORCEMENT FUND - TRI-COUNTY METRO

Estimated Revenues			
Drug Forfeiture Revenues	$ 428,220		$ 428,220
Contributions from Local Units	428,220		428,220
Total Revenue	$ 856,440	$ -	$ 856,440
Appropriations			
Personnel	$ 86,920	$ -	$ 86,920
Operating	769,520	-	769,520
Transfers	-	-	-
Total Appropriations	$ 856,440	$ -	$ 856,440

DOWNTOWN LANSING, INC.

Estimated Revenues			
Special Assessments	$ 420,400		$ 420,400
Grants	10,000		10,000
Miscellaneous	290,275		290,275
Transfer from General Fund	156,300		156,300
Use of/(Contribution to) Fund Balance	14,525		14,525
Total Revenue	$ 891,500	$ -	$ 891,500
Appropriations			
Personnel	$ 164,875		$ 164,875
Operating	726,625		726,625
Total Appropriations	$ 891,500	$ -	$ 891,500

III. ENTERPRISE FUNDS

CEMETERIES FUND

Estimated Revenues			
Cemetery Service Revenue	$ 190,150		$ 190,150
Sale of Lots	70,000		70,000
Other	3,000		3,000
Transfer from Perpetual Care	5,000		5,000
Transfer from Parks Millage	486,850		486,850
Use of/(Contribution to) Fund Balance	-		-
Total Revenue	$ 755,000	$ -	$ 755,000
Appropriations			
Personnel	$ 414,989		$ 414,989
Operating	313,011		313,011
Transfers	27,000		27,000
Total Appropriations	$ 755,000	$ -	$ 755,000

GOLF FUND

Estimated Revenues			
Transfers In - Parks Millage	$ 179,400		$ 179,400
Total Revenue	$ 179,400	$ -	$ 179,400
Appropriations			
Operating	$ 179,400		$ 179,400
Total Appropriations	$ 179,400	$ -	$ 179,400

PARKING FUND

Estimated Revenues			
Parking Revenue	$ 5,985,600		$ 5,985,600
Baseball Revenue	55,000		55,000
Parking Fines	500,000		500,000
Other Revenue	1,251,269		1,251,269
Use of/(Contribution to) Fund Equity	4,396,131		4,396,131
Total Revenue	$ 12,188,000	$ -	$ 12,188,000
Appropriations			
Personnel	$ 2,406,137		$ 2,406,137
Operating	2,500,053		2,500,053
Capital	3,976,810		3,976,810
Debt Service	3,305,000		3,305,000
Total Appropriations	$ 12,188,000	$ -	$ 12,188,000

WASTEWATER FUND

Estimated Revenues			
Sewer Charges	$ 35,733,000		$ 35,733,000
Interest Income	148,960		148,960
Low Income Credit	(2,000)		(2,000)
Miscellaneous Income	-		-
Use of/(Contribution to) Fund Equity	4,890,040		4,890,040
Total Revenue	$ 40,770,000	$ -	$ 40,770,000
Appropriations			
Personnel	$ 8,329,628		$ 8,329,628
Operating	8,467,596		8,467,596
Capital	9,228,000		9,228,000
Debt Service	14,744,776		14,744,776
Total Appropriations	$ 40,770,000	$ -	$ 40,770,000

REFUSE FUND

Estimated Revenues			
Operating Income	$ 2,133,004		$ 2,133,004
Interest Income	7,000		7,000
Use of/(Contribution to) Fund Equity	(215,004)		(215,004)
Total Revenue	$ 1,925,000	$ -	$ 1,925,000
Appropriations			
Personnel	$ 945,893		$ 945,893
Operating	929,107		929,107
Capital	50,000		50,000
Total Appropriations	$ 1,925,000	$ -	$ 1,925,000

RECYCLING FUND

Estimated Revenues			
Operating Income	$ 4,130,540		$ 4,130,540
Sale of Recycled Materials	-		-
Interest Income	-		-
Use of/(Contribution to) Fund Equity	169,460		169,460
Total Revenue	$ 4,300,000	$ -	$ 4,300,000
Appropriations			
Personnel	$ 2,196,847		$ 2,196,847
Operating	1,598,340		1,598,340
Debt Service	454,813		454,813
Capital	50,000		50,000
Total Appropriations	$ 4,300,000	$ -	$ 4,300,000

IV. CAPITAL PROJECT FUNDS

CAPITAL IMPROVEMENT (CIP) FUND

Estimated Revenues			
Transfer from the General Fund	$ 1,395,000		$ 1,395,000
Loan Revenue	180,000		180,000
PEG (Cable Capital) Revenues	400,000		400,000
Total Revenue	$ 1,975,000	$ -	$ 1,975,000

Appropriations						
Capital	$	995,000			$	995,000
PEG Capital		300,000				300,000
Debt Service		180,000				180,000
Transfer to General Fund		100,000				100,000
Transfers to Street Funds		400,000				400,000
Total Appropriations	$	1,975,000	$	-	$	1,975,000

PARKS MILLAGE FUND

Estimated Revenues						
Transfer from the General Fund	$	2,036,250			$	2,036,250
Total Revenue	$	2,036,250	$	-	$	2,036,250
Appropriations						
Transfers to Golf/Cemetery Funds	$	666,250			$	666,250
Capital		1,370,000				1,370,000
Total Appropriations	$	2,036,250	$	-	$	2,036,250

BE IT FINALLY RESOLVED, that the following policies are hereby established for the 2018/2019 fiscal year:

FY 2019 Budget Policies

In accordance with the State Uniform Budget and Accounting Act (Public Act 2 of 1968), the City of Lansing's annual appropriations, as set forth in the annual budget resolution, shall be made in accordance with Generally Accepted Accounting Principles (GAAP) and shall apply to all funds except internal service funds, debt service funds, permanent funds, and trust and agency funds.

The City's fiscal year is July 1 through June 30. In accordance with the City Charter, on or before the fourth Monday in March, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. No later than the third Monday in May, the Council adopts the budget and sets the property tax rates for the ensuing fiscal year.

Appropriations are set forth in the annual budget resolution. Authority to transfer between appropriations is dictated by City Charter; however, additional administrative budget transfer authority is granted for the following instances. The Administration is requested to submit to Council quarterly reports of such transfers.

Wastewater Funds – the transfer residual State Revolving Fund (SRF) loan and/or bond proceeds between projects and project segments.

Flood Control – the transfer of funds for flood control and/or storm sewer purposes to address flooding or unanticipated storm sewer maintenance needs.

Major and Local Street (Act 51) Funding – Transfer authority is not limited by departmental allocation, and administrative authority is included for appropriation of MDOT special authorization funding.

Parking System – the transfer of capital project accounts from operating accounts is permitted to meet bid or unforeseen capital needs.

Debt Service Funds – the transfer of residual balances between general obligation bond debt service accounts.

Vacancy Factor/funded and unfilled Positions - The budget includes an attrition vacancy allowance of $500,000. The Administration is requested to provide Council on July 1, 2018 and on a quarterly basis, thereafter, a list of vacant positions by department. The Administration is also requested to provide, on a quarterly basis, a detailed list by Department of all positions by title, FTE, wages and fringes, and impact on programs and/or services which are included within this allowance. The personnel wages and fringes associated with all positions identified above as of July 1, 2018 and any such position vacated, thereafter, shall be placed in a budget control account, and will require City Council approval for expenditure.

In addition, administrative authority is granted for the transfer of wage and fringe benefit reserves to departmental budgets upon settlement of a collective bargaining agreement.

Carryforwards

Authority is granted to reappropriate available capital project balances as of June 30, 2018 into the FY 2019 budget. All non-capital balances require City Council approval to carryforward, except for encumbered (purchase order) obligations less than $5,000 and not more than 8 months old.

- Human Services and Community Supported Agencies Funding

  The plan for funding Agencies submitted to Council designate particular Agencies. If any agency does not apply for or use their funding, all funds will remain in their respective account(s) for additional appropriation and approval by Council for Human Services and Community Supported Agencies use pursuant to the Charter transfer authority. The Administration/Human Relations Community Services Department is requested to submit to Council a quarterly report on the status of the Human Services and Community Supported Agencies' funding. This report should include the accounting level detail appropriation; amount spent, balance, and a notation as to whether the balance of funds is expected to be spent by the end of the Fiscal Year; if not, why.

General Fund Reserve Policy

The City's General Fund reserves consist of the General Fund fund balance and the Budget Stabilization Fund. Use of and contributions to the Budget Stabilization Fund are dictated by Ordinance section 218.05.

The targeted unrestricted balance for the combination of the General Fund fund balance and the Budget Stabilization Fund is a minimum of 12% of General Fund expenditures and a maximum of 15% of General Fund expenditures. If events necessitate that the combined balances drop below 12% of General Fund expenditures, annual appropriations of a minimum of $500,000 will be made until the 12% target is reached. In the event that combined reserves are projected to exceed 15% of General Fund revenues, the excess amount will be used to supplement pension and/or retiree healthcare prefunding.

Debt Management

Appropriations are made to adequately fund annual debt service obligations. Adherence will be made to required debt service reserves, where applicable, as well as to the provision of annual disclosures as required by outstanding bond obligations.

Investment Policy

Management of cash investments is governed by the City's investment policy and in accordance to State statute, with the objective being the maximization of return on the City's governmental funds through pooling of funds where appropriate and permitted, monitoring of interest rates and fee structures. Investments of the Employee Retirement System, the Police and Fire Retirement System, and the VEBA, are governed those respective boards and dictated by their respective investment policies.

Strategic Planning and Budget Development

In working toward the goal of the incorporation of strategic planning into the budget process, this next year, Administration is encouraged to work towards developing a multi-year budgeting process. This process should align the City's master plan, strategic goals, and performance metrics to short-term and long-term budget priority-setting by Council in accordance with Financial Health Team recommendations.

Civil Actions, Claims, and Damages

Whenever a claim is made or any civil action is commenced against the Mayor, a City Council member, a non-bargaining unit employee, or a Lansing retirement board trustee (collectively in this provision "the Employee") for damages caused by an act or acts of the Employee within the scope of his or her authority and while in the course of his or her employment with the City or his or her duties on behalf of the retirement board, the City will pay for, engage, or furnish the services of an attorney to advise the Employee as to the claim and to appear for and represent the Employees in the action. If the City Attorney does not provide the attorney services, the attorney selection shall be made by the City Attorney in the manner the City Charter requires. The City may compromise, settle, and pay a claim before or after the commencement of any civil action. Whenever any judgment for damages caused by the act or acts of the Employee covered under this provision is awarded against the Employee as the result of a civil action, the City will indemnify the Employee or will pay, settle, or compromise the judgment. The City's obligations under this provision, however, is contingent upon the Employee giving prompt notice of the commencement of the action and upon the Employee cooperating in the preparation, defense, and settlement of the action. The term "scope of authority" under this provision does not include any act or acts of Employee (i) fraud, (ii) dishonesty, (iii) willful, intentional, or deliberate violation of the law or breach of fiduciary duty, (iv) criminal act, or (v) traffic violation; nor does this provision abrogate or diminish governmental immunity.

Grants

In order to receive timely Council consideration of the approval of any grant award, every application for any grant requiring legislative approval shall be submitted to Council, and, upon notification of the award of such a grant, the acceptance shall be submitted to Council. Once accepted administrative authority is granted to create necessary accounts and transfers in accordance with the requirements

of the grantor. Any grant that can be applied for administratively should be submitted for Council review within 10 days of the application.

Transparency and Accountability in Government
Council will review, and when necessary, pass policies, procedures and ordinances to achieve improved transparency and accountability with respect to economic incentives, outsourcing of service and contracting within City government.

Corridor Façade Grants
The Council will generate a resolution of guidelines with LEAP describing the area and requirements for the implementation of the Corridor Façade Grants by August 1, 2018.

Chris Swope

Chris Swope, CMMC/MMC
Lansing City Clerk

I hereby certify that the foregoing is true and is a complete copy of the action adopted by the Lansing City Council.

Lansing ERS OPEB Attachment 6a Index

6a(1) List of ERS OPEB plan provisions changes

6a(2) History of Funding and Budgetary Actions Taken

6a(3) Lansing Financial Health Team Report/Recommendations, March, 2013

6a(4) Lansing OPEB study conducted by the City in conjunction with the Lansing Financial Health Team, September, 2017

Lansing ERS OPEB System – Recent Plan Provision Changes

- Elimination of defined benefit retiree healthcare for new hires for clerical and professional positions (Teamsters 243, Teamsters 214, and non-bargained, effective 5/19/14, 1/1/15, and 7/1/16, respectively).

- Reduction of eligibility and funding period for laborer (UAW) positions from full family coverage for life to retiree-only coverage up to Medicare eligibility for employees retiring after 10/21/13.

- Retiree healthcare plans to follow active healthcare plans for laborer (UAW) employees retiring after 10/1/14 (already in place for clerical and professional positions). Healthcare plans were changed from no-deductible plans to $500/$1000 deductible plans for all ERS OPEB groups in 2014.

- Change to $500/$1000 deductible plans from no-deductible plans for future ERS retirees and current retirees that follow active plans (noted above).

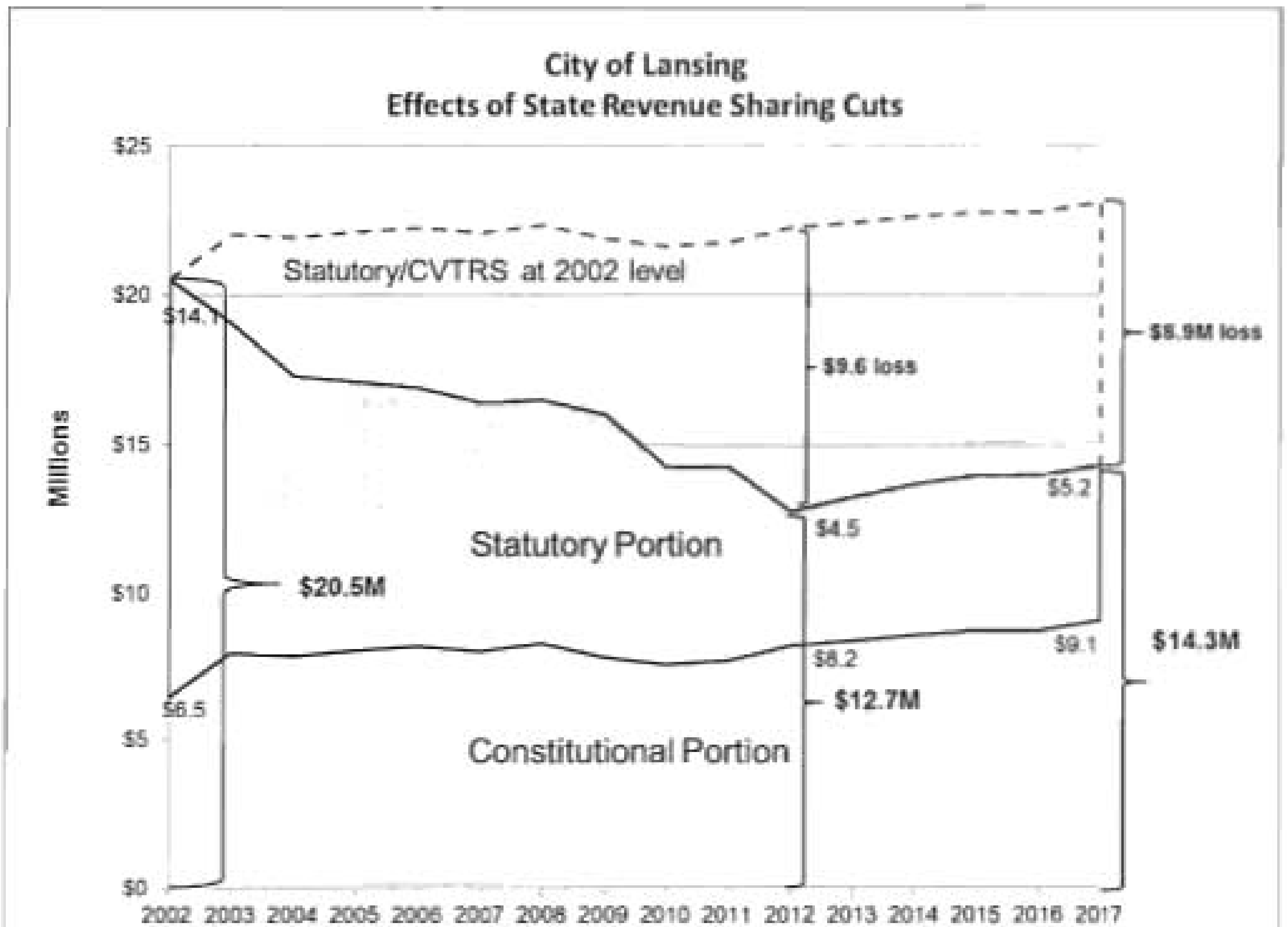
- Decrease in plan's assumed rate of return from 8.0% to 7.25% between 2012 and 2017.

- Updated mortality tables

Lansing History of Funding and Budgetary Actions Taken

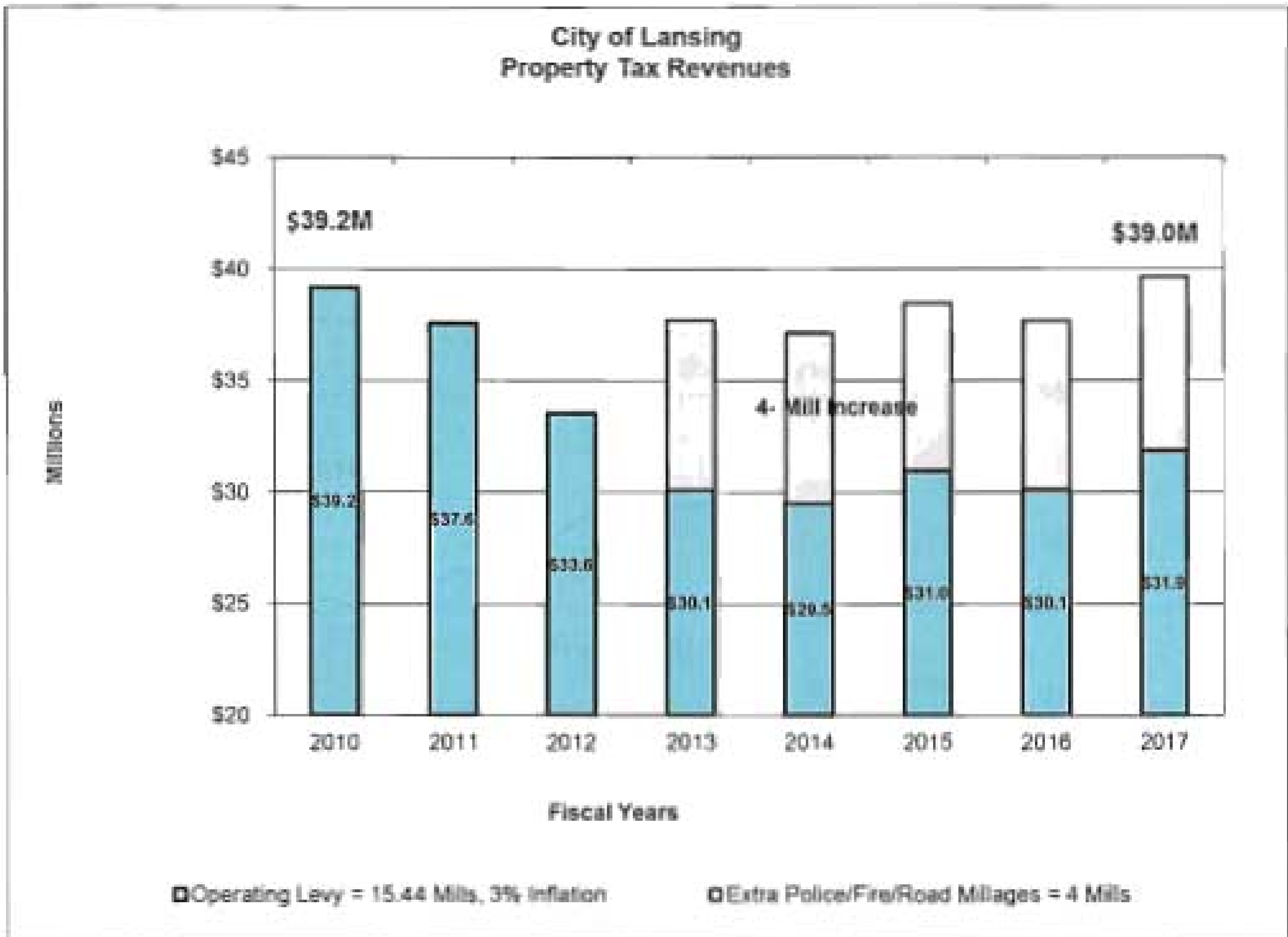
The City of Lansing, like other Michigan municipalities, is challenged in its revenue structure. The structure for Michigan's municipal funding is based on centralization of taxation and revenue diversification at the state level, with municipalities having limitations on ability to raise revenues. A prime example is sales taxes; in many other states, municipalities can levy sales taxes; in the state of Michigan only the state is allowed to levy sales tax. This structure was predicated on revenue sharing by the state with its municipalities.

Preceding and through the Great Recession, as the State of Michigan ran into its own budgetary challenges, the statutory portion of revenue sharing to municipalities by the state was reduced by approximately $8.1 billion. For the City of Lansing, these cuts have amounted more than $6 million in real dollars *annually* for the City, and almost $9 million annually when adjusted for inflation, or over $104 million from 2002-2017.

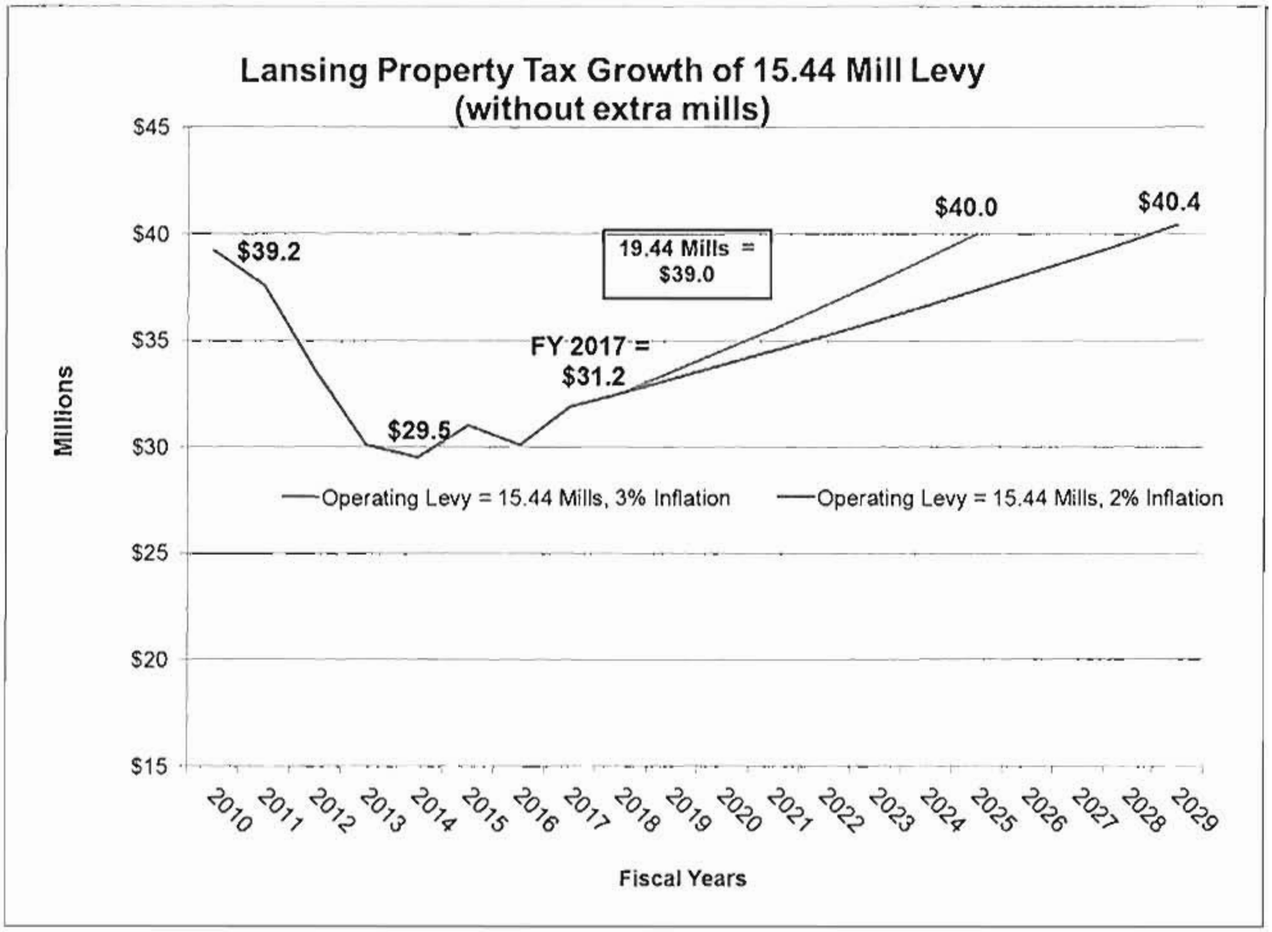


At the same time, due to limitations by the state Headlee Amendment and Proposal A, the City's (and other municipalities') largest General Fund revenue source, the property tax, is limited in growth by the lesser of the rate of inflation or five percent.

During the Great Recession, as property values declined, Lansing's property taxes decreased by 25%, or $9.7 million, over a four-year period, resulting in a four mill voted property tax increase for police, fire, and roads. While that four mill property tax levy substantially offset that loss, it brought the City's operating levy up to 19.44 mills, which within .56 mills of the 20-mill maximum allowed for home-rule cities in the State of Michigan. As a result, the City is unable to increase its operating property tax levy much further.



As demonstrated in the following chart, because of the above-stated state limitations on property tax revenue growth from the state Headlee Amendment and Proposal A, the City anticipates property taxes to increase only 2%-3% over the next several years and that pre-recession property tax revenue levels, net of the extra four mills, will not be reached until 2025 to 2028.



These funding cuts and revenue constraints have generally affected the state's urban core communities more than others. Urban core cities, like Lansing, tend to be older communities, having aged infrastructure; tend to be built-out with limited undeveloped land; tend have higher poverty rates; and tend to have higher legacy (pension and retiree healthcare) costs. These factors are true for the City of Lansing, which was incorporated in 1859 and has twice the number of retirees as current employees.

In response to these challenges, leading up to and during the Great Recession, the City enacted many different changes in City programs, staffing, and organization, including:

- Reducing the City's workforce by 30% since FY 2006, from 1,220 to 867

- Reducing City pension and retiree healthcare cost growth by negotiating increases in employee health insurance premium sharing, healthcare plan changes, and pension contributions
- Reducing City health insurance costs with a wrap program for Medicare-eligible retirees
- Closing 3 fire stations and eliminating associated costs
- Closing Waverly and Red Cedar Golf courses
- Closing Miller Road Senior Community Center
- Closing Washington Ice Dome and Scott House
- Consolidating functions within the City (grounds maintenance, engineering, fleet maintenance, parking enforcement, fire/building inspections)
- Consolidating functions with other governments (911, dive team)
- Entering into cooperative agreements with other governments (police and fire training, purchasing, economic development)
- Expanding mutual aid agreements and shared services studies with adjoining municipalities
- Transferring management of Sycamore Driving Range and Fenner Nature Center to non-profits
- Eliminating leased space by consolidating police Patrol and Investigations Divisions
- Increasing fees
- Implementing new technology to improve efficiency (including cash receipting, code compliance, financial system upgrades, payroll system, computerized traffic ticket system, E-filing for income taxes)
- Implementing energy efficiency measures in City buildings
- Instituting a voter-approved 4.0 mill property tax increase to mitigate further reductions to police, fire and road services

During this time, the City also worked with its unions to reduce the growth of pension and retiree healthcare costs. A recent actuarial study estimates that these efforts have reduced projected costs to by over **$200** million over the next forty years. However, the challenge remains in the projected growth of these costs, in combination with its aging infrastructure, reductions in revenue and revenue constraints in the next fifteen-to-twenty years.

As previously noted, these challenges are not unique to the City of Lansing. Additional information on the effects of state revenue reductions and constraints is available in the Michigan Municipal League's SaveMIcity website.

Staff Paper

Report of the Lansing Financial Health Team

by
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Staff Paper 2013-1 March 18, 2013

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[1] The authors would like to thank Ms. Nicolette Bateson and Ms. Angela Bennett for their time and assistance with this research project.

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I. INTRODUCTION

City of Lansing Financial Health Team

MISSION

In an era of economic turmoil that has left some of Michigan's largest cities on the brink of bankruptcy, the city of Lansing remains in a relatively strong financial position that will allow it to perform the essential functions of city government both in the short and long term. However, to keep the city on sound financial footing into the future and to preserve and enhance the community's quality of life, Mayor Virg Bernero's Financial Health Team will conduct a comprehensive review of the city's financial health and make recommendations for strengthening the city's financial position now and in the future.

FINANCIAL HEALTH TEAM MEMBERS

David Hollister, Chair	Prima Civitas Foundation
Mark Alley	Emergent Biosolutions
Jerry Ambrose	City of Flint
John Brown	Jackson National Life
James Butler	MSHDA
Paula Cunningham	Capitol National Bank
Scott Dedic	United Auto Workers Region 1-C
Robert Emerson	McAlvey, Merchant and Associates
Jim Herbert	Neogen Corporation
Chris Holman	Greater Lansing Business Monthly
Dr. Rev. Melvin T. Jones	Union Missionary Baptist Church
Sergio Keck	Lansing School District
Steven C. Liedel	Dykema Law Firm
Joe Ruth	Sparrow Health System
Heather Shawa-DeCook	Demmer Corporation
Ron Simon	Auto-Owners Insurance
Robert Swanson	Michigan Civil Service Commission
Lisa Webb-Sharpe	Lansing Community College

STAFF

Angela Bennett	Interim Finance Director, City of Lansing
Renee Freeman	Office of the Mayor, City of Lansing
Randy Hannan	Chief of Staff, City of Lansing
Dr. Eric Scorsone	Michigan State University

This staff paper reflects the deliberations of the Lansing Financial Health Team. This Team was appointed by Mayor Virg Bernero of the city of Lansing in the fall of 2012. The city of Lansing has experienced several years of ongoing budgetary challenges, having made reductions of over $60 million in its General Fund budget since 2006. Due to continued property value declines, the FY 2013-2014 budget process was shaping up to be another year of budgetary challenges. In this environment of ongoing fiscal stress experienced by the City and other municipalities, the mayor felt it was critical for a group of outside experts to provide him with a roadmap for changes and reforms to city operations, services and financial structure.

The Team's purpose then was to assess the city of Lansing's financial conditions and propose reforms and changes that will ensure the short and long term solvency of the city government. In order to accomplish this purpose, the Team set up three subcommittees including short term solutions, long term solutions and regional solutions. Each group met and deliberated in order to bring forth proposed reforms. This staff paper reflects those deliberations and recommendations. The Team presents this plan as a route for city government to achieve short and long term solvency as well as strengthen the regional economy.

City governments in Michigan have all been facing significant challenges throughout the last decade. These challenges include falling property values and associated tax revenues and falling state aid plus the rising cost of employee compensation, particularly health care costs. This combination of falling or stagnant revenues and higher costs has meant structural deficits for many communities including the city of Lansing. Tough choices have been made including pay cuts and layoffs, deferred capital projects and fewer city services. Now, even these solutions may not be enough and this report focuses its attention on even more broad-based and innovative solutions to the problem of municipal structural deficits in Michigan.

All of these challenges exist within the context of a broken model of municipal finance. For many decades, the state of Michigan has imposed a system of municipal finance that relied heavily on property taxes and state revenue sharing of the state sales tax. Because of state revenue sharing, Michigan municipalities are limited in the types of revenues they receive, the theory being that revenue sharing obviates the need for revenue sources like local sales tax. This model worked relatively well during the heyday of the auto industry. However, a number of factors converged to begin to erode this.

The major factors behind the erosion were the restraints put in place around the property tax system, including the Headlee Amendment to the Michigan Constitution and then later so-called Proposal A. Both of these put major restrictions on the growth of the property tax base and property tax revenues. A second and more recent factor has been the absolute decline in state revenue sharing. As the economy ground to a halt in the first decade of the 21st century, state revenue sharing was cut to address state budget deficits. These revenue forces were playing out in concert with declining population and high fixed costs for legacy infrastructure in major central cities. This combination has led to a broken system of municipal finance, which needs to be addressed by state policy makers. New tools are needed for municipalities to function in the 21st century.

A New Model For Government

Given the financial challenges facing the city of Lansing, a new model is needed to describe how city government will function in the 21st century, given the existing and likely future resource constraints. This new model envisions a city workforce wrapped in the best technology that enables services to be delivered at a high level of efficiency and effectiveness. This new model is based on the likelihood that city governments will likely have a smaller workforce and continue to face financial pressures.

The existing city government model presupposes a specialized and labor-intensive service delivery system. Each service delivery area requires trained specialists in their field, such as building inspectors, code compliance officers, police officers, firefighters, finance officials and accountants, and many other positions. In the past, city governments could not offer the wages that were competitive with the private sector, including items such as profit sharing, bonuses and other private sector perks. Instead, the public sector offered employees good benefits at low cost. This tradeoff made sense for much of the 20th century and helped cities maintain a high quality and productive workforce. This combination of a specialized workforce with adequate compensation was a good model for the 20th century, but is now under threat in the 21st century.

Today, this tradeoff is no longer viable. Economic stress and legislative limitations means city governments have a much harder time raising revenues or sustaining revenue growth over any period of time. Even if the local economy improves, revenues will not likely grow at the same pace as costs in any case. A new model imagines that a smaller but more technology and capital intensive service delivery system replaces the current labor intensive system over some period of time.

One example of this innovative strategy is the city of San Francisco and Code for America. Code for America is a non-profit organization that puts young information technology experts in city government to set up new and innovative solutions to existing problems. In San Francisco, the cooperation of these two entities is leading to new citizen engagement apps for smart phones, putting city data in open access systems for citizens to use and learn from, develop standardized data protocols to improve services and implement a Gov 2.0 system in general throughout the city.

What are the benefits of this transition? The major benefit would be a city workforce that can still accomplish the goals of city government, such as maintaining viable neighborhoods and strengthening public safety, while operating with fewer people and lower costs. This does not mean that people will be compensated less. In fact, the city workforce of the future may see more generous wages and salaries. The boundaries between specializations will be broken down as the tools of information technology, networks and social media combine to create new service delivery models. A city employee may in the medium term future not be a police officer, firefighter or code compliance officer but some combination of these positions. The benefits of specialization are that each person is able to become very good at their job. The downside is that the workflow behind these positions ebbs and flows over the day, week, month and year. The

question now is how both new management strategies combined with information technology can provide the benefits of specialization with a flexible and networked workforce.

Such a strategy will directly involve capturing the insights and wisdom of the citizens and businesses that populate a city. While traditional strategies such as neighborhood watch, electoral volunteers and adopt-a-park programs have been used by cities in the past, new technology and social media enable these strategies to be put into hyper drive. Citizens are the eyes and ears of the city where employees are not able to be and are also the primary drivers of what services are needed where and when in a city. Some of these models cannot be anticipated today, but a city government can begin to invest in capital, technology and workforce training that will enable the city to move nimbly in adopting new strategies as they emerge and perhaps even pioneer some of its own strategies.

In 2007, the city of Lansing implemented the CitiStat performance management model. It is now time to revamp and reemphasize that approach to government and in fact expand its scope. This approach promises to provide both lagged and real-time data to government managers as they seek out efficiencies in their operations. Networked citizens are those who can access the government and government services through a variety of channels whether it be the web, smart phones, a library kiosk or Facebook. This reduces the cost of accessing government services to the users.

Technology greatly expands the ability of employees to use the appropriate tools to deliver the right services to clients at the right time. These employees have the ability to move quickly across service areas and address needs as they arise or are identified. This type of transition may take many years for any city government to achieve. However, in the short term, the city may be able to pilot this type of transitional process in specified service areas. This general model of city government informs many of the recommendations proposed in this report.

History

The city of Lansing, Michigan is located in central Michigan primarily in Ingham County with a small portion located in Eaton County. Lansing is the state capital and has a population of 114,297 (as of 2010). The city's larger metropolitan region contains 464,036 people (also as of 2010) and houses industry in healthcare, manufacturing, insurance, banking and education.

The first settlement was established in 1837, near the confluence of the Grand and Red Cedar River. In 1847, the State Legislature voted to move the state capital from Detroit, and the decision for Lansing was approved in December 1847. The name was changed from the original, "Town of Michigan", to Lansing in 1859. It was incorporated by legislative act on February 15, 1859 and named for a New York State town from which most of the early settlers had migrated. The city grew slowly around the state capitol and mills on the Grand River. As the railroads were built, the industry developed and the city began to grow. The city later became an automobile industry powerhouse, beginning with the founding of Olds Motor Vehicle Company in 1897.

When the American auto industry began to decline in 1980s due to the appearance of foreign car production and sales in the United States, the population of Lansing also began to decline.[i ii] The city's population peaked in the 1970's at about 131,403 and is now down to 114,297 as of 2010.

The present charter of the city of Lansing, adopted in 1978, provides for a strong mayor form of government in which the mayor holds most of the city's administrative powers, subject to legislative authority.[iii] The mayor is elected at-large every four years. The city clerk is also elected every four years. The city council consists of eight members, and includes four members elected from the city's four wards, as well as four "at-large" members elected citywide. Lansing is the only state capital that is not also a county seat.[iv]

The major industries in the Lansing's metropolitan region are now government, education, insurance, healthcare, and automobile manufacturing. The main employers are the State of Michigan, Michigan State University, Sparrow Health System, General Motors, Lansing Community College, McLaren-Greater Lansing Hospital, the Lansing School District, Meijer, Auto-Owners Insurance, and Peckham, a vocational rehabilitation organization.

II. ECONOMIC AND DEMOGRAPHIC HISTORY

Demographics

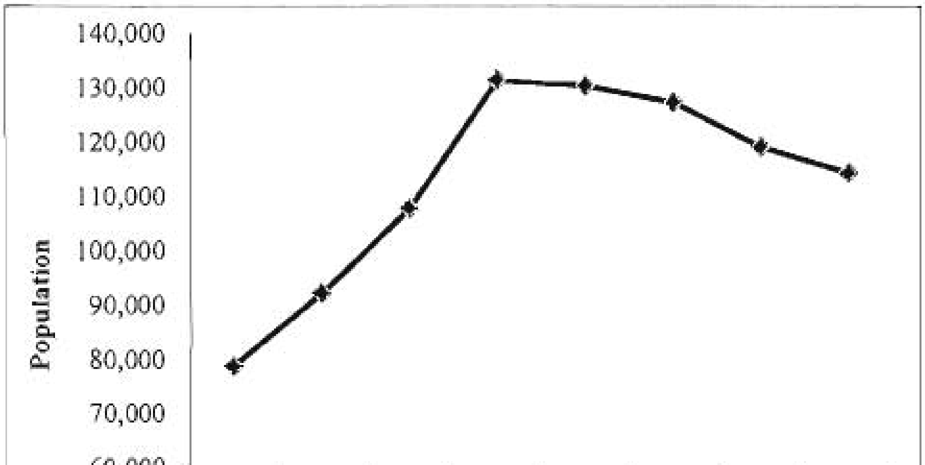
The city of Lansing's population has changed drastically over the past fifty years. In this section we explore the historical changes that have occurred throughout the city and region. These trends will help to predict the city's future revenues and costs and help the city plan for alterations in the size of government to reflect population predictions.

The economic and demographic material presented in this section provides a backdrop for a thorough and comprehensive analysis of the city of Lansing's financial situation. Given population decline, income decline and general stress in the real estate market, we would expect the city government to have experienced some degree of fiscal stress. The question becomes how well did the city respond to this period of fiscal stress and what prognostications can be made regarding the city's fiscal future?

Population

The U.S. Census Bureau reported the fourth decade of double-digit declines in population for the city of Lansing for the 2000s. From 2000 to 2010, the city experienced a decline of 4% in population from 199,128 in 2000 to 114,297 in 2010 (Exhibit II-1). The 1970s, 1980s, and 1990s also saw a population decline of 1%, 2%, and 6% respectively. Previous decades had seen large population increases of 17%, 17%, and 22%.

Exhibit II-1 City Population

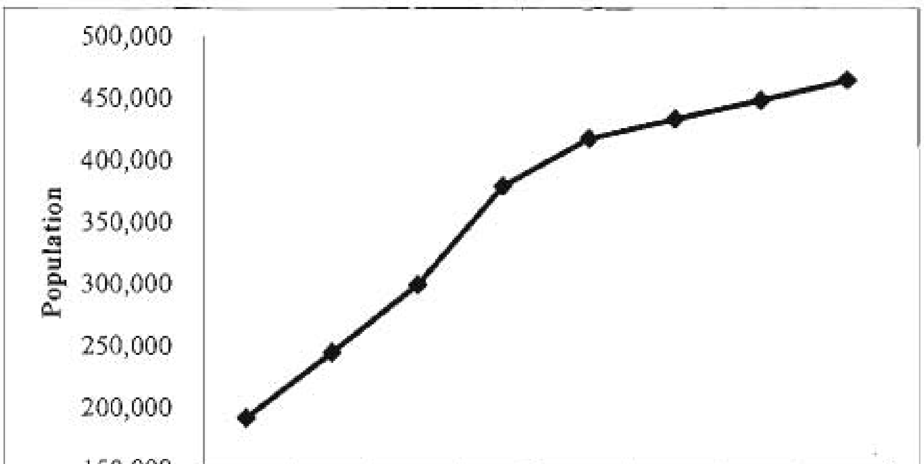


	1940	1950	1960	1970	1980	1990	2000	2010
Population	78,75	92,12	107,8	131,4	130,4	127,3	119,1	114,2

Data source: U. S. Census Bureau

Despite the decline in the city of Lansing's population, the Lansing Metropolitan Statistical Area (MSA) has increased in population each decade since the 1940s (Exhibit II-2). However, this growth has slowed since 1970, when the percent increased changed from 27% in the 1960s to 10% in the 1970s. MSA growth continued to weaken into the 1980s, 1990s, and 2000s, which saw growth rates of 4%, 3%, and 4% respectively.

Exhibit II-2 Lansing-East Lansing Metropolitan Area Population

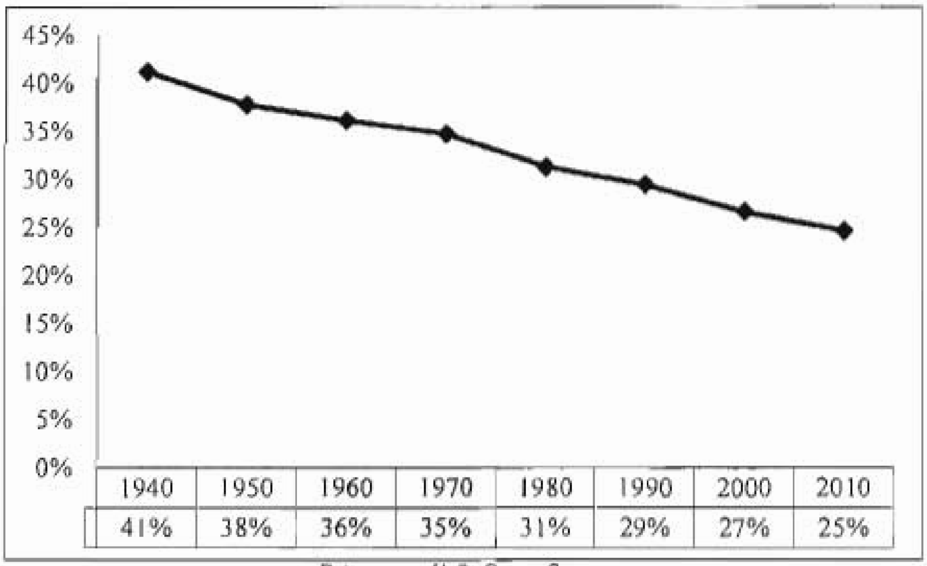


	1940	1950	1960	1970	1980	1990	2000	2010
Population	191,4	244,1	298,9	378,4	416,6	432,6	447,7	464,0

Data source: U. S. Census Bureau

In the 1940s, the city of Lansing contained 41% of the population of the MSA as a whole. By 2010, the number dropped to 25% (Exhibit II-3). This is due to both the city population decline and the MSA population increase.

Exhibit II-3 City Population as a Percent of MSA

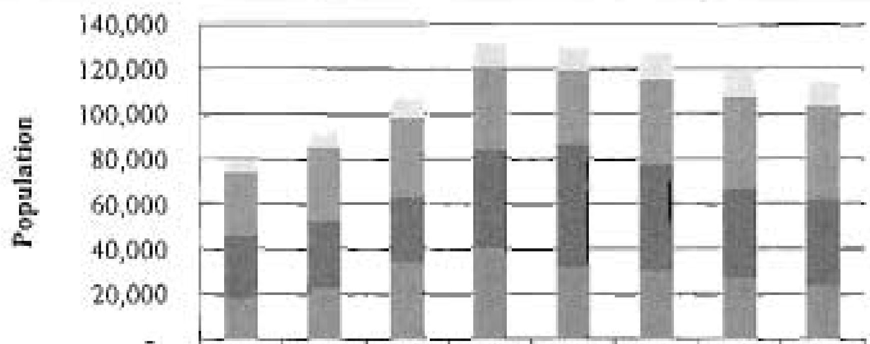


Data source: U. S. Census Bureau

Population Characteristics

Lansing's population has been aging over the past four decades. Exhibit II-4 shows a breakdown of the number of people by age group in Lansing from 1940 through 2010. Even after the city population began to decline in 1970, the number of people 65 years and over continued to increase until the 2000s. The number of people age 35 to 64 also increased during this time period.

Exhibit II-4 Age of Population

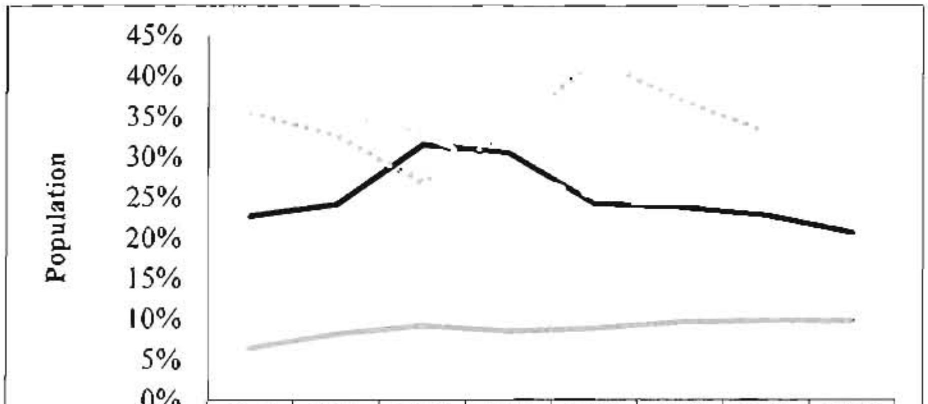


	1940	1950	1960	1970	1980	1990	2000	2010
65 and over	4,951	7,399	9,734	11,03	11,41	12,17	11,60	11,04
35 to 64	28,11	32,67	35,32	36,81	32,82	37,93	41,06	41,31
15 to 34	27,84	29,83	28,86	43,56	54,58	47,00	39,25	38,37
14 and under	17,84	22,22	33,88	40,12	31,59	30,21	27,20	23,56

Data source: U. S. Census Bureau

To see this more clearly, Exhibit II-5 shows the percent of the population in each category in each year. The percent of the population that is older than 65 has been steadily increasing, but at a slow rate, since the 1970s. The percent of the population between the ages of 35 and 64 reached a minimum around 1980, then increased in the 1980s, 1990s, and 2000s. The percent of the population between the ages of 15 and 34 followed the opposite path where it peaked around 1980 then declined in the 1980s, 1990s, and 2000s. And the percent of the population under the age of 14 peaked around 1960, then declined in the subsequent 6 decades. These changes in demographics may have an impact on the demand for city services over time as the population ages. This could include a greater demand for example for EMS services and older adult recreation programming.

Exhibit II-5 Age by Percentage of Population



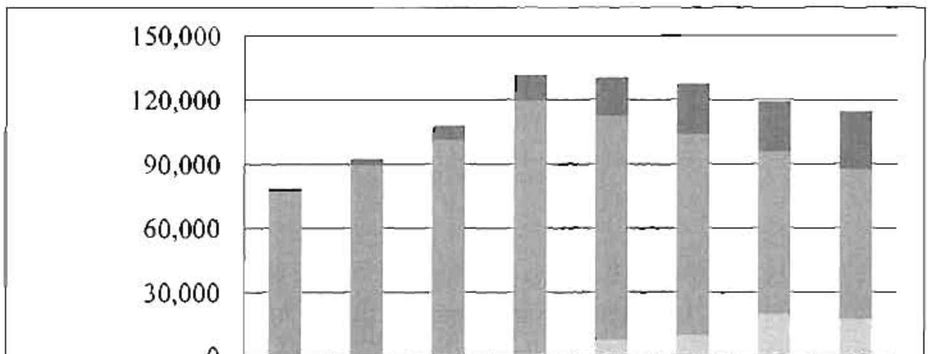
	1940	1950	1960	1970	1980	1990	2000	2010
14 and under	23%	24%	31%	31%	24%	24%	23%	21%
15 to 34	35%	32%	27%	33%	42%	37%	33%	34%
35 to 64	36%	35%	33%	28%	25%	30%	34%	36%
65 and over	6%	8%	9%	8%	9%	10%	10%	10%

14 and under   15 to 34   35 to 64   65 and over

Data source: U. S Census Bureau

The racial distribution of the city has also changed since the 1940s as can be seen in Exhibit II-6. The percent of white people in the city went from 97.9% in 1940 to 61.2% in 2010. The city has become more diverse over the last few decades.

Exhibit II-6 Population by Race



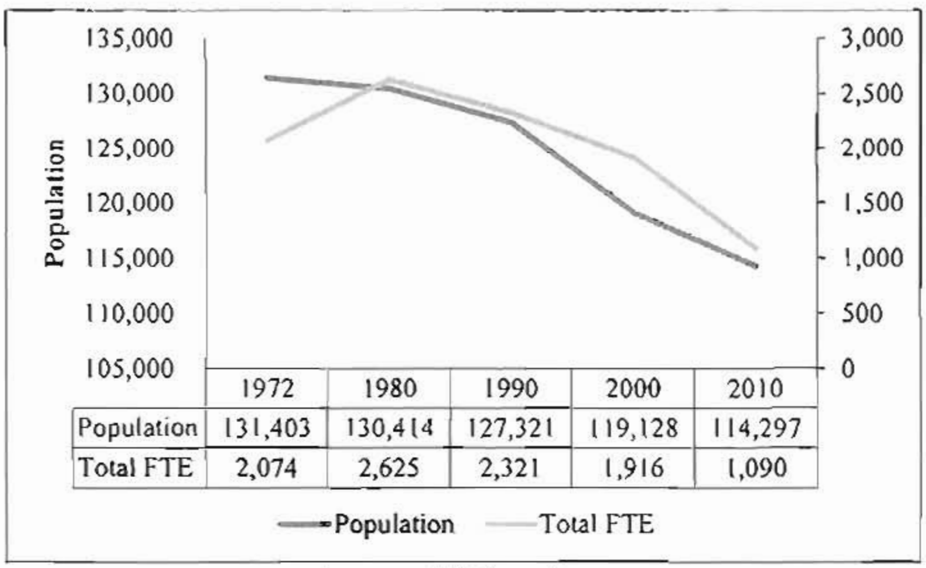
	1940	1950	1960	1970	1980	1990	2000	2010
Black/African American	1,638	2,971	6,745	12,23	18,17	23,62	23,64	27,13
White	77,08	89,08	100,8	118,2	104,8	94,13	75,98	69,98
Other	28	75	248	1,025	7,355	9,560	19,49	17,17

Data source: U. S. Census Bureau

City Government Response to Demographic Changes

As the demographics of a city change, the government must alter its budget to reflect these changes. As the population declines and revenues decrease, the government must spend less money. Exhibit II-7 shows the total population of the city and the total number of full time equivalents city employees. With the exception of the 1970s when the number of employees continued to rise even though the city population was declining, the city government has responded fairly well to population change by reducing its total number of employees. Thus unlike some of its peers, the city of Lansing has managed this transitional period quite well. At the same time, this has meant that potentially fewer city services have been available to the remaining population. Further, fiscal strain remains despite the cutbacks in city personnel as the cost per employee has risen dramatically.

Exhibit II-7 Number of Employees and Total Population

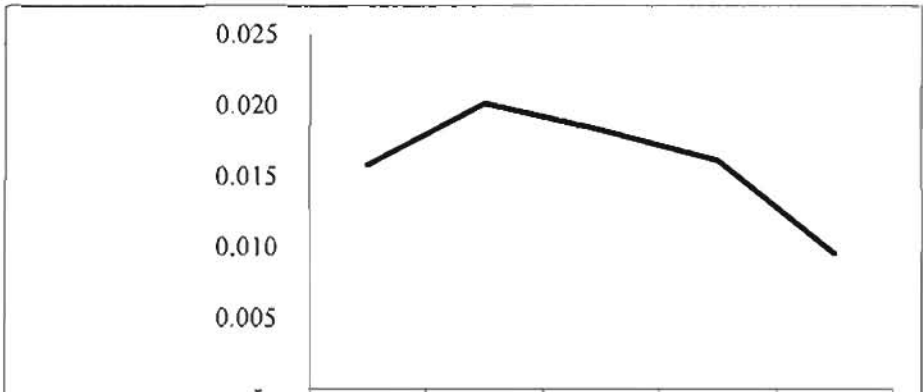


	1972	1980	1990	2000	2010
Population	131,403	130,414	127,321	119,128	114,297
Total FTE	2,074	2,625	2,321	1,916	1,090

Data source: U. S. Census Bureau

To see this more clearly, Exhibit II-8 shows the number of full time equivalent employees per capita from 1972 through 2010. This ratio increased in the 1970s, but then decreased in the 1980s, 1990s, and 2000s, indicating that Lansing has responded well to population decline since the 1980s in terms of number of public employees.

Exhibit II-8 Full Time Equivalent Employees Per Capita



	1972	1980	1990	2000	2010
Employees Per Capita	0.016	0.020	0.018	0.016	0.010

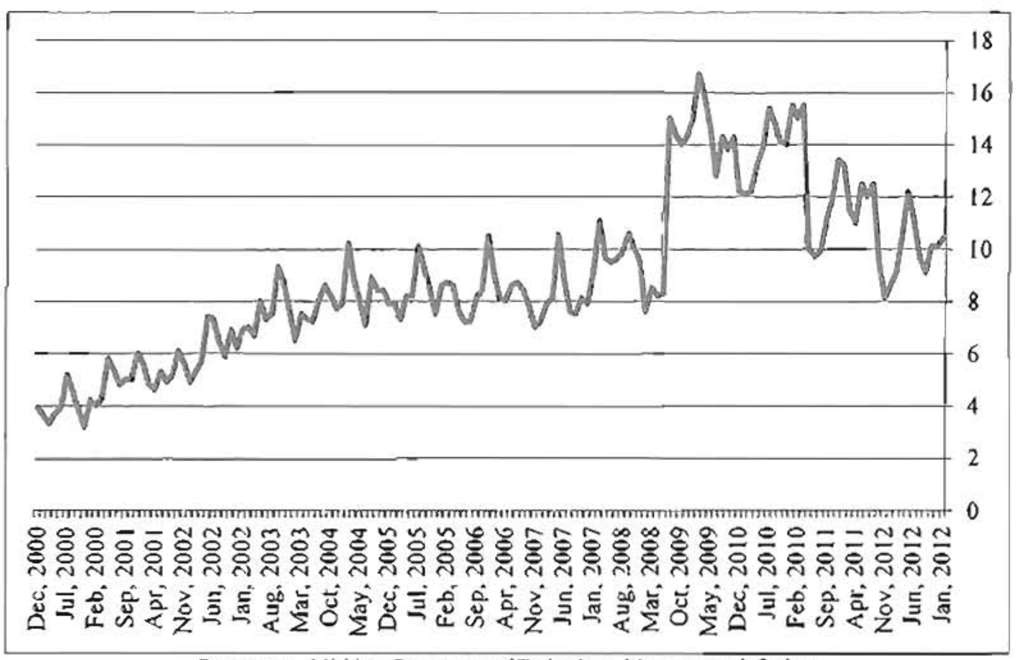
Data source: U. S. Census Bureau

Economy

Unemployment and Income

The city of Lansing's jobless rate is returning to pre-recession levels (Exhibit II-9). City level unemployment for 2012 was at 10%, 11th highest in the state. Lansing's jobless rate ranks 5th amongst some benchmark communities (Exhibit II-10).

Exhibit II-9 Jobless Rate



Data source: Michigan Department of Technology, Management & Budget

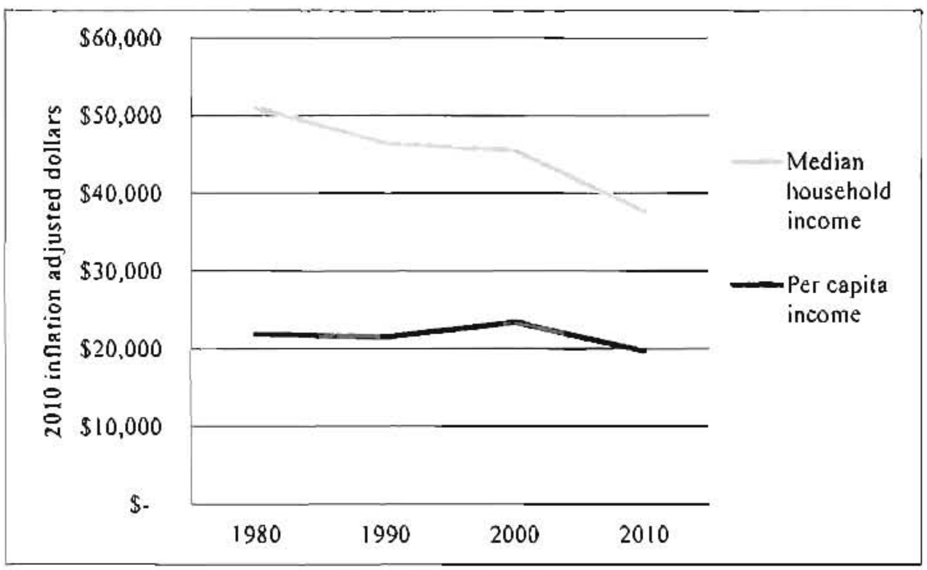
Exhibit II-10 Jobless Rate

Year	Area	Jobless Rate
2012	Detroit city MI	18.2
2012	Flint city MI	16.1
2012	Warren city MI	11.7
2012	Clinton township MI	11.2
2012	**Lansing city MI**	**10**
2012	Grand Rapids city MI	9.1
2012	East Lansing city MI	8.4
2012	Sterling Heights city MI	7.7
2012	Dearborn city MI	7.3
2012	Ann Arbor city MI	5.8
2012	Livonia city MI	4.4

Source: Bureau of Labor Statistics

The city of Lansing's median household income in 2010 was $37,666 as shown in Exhibit II-11. This decreased from a median household income of $50,985 in 1980. The per capita income level remained steady since 1980, beginning at $21,866 and ending at $19,673. This difference may be due to the changing structure of the typical household in the city. A higher than average unemployment rate may place a strain on city resources as citizens may demand more government services while simultaneously having fewer resources to pay for such services.

Exhibit II-11 Real Median Household Income and Per Capita Income

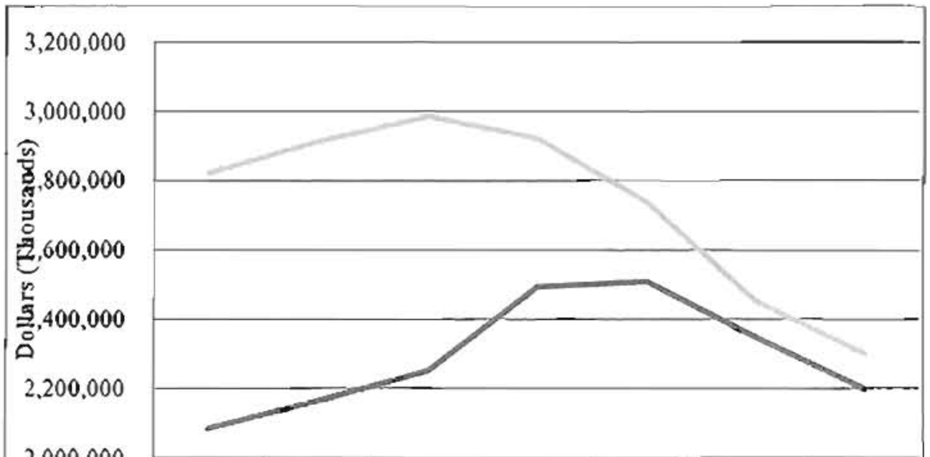


Source: U. S. Census Bureau

Property Values

Like many communities across the state, property values in the city of Lansing have declined drastically since the onset of the Great Recession, as can be seen in Exhibit II-12. Due to the structure of the property tax in Michigan, the total taxable value (TV) of property in the city continued to increase in 2007 and 2008 even though the state equalized value (SEV) of properties was declining. After 2009, however, the taxable value of properties began to fall as well, as the SEV and TV for many properties in the city began to intersect. This reduction in property tax revenue may have bottomed out based on recent data from the city. This is an important trend that will help at least partially in reducing the damage inflicted by falling revenues over the past decade.

Exhibit II-12 State Equalized Value (SEV) and Taxable Value (TV)



	2005	2006	2007	2008	2009	2010	2011
SEV	2,821,1	2,912,2	2,982,8	2,919,1	2,735,2	2,450,4	2,297,5
TV	2,083,8	2,163,6	2,249,1	2,491,3	2,506,5	2,345,5	2,196,8

Data Source: F65 Treasury Database Portal

This reduction in property values means that the property tax burden on the median household in the city has also gone down. In 2010, the median household income was $37,666. The total assessed valuation for residential properties was $1,200,886,000 and the total millage rate paid by residents, inclusive of county taxes, city taxes, and school taxes but not including the 6 mill State Education Tax, was 48.79 mills. Therefore, the total property tax burden for all residential properties was $58,591,227. Since the total number of households in Lansing in 2010 was

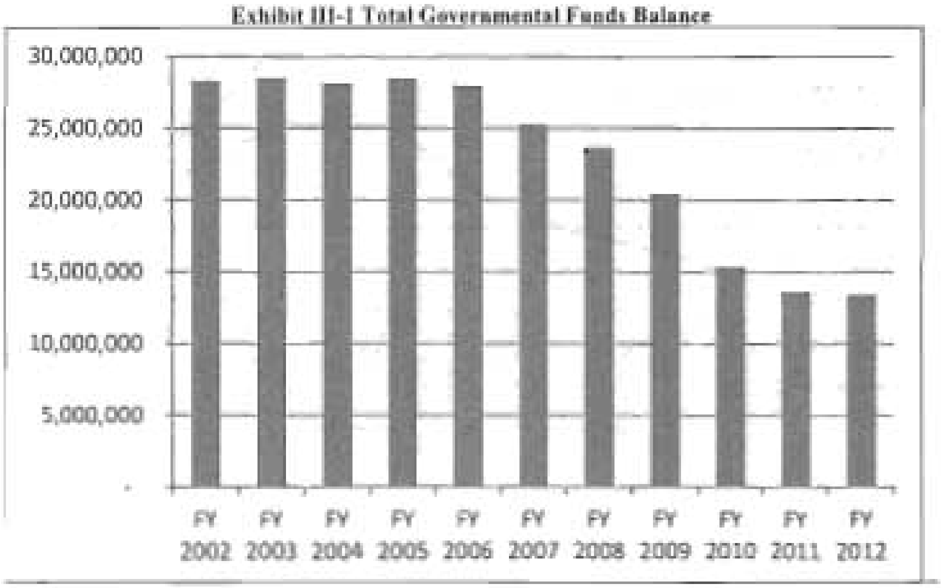
48,450, this means that the average property tax burden per household was $1,209. This equates to 3.2% of the average per capita income.

III. CITY FINANCES

This section focuses on the background of city finances over the last few years. This background was critical in allowing the team to understand the keys sources of fiscal stress and identify points for change and reform. This section covers the General Fund, Special Revenue Funds and Enterprise Funds.

One indicator of a city undergoing fiscal stress is a long-term trend of governmental fund balance depletion, which is a symptom of continuously operating under budget deficits. As of June 30, 2012, city of Lansing's governmental fund balance, excluding capital and debt service funds, is approximately $13.3 million, which is 47% of its balance in 2002. This fund balance number has fallen from $28.2 million in FY 2002. Fiscal stress has meant that the city has reduced overall fund balance by almost $15.0 million in the last nine years. This trend was particularly prevalent as the impact of the Great Recession of 2008-09 began to hit the city. As shown in Exhibit III-1, the city of Lansing has been experiencing significant depletion of governmental fund balance since 2009.

Exhibit III-1 Total Governmental Funds Balance



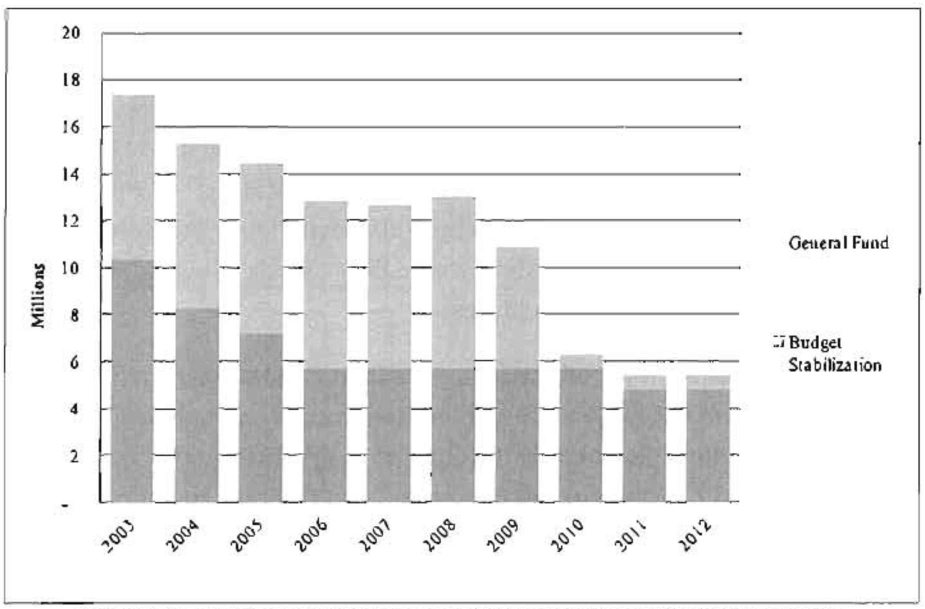
Source: City of Lansing Comprehensive Annual Financial Reports

General Fund

The city of Lansing General Fund is the main discretionary part of the budget and is where general taxes are allocated when collected. It is the main point of focus for most governments when considering fiscal health and stability.

According to the city of Lansing 2012 Comprehensive Annual Financial Report, the city of Lansing's General Fund ended the year with a combined General Fund and Budget Stabilization Fund balance of $5.4 million. Of this amount, the General Fund balance in 2012 was approximately $554,000, and the Budget Stabilization Fund was $4.8 million (Exhibit III-2). As of June 30, 2002, the combined General Fund and Budget Stabilization Fund balance was $17.1 million. Again, this reduction in General Fund Balance is an important indicator of fiscal stress. Generally, local governments are recommended to keep a fund balance reserve of 10 to 15% of revenues or expenditures. At this time, the city total General Fund balance reserve is only approximately 5%. This is well below industry standards as expressed by credit rating agencies and the Government Finances Officers Association (GFOA).

Exhibit III-2 Reserve Funds – Ten Year History of Fund Balance



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide

The General Fund and reserve fund balances declined from 2002 to 2009. For four consecutive years (2007 through 2010), the city of Lansing was able to operate without relying on its reserve funds. Despite having adopted balanced budgets with significant reductions and without reliance on reserves, higher-than-anticipated revenue losses during the onset of the Great Recession

resulted in a draw-down in reserves from FY 2009-FY 2011, with the highest loss being a $4.6 million deficit in 2010 (Exhibit III-3).

Exhibit III-3 General Fund Revenues, Expenditures, and Changes in Fund Balance (condensed)

Fiscal year	2007	2008	2009	2010	2011	2012
Revenues and transfers in						
Property taxes	$ 35,844,777	$ 36,041,763	$ 36,703,522	$ 37,965,131	$ 36,352,257	$ 32,501,559
Income taxes	28,209,913	31,168,012	29,312,762	27,408,443	28,699,749	27,943,070
State shared revenue	16,369,853	16,369,853	15,981,941	14,214,339	14,214,339	12,710,114
Other	28,556,321	28,622,193	29,669,295	28,558,228	30,113,633	29,529,233
Revenues and transfers in	108,980,864	112,201,821	111,667,520	108,146,141	109,379,978	102,683,976
Expenditures and transfers out						
General Government	26,313,988	26,794,259	26,529,134	25,418,251	23,846,234	22,439,973
Public safety	59,513,582	61,577,212	63,557,003	63,442,190	63,794,594	58,696,097
Other	23,347,329	23,484,048	23,735,598	23,870,144	22,651,122	21,506,194
Expenditures and transfers out	109,174,899	111,855,519	113,821,735	112,730,585	110,291,950	102,642,264
Net change in fund balance (deficit)	$ (194,035)	$ 346,302	$ (2,154,215)	$ (4,584,444)	$ (911,972)	$ 41,712
Fund balance (deficit) - beginning	7,078,185	6,884,150	7,230,452	5,076,237	491,793	5,330,487
Restatement increase					5,750,666	
Fund balance (deficit) - ending	$ 6,884,150	$ 7,230,452	$ 5,076,237	$ 491,793	$ 5,330,487	$ 5,372,199

Source: City of Lansing Comprehensive Annual Financial Reports

The city targets maintaining the General Fund and reserve levels at 10-15% of fund revenues; however, this metric has been less than 6% since 2010.[v] Operating at a low fund level places the city at risk of lacking the ability to adapt to fiscal shocks in the future. In addition low fund balances, cities undergoing chronic fiscal stress may also experience pressure due to spending constraints. Funds may be restricted regarding where they can be allocated and constrain a city's flexibility in addressing unexpected expenditures.

Exhibit III-4 shows constraints in the allocation of General Fund monies over the past ten years. In FY 2011, the city adopted GASB No. 54, which established fund balance classifications. The city did not retroactively adjust the balances for 2003 through 2010 with the updated classifications in its FY 2012. Also, the balance from 2003 through 2010 does not include the Budget Stabilization Fund, which was considered a Special Revenue Fund at the time.

Exhibit III-4 General Fund Constraints (in thousands)

Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Nonspendable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 172	$ 93
Restricted	-	-	-	-	-	-	-	-	41	16
Committed	-	-	-	-	-	-	-	-	178	65
Unassigned	-	-	-	-	-	-	-	-	4,940	5,198
Reserved	945	1,324	2,483	2,443	1,848	1,765	1,320	103	-	-
Unreserved	5,986	5,607	4,710	4,635	5,036	5,465	3,756	389	-	-
Total General Fund	6,931	6,931	7,192	7,078	6,884	7,230	5,076	492	5,330	5,372

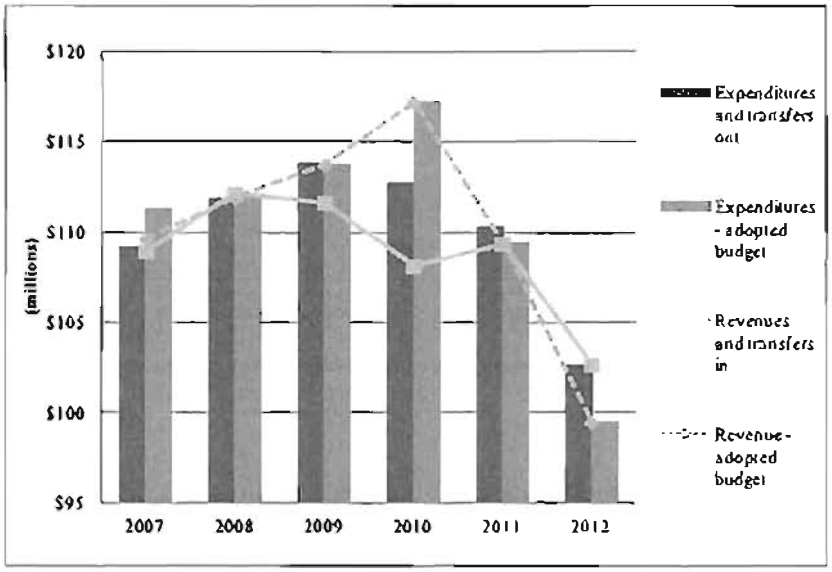
(note for comparison: due to financial reporting changes, "Unreserved" can most closely be compared to "Unassigned")

Source: City of Lansing Comprehensive Annual Financial Reports

In comparing the actual and intended General Fund expenditures and revenues over the last five years, the recent budget shortfalls coincide with greater-than-anticipated declines in revenue (Exhibit III-5). From FY 2007 through 2008, actual expenditures were on-or below-target compared to original budgeted expenditures and revenues were close to original budget. In FY 2009, actual revenues were $2 million less than anticipated revenues, resulting in a $2 million deficit. Similarly, revenues in FY 2010 adopted budget were underestimated by $9 million, the result of higher-than-anticipated reductions in income tax revenue and mid-year reductions by the state in the form of revenue sharing and property tax multipliers for automotive suppliers. Actual expenditures were $4.5 million less than budgeted, which closed the gap by about 50%, but there still was a $4.5 million deficit in FY 2010, reducing the General Fund balance by 90%.

Greater-than-anticipated revenue declines were also experienced in FY 2011. Expenditures and transfers came within the adopted budget, but the revenue shortfall resulted in a $0.9M reduction in reserve funds. In FY 2012, the city underestimated its income tax revenues, but was able to end the year with a $41,712 surplus.

Exhibit III-5 General Fund Revenues and Expenditures – Actual vs. Adopted Budget



Source: City of Lansing Comprehensive Annual Financial Reports and City of Lansing Adopted Budgets

Revenues

Revenues represent incoming resources that can be used to fund government services. These revenues for a Michigan city government are typically general taxes, user fees, interest income, state revenue sharing and other miscellaneous sources. The three primary sources of revenue, and their proportionate share of the city of Lansing General Fund, are currently property tax (31.7%), income tax (27.2%), and state shared revenue (12.4%). In Michigan, municipalities are limited by state law in the types of revenues they can raise. Property taxes for most local governments are the major source of revenue along with state revenue sharing. For a number of Michigan cities, the city income tax has become an important revenue source. Local sales tax is not an option in Michigan. Historically, the state of Michigan has been relatively constrained in allowing for local option taxes as compared to other states.

Property Tax

Property tax in Michigan is assessed on real and personal property. Municipalities are limited in levying property taxes in a few ways. First, the Home Rule City Act of 1909 limits cities in the state of Michigan to levying property taxes of no more than 20 mills for direct municipal services.[vi] Also, the Headlee Amendment, ratified in 1978, limits the authorized millage rate when aggregate property values rise at a faster rate than the rate of inflation.[vii] Increase in property values due to improvements or new construction are not subject to this limit. Finally, in 1994, Michigan voters approved Proposal A, which limited annual increases on individual properties to the taxable value to five percent or the rate of inflation, whichever is lower, until there is a transfer of ownership.[viii]

Compared to the ten most populated local units in Clinton, Eaton, and Ingham Counties, which represent 67% of the population, the city of Lansing levies the second highest homestead tax rate (Exhibit III-6). This may cause the city to be less competitive in attracting residents, which hinders its ability to increase its tax base. For example, a homeowner in the city of Lansing will pay, on average, 12% more than residents in the nine other largest communities. If a residential property has a taxable value of $75,000, the city of Lansing homeowner will pay $4,216. A homeowner in adjacent Lansing Township will pay $3,776.

Exhibit III-6 Millage Rates within Ingham, Eaton, and Clinton Counties for Fiscal Year 2012 (2011 Tax Rates)

				Tax Rates					Annual Bill Based on
Taxing Unit	County	Type of Unit	Population	County	Local	School	State Education	Total	Taxable Value
East Lansing	Ingham	City	48,579	9.21	23.70	26.44	6.00	65.35	$ 4,901
Lansing	**Ingham**	**City**	**114,297**	**9.40**	**20.08**	**20.74**	**6.00**	**56.21**	**$ 4,216**
Lansing	Ingham	Township	8,126	9.52	13.04	25.78	6.00	54.34	$ 4,076
Delhi	Ingham	Township	25,877	9.55	12.38	24.18	6.00	52.10	$ 3,908
Mason	Ingham	City	8,252	9.55	14.81	21.69	6.00	52.05	$ 3,904
Meridian	Ingham	Township	39,688	9.55	11.49	23.60	6.00	50.64	$ 3,798
Charlotte	Eaton	City	9,074	7.59	16.14	19.24	6.00	48.97	$ 3,673
Delta	Eaton	Township	32,408	7.59	6.92	23.35	6.00	43.86	$ 3,290
Bath	Clinton	Township	11,598	5.80	6.93	22.37	6.00	41.09	$ 3,082
DeWitt	Clinton	Township	14,321	5.80	6.67	20.34	6.00	38.82	$ 2,912
Population of Ten Largest Units			**312,220**				**Average Rate**	**50.34**	
As a % of Tri-County Total			**67%**				**Average Tax Bill**		**$ 3,776**

Source: U.S. 2010 Census and Michigan Department of Treasury

According to the Exhibit III-7, property owners in the city of Lansing are subject to the third highest property tax rate, on both a homestead and non-homestead basis, out of the ten most-populated municipalities in Michigan. The direct city rates include levies not subject to the Home Rule City Act, such as solid waste services.

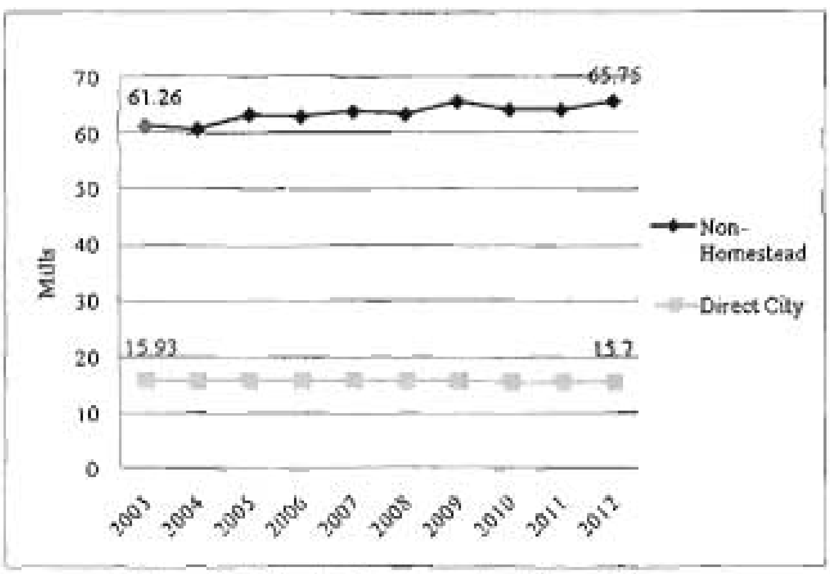
Exhibit III-7 Property and Income Tax Rates for Michigan's Ten Largest Cities – FY 2012 (2011 Tax Rates)

		Property Tax - Millage Rates			Income Tax Rates	
Jurisdiction	Pop. Rank	Non-Homestead	Principal Residence	Direct City	Resident	Non-resident
Detroit	1	85.1106	67.2798	29.51	2.5%	1.25%
Dearborn	8	66.4509	54.0491	21.90	-	-
Lansing	5	65.7612	47.8350	15.70	1.0	0.5
Flint	7	62.8550	44.8550	16.10	1.0	0.5
Clinton Township	10	58.8339	40.8339	12.70	-	-
Ann Arbor	6	58.6096	45.3008	16.57	-	-
Warren	3	55.2611	44.6668	19.89	-	-
Livonia	9	54.1048	36.1048	13.39	-	-
Sterling Heights	4	50.1545	39.5602	12.69	-	-
Grand Rapids	2	47.8921	29.8921	8.37	1.5	0.75

Source: Michigan Department of Treasury and 2012 Comprehensive Annual Financial Reports

Although the millage rate levied for direct city services has remained constant, the total non-homestead millage rate (non-city millages) has increased steadily over time (Exhibit III-8). In November 2011, voters were asked to approve a 4-mill levy to fund police, fire, and road maintenance services in order to mitigate reductions to such services. The proposal passed marginally with 51.9% approval;[ix] a similar ballot proposal was rejected earlier that year in May with only 47.8% approval.[x] During FY2013, this levy will increase the direct city millage to 19.44 mills, which raised the 19.16 mill cap imposed by the Headlee Amendment, and is anticipated to increase General Fund revenue by $7.6 million.[xi] However, this millage also reduces the city's capacity to raise revenue in the future due to the limitations imposed by the Home Rule City Act.

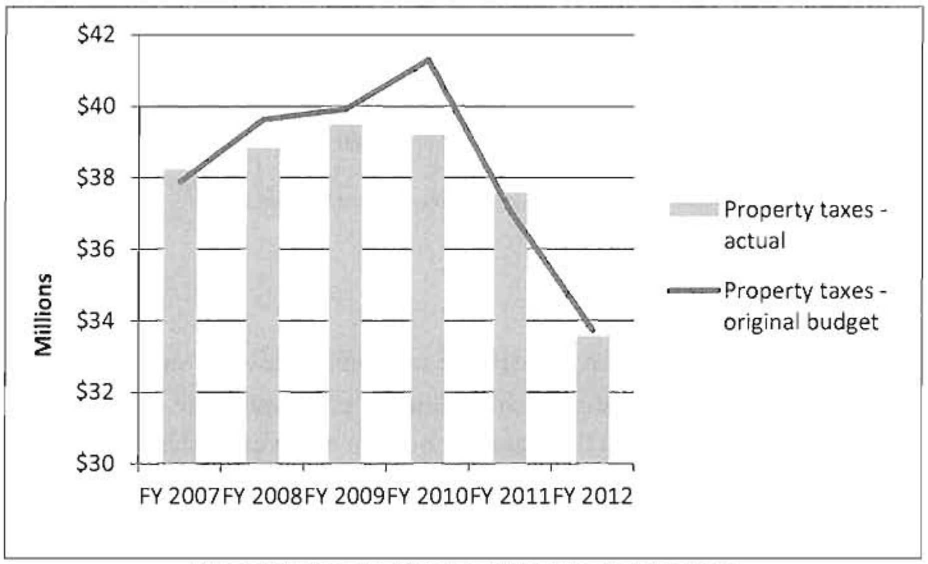
Exhibit III-8 City of Lansing Millage Rates (Fiscal Years)



Source: City of Lansing Comprehensive Annual Financial Reports

As discussed in section I, property values in Lansing have dramatically decreased over the past four years. Exhibit III-9 shows the impact of this with trends of the city's actual and budgeted property tax revenues. Property tax revenues have generally been within $500,000, or 2%, of adopted budgeted amounts, with two exceptions: FY 2008, where lesser amounts were received than anticipated as part of a 425 revenue sharing agreement and FY 2010, when mid-year changes by the State to auto supplier tax multipliers affected those 425 revenue sharing agreements by $1.3 million.

Exhibit III-9 Property Tax Revenue - Adopted Budget vs. Actual

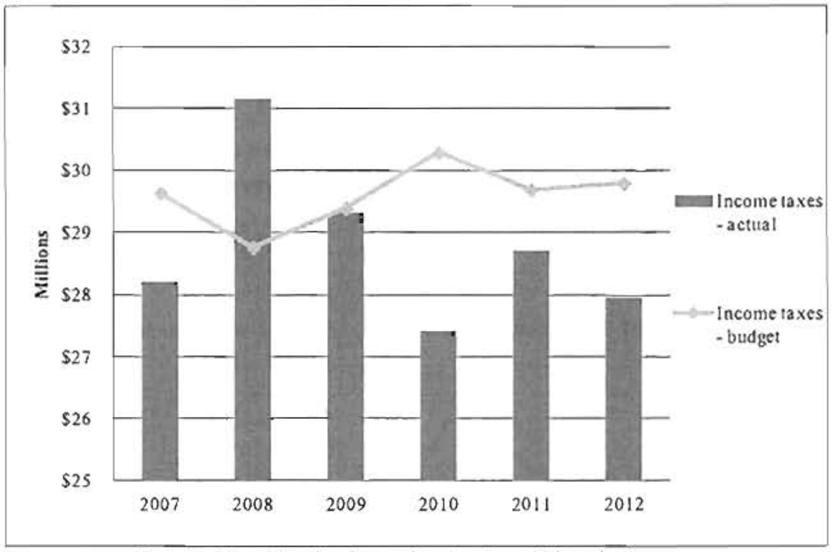


Source: City of Lansing Comprehensive Annual Financial Reports

Income Tax

Of the ten largest cities in Michigan, three are authorized to levy an income tax, which includes the city of Lansing. Effective since July 1, 1968, the income tax rate has been 1% for those who live within the city limits and 0.5% for non-residents who work within the city limits.[xii] The city's ability to estimate income tax revenue has been rather inconsistent over the past six years, as seen below (Exhibit III-10). Since 2010, income tax revenue has been overestimated by $1 to almost $3 million (FY 2010), as a result of the effects of the recession.

Exhibit III-10 Income Tax Revenue - Adopted Budget vs. Actual

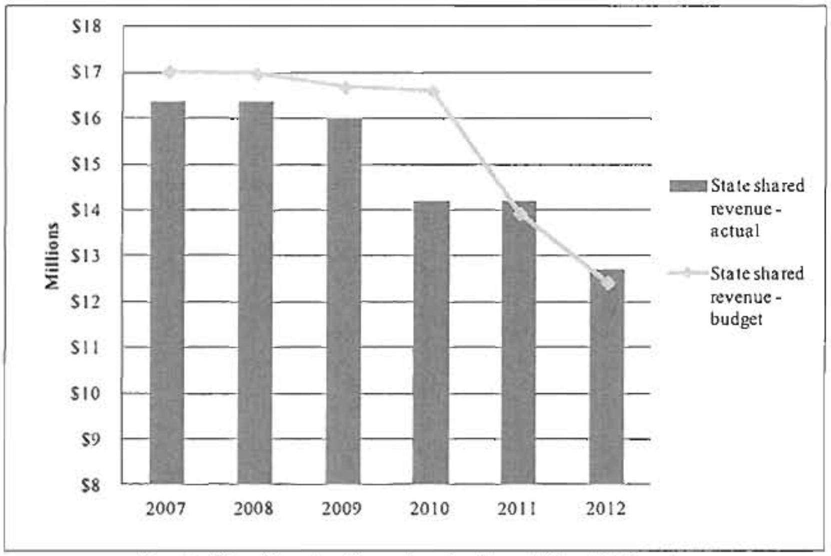


Source: City of Lansing Comprehensive Annual Financial Reports

State Shared Revenue

State shared revenue is generated from a statewide sales tax. Revenue sharing to local governments consists of both constitutional and statutory payments. The constitutional portion is distributed on a population basis, and the statutory portion of revenue sharing is defined by a formula. The Michigan State Legislature budget for 2010 fiscal year cut statutory funding to municipalities across the state, which included a reduction of $1.7 million for the city of Lansing compared to 2009 fiscal year.[xiii] Cuts to revenue sharing from the state resulted in adopted budget shortages of about 4% during FY2007 through FY2009. In 2011 and 2012, the City actually underestimated its state shared revenue. A decade of cuts to statutory revenue sharing over by the State has had a significant impact on Michigan municipalities. In 2001, Lansing received $21 million annually in revenue sharing from the State; in 2012, the amount was $12.5 million, a cumulative loss of over $54 million.

Exhibit III-11 State Shared Revenue - Adopted Budget vs. Actual



Source: City of Lansing Comprehensive Annual Financial Reports

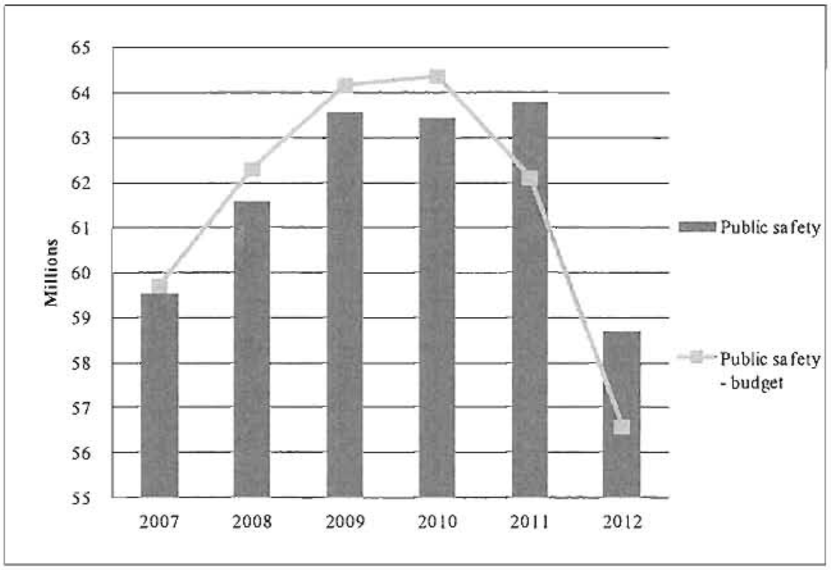
Expenditures

Expenditures represent the use of resources in order to provide government services. This section mostly focuses on General Fund expenditures. The primary General Fund expenditures are public safety and general government services (such as City Council, the Mayor's office, court systems, city attorney, etc.). In 2012, 57.2% of spending was allocated to public safety and 21.9% to general government.

Public Safety

Public safety consists of the majority of the General Fund expenditures. The city managed to spend under the adopted budget in 2007 through 2010 (Exhibit III-12). However, in 2011 expenditures exceeded the adopted budget by about $2 million, due to overtime costs and increases in city-wide health insurance. In FY 2012, the adopted budget anticipated the elimination of statutory revenue sharing and budget cuts to public safety personnel were enacted accordingly. That year, when statutory revenue sharing was added back by the State in the form of the Economic Vitality Incentive Program (EVIP), some of the positions, in conjunction with healthcare concessions by unions, were reinstated by a budget amendment. In both FY 2011 and 2012, Public Safety expenditures came within amended budget amounts. Budgetary challenges have impacted Public Safety budgets. For example, the city closed a total of three fire stations in 2011 and 2012 and closed one police station in 2012.

Exhibit III-12 Public Safety Expenditure - Adopted Budget vs. Actual



Source: City of Lansing Comprehensive Annual Financial Reports

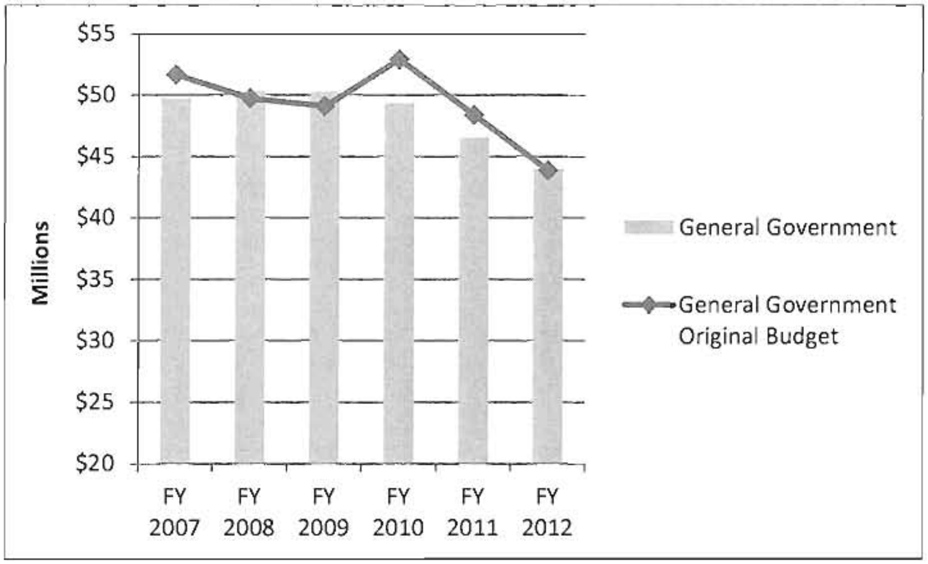
General Government

General government generally compasses the following areas of local government operations:

- Circuit Court Building Rental
- City Attorney's Office
- City Council
- City Clerk's Office
- City Television
- District Court
- Finance Department
- Human Resources
- Internal Audit
- Lansing Entertainment and Public Facilities Authority
- Library Building Rental
- Mayor's Office
- Planning and Neighborhood Development
- Vacancy Factors

General government expenditures have generally been less than original budget over the past six years (Exhibit III-13).

Exhibit III-13 General Government Expenditure - Adopted Budget vs. Actual

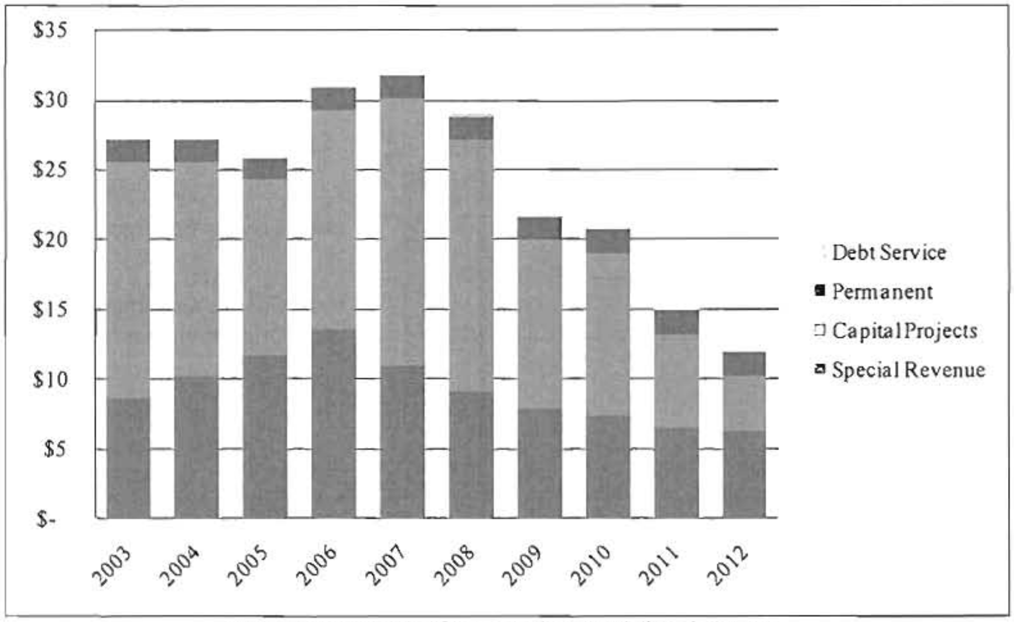


Source: City of Lansing Comprehensive Annual Financial Reports

Special Revenue Funds

Special revenue funds are generally used to track and account for monies tied to grant programs, dedicated millages and other government functions where separate accounting is used. These funds must be used for their specified purpose and are not available for general discretionary usage. Other governmental funds are shown in Exhibit III-14. These include special revenue funds, debt service funds, capital projects funds, and permanent funds. Special revenue funds and capital projects funds comprise the majority of the other governmental funds.

Exhibit III-14 Other Governmental Funds – Ten Year History of Fund Balances



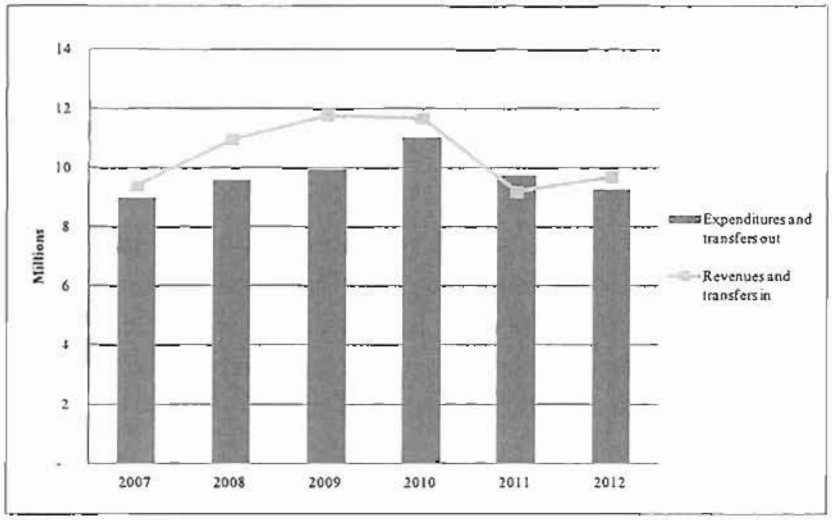
Source: City of Lansing Comprehensive Annual Financial Reports

As of FY2012, special revenue funds consist of the following types of funds:

- Major Streets
- Local Streets
- Drug Law Enforcement
- Community Development Block Grant
- Downtown Lansing, Inc.
- 911 Communications Center
- Building Department
- Parks Department
- Tri-County Metro Narcotics

The main special revenue funds are the Major Streets Fund and the Local Streets Fund. Major Streets Fund supports the City's maintenance of 44 miles of state trunk-lines. The majority of funding is sourced from the State of Michigan through the Gas and Weights tax, subject to Public Act 51 of 1951. In 2009, the fund was also subsidized by $2.3 million in federal stimulus funds from the American Recovery and Reinvestment Act (ARRA), which were budgeted for improvements in 3.5 miles in roads. Occasionally, the Major Streets Fund has also been supported by the General Fund, ranging from $300,000 to $2.2 million in transfers.

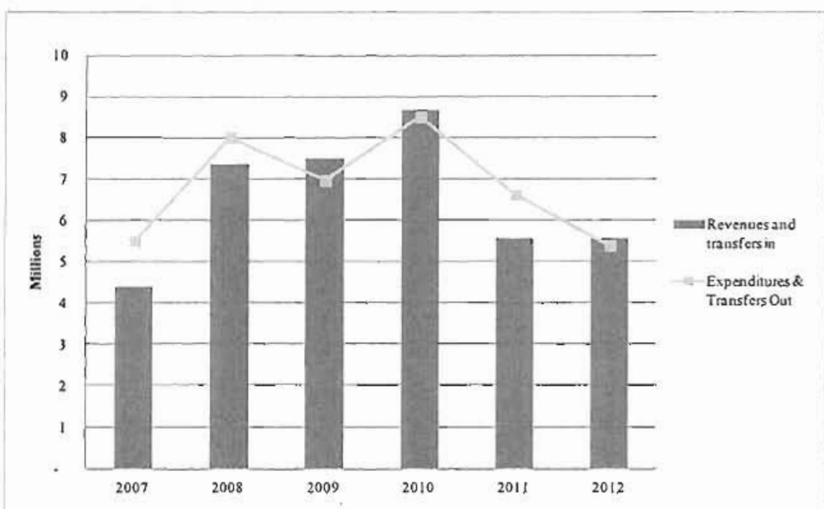
Exhibit III-15 Major Streets Fund Revenues and Expenditures



Source: City of Lansing Comprehensive Annual Financial Reports

The Local Streets Fund is mainly supported by Act 51 Gas and Weight tax revenues from the State of Michigan and transfers from the Major Streets Fund, which have ranged from $1.1 to 2.2 million since 2007. The Local Streets Fund has also received subsidies from the General Fund for debt service, which have declined since 2009 due to budget constraints. Diminishing support from both Act 51 and General Fund, have led to the elimination of road construction projects. The property tax millage that was passed in November 2012 will allocate 1 mill toward local streets maintenance to relieve this burden, from which the city has budgeted $1.9 million in revenues for FY2013.

Exhibit III-16 Local Streets Fund Revenues and Expenditures



Source: City of Lansing Comprehensive Annual Financial Reports

Gas taxes in Michigan have been declining for a number of years as cars become more efficient and fewer people have been driving fewer miles especially during the Great Recession of 2008-09. The state of Michigan recognizes these funding challenges and it has been reported that overall the state has underfunded roads by nearly $3 billion annually. Cities like Lansing have in turn received less funding for roads and thus struggle to maintain this critical infrastructure.

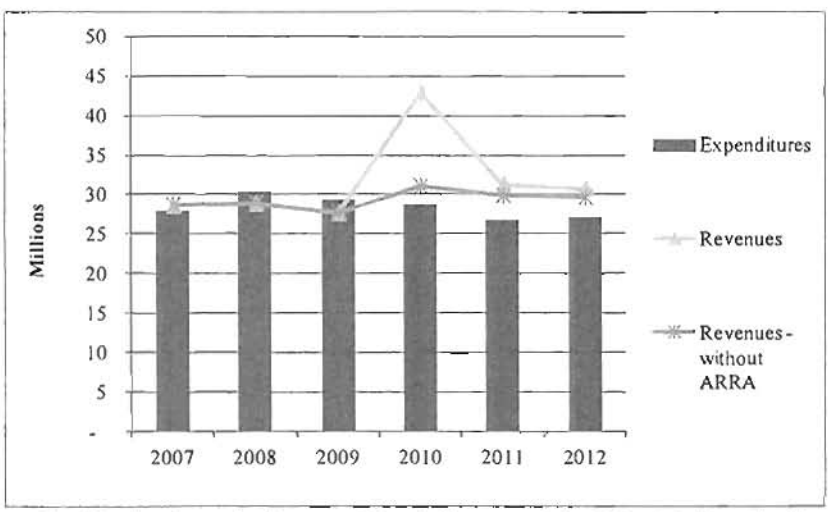
Proprietary (Enterprise) Funds

The city's proprietary funds include the sewage and disposal system, municipal parking system, cemetery, golf, and garbage and recycling collection. Enterprise funds are used for those government operations that are run more like a business entity with specific user charges for services. The user fees that finance these funds are intended to be structured to support day-to-day operations as well as capital improvements; however this is not always the case, as discussed below.

In 2008, the city of Lansing transferred Potter Park Zoo operations to Ingham County, although the city still retained the title to the Zoo property. This resulted in an outgoing transfer of $5.7 million from the zoo enterprise fund.

From 2010 through 2012, the Sewage Disposal System Fund received a total of $16.0 million in American Recovery and Reinvestment Act (ARRA) funds in order to support the Combined Sewer Operations (CSO) project and other smaller projects. The CSO is a 30-year project that was launched in 1991 to separate the sanitary and storm sewer systems in order to prevent sewage overflow into Grand River during high rainfall.[xiv] In addition to receiving federal grants for this project, the city has also generated additional revenue to the Sewage Disposal Fund by raising user rates.

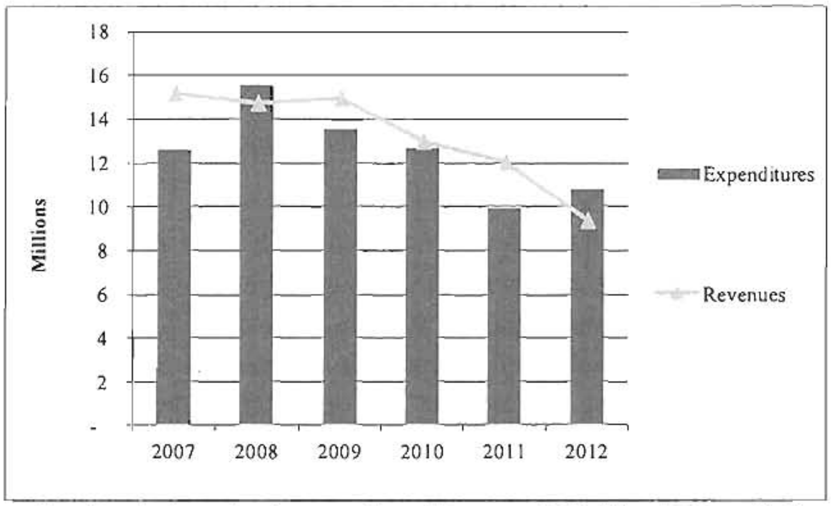
Exhibit III-17 Sewage Disposal Fund Revenues and Expenditures



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

The city's Municipal Parking System Fund has generally been self-sustaining, requiring no transfers from the General Fund. It incurred a $1.3 million operating loss in 2008 due to transfers to the Capital Projects Fund and a $455,000 loss in 2011 due to scheduled maintenance, as part of a five-year maintenance plan. The loss in 2011 was off-set by the conversion of a loan from the State of Michigan into a grant. In 2012, the city's parking system underwent an operating loss of $1.2 million due to scheduled maintenance and an additional $1.4 million loss in net assets due to sale of parking system properties.

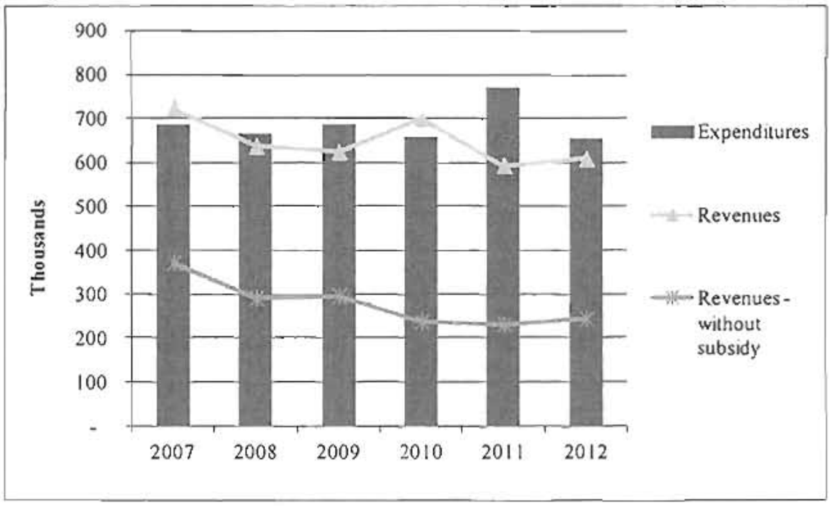
Exhibit III-18 Municipal Parking Fund Revenues and Expenditures



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

Over the past several years, the General Fund and/or the Parks Millage Fund have subsidized the Cemetery Fund. Since 2007, own-sourced revenues have only met 30-50% of annual expenditures. Even with the subsidies, revenues have typically been insufficient to cover expenses (Exhibit III-19).

Exhibit III-19 Cemetery Fund Revenues and Expenditures

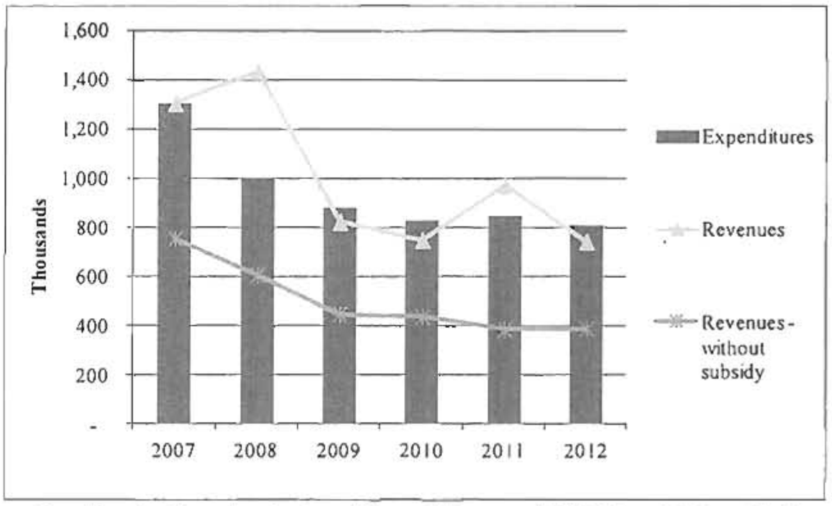


Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

General Fund and Parks Millage Fund also subsidize the Golf Fund since own-sourced revenues are insufficient to cover expenses. Previous efforts to manage costs include closure of the Waverly and Red Cedar golf courses in 2008. Also, in November 2012, voters approved a ballot proposal to authorize the City to sell the Red Cedar Golf Course with 67% approval.[xv] The City plans to sell up to 48 acres of the golf course for redevelopment and use the remaining the land for a storm water management project. The proceeds of the sale would be allocated toward improvements in recreational facilities in Red Cedar Park, support of the storm management project, and/or support the city of Lansing's park system.[xvi]

The city has also pursued partnerships with organizations outside of the Parks and Recreation Department to assist in controlling costs for its remaining facilities, the Groesbeck Golf Course and Sycamore Creek Driving Range. First Tee of Mid-Michigan, a non-profit organization, assumed management of the latter in 2011, and in the spring of 2013, the Lansing Entertainment and Public Facilities Authority (LEPFA) will assume management over marketing and concessions for the Groesbeck Golf Course.

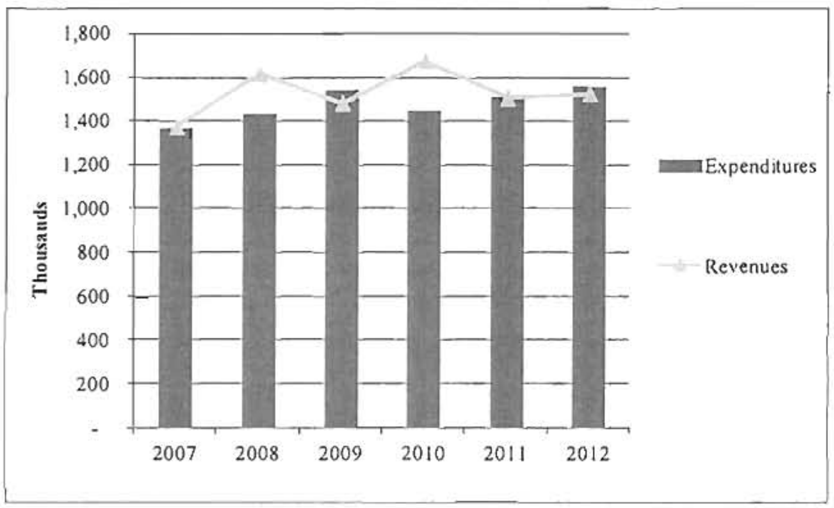
Exhibit III-20 Golf Fund Revenues and Expenditures



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

In general, the Garbage Collection Fund has managed to stay self-sustaining over the last six years. The city raised rates for the 2013 fiscal year in order to offset increased operating costs.

Exhibit III-21 Garbage Collection Fund Revenues and Expenditures

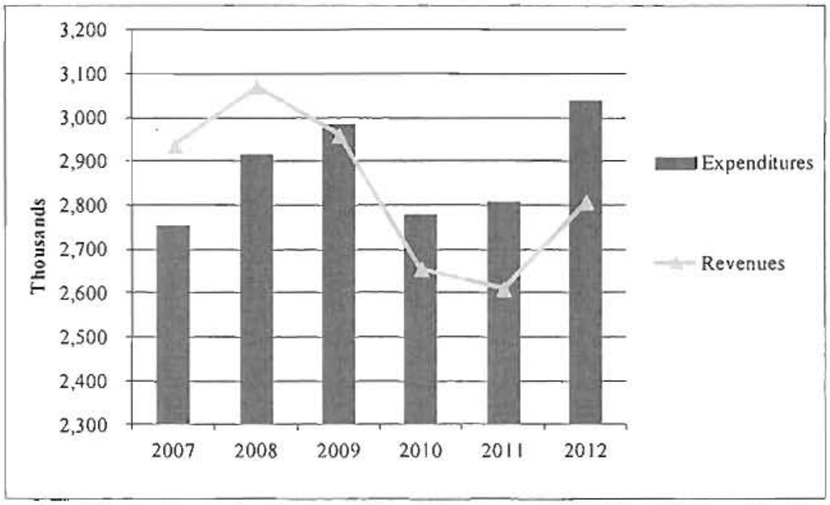


Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

On the other hand, expenditures have exceeded revenues in the Recycling Fund for the past four years (Exhibit III-22). In late 2009, the city launched a pilot program of single-stream recycling, in which all recyclables are collected in one container in the collection truck in order to streamline the collection process. In 2010, the annual fee was reduced from $74.50 to $67, and later in 2012 the fee was increased to $69. In 2012, the city expanded the single-stream process and implemented another pilot program using recycling carts instead of plastic bins. During the

2013 fiscal year, the city plans to expand cart recycling, which will require increasing fees to levels comparative to those in 2007, after accounting for inflation.

Exhibit III-22 Recycling Fund Revenues and Expenditures



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

Internal Service Funds

The city allocates internal service funds for fleet maintenance, engineering, and certain fringe benefits such as retiree health care. Similar to the enterprise funds, these funds should be self-sustaining as long as charges for services are sufficient to cover operating and capital costs.

Exhibit III-23 Internal Service Fund Assets

Fiscal year	2007	2008	2009	2010	2011	2012
Revenues and Transfers In						
Charges for services	$ 58,068,589	$ 58,100,182	$ 59,392,910	$ 60,045,701	$ 65,351,606	$ 64,726,153
Transfers In	3,337,958	673,861	1,726,941	-	-	-
Investment Income	-	-	-	-	5,622	8,041
Gain on sale of capital assets	88,605	124,436	32,310	75,094	108,601	123,066
Revenues and transfers in	61,495,152	58,898,479	61,152,161	60,120,795	65,465,829	64,857,260
Expenditures						
Fleet Maintenance	7,079,971	8,066,722	8,817,129	6,960,819	7,170,594	7,746,441
Fringe Benefits	47,078,497	49,809,983	50,428,650	53,657,193	54,093,450	55,859,083
Engineering	2,806,053	2,408,158	2,411,742	2,476,697	3,041,017	3,056,757
Expenditures and transfers out	56,964,521	60,284,863	61,657,521	63,094,709	64,305,061	66,662,281
Net change in fund balance (deficit)	4,530,631	(1,386,384)	(505,360)	(2,973,914)	1,160,768	(1,805,021)
Fund balance - beginning	8,069,991	12,600,622	11,214,238	10,708,878	7,734,964	8,895,732
Fund balance - ending	$ 12,600,622	$ 11,214,238	$ 10,708,878	$ 7,734,964	$ 8,895,732	$ 7,090,711

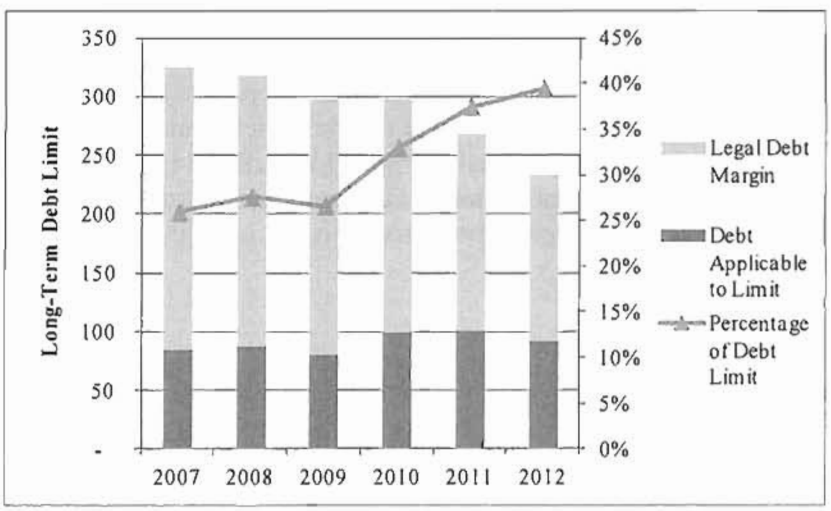
Source: City of Lansing Comprehensive Annual Financial Reports

IV. DEBT

The city of Lansing is fairly well-positioned in terms of long-term debt obligations. The city published in its 2012 Citizens' Guide to City Finances that its general obligation bond ratings are A1 (Moody's) and AA (Standard and Poor's) and its revenue bond ratings are 'Aa3' (Moody's) and AA- (Standard and Poor's). In October 2011, Moody's had downgraded the city's general obligation debt from Aa2, citing declines in valuations and operating under deficits that have depleted General Fund balance,[xvii] as discussed in section II. In December 2012, Standard and Poor's issued a report which upgraded the city's outlook from 'negative' to 'stable' and affirmed its 'AA' bond rating.[xviii] However, the report also cautioned that this rating is subject to the city's response to revenue fluctuations and budget gaps and that it could be downgraded if these issues are not addressed.

Exhibit III-1 illustrates the effect of valuations on the city's long-term debt limit, which is 10% of the assessed value of real and personal property.[xix] Although the nominal debt applicable to the debt limit has remained fairly steady over the past six years, the decline in property values has caused the debt as a percentage of the legal debt limit to rise by 14 percentage points since 2007.

Exhibit IV-1 Long-Term Debt Limit

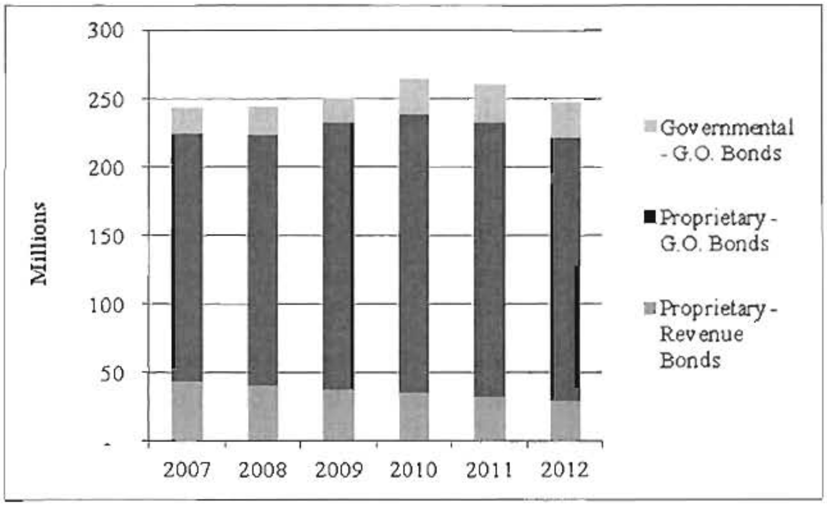


Source: City of Lansing Comprehensive Annual Financial Reports

As of June 30, 2012, the majority of the city's outstanding debt is comprised of bonds for proprietary funds (81%) as opposed to governmental funds (19%). The proprietary fund debt is mostly due to general obligation bonds for the sewer fund for the EPA-mandated Combined

Sewer Overflow (CSO) sewer separation project. Exhibit IV-2 shows a breakdown of the city's general obligation and revenue bond balances.

Exhibit IV-2 Bonded Debt - General Obligation and Revenue Bonds



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

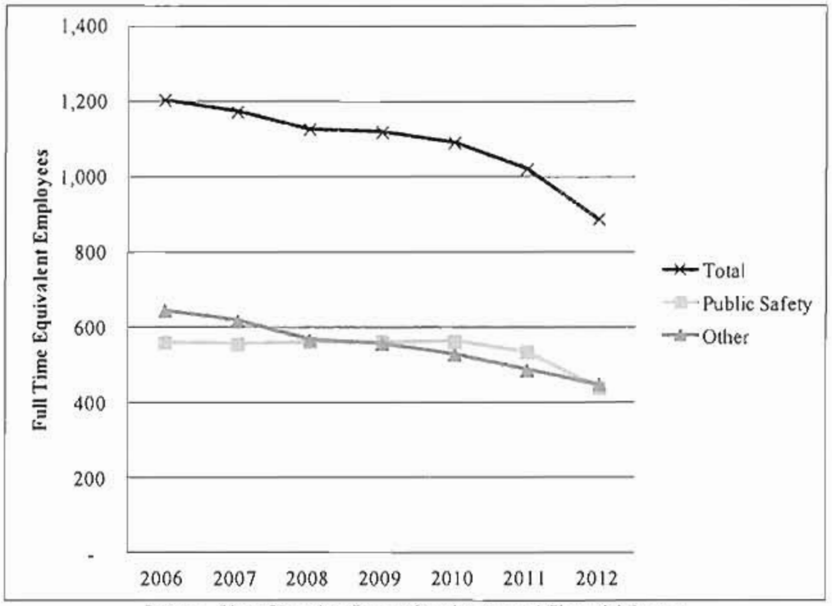
V. PERSONNEL TRENDS AND COSTS

The city of Lansing's budget is primarily driven by personnel costs as the city government, like most local governments, is a labor-intensive operation. Therefore, it is critical that these costs be examined to assess trends and key issues where reforms can be enacted. It should be pointed out that city of Lansing employees have already stepped forward and been willing to reduce their own benefit packages and have been subject to furlough days. Further, the city has reduced the workforce by nearly 30% over the past few years. This section reviews the trends in personnel and personnel costs

Annual Earnings and Benefits

The city of Lansing's payroll has declined by over 300 full-time equivalent employees, about 26%, over the last six years due to attrition, transfers, and layoffs. This breaks down to a 21% reduction in public safety employees and 30% reduction in other city employees.

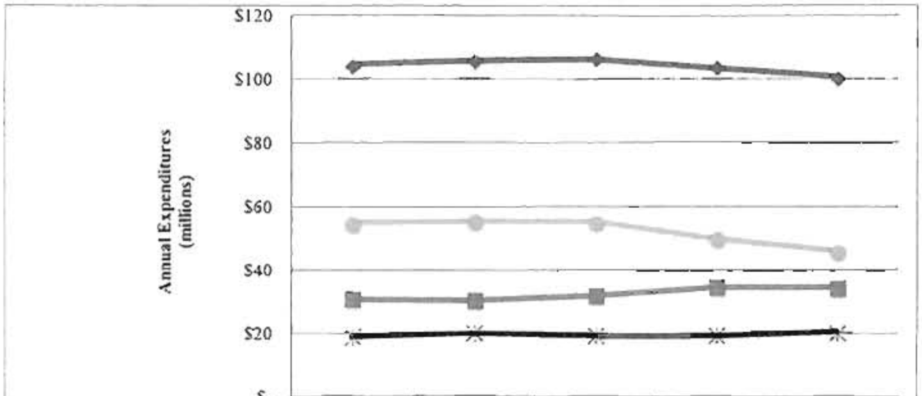
Exhibit V-1 Full Time Equivalent Employees



Source: City of Lansing Comprehensive Annual Financial Report

However, these personnel reductions have not necessarily induced comparative reductions in expenditures. Exhibit V-2 illustrates the overall personnel costs since 2008, which include annual earnings (including overtime), fringe benefits (such as health care, pension, workers compensation, FICA, and life insurance), and retiree health care and other post-employment benefit (OPEB) payments, which cover current premiums and any pre-funding. In addition to staff reductions, the city has attempted to control costs through measures such as furloughs, or reductions in work hours, and reductions in overtime for non-emergency employees. This reduced the base earnings by about 17%, but overall personnel costs have remained fairly constant. This is mainly due to increases in pension costs from 2010 through 2012. This chart provides a relative perspective on the relationship between payments for employee compensation and payments for employees after they retiree for health care coverage.

Exhibit V-2 Annual Earnings and Benefits Expenditures & Retiree Health Care Payments

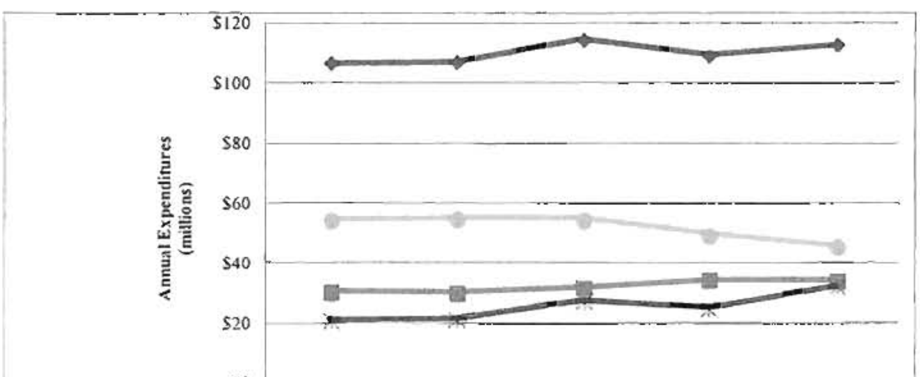


	2008	2009	2010	2011	2012
Annual Earnings	$54.8	$55.3	$55.1	$49.9	$46.0
Employee Benefits	30.9	30.4	32.0	34.6	34.5
Retiree Healthcare Contribution	18.9	20.1	19.3	19.3	20.3
Total Earnings and Benefits	$104.6	$105.7	$106.4	$103.7	$100.7

Source: City of Lansing Finance Department

Exhibit V-3 depicts a more comprehensive assessment of personnel costs by including the retiree health care legacy costs. This exhibit accounts for both the normal cost of benefits for the current year of service and an amortization payment to reduce the Unfunded Actuarial Accrued Liability (UAAL). Since the city has not contributed the full amount of the annual required contribution (ARC) over the years, overall costs have actually increased despite staff reductions.

Exhibit V-3 Annual Earnings and Benefits Expenditures - Retiree Health Care Annual Required Contribution

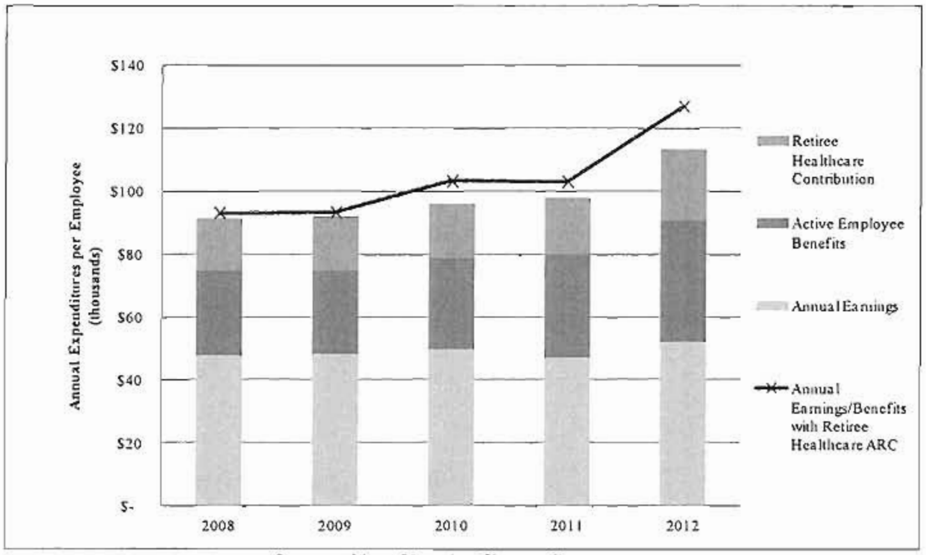


	2008	2009	2010	2011	2012
Annual Earnings	$54.8	$55.3	$55.1	$49.9	$46.0
Employee Benefits	30.9	30.4	32.0	34.6	34.5
Retiree Healthcare Required Contribution	21.0	21.5	27.5	25.1	32.4
Total Earnings and Benefits	$106.7	$107.1	$114.6	$109.5	$112.9

Source: City of Lansing Finance Department

Another illustration of how the city of Lansing's personnel costs have changed over time depicts the costs from Exhibit V-3 and Exhibit V-4 on a per active employee basis. Since 2008, there has been a 24% increase in actual costs per employee and 36% increase in costs taking into account amortized payments to fund the OPEB liabilities.

Exhibit V-4 Earnings and Benefits on a Per Employee Basis



Source: City of Lansing Finance Department

The city of Lansing may potentially realize cost savings for medical benefits in FY 2014. The Publicly Funded Health Insurance Contribution Act (PA 152), passed in September 2011, places limits on public employer contributions to medical benefit plans for active employees.[xx] Public employers can choose between a dollar amount cap based on a formula or pay no more than 80% of the annual health care costs. The has adopted the hard cap option. In August 2012, the Administration recommended and the City Council adopted a resolution that established a base plan healthcare plan for the executive management group with lower rates than the hard cap. That plan includes deductibles and coinsurance, with the option to pay extra for additional coverage or a smaller deductible. The resolution included pre-existing FY 2012 benefit plans in the list of alternative plans; however, continued participation is contingent on payment for the additional cost of coverage.[xvi] The Teamsters Local 214 collective bargaining unit adopted a similar benefit plan, and in October 2012, the City Council passed a resolution that applied this plan structure to City Council staff.[xxi]

Pension Benefits

The city of Lansing has a wide variety of pension plans offered to employees. Like many cities, pension plans were offered as a benefit in order to attract employees to city employment in the face of historically stiff competition from the auto industry in particular. An analysis was undertaken to determine the status of the city's pension systems.

Exhibit V-5 Comparison of Pension Benefits

Patrol Officer Labor Contracts - Pension
As of June 2011

Community	Type	Defined Contribution	Defined Benefit: Multiplier	EE Contribution	Eligibility	Maximum	FAC	COLA
Ann Arbor	DB	n/a	2.75	5.00%	55/5	none	3	No
Grand Rapids	DB	n/a	2.7	8.66% if funded < 100%		80%	5	1% after 5 years
Livonia	DC	11% ER	n/a	n/a	n/a	n/a	n/a	n/a
Southfield	DB	n/a	2.8	3.75%	any age/25	70%	3	No
Sterling Heights			2.8 up to 25 years; 1%/year thereafter	0.00%	any age/25	75%	3	No
Warren	Annuity	n/a	Annuity at 2.5 (25yrs); 1.0 (after 25 yrs)	5.00%	55/25	Scale up to 85% at 30 years	3	Maintain pension at no less than 40% of top paid officer salary
Westland	DB	n/a	2.8 up to 30 years; 1%/year thereafter	5% (if hired after 7/1/07); otherwise 0%	any age/25	none	3	No
Lansing	DB	n/a	3.2	8.50%	50/25	80%	2	$525/year
Battle Creek	DB	n/a	2.5	7.20%	55/25	none	3	E2
Jackson	DB	n/a	2.9	11.24%		none	3 plus 1%/year for each year > 25	No
Muskegon								
hired prior to 7/28/06	DB	n/a	3.0	6.00%	50/25; 55/10	75%	3	No
hired after 7/28/06	DC	10% ER	n/a	6.00%	n/a	n/a	n/a	n/a
Saginaw								
hired prior to 7/1/02	DB	n/a	2.6 up to 25 years	11.50%	any age/20	65%		One time 2.5%
hired after 1/1/02	DC	10% ER	n/a	5.00%	n/a	n/a	n/a	n/a
Pontiac	Annuity	n/a	Annuity at 3.0 (20yrs); 2.5 (next 5yrs); 1.0 (after 25 yrs)	5.00%	50/20	77.50%	n/a	n/a
Flint	DB	n/a	2.6%	5.00%	50/25	62.5	3	No

Abbreviations: Cost of Living Adjsutement (COLAS), Defined Benefit (DB), Defined Contribution (DC), Employee (EE), Employer (ER), and Final Average Compensation (FAC)

Source: Scorsone & Bateson, 2011[xxii]

Defined benefit plan pensions guarantee retiree benefit payments to retirees, with benefit levels being determined by a three part formula. The formula for calculating the annual pension benefit is shown below.

$$\text{Annual Pension Benefit} = \text{Years of Service} \times \text{Final Average Compensation (FAC)} \times \text{Pension Multiplier}$$

Years of Service - Years of service is based on actual employee service, although sometimes the employee or employer may "buy" years of service at an actuarially determined cost. Unless this is fully funded in advance, it increases the long-term liability.

Final Average Compensation (FAC) – The final average compensation is the average of wages or salary paid to the employee based on a predetermined number of years. Identifying what type of compensation is included in the FAC is important. If it includes overtime, vacation leave payout, longevity, and other pay items, the cost to the employer increases. When the FAC is determined using fewer years, typically the benefit is higher since it is based on highest years. When the FAC period is very short, even small increases in overtime, compensatory time payout, or accrued leave time payout will increase the pension. This is how some retiree's actual pension benefit can be higher than their regular full time pay as an active employee.

Pension Multiplier – The pension multiplier represents a percent of pay for each year of service.

A cost of living adjustment (COLA) provides an annual increase in benefit retirement. A COLA benefit provides a 2% annual increase in pension for retirees. A concern for granting automatic pension increases is that it further constrains future administrations. Employers typically have a pension plan design where they may instead grant a one-time COLA adjustment to retirees.

Based on the most recent actuarial valuations, the city of Lansing incurs the third-largest unfunded pension liability out of the ten largest cities in the state with $218 million (Exhibit V-6). The City also has the lowest funded ratio at 66.9%.

Exhibit V-6 Pension Funding Status for Michigan's Ten Largest Cities - Sorted by Unfunded Actuarial Accrued Liability

	Population				
Jurisdiction	**Rank**	**Census**	**Liability**	**Unfunded AAL**	**Funded Ratio**
Detroit	1	713,777	$ 7,528,809,731	$ 643,754,129	91.4%
Flint	7	102,434	835,052,000	267,837,000	67.9%
Lansing	**5**	**114,297**	**659,854,217**	**218,260,616**	**66.9%**
Warren	3	134,056	534,599,101	133,133,119	75.1%
Grand Rapids	2	188,040	811,062,755	129,575,222	84.0%
Sterling Heights	4	129,699	384,904,232	98,570,813	74.4%
Ann Arbor	6	113,934	496,770,000	86,061,000	82.7%
Dearborn	8	98,153	489,475,591	58,272,507	88.1%
Clinton Township	10	96,796	114,226,069	8,962,719	92.2%
Livonia	9	96,942	195,105,000	(8,829,000)	104.5%

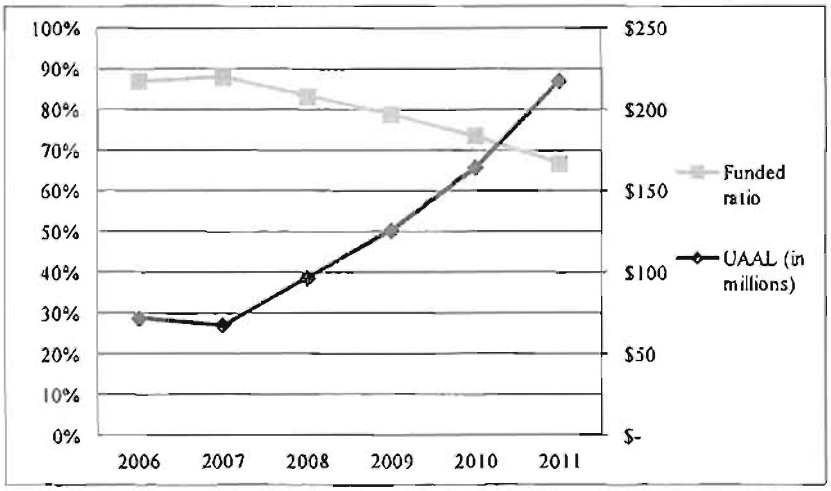
Source: U.S. 2010 Census and 2012 Comprehensive Annual Financial Reports[1]

The city of Lansing's combined pension UAAL for the two systems has increased from $72 million in 2006 to $218 in 2011 which was the time of the last actuarial valuation (Exhibit V-7). The funded ratio fell during this time from 87% to 67%. A significant cause of this decrease in

[1] Data source for the City of Livonia is the 2011 Comprehensive Annual Report, since the 2012 copy was unavailable at the time this report was written.

funding ratios was the 2008 stock market decline, the losses of which are amortized over the succeeding five-year period. Because stock market gains in more recent years are also amortized over the succeeding five years, those gains, which will help increase the funding ratio, have not been fully realized.

Exhibit V-7 Pension Funded Ratio and UAAL



Source: City of Lansing Comprehensive Annual Financial Reports

Only one community in our comparison communities has a defined contribution plan for current employees (Livonia). Two other communities, Muskegon and Saginaw, have recently implemented a defined contribution plan for new hires after a certain date. This is a common way for employers to transition the workforce to defined contribution plans to control long-term costs.

Other Post-Employment Benefits

The city contributes to other post-employment benefits (OPEB) for employees who are eligible to receive pension benefits from the Employees Retirement System and from the Police and Fire Retirement System. The city also contributes to a Voluntary Employee Beneficiary Association (VEBA) trust fund. Based on the most recent actuarial valuations, the city of Lansing incurs the second-largest unfunded OPEB liability out of the ten largest cities in the state with $431 million (Exhibit V-8). The city, despite consistent, albeit significantly lesser-than-needed, prefunding contributions for longer than most other communities, also has the fourth-lowest funded ratio at 9.9%.

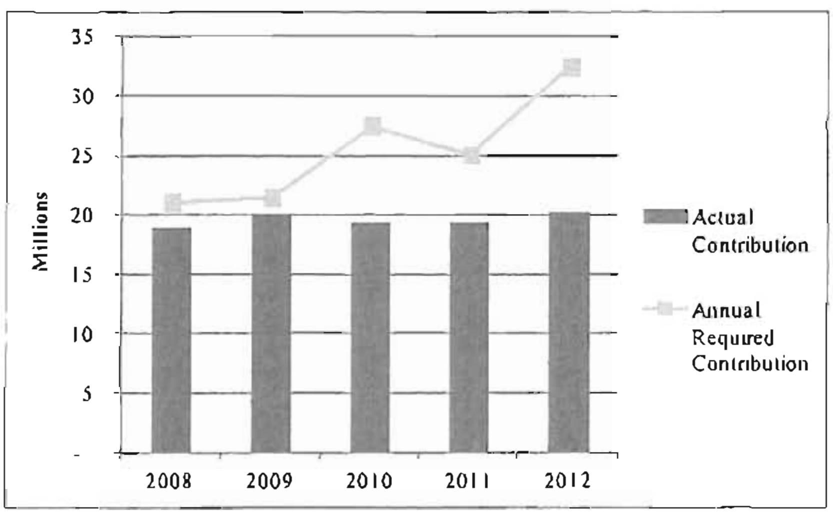
Exhibit V-8 OPEB Funding Status for Michigan's Ten Largest Cities - Sorted by Unfunded Actuarial Accrued Liability

Jurisdiction	Population Rank	Census	Liability	Unfunded AAL	Funded Ratio
Detroit	1	713,777	$ 5,718,286,228	$ 5,718,286,228	0.0%
Lansing	**5**	**114,297**	**479,135,588**	**431,776,738**	**9.9%**
Flint	7	102,434	366,832,597	366,832,597	0.0%
Warren	3	134,056	322,084,682	280,243,704	13.0%
Ann Arbor	6	113,934	249,844,000	162,184,000	35.1%
Grand Rapids	2	188,040	168,237,016	161,433,227	4.0%
Dearborn	8	98,153	191,997,781	156,323,331	18.6%
Sterling Heights	4	129,699	178,487,654	139,812,173	21.7%
Livonia	9	96,942	153,223,000	92,862,000	39.4%
Clinton Township	10	96,796	65,453,220	44,939,735	31.3%

Source: U.S. 2010 Census and 2012 Comprehensive Annual Financial Reports[2]

As discussed earlier, the proportion of the ARC that the city has paid to cover OPEB has declined over the last five years, from 90% in 2008 to only 62% in 2012. This has mainly been attributed to the budget constraints that were described in section II. In order to cover other expenditures, the city reduced its contributions relative to the ARC.

Exhibit V-9 Other Post-Employment Benefits - Actual vs. Annual Required Contribution

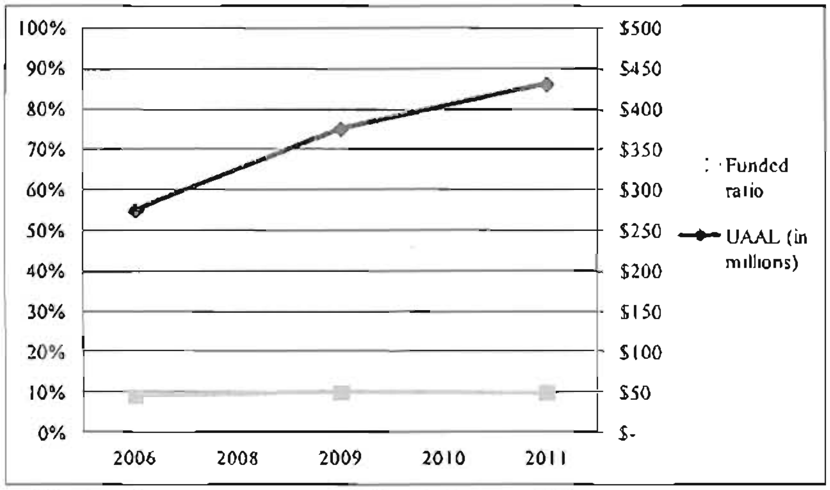


Source: City of Lansing Finance Department and Comprehensive Annual Financial Reports

[2] Data source for the City of Livonia is the 2011 Comprehensive Annual Report, since the 2012 copy was unavailable at the time this report was written.

Since the actuarial valuation in 2006, the city's unfunded OPEB liability has increased by almost 60%, from $276 million to $432 million. The city's contributions levels have maintained funding at around 10%. Unfunded liabilities can be addressed via increased contributions from employees or employers or through changes in the benefit structure.

Exhibit V-10 Other Post-Employment Benefit Funding Status



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

VI. COMMITTEE RECOMMENDATIONS

Short Term Subcommittee

This section is intended to summarize the deliberations of the Lansing Financial Health Team (LFHT) - Short Term Subcommittee. The LFHT was appointed by the mayor of Lansing in the fall of 2012 to begin to provide recommendations to address the short and long term financial stress facing the city government. These recommendations are designed to address the short term deficit facing the city as well as put a down payment on the need to address long term solvency challenges.

The first order of business is determining what services the city must provide and how efficiently they can be provided. It is only after such evaluation that consideration should be given to increasing costs to taxpayers. In the longer-term, the city should regularly examine all of its service delivery mechanisms and determine on a business case basis how they can most efficiently be provided. Property management, assessing, sign shop, street sweeping, billing, and collections are all examples of areas where the city should evaluate the cost/benefit of providing these services with its own staff or through contracts with others.

FY 2014 Budget Recommendations:

1. There must be a continued and increased commitment to aggressively reducing the city's unfunded pension and retiree health care liabilities. Thus, future projection of city revenue and expense gaps should acknowledge these liabilities. Additionally, the FY 2013-14 budget should include an additional financial commitment of $1 million for prefunding retiree health care. This is only a small percent of what would be needed to fully fund the city's pension and OPEB obligations and this should be increased over time. The city should also work to negotiate changes in benefit plans with its unions to address those costs.

2. The city must aggressively pursue the use of technology to improve productivity and improve services. The current level of financial commitment is inadequate, and the FY 2013-14 budget should include a significant additional appropriation to improve the level of technology used in the city. It is recommended that a minimum $1 million investment be made in information technology. Additionally, the city should create a new Chief Information Officer (CIO) position at the cabinet level which is expected to cost $200,000 in total compensation (including benefits). The city should work with the School District to examine the possibility of jointly hiring a CIO to serve both groups. Although this is a substantial investment now, it will make the government more efficient and provide better services, and will save money in the long run.

3. The city's financial reserves are at dangerously low levels. The city should increase these reserves by at $1,000,000 in order to have funding for emergency situations.

4. The city should undertake a facility study in order to determine which facilities are necessary and which can be sold. This should be undertaken in conjunction with the school district. It is estimated that this study will cost $100,000 but that it will result in long term cost savings.

5. A comprehensive fee study for all city services should be undertaken and fees should be set at a level to fully fund each service or a conscious decision should be made to partially subsidize the service. It is estimated that this will cost approximately $100,000.

6. The city should determine the amount of general tax subsidy that is made to support recreational programming, and should take all actions necessary to eliminate that subsidy. There are many other organizations that provide such programming. As in human services, while recreational programming is important, it is not essential for the city to provide when its available resources dictate that it must focus on its essential services of police, fire, roads, and utilities. Eliminating the recreational program General Fund subsidy will result in savings of $1,000,000. The Subcommittee recommends a three-phased in approach so the FY 2013-14 savings will be $300,000.

7. The city should take all actions necessary to eliminate the more than $500,000 annually budgeted as a subsidy for cemetery operations. These actions could include total outsourcing of operations or the sale of the properties. There are numerous competent providers other than the city government. The city currently operates the three cemeteries, for which current charges for services only cover 30-40% of expenditures. The Subcommittee recommends that the city consider outsourcing operations or selling the property. However, the potential negative impacts of outsourcing should be identified before it is implemented. For example, in addition to providing burial plots, private cemeteries market for business by providing services that city cemeteries do not provide, such as sale of monuments and other services. The potential increase in competition may negatively affect monument companies, funeral homes, etc. if the city cemeteries were managed by or sold to private entities.

8. The city's funding for human service agencies as reflected in the current ordinance should be phased out as there are numerous other providers and funders. Support of human services by a municipal entity, while valuable and important, is not an essential service in comparison to police, fire, roads, and utilities. The city currently designates 1.25% of general fund revenue annually to support Lansing area human services organizations. The city had budgeted $1,260,000 to support approximately 60 agencies for FY2013, with contributions ranging from $2,000 to $120,000. Programs funded through this subsidy include homeless shelters, child care, food, clothing, housing assistance, transportation, senior citizen assistance, and legal assistance for indigents, as well as other life skills, employability development, and

health programs. However, it is believed that in the absence of this subsidy, community organizations would fill in the gaps of service provision. This is not the case for fire, police, and infrastructure maintenance. For the FY2014 budget, the Subcommittee recommends to eliminate the 1.25% set-aside by ordinance and instead consider including 75% of that amount (equivalent to 0.9375% of General Fund revenue) in the budget with the condition that allocation decisions be made in comparison to other demands for city services This change will result in savings of $275,000, and eliminating the mandatory set-aside will require human services to compete with all other budget needs.

9. The current schedule of reduced hours of work for non-emergency/non-24 hour personnel should be made permanent, but any further reductions should be made only if an evaluation of impact has concluded that service to the public is not reduced. This change is expected to reduce costs in the General Fund budget by $1,000,000. In addition, a study should be undertaken to determine how much cost savings the city would incur if it instead laid off an equivalent number of employees rather than having reduced work hours for the current number. If the savings are significant and it is feasible to do, this should be implemented instead of the current schedule of reduced work hours.

10. The Building Department Fund is responsible for building, plumbing, electrical, mechanical, and plan review and inspections. Subsidies for building safety from the General Fund have typically been $200,000 - $500,000. During FY2013, the city raised user fees for permits, which has helped reduce the anticipated subsidy to $200,000. Thus, eliminating the subsidy altogether would result in a projected savings of $200,000.

11. The city should take all actions necessary to eliminate the tax subsidy for golf courses. While improvement has been made, the fact remains that there are many golf courses in this area that operate without a general tax subsidy. These include both private clubs, such as the Country Club of Lansing, and privately-owned courses that are open to the public, such as Forest Acres, College Fields, and a suite of four courses owned by Hawk Hollow Golf Properties.

The Golf Fund consists of all revenues and expenditures related to the Groesbeck Golf Course and the Sycamore Driving Range. Previous efforts to control costs include closing two golf courses in 2008 and transferring management of the driving range to a non-profit organization. In FY2013, the city transferred management of marketing and concessions for the Groesbeck Golf Course to the Lansing Entertainment and Public Facilities Authority (LEPFA). However, the Golf Fund will still receive a $350,000 subsidy from the Parks Millage Fund in order to cover expenditures;. the Golf Course seems unable to compete with private courses in the area because it does not have a banquet facility. The Subcommittee recommends selling or transferring management of these entities which may require special attention to timing so that the course does not fall into disrepair and sell at a lower profit.

12. Consolidation of services among agencies of the city with a specific focus on the Board of Water and Light should be done. This change alone is estimated to save the General Fund budget approximately $100,000.

13. Funding for fire services should be examined to determine that the current level of funding is necessary to provide an adequate level of service. It is estimated that staffing changes can be undertaken with an acceptable impact on services. In addition, consolidation efforts with other fire departments within the region should be pursued. A recent study undertaken by Plante Moran found that fire department collaboration is an attractive option for all communities that participated in the study, including Lansing. The study found that economies of scale can exist within contiguous communities for fire and EMS and that, through collaboration, municipalities can deliver improved fire protection and EMS services at a reduced cost. Based on these findings, the Subcommittee recommends a reduction in fire department funding of $2,000,000.

14. It is estimated that police funding reductions can be undertaken with an acceptable impact on services. According to the FY2011 report from the Michigan Local Government Benchmarking Consortium, the city's police department costs per resident and per full-time equivalent (FTE) officer are 35% and 20% higher than the sample average, respectively. Based off of the 2011 data, the city would need to reduce its expenditures by about $7,900,000 to match the average costs per resident or by about $6,000,000 to match the average costs per FTE officer. The city also has 10% more FTE officers per 1,000 people served than average, but 2.5% fewer calls for service. However, efforts to match the performance of comparison municipalities should be implemented gradually since the city's response time to both emergency and non-emergency calls are greater than average, and sweeping cuts may negatively impact the quality and efficiency of police services. In order to provide the police department with a realistic starting point for developing innovative ways to improve efficiency without making major compromises in service quality, the Subcommittee recommends a $1,000,000 reduction in police department funding, which is 3% of its FY2013 budget.

15. Efforts to contain health care costs must continue. Thus, proposed changes to health care for police should be pursued aggressively and included in the budget, with explicit offsetting reductions if changes are not accomplished. This includes a recommendation that active police union employees adopt a health care benefit plan that complies with the PA 152 hard cap, a year before their contract expiration, which will save the city $700,000.

16. Based upon the comprehensive fee study, it is estimated that the city should be able to raise an additional $175,000 from increases to other fees that have not been adequately increased over time.

17. The city and the Board of Water and Light should move to a user fee concept to pay for the use of hydrants and street lights. It is standard practice in many communities to charge the users for these services. The projected annual increase in fees will be approximately $45 and $1,394 for residential and commercial BWL customers, respectively. However, because property values and thus property taxes have diminished drastically since the Great Recession, this fee increase will likely be offset by the reduction in other taxes felt by city residents and business owners. For example, the property tax levied on a property with a taxable value of $70,000 is projected to decrease by $31. These changes will result in a permanent reduction in General Fund expenditures that is estimated to be $5,500,000.

18. The Lansing Entertainment and Public Facilities Authority (LEPFA) manages the Lansing Center, the Lansing City Market, and the Cooley Law Stadium. The General Fund currently transfers $1,100,000 to LEPFA and $500,000 to the stadium to assist in covering operating costs. Current debt service for the stadium ends in FY2014, which may reduce expenditures, but will likely be replaced by new debt for capital improvements. The city's subsidy of the Lansing Center is unsustainable. However, if the city were to cease funding for the Lansing Center it would likely shut down, divesting the downtown of a venue for attracting conventions and commerce. There are alternative funding sources that should be explored to keep the convention center open.

Currently, the Lansing Center indirectly receives bed tax support through funds disbursed by the Greater Lansing Convention and Visitors Bureau (GLCVB), which receives 80% of the bed tax receipts that Ingham County collects under Public Act 263 of 1974. Under Public Act 180 of 1991 (PA 180), the city of Lansing is authorized to levy a bed tax of no more than 1% of gross receipts or a car rental tax of no more than 2% of gross receipts for supporting sports stadia and convention facilities, which is subject to voter approval. The 425 tax-sharing agreement to conditionally transfer the Capital Region International Airport from DeWitt Township to the city of Lansing may facilitate this recommendation since it allows the city to levy and collect taxes on this property. The Airport serves as a source of car rental business and thus, a potential source of car rental tax revenue. However, according to the sharing agreement, the city may be required to remit 50% of such revenues to DeWitt Township.

Other cities have funded their convention centers through similar means. For instance, the COBO Center in Detroit, MI relies on a bed tax levied by Wayne, Macomb, and Oakland Counties in order to subsidize bonds sold for an expansion to the facility. The convention center in Columbus, Ohio is funded by the county. The San Diego Convention Center is undergoing a $520 million expansion that is being funded by hotel taxes ($35 million per year), the city ($3.5 million per year), and the San Diego Unified Port District ($3 million annually for 20 years).

In accordance with existing policy, the Subcommittee recommends that the city pursue an addition to the bed tax and/or levy a car rental tax that will raise $100,000 and reduce the General Fund subsidy for the Lansing Center. The city should take into account potential impacts on smaller inns and other issues raised when Wayne County proposed these taxes in 1996. Further, the Subcommittee recommends that the city move toward completely eliminating the General Fund subsidy of the Lansing Center over the next few years.

The following is a summary of the short term committee recommendations:

	Deficit Projection	$9,000,000
	New Investments:	
1.	Additional Prefunding of Legacy Costs	1,000,000
2.	Information Technology and CIO	1,000,000
3.	Financial Reserves	1,000,000
4.	Facility Improvements	100,000
5.	Comprehensive Fee Study	100,000
	Investments Total	$3,400,000
	Total Deficit Plus New Investments	$12,200,000
	Proposed Savings:	
6.	Phase Out Recreational Programming Subsidy	$300,000
7.	Eliminate Cemetery Subsidy	$500,000
8.	Phase Out Human Services Support	$275,000
9.	Make Permanent a 4 1/2 Day Work Week	$1,000,000
10.	Eliminate Building Inspection Subsidy	$200,000
11.	Eliminate Golf Subsidy	$350,000
12.	BWL Administrative Consolidation (GF Cost Savings)	$100,000
13.	Reduce Fire Funding	$2,000,000
14.	Reduce Police Funding	$1,000,000
15.	Police Health Care Restructuring	$700,000
16.	Other Fee Increases	$175,000
17.	BWL Revenue Adjustment (GF Cost Savings)	$5,500,000
18.	Car Rental and Bed Tax Increase (Reduce Lansing Center Subsidy)	$100,000
	Total Proposed Savings	$12,200,000

Long Term Subcommittee

The city lacks the ability to implement many of the following recommendations on a unilateral basis. Many recommendations relating to the terms and conditions of employment of city employees will require negotiations through the collective bargaining process and agreement with representatives of city employees. Some recommendations may be subject to binding arbitration under state law before implementation. In addition, the Michigan Constitution prohibits diminishing or impairing accrued pension benefits.

Pension Systems and Benefits

1. Some city employees do not currently participate in Social Security. The city and its employees should move toward 100% participation in the Social Security program and then reduce pension costs incurred by the city to offset non-participation in Social Security.

2. The city should conduct a thorough evaluation of its defined pension systems and implement changes for both current and future city employees. The efforts should focus on reduced costs, best practices, and the financial sustainability of benefit levels. As part of this process, the city and its employees should consider all of the following:

a. Adjusting the multiplier used in determining the pension benefit based upon the age of an employee at retirement;

b. Pension multipliers should be evaluated with other well-managed defined benefit pension systems in Michigan and elsewhere to identify best practices in establishing multipliers.

c. Dissuade spiking in pension benefits by basing pension benefit on average compensation over a period of 5 or more years, or over the total period of employment, rather than final salary;

d. Increase eligible retirement ages consistent with other public and private sector employers;

e. Evaluate the financial viability of moving new city employees to a defined contribution retirement benefit and/or offering such an option to current employees;

f. Evaluate the financial viability of moving new city employees to a hybrid defined benefit/defined contribution retirement plan and/or offering such an option to current employees; and

g. Evaluate whether the administration or investment responsibilities for the pension systems, or both, could be more efficiently and effectively performed by others rather than by current city boards and personnel. This evaluation should include evaluation of both a potential transfer to the Michigan Municipal Employees' Retirement System, as has successfully occurred in many other Michigan communities, or to another governmental entity, such has the city of Kalamazoo, which has a strong performance track record. Other cities moving from city-administered systems have realized substantial savings.

Retiree Health Care

3. Currently city retirees receive a health care benefit during retirement established on the date of retirement, requiring the city to administer of different health care plans. The city should move to a single health care plan for all city retirees receiving health care benefits that is consistent with the standard plan provided to active city employees.

4. Move to a uniform schedule for vesting in retiree health care benefits, consistent with best practices in other communities..

5. Consistent with other governments and the private sector, the city should move to a defined retirement health care benefit contribution for retired city employees, at a minimum for new city employees. This may take the form of a lump-sum payment or an annual fixed contribution to a health savings account. Closing the retiree health care plan for new employees will result in an immediate actuarial savings for the city. The Commission on Retiree Healthcare Benefits for the City of Chicago recently recommended that the city end the provision of health care benefits to retirees in 2014 when the employees have the ability to purchase coverage through the Illinois State Health Exchange. The city should conduct a similar analysis for Lansing.

6. After moving to a defined retirement health care benefit, the city should consider whether the issuance of bonds to finance the city's significant unfunded obligations for retiree health care is financially advisable.

Health Care Benefits

7. When city employees are involved in auto accidents, the city should require that primary health coverage be provided through auto insurance and not the city's health care plan.

8. The city should implement an aggressive and on-going program to audit dependents of city employees to assure only those eligible receive health care benefits.

9. The city should require implementation of a program to incentivize employee with health care coverage under a plan provided by the employer of his or her spouse to obtain health care benefits from the spouse's plan, where the city hold-harmless the city employees from any reduced benefits under the spouse's plan.

10. The city should move to a uniform health care benefit plan with a simplified plan design for all city employees. The plan should include a traditional self-insurance option, a health maintenance organization option, and a high deductible option supplemented with a health savings account.

11. The city should actively participate in the activities of the Michigan Municipal Services Authority (MMSA) to establish a statewide health insurance pool for government employees through its virtual health and wellness initiative. When operational, this program has significant potential to provide cost savings to the city and its employees.

12. When evaluating health insurance plan changes, the city should include the economic impact on the city when any change in providers.

13. The city should implement new health and wellness initiatives to reduce health care costs. The city should attempt to implement with another city a health and wellness challenge competition to incentivize behavior like that currently underway between the city of Chicago, Illinois and the city of San Antonio, Texas. This competition was supported by a $5 million grant from a private foundation.

14. The city should contract with a third party to review claims and manage costs under the city's self-insurance program.

15. The city should adopt more aggressive drug formulary management and drug utilization protocols, improved prior authorization and other demand management tools.

Workforce

16. With a recommendation by the Short Term Solutions Group that the current reduced work schedule for city employees be made permanent, it is recommended that in the longer term this change be fully recognized as structural reduction in the number of city employees. Employees should be restored to a full work schedule but the number of authorized city employees should be reduced accordingly. A reduced city workforce reduces the space needed in City Hall.

Technology

17. The city should participate in the Michigan Municipal Services Authority's initiative to create a cloud-based financial management system for local governments.

18. The city should move to a cloud-based office software suite such as Microsoft Office 365 or Google Apps for Government. The city of Chicago reports that its move to Microsoft Office 365 will save $1.3 million over 4 years. Chicago Public Schools indicates that its move to Google Apps will save $2 million per year.

Facilities

19. Lansing's City Hall was built and designed for a different era when services provided in a different way involving many more employees. Given the age of the building and many of its vital systems and the likely need for significant repairs and updates, the city should immediately undertake a study as to whether city services could be more effectively delivered from another location, financed in part by the sale of the current City Hall property. Any new location should be designed not just to serve the needs of the city but also function as a center for multi-jurisdictional and regional governance and cooperation, including, but not limited to, enhanced coordination with the Lansing School District, Ingham County, and others in the delivery of governmental services.

Efficient Provision of Non-Core Functions

20. The city should undertake an effort to determine if certain non-core functions currently performed directly by city employees could be instead performed more efficiently by the private section. In evaluating costs and benefits, city employees should be afforded the opportunity to bid on work, and the impact of moving functions outside of city government on legacy costs

such as post-retirement benefits should be analyzed. Areas for initial consideration should include:

- Parking;
- Waste hauling;
- Ambulance / Emergency Medical Services;
- Information Technology; and
- Accounting services.

Maximizing City Revenue

21. The city of Lansing is the seat of state government under the Michigan Constitution. As such, the city should actively encourage the State to locate its employees within the city. The city should maintain an inventory of properties within the city that could meet the needs of state department and agencies and should regularly interface with state officials on the state's future needs.

22. The city should authorize and actively seek advertising on city buildings, property, vehicles and websites to generate additional revenue to provide vital services to Lansing residents.

23. The city currently provides law enforcement and fire protection services to public educational entities within the city that provide no financial support to the city to support those services. The city should pursue authorization to assess a public safety fee on students attending public institutions of higher education within the city to cover the costs of those services. The state of Michigan, as an example, provides the city with fire protection grants to partially cover the public safety costs incurred by the city in protecting state employees and facilities.

24. The city should develop an initiative, possibly in partnership with the Ingham County Land Bank, to encourage college, university and law school students to purchase and invest in housing in the city of Lansing.

25. The city should develop an initiative to encourage trade associations and other similar organizations interacting regularly with state government to locate at the seat of state government, in the city of Lansing.

26. The city should modify its income tax to allow collection of the tax by the state on behalf of the city, eliminating a separate income tax withholding and filing process for the city.

27. The city should support state legislation to move to a formula for distributing state revenue sharing to local governments based upon population density rather than a per capita distribution.

Regional Subcommittee

Regional cooperation, collaboration and consolidation in the Lansing metropolitan area has been a topic of discussion, as well as action, for decades. Today, however, regionalism has become a more urgent imperative, driven by unprecedented financial pressures on local units of government to provide public services in the most efficient, cost-effective manner possible.

Beyond providing essential public services more efficiently, a key dimension of regionalism is sharing the benefits of economic development between neighboring jurisdictions. One of the Lansing region's first and most successful regional initiatives was the P.A. 425 tax-sharing agreement between General Motors, the city of Lansing and Delta Township for the construction of GM's Lansing Delta Assembly Plant.

The Lansing-Delta agreement became the template for subsequent 425 agreements successfully negotiated between Lansing and Alaiedon Township for the construction of the Jackson National Life headquarters, and between Lansing and DeWitt Township for the creation of the Next Michigan Development Zone (aka "Aerotropolis") at Capital Region International Airport.

Another recent regional initiative is the shared fire services study commissioned by the cities of Lansing, East Lansing and the neighboring townships of Lansing, Delta and Delhi. Lansing and East Lansing, entering their second year of a shared fire chief, are systematically evaluating the prospects for greater coordination between their fire departments, facilitating the process of synchronizing two similar but different organizations. All of the regional partners in this important endeavor have our strong support and encouragement to continue moving forward along the path outlined in the fire study, including the possible merger of one or more existing departments if it means that fire protection can be provided more efficiently and cost-effectively.

The Subcommittee applauds these efforts, and thanks the leaders in both the public and private sectors who are pursuing them. We recognize that regionalism is often complex and challenging, even under the best of economic conditions. Yet there is still more to do as the economic imperatives of our times and the broken model of municipal financing in Michigan push us toward finding new ways to provide essential public services more efficiently and cost-effectively.

The Subcommittee spent a number of months assessing the prospects for future regional initiatives between Lansing and neighboring jurisdictions. Perhaps our most important conclusion is that this vital work must continue. Toward this end, the Subcommittee encourages Mayor Bernero to join with other regional leaders in establishing a forward-looking, ongoing regional initiative to study the potential and evaluate the business case for future regional initiatives, including the possible regional consolidation of key public services or even jurisdictions.

In the course of our review, the Regional Subcommittee interviewed numerous regional leaders from both the public and private sectors. Productive and insightful conversations were held on a wide range of topics, many of which are encapsulated in the specific recommendations of the Subcommittee.

The Subcommittee has identified several areas in which the region can better work together to provide more efficient, cost-effective services that maintain or even enhance current service levels. The subcommittee met with representatives from the Lansing School District, Clinton County and Eaton County to discuss ways that the city of Lansing can work with the other entities to improve efficiency.

The Lansing School District is looking to create a strategically-located, consolidated secondary school campus. They would also like to right-size their office facilities. They welcome a partnership with the city of Lansing to tackle these issues.

The Lansing School District also has a need to streamline in three areas: operational support, instructional programs, and infrastructure. Operational support includes services such as food services, a regional kitchen, custodial services, and grounds maintenance. Instructional programs include special education and career technology education. Infrastructure areas include personnel, payroll and benefits, procurement, information technology, legal counsel, and public relations.

The two most promising ways in which the Lansing School District and the city of Lansing can cooperate are in the sharing of an administration building and an information technology delivery system with a joint Chief Information Officer.

Clinton and Eaton Counties are also open to regionalism. However, they believe that regionalism should be approached through small steps. Many residents in Lansing suburbs do not see their survival being dependent on the city of Lansing, even though these areas are dependent upon and driven by the success of Lansing.

Business leaders in the city of Lansing feel that Lansing lacks a unified vision for regional cooperation and that Lansing's current financial situation must be resolved in order to gain the support and trust of outlying areas.

The Regional Subcommittee identified the following as areas that are ripe for further exploration:

1. In accord with the Long Term subcommittee recommendation relative to City Hall, the city and school district should explore the possibility of establishing a combined facility for municipal offices and school offices.

2. The city and school district should collaborate on a shared technology upgrade and hire a joint Chief Information Officer (CIO).

3. The city and school district should explore additional areas of collaboration, including key operational areas and infrastructure needs where economies of scale and cost-savings can be obtained, such as personnel, procurement, IT, public relations and legal counsel.

4. District court functions for the city are currently housed within City Hall. The city should support state legislation combining the three separate district courts in Ingham County into a single county-wide district court, allowing the elimination of one or more district judgeships within the county through attrition. A similar consolidation was recently and successfully implemented in Kalamazoo County.

5. The city should continue to work toward greater cooperation, collaboration and possible merger of the Lansing and East Lansing Fire Departments, as well as other local jurisdictions, in accord with the regional Fire Services Study. In the interim, the city should reorganize the delivery of Lansing fire services to facilitate the establishment of a regional authority for the provision of such services with East Lansing and other communities in the region. Area business and government leaders have a particular interest in the negotiations with Lansing fire unions and bringing staffing and cost more in line with regional standards.

6. The city should consider a service agreement with the county sheriff for the operations of the city's detention facilities and engage in a longer-term evaluation of establishing a consolidated courts and detention facility that would serve the major communities of the Lansing region.

7. To more efficiently deploy law enforcement assets, the city should evaluate joining the Courts and Law Enforcement Management Information System (CLEMIS) operated by Oakland County and effectively serving communities throughout Southeast Michigan.

8. Related to the Long-Term subcommittee recommendation concerning the efficient provision of non-core services by private entities, the city should also undertake an effort to determine if core and non-core functions could be performed more efficiently by the public sector on a regional basis.

9. The city of Lansing should seek state legislation authorizing a new form of agreement for the conditional transfer of land under 1984 PA 425. Existing 425 agreements between the city, Jackson National Life and Alaiedon Township, and between the city, General Motors and Delta Township, greatly benefit the city, neighboring jurisdictions and the companies. State law should be amended to allow the city to enter into a new form of agreement with the Director of the Department of Technology, Management and Budget (DTMB) to allow property such as the state's Secondary Complex to be conditionally transferred to the city.

10. City assets with regional benefits should be funded on a regional basis. For example, both the Lansing Convention Center and the Thomas Cooley Stadium benefit communities and residents throughout the region, but direct operational support is provided only by the city. Under state law, convention centers in both Detroit and Grand Rapids are operated by regional authorities. The city should work to amend state law to provide Lansing with the same tools.

11. The city should fully explore moving parks and recreation functions to a regional or multi-jurisdictional entity. Many city recreational resources, such as the River Trail, are regional resources benefitting the entire region. This effort should be supplemented by a formalized park adoption program in partnership with the private and nonprofit sectors.

12. The Regional Subcommittee recommends that the Mayor establish an ongoing regional initiative to systematically evaluate the potential for regional cooperation, collaboration and consolidation, and to build the business case for specific measures that would regionalize public services where there are demonstrated cost efficiencies and/or service level enhancements. The initiative will require staff support from one or more of our major institutions of higher education, or another research-based organization that focuses on the revitalization of urban core communities. The initiative will also require funding for the research and evaluation phase. Significant financial support may be available from the state of Michigan's Competitive Grant Assistance Program (CGAP), which seeks to assist communities in evaluating and implementing regional solutions to the challenges of providing robust public services in an era of limited resources, or from private foundations in the form of grants.

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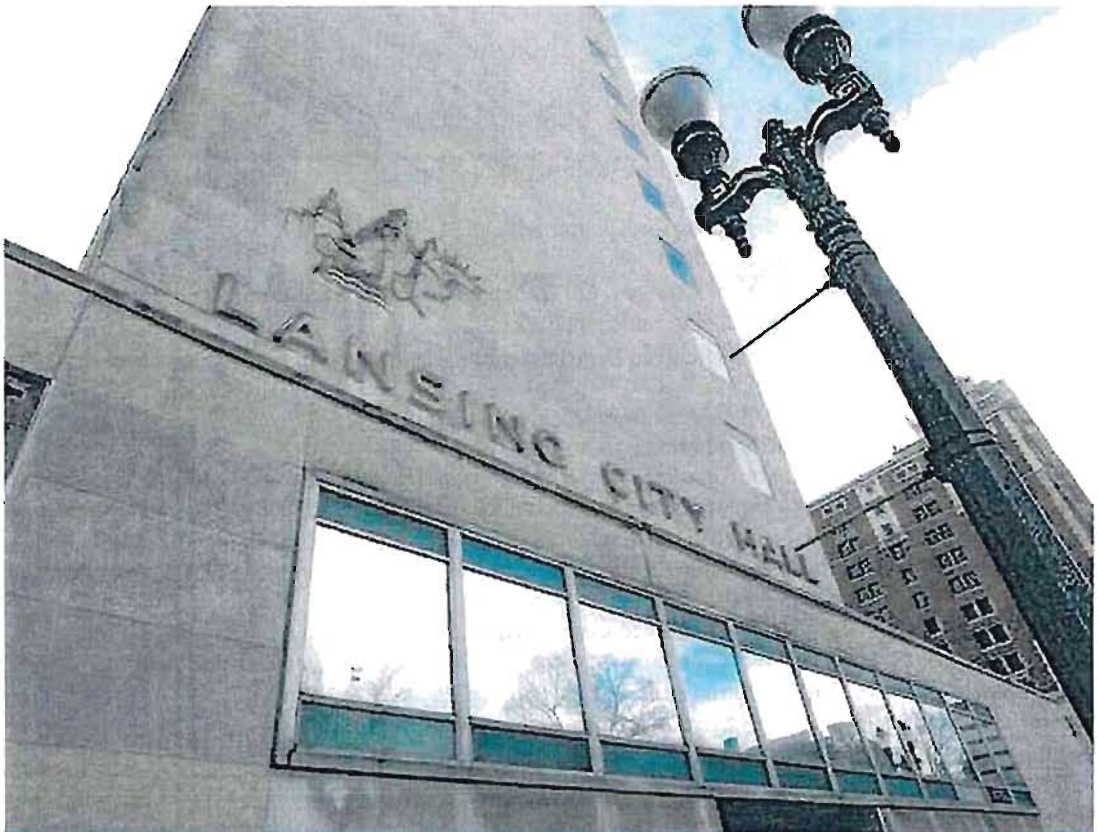

CITY OF LANSING, MICHIGAN PENSION PLAN ANALYSIS

September 26, 2017

Segal Consulting

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City of Lansing, Michigan

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September 26, 2017

Mayor Virg Bernero
City Hall
124 W Michigan Avenue
Lansing, MI 48933

Re: Final Pension Plan Analysis Report

Dear Mayor Bernero:

We are pleased to present the final report of Segal's analysis of the City of Lansing's pension plans. This analysis provides a detailed review of the City's pension plans, including the actuarial assumptions and methods used in determining the City's contributions. This report includes the following:

1. ***Methods and assumptions review*** – an analysis of the actuarial assumptions and a review of the actuarial methods utilized in determining the funded status and accrued liability for compliance with generally accepted actuarial principles.

2. ***Peer group benchmarking*** – a detailed comparison of the City's plans with other cities' plans in the State of Michigan.

3. ***Plan design and funding approach alternatives*** – a discussion of other means of retirement benefit delivery and alternate strategies for funding the plans.

This review was conducted under the supervision of Kim Nicholl, a Fellow of the Society of Actuaries, a member of the American Academy of Actuaries, and an Enrolled Actuary under the Employee Retirement Income Security Act (ERISA). This review was conducted in accordance with the standards of practice prescribed by the Actuarial Standards Board.

The assistance of the City of Lansing's staff is gratefully acknowledged.

We appreciate the opportunity to serve as an independent actuarial advisor for the City of Lansing and we are available to answer any questions you may have on this report.

Sincerely,

Kim Nicholl, FSA, FCA, MAAA, EA
Senior Vice President, Public Sector
Retirement Practice Leader

Brad Ramirez, FSA, FCA, MAAA, EA
Vice President and Actuary

Matthew A. Strom, FSA, MAAA, EA
Vice President and Actuary

/cz

Enclosure

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1 Executive Summary

The City of Lansing (City) is seeking analysis and recommendations for potential ways to mitigate the cost and liability of its outstanding pension obligations and retiree healthcare and other post-employment benefits ("OPEB") obligations, both present and future.

Segal Consulting (Segal) was engaged by the City to perform this analysis. This report will concern itself with the pension plans currently sponsored by the City. The analysis of the OPEB plans will be provided under separate cover. As of the December 31, 2015 actuarial valuations, the City sponsors two defined benefit pension plans:

- Police & Fire Retirement System ("Police and Fire")
- Employees' Retirement System ("Employees'")

The City's actuary recently performed a five-year experience analysis of both Plans in order to improve the accuracy of the Plans' actuarial valuation assumptions. This study resulted in an increase in projected contributions for both Plans.

The objectives of this study are as follows:

- Review the actuarial assumptions used in the valuation of the City's retirement plans
- Evaluate the City's current pension benefit plan designs, including the efficiency of benefit delivery
- Discuss appropriate plan design/structure alternatives to the structure currently in place, including hybrid plans, defined contribution plans and other alternatives
- Benchmark the design and funding aspects of the pension plans relative to a peer group
- Develop alternative funding approaches to increase financial stability of the City's retirement plans
- Develop recommendations for the City's consideration

Segal reviewed the plans' actuarial assumptions and methods. We performed this analysis based upon the plans' valuation reports as prepared by the plans' actuaries, Boomershine Consulting Group, LLC ("Boomershine"). As part of this review, Segal did not independently replicate Boomershine's calculations, and can only comment on the assumptions and methods as presented in the valuation reports and other supplemental material. Segal did not include an analysis of detailed actuarial data and this report is limited to review and reliance on existing actuarial reports and experience studies.

In addition, we reviewed the Actuarial Assumption Review and Experience Studies covering the period January 1, 2012 through December 31, 2015, which was prepared by Boomershine after the most recent 2015 valuations. The assumptions and methods recommended in these studies

were not incorporated into the valuation reports that we reviewed. However, we have noted where the experience study recommendations address the issues we observed.

The assistance of the City in creating this report is gratefully acknowledged.

The key findings of this report are below along with recommendations of areas that need additional review.

➤ The current actuarial valuation assumptions and methods appear to be reasonable and comply with relevant actuarial standards of practice. We recommend the following:
  - Review the inflation assumption and give consideration to whether the assumption should be lowered – the experience studies recommended lowering the inflation assumption from 3.10% to 2.75%. The Employees' Plan lowered this assumption to 2.925% with the stated intention of lowering the rate to 2.75% next year. The Police and Fire plan lowered this assumption to 2.85% with the stated intention of lowering the rate to 2.75% next year.
  - Monitor the investment return assumption, particularly given that the inflation assumption is on the high side of reasonableness – the experience studies recommended lowering the investment return assumption from 7.60% to 7.25%. The Employees' Plan lowered this assumption to 7.40% with the stated intention of lowering the rate to 7.25% next year. The Police and Fire plan lowered this assumption to 7.35% with the stated intention of lowering the rate to 7.25% next year.
  - Consider updating the mortality assumptions to the most recent Society of Actuaries' mortality and generational mortality improvement scale – the experience studies recommended updating the mortality tables.
  - Consider whether a corridor around the market value of assets should be included in the asset smoothing method

➤ The City's pension plans are similar to the plans of the peer group, and are funded on a similar basis. The City's pension multiplier for new participants is lower than those within the peer group for defined benefit plans but is supplemented by a Defined Contribution plan. The City's plans use similar assumptions and funding methods to those in the peer group, with the City's plans' assumptions being slightly more conservative than the overall group.

➤ There are many items to consider when transitioning to a defined contribution plan (DC) or a hybrid plan. While defined benefit (DB) plans are a more efficient mechanism for delivery of pension benefits, the contributions can be volatile due to investment performance and demographic changes, as the employer retains these risks. DC contributions are typically fixed as a percentage of payroll, and the employee bears the investment and demographic risks. Hybrid plans share these risks between the employer and employee. Before considering any changes to the current systems, it is important that the City balance the risks of their benefit plans with the goals of the City and its stakeholders.

➤ Retirement benefits are one of the tools that employers can use to manage its workforce. Plan design can attract, motivate, and retain talent. Plan design can also encourage individuals to terminate employment or to retire. Employers need to assess their current and future workforce needs and then design retirement arrangements that support those needs. Generally, DB plans encourage longer-term employment but may not be as useful as DC plans in attracting workers who do not intend to remain with an employer for a long period

and desire portability. Hybrid plans can be attractive options as they combine the attributes of both DC and DB plans. Knowing what the workforce goals are is essential to a viable retirement benefit strategy, and if changes are needed to the overall retirement structure.

- The pension plans' unfunded liabilities represent benefit promises already made to active and retired employees. As of December 31, 2015, these unfunded liabilities are amortized over a closed 26-year period, decreasing by one year each year to an ultimate period of 15 years; at which point the amortization period will become a rolling 15-year amortization period. The experience study for the Employees' Plan recommends changing the ultimate period to 10 years. The experience study for the Police and Fire Plan recommends retaining the 15-year ultimate period. This means that the amortization period will remain at 15 years for the Employees' Plan and 10 years for the Police and Fire Plan and the plans will **never** be fully funded. Contributions toward the unfunded liabilities are based upon a payroll growth assumption of 3.10% per year. This means that the payments toward the unfunded liabilities will increase by this amount each year, which is intended to mirror the actual growth in member payroll. The payroll growth assumption and the actual increase in payroll each year determine how quickly the unfunded liabilities of the plans are amortized. The experience studies recommend lowering the payroll growth assumption to 2.75%. This assumption should be closely monitored and consideration should be given to adopting a funding policy that targets 100% funding over a reasonable period.

- If the existing plans were to be completely closed to new members, with new hires entering a DC plan, the closed group's active payroll would decrease. Since the current plans are being funded as a percent of payroll, including payroll for future members, this would result in an immediate need to accelerate DB contributions. Alternatively, the City could adopt a different funding policy not related to payroll.

- The unfunded liabilities of the plans would not be affected by transitioning to a DC or hybrid plan. Any plan changes would only affect active members' future benefits. The normal cost represents the value of benefits accruing for active members. A portion of the normal cost is funded by member contributions. The remaining portion is funded by the City. The City's normal cost rate is 7.2% of payroll for Employees' and 14.2% of payroll for Police and Fire. The normal cost portion of the City's contribution is $1.7 million for Employees' and $3.8 million for Police and Fire for a total of $5.5 million. Reductions in future benefits for active members would lower the City's normal cost contributions of $5.5 million. As an example, if the value of benefit accruals were reduced by 10% for all active members, the reduction in the City's contribution would be $550,000.

- The unfunded actuarial accrued liability, which totals $250 million, will not be affected by reducing new members' benefits. This liability will need to be paid by the City.

- The City could accelerate its contributions to the pension plans, which would reduce future contributions. However, like other Michigan municipalities, the City of Lansing is challenged in its revenue structure, which limits its ability to do so.

2 Background

The Employees' Plan has a Funding Ratio (actuarial value of assets divided by liabilities) of 57.0%. The plan has 981 inactives and 371 active participants, and over 80% of the Plan's liability is devoted to inactive members. As a result, a significant portion of annual contributions is made toward benefits earned in previous years. Of the total projected City contribution of $10.2 million for 2016, only $1.7 million represents benefits earned for actives during the year.

The Police and Fire plan faces similar challenges. The Funding Ratio is 71.3%, and inactives represent approximately 75% of the Plan's liability. Of the total projected City contribution of $11.5 million, only $3.8 million represents new benefits earned.

Chart 1 - Employees' System 12/31/2015 Actuarial Accrued Liability

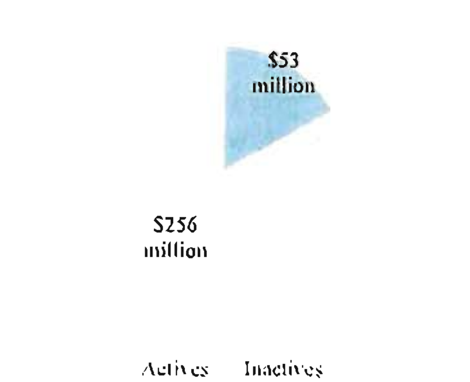
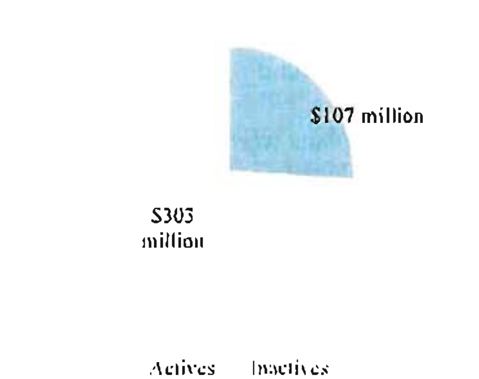
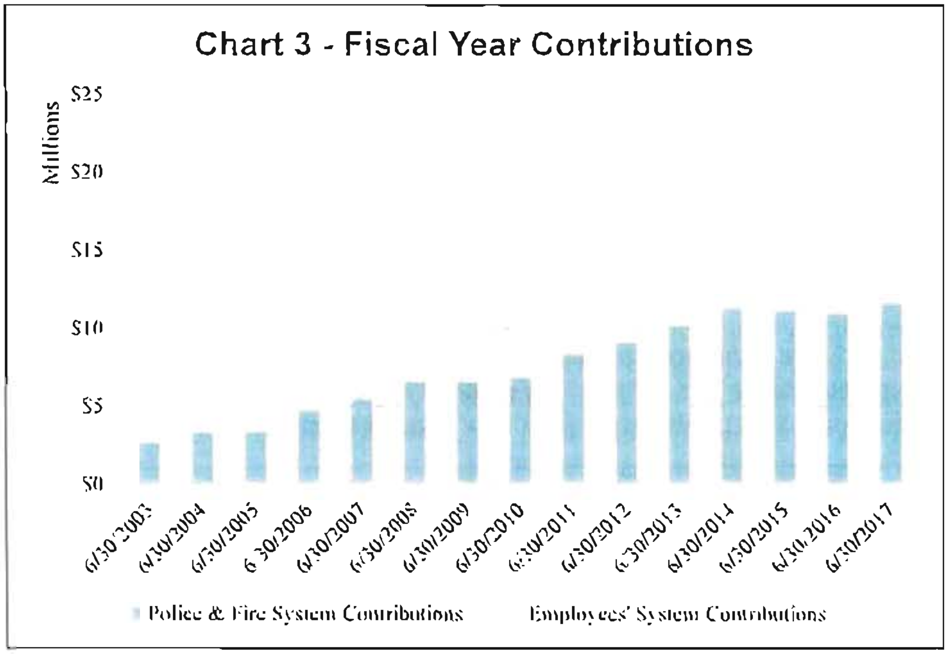


Chart 2 - Police and Fire System 12/31/2015 Actuarial Accrued Liability



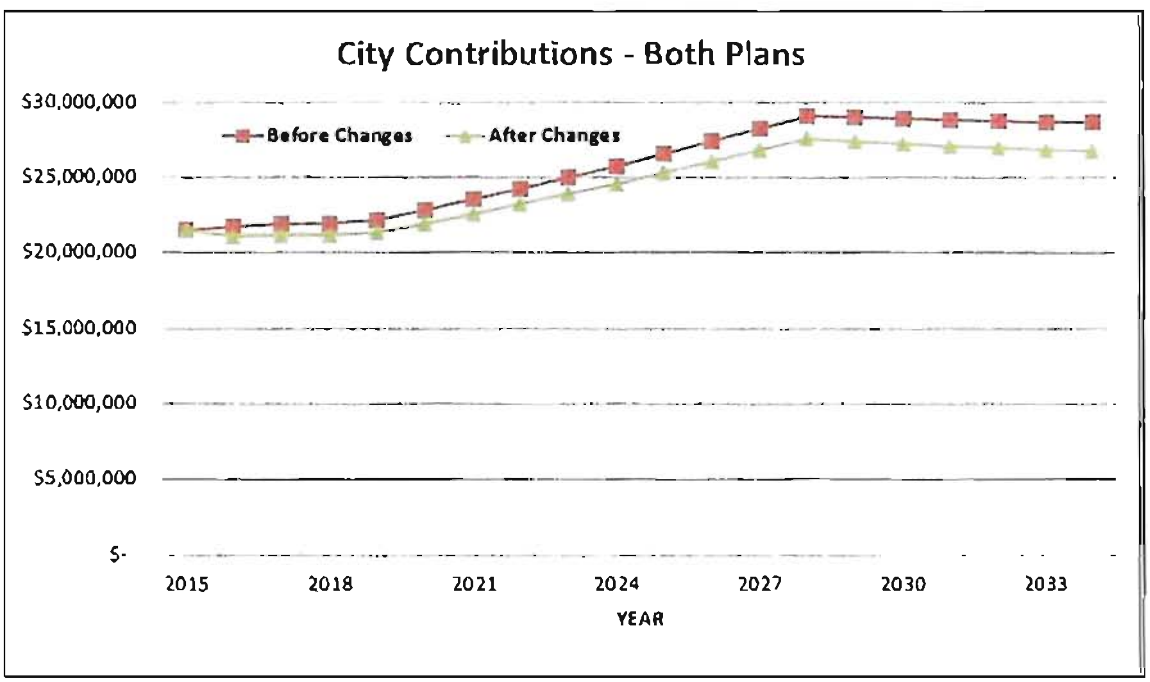
Because the majority of liability is devoted to inactive benefits, the total elimination of benefits for actives going forward would result in a reduction of $5.5 million per year. However, the remaining unfunded liability would remain and continued payments would be necessary.

Contributions to fund these and retiree health obligations have increased dramatically over the last ten years, and currently comprise 35% of the city's budget. Projections indicate that the contributions will increase significantly for the next several years. As with other cities across the country, this presents a challenge in light of cuts in state funding and legal restrictions on revenue growth.



The City has made a number of changes to collective bargaining agreements that have impacted the Plans, including increasing employee contributions and lowering the retirement benefit formula. Because most of these changes apply to new hires after a certain date, the cost savings are recognized slowly over time as active employees are replaced by those subject to the new provisions.

Chart 4 - Projected Contributions



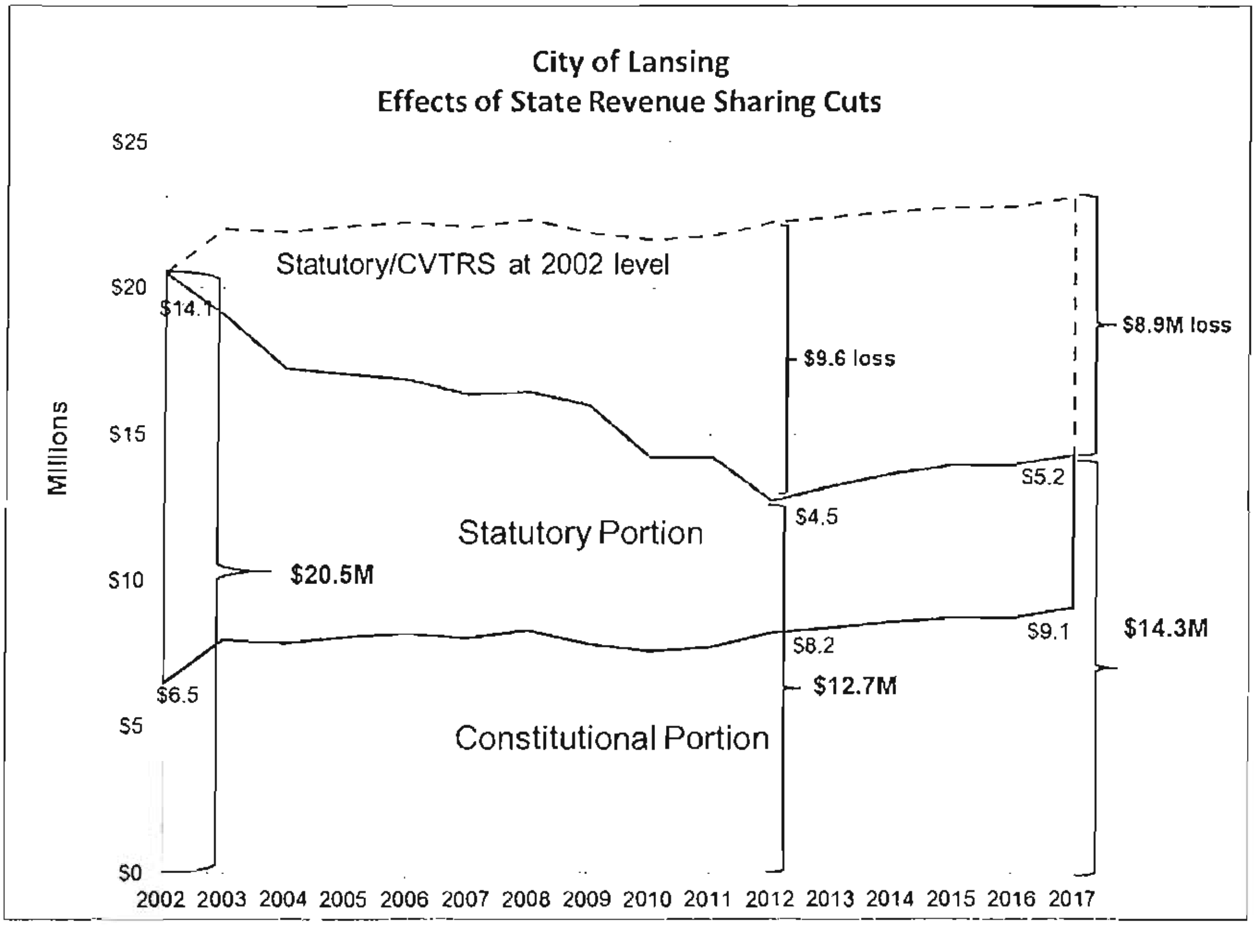
Source: "The City of Lansing Employees' Retirement System and Police and Fire Retirement System Analysis of Recent Benefit Changes" by Boomershine Consulting Group, March 2, 2015

City Resource Challenges

The City of Lansing, like other Michigan municipalities, is challenged in its revenue structure. The structure for Michigan's municipal funding is based on centralization of taxation and revenue diversification at the state level, with municipalities having limitations on ability to raise revenues. A prime example is sales taxes: in many other states, municipalities can levy sales taxes; in the state of Michigan, only the state is allowed to levy sales tax. This structure was predicated on revenue sharing by the state with its municipalities.

Preceding and through the Great Recession, as the State of Michigan ran into its own budgetary challenges, the statutory portion of revenue sharing to municipalities by the state was reduced by approximately $8.1 billion. For the City of Lansing, these cuts have amounted more than $6 million in real dollars *annually* for the City, and almost $9 million annually when adjusted for inflation, or over $104 million from 2002-2017.

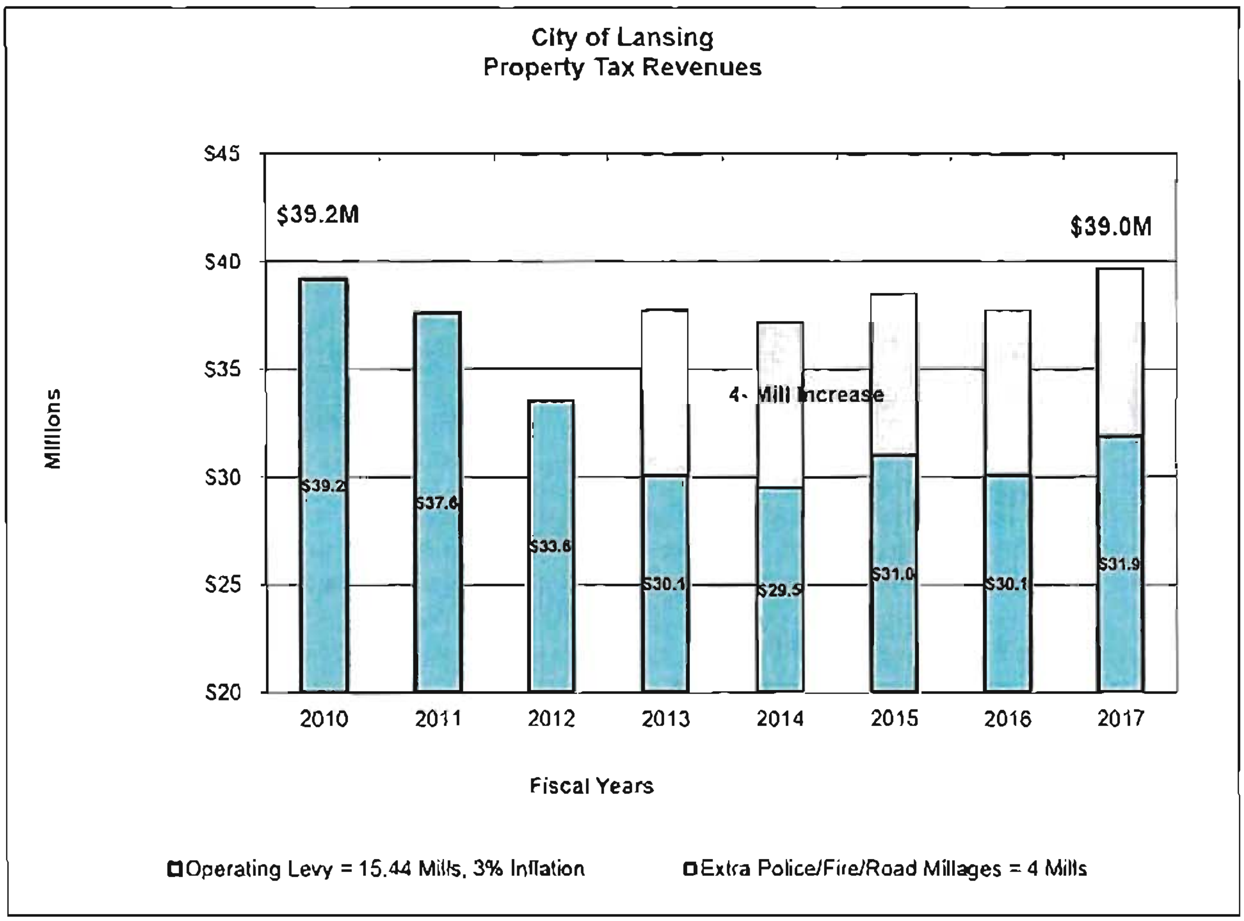
Chart 5 – Effect of State Revenue Sharing Cuts



At the same time, due to limitations by the state Headlee Amendment and Proposal A, the City's (and other municipalities') largest General Fund revenue source, the property tax, is limited in growth by the lesser of the rate of inflation or five percent.

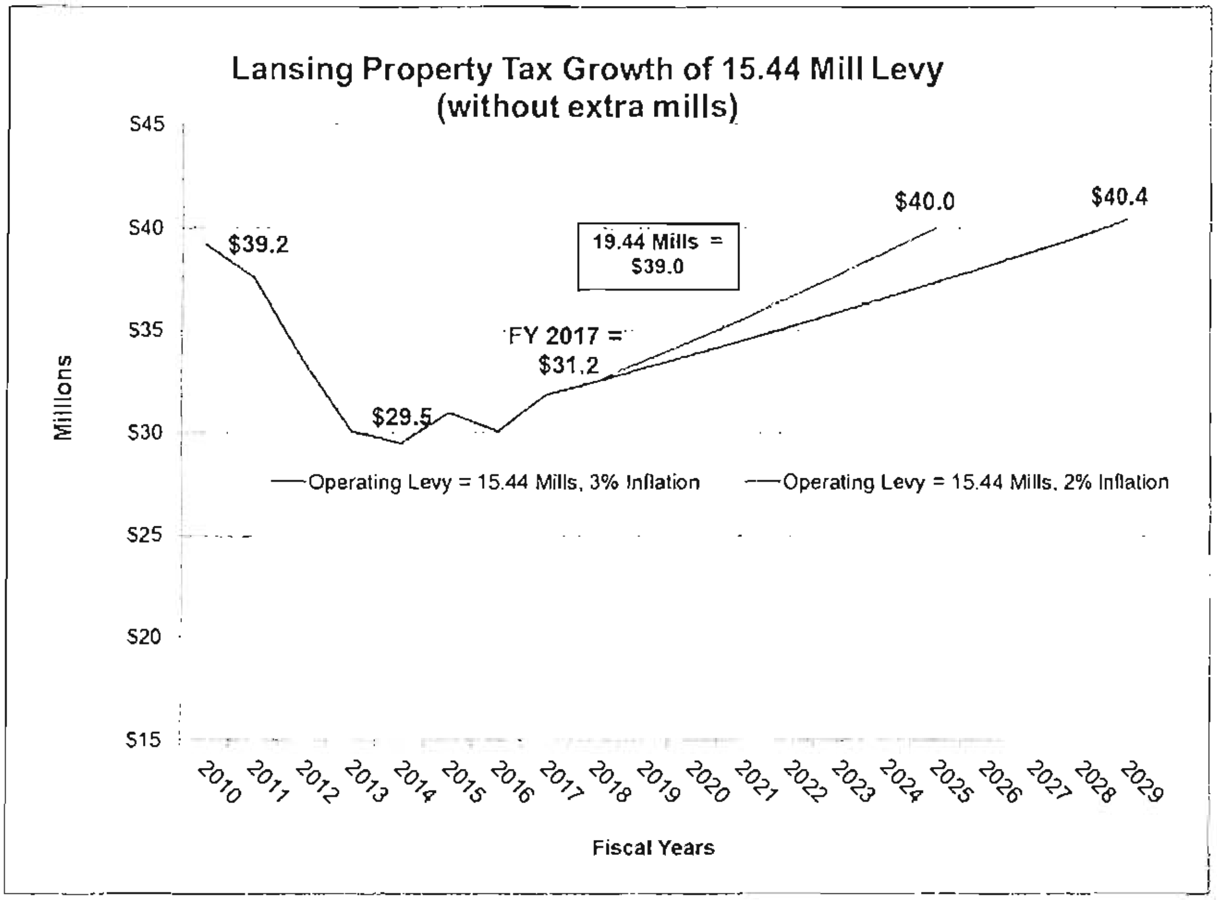
During the Great Recession, as property values declined, Lansing's property taxes decreased by 25%, or $9.7 million, over a four-year period, resulting in a four mill voted property tax increase for police, fire, and roads. While that four mill property tax levy substantially offset that loss, it brought the City's operating levy up to 19.44 mills, which within .56 mills of the 20-mill maximum allowed for home-rule cities in the State of Michigan. As a result, the City is unable to increase its operating property tax levy much further.

Chart 6 – Property Tax Revenues



As demonstrated in the following chart, because of the above-stated state limitations on property tax revenue growth from the state Headlee Amendment and Proposal A, the City anticipates property taxes to increase only 2%-3% over the next several years and that pre-recession property tax revenue levels, net of the extra four mills, will not be reached until 2025 to 2028.

Chart 7 – Property Tax Growth



These funding cuts and revenue constraints have generally affected the state's urban core communities more than others. Urban core cities, like Lansing, tend to be older communities, having aged infrastructure; tend to be built-out with limited undeveloped land; tend have higher poverty rates; and tend to have higher legacy (pension and retiree healthcare) costs. These factors are true for the City of Lansing, which was incorporated in 1859 and has twice the number of retirees as current employees.

In response to these challenges, leading up to and during the Great Recession, the City enacted many different changes in city programs, staffing, and organization, including:

- Reducing the City's workforce by 30% since FY 2006, from 1,220 to 867
- Reducing City pension and retiree healthcare cost growth by negotiating increases in employee health insurance premium sharing, healthcare plan changes, and pension contributions
- Reducing City health insurance costs with a wrap program for Medicare-eligible retirees
- Closing 3 fire stations and eliminating associated costs

- Closing Waverly and Red Cedar Golf courses
- Closing Miller Road Senior Community Center
- Closing Washington Ice Dome and Scott House
- Consolidating functions within the City (grounds maintenance, engineering, fleet maintenance, parking enforcement, fire/building inspections)
- Consolidating functions with other governments (911, dive team)
- Entering into cooperative agreements with other governments (police and fire training, purchasing, economic development)
- Expanding mutual aid agreements and shared services studies with adjoining municipalities
- Transferring management of Sycamore Driving Range and Fenner Nature Center to non-profits
- Eliminating leased space by consolidating police Patrol and Investigations Divisions
- Increasing fees
- Implementing new technology to improve efficiency (including cash receipting, code compliance, financial system upgrades, payroll system, computerized traffic ticket system, E-filing for income taxes)
- Implementing energy efficiency measures in City buildings
- Instituting a voter-approved 4.0 mill property tax increase to mitigate further reductions to police, fire and road services

Noteworthy is the fact that the City's FY 2018 General Fund Budget is still less than the budget proposed by former Mayor Hollister in **FY 1999**, when adjusted for inflation.

During this time, the City also worked with its unions to reduce the growth of pension and retiree healthcare costs. A recent actuarial study estimates that these efforts have reduced projected costs to by over **$200** million over the next forty years. However, the challenge remains in the projected growth of these costs, in combination with its aging infrastructure, reductions in revenue and revenue constraints in the next fifteen-to-twenty years.

As previously noted, these challenges are not unique to the City of Lansing, especially within the State of Michigan.

3 Assumption Review

The valuation of a defined benefit pension plan is dependent upon assumptions of future experience. These assumptions are utilized in order to project the benefits that will be paid from the system. Using these projections, organizations make contributions under a funding policy that will timely fund the benefits as they are payable.

It is important to note that the assumptions used in the valuation do not affect the benefits that are promised to participants. Ultimately, the "true cost" of a pension plan will be the benefits that are paid to its participants. Assumptions are used, along with the plan's funding policy, to determine how to fund the pension plan over time in accordance with the governing entity's budgetary concerns and risk profile.

Assumptions are the actuary's best estimate of future events and are rarely perfectly accurate. It is important that the assumptions used in these ealculations are monitored and modified as appropriate so that the true cost of the benefits paid is being accurately measured.

For the purposes of this study, we evaluated the following reports:

> City of Lansing Employees' Retirement System Actuarial Valuation for Funding and Contributions as of December 31, 2015 (prepared October 2016)

> City of Lansing Police and Fire Retirement System Actuarial Valuation for Funding and Contributions as of December 31, 2015 (prepared October 2016)

> City of Lansing Employees' Retirement System Actuarial Assumption Review and Experience Study Covering January 1, 2012 through December 31, 2015 (prepared December 2016)

> City of Lansing Police and Fire Retirement System Actuarial Assumption Review and Experience Study Covering January 1, 2012 through December 31, 2015 (prepared December 2016)

The reports were produced by the Boomershine Consulting Group ("Boomershine"), the plans' actuaries.

Segal's analysis of the assumptions and methods was based upon those reported in the valuation reports and recommended in the experience study reports as prepared by Boomershine. Segal did not independently perform a replication of these valuations or the analysis of experience.

There are two types of actuarial valuation assumptions: demographic and economic. Demographic assumptions are used to model the expected individual behavior of plan participants and include assumptions for retirement, disability, withdrawal, and mortality. Economic assumptions are used to model more global financial effects, such as rates of inflation, rates of return on assets, and salary increases.

Inflation Assumption

The inflation assumption underlies every other economic assumption. It is important that the inflation assumption be consistent throughout all of the economic assumptions. In fact, most actuaries start the economic assumption-setting process by specifying the inflation assumption and then building the other economic assumptions from that amount (referred to as the "building-block method").

The inflation assumption may also directly affect other valuation elements, including cost-of-living increases and the amortization of the unfunded liabilities. If plan cost-of-living increases are tied to inflation, the assumption will determine the amount of projected increases in retirement benefits each year. The Plans' cost-of-living increases are linked to actual inflation.

The inflation assumption has been reduced from 3.10% to 2.925% for the Employees' Plan and from 3.10% to 2.85% for the Police and Fire Plan. These assumptions are consistent with historic averages. However, recent years have seen historically low inflation--the CPI-W increased approximately 1.8% per year from 2006-2016. Horizon's 2016 Survey of Capital Market assumptions indicates that the average median inflation is expected to be 2.31% over the next 20 years with expectations ranging from 2.00% to 2.80%. As of June 2016, the difference between the yields on US Treasury bonds with and without inflation indexing is 1.61%, which represents one measure of the financial market's current expectation of inflation over the next 30 years. The 2016 OASDI Trustees Report uses three inflation assumptions to project its future financial status:

- Low inflation of 2.00%
- Moderate inflation of 2.60%
- High inflation of 3.2%

The median inflation assumption for the 160 public pension plans that are included in the Public Plans Database (collected by the Center for Retirement Research at Boston College) is 3.05%.

The experience studies recommend a decrease to the inflation assumption, from 3.10% to 2.75%, which we believe are reasonable. The plans' inflation assumptions have been reduced to 2.92% for the Employees' Plan and 2.85% for the Police and Fire Plan and appear to be reasonable. We understand that the boards' intent is to lower the inflation assumptions to 2.75% in 2018. Because of the importance of the inflation assumption, we recommend that these assumptions be evaluated on an ongoing basis.

Investment Return Assumption

The investment return assumption is of key importance to the actuarial valuation. For public sector funding valuations, benefit payments are typically discounted at the same interest rate as the investment return assumption. In order for this discounting to be valid, the investment return assumption must be supported by the underlying asset mix of the fund. In other words, the rate of return of a pension plan's assets over the projection period should match the plan's rate of return assumption.

The investment return assumption has a large effect on plan funding. A drop in the investment return assumption corresponds with an immediate increase in the plan's liabilities. Typically, a 1% decrease in the assumption results in an immediate 10%-15% increase in Actuarial Accrued Liability.

Using a relatively high investment return assumption will result in lower liabilities and lower current contributions. The fund's projected market returns will be expected make up for the lower contributions. However, it actual investment returns are lower than the assumption, the contributions will increase. Using a relatively low investment return assumption will result in higher liabilities and higher current contributions. The fund's higher contributions will be expected to make up for the lower projected returns. In addition, a lower investment return assumption may result from a desire for the plans to take on less risk in their investment portfolios.

There are significant risks in not meeting the investment rate of return assumption. If the plan consistently underperforms the assumed rate of return, funding will not occur in accordance with the plan's policy. Future contributions will need to be higher in order to balance the lower returns.

The City's investment return assumption has been reduced from 7.60% to 7.40% for the Employees' Plan and from 7.60% to 7.35% for the Police and Fire Plan. These assumptions are within industry standards as the majority of public sector pension plans use an investment return assumption between 7.00% and 7.75%. In recent years, many public sector plans have lowered this assumption in light of recent economic events. The City and its advisors should continue to carefully monitor returns to verify that the plans' asset mixes support the use of this assumption.

The experience studies recommend that the investment return assumption be lowered from 7.60% to 7.25% along with lowering the inflation assumption. We believe this assumption would be reasonable. The plans' investment assumptions have been reduced to 7.40% for the Employees' Plan and 7.35% for the Police and Fire Plan and appear to be reasonable. We understand that the boards' intent is to lower the investment return assumptions to 7.25% in 2018. Because of the importance of the investment return assumption, we recommend that these assumptions be evaluated on an ongoing basis.

Mortality Assumption

The assumptions for mortality attempt to accurately project how long plan members will live. Since defined benefit plans pay benefits until a retiree and/or beneficiary dies, increases in life expectancies result in benefits being paid for a longer period and increased liabilities.

Because only the largest pension plans are able to provide enough mortality exposure to develop their own assumptions, industry standard mortality tables are typically used for actuarial valuations. In addition, plans often use different tables for healthy and disabled members, reflecting the higher mortality observed for those that retire with a disability pension.

There have been significant improvements in mortality over the last several decades. It is common for actuaries to use mortality tables that have a built-in projection scale, so that mortality is assumed to improve over time. In fact, Actuarial Standards of Practice now specify that pension plan actuaries explicitly reflect the effects of mortality improvement in retirement plan valuations, unless there is a specific reason for not doing so.

The Employees' Plan uses the RP-2000 Combined Healthy Mortality Tables set back one year for females, with projection to 2023 using 50% of Scale BB. For disabled members, the corresponding Disability Tables are used with projection to 2008 using Scale BB.

The Police and Fire Plan uses the RP-2000 Combined Tables with Blue Collar Adjustments, with projection to 2029 using 50% of Scale BB. For disabled members, the corresponding Disability Tables are used with a five-year setback for males and projection to 2008 using Scale BB. Future improvements in mortality are anticipated by projecting these tables to 2021 (for Police and Fire) and to 2023 (for Employees) using 50% of Scale BB. Projection of the tables to a specific year will allow for some projection of future mortality, but not the total amount of projection that is implied by the Scale.

Since the previous experience study, the Society of Actuaries has published the RP-2014 mortality table as well as a generational mortality improvement scale (MP-2016).

We recommend that consideration be given to updating the mortality assumptions to a more recent mortality table and generational improvement scale. The experience studies recommend maintaining the current tables (RP-2000) and applying Scale BB in full to 2026. Based upon the data in the experience study, this table appears to allow for a reasonable margin for improvement. We believe that the recommended assumption is reasonable.

Asset Smoothing Method

Pension plans often use smoothing methods to dampen the short-term effects of asset returns. The Employees' and Police and Fire Plans use a five-year smoothing mechanism, which is the most common period used in the public sector.

As part of the asset smoothing mechanism, some plans apply an additional "corridor" so that the smoothed value of assets does not differ from the market value of assets by more than a set amount. A common example of a corridor would be 80% to 120%, meaning that the actuarial value of assets cannot be less than 80% of the market value nor more than 120% of market value. We note that no corridor is applied in the Employees' and Police and Fire plans asset smoothing method. However, the smoothing period is short enough that the application of a corridor would only occur in rare circumstances, such as the 2008 market crash.

Actuarial Standards of Practice specify that asset smoothing methods be unbiased, reflect market returns in a systematic matter, and result in an actuarial asset value that falls within a reasonable range of market value. The City's methodology satisfies these requirements.

The asset smoothing method is reasonable. Consideration may be given to the application of an 80% to 120% corridor.

Funding Method

In order to determine the Actuarial Accrued Liability, the actuary must apply a funding method to assign benefits to past and future service. There are several methods commonly used in this process. For the Employees' and Police and Fire Plans, the Entry Age Actuarial Cost Method is used. This method is the most commonly used allocation method in the public sector and results in relatively stable contributions as a percent of payroll.

The amortization period of both the Employees' and Police and Fire Plans is **partially** closed with 26 years remaining as of December 31, 2015. The partially closed amortization period means that the funding period will decrease each year, and according to the plans' funding policies, will decrease until the remaining period is 15 years at which point it will remain at 15 years. Closed periods have the feature that every dollar of unfunded liability will be retired by a certain date, although required contributions can become very volatile in the final years of the amortization period. This volatility can be managed through a funding policy that tracks the source of change in unfunded liability by year and amortizes each year's change in unfunded liability over a closed period.

The plans will use an open 15-year amortization period when there are 15 years remaining in the funding period (December 31, 2026). The experience study recommends changing the length of this period to 10 years for the Employees' Plan. Open amortization periods are often used in the public sector, but are not expected to fully amortize the unfunded liabilities by a specified date. An important concept in funding pension plans is "negative amortization".

When unfunded liability payments are made as a percent of payroll, the dollar amount of payments rise over time as the payroll base increases. Because smaller payments are made at the beginning of the payment period, the unfunded liability will increase for several years, then rapidly decrease in the last few years of the period. This is a result of the payments in early years not being sufficient enough to pay the interest accruing on the unfunded liability. While this type of payment stream is often used to fund public sector plans, it is important that stakeholders understand this effect.

Payments on the plans' unfunded liabilities are made using a projection of future payroll increases for the groups. This is done in order to reflect the growth of payroll over the payment period. The City's plans use assumptions of 2.92% and 2.85% annual payroll growth. This means that the current payment calculation assumes that total payroll will grow at a rate of 2.92% or 2.85%% per year over the payment period. In years where total payroll growth is less than the assumption, payments toward the unfunded will be less than assumed. This will have the effect of increasing required payments in the future.

An alternative to funding the plans on a percent-of-pay basis would be to make payments on the unfunded liability on a "flat-dollar" basis. This method would amortize the unfunded with an unchanging payment over the period, similar to a home mortgage. Though the dollar amount would remain the same, the payments as a percent of payroll would decrease as the period goes on. This would have the effect of paying the unfunded liability more quickly, but would result in significantly higher payments in early years.

The assumption of 2.92% or 2.85% annual payroll growth (and 2.75% as recommended by the experience studies) is consistent with other entities in the public sector. As shown in the peer group analysis, the City's assumptions are lower than any of the comparable plans in the peer group. Because of the importance of this assumption to payments made on the unfunded liabilities, we recommend that this assumption be carefully monitored, particularly if payroll increases are expected to be lower than the assumption.

The City should be aware of the effect of the negative amortization inherent in making unfunded liability payments as a percent of payroll.

We recommend that the plans evaluate the use of an open amortization period when the plans reach the 15-year (or 10-year) open funding period in 2026. We recommend that consideration be given to adopting a funding policy that targets 100% funding over a reasonable time period. Due to the importance of the payroll growth assumption on unfunded liability payments, we recommend that it be carefully monitored.

Retirement Rates

The retirement rates used in the valuation appear to be reasonable. We note the following points for consideration.

- The retirement assumptions for the Employees' System are split by group (UAW/Others) and by age. Many public sector systems see higher retirement rates in the early years of retirement eligibility, especially in the first year. If this behavior is being observed, the actuary may consider applying an ultimate rate for the first year of eligibility to reflect these retirements.

- It appears that the City has mandatory retirement ages for Police (60) and Firefighters (70), but it is unclear from the report whether these age limits are being taken into account in the valuation assumptions. If these limits are being applied, they should be noted in the report.

The experience studies recommend changes to some of the rates currently used and the data indicate that the new assumptions match recent experience. We believe that the recommended assumptions appear to be reasonable.

Other Assumptions

The other assumptions used in the valuations appear to be reasonable. We note the following:

- The Employees' System and the Police and Fire System both provide special benefits for active deaths that are incurred in the line of duty. However, the valuation does not specify what percentage of active deaths are considered to be duty-related. In contrast, the percentage assumption for duty disabilities is stated in both reports. The percentage assumption for duty deaths should also be stated.

In general, we conclude the assumptions and methods used in the valuation appear to be reasonable and comply with relevant standards of practice. The recommended assumptions in the experience studies also appear to be reasonable. We recommend the following:

- **Review the inflation assumption and give consideration to whether the assumption should be lowered as recommended in the experience studies**

- **Monitor the investment return assumption and consider lowering the assumption as recommended in the experience studies**

- **Consider updating the mortality assumptions to the most recent Society of Actuaries' mortality table and generational mortality improvement scale as recommended in the experience studies**

- **Consider whether a corridor around the market value of assets should be included in the asset smoothing method**

- **Evaluate the use of an open amortization period when the plans reach the 15-year open funding period (or 10-year as recommended in the experience study) in 2026. Consider adopting a funding policy that targets 100% funding over a reasonable time period. Monitor the payroll growth assumption to ensure that it remains consistent with actual increases in payroll.**

- **Consider refinements to the retirement assumptions as noted above**

4 Peer Group Benchmarking

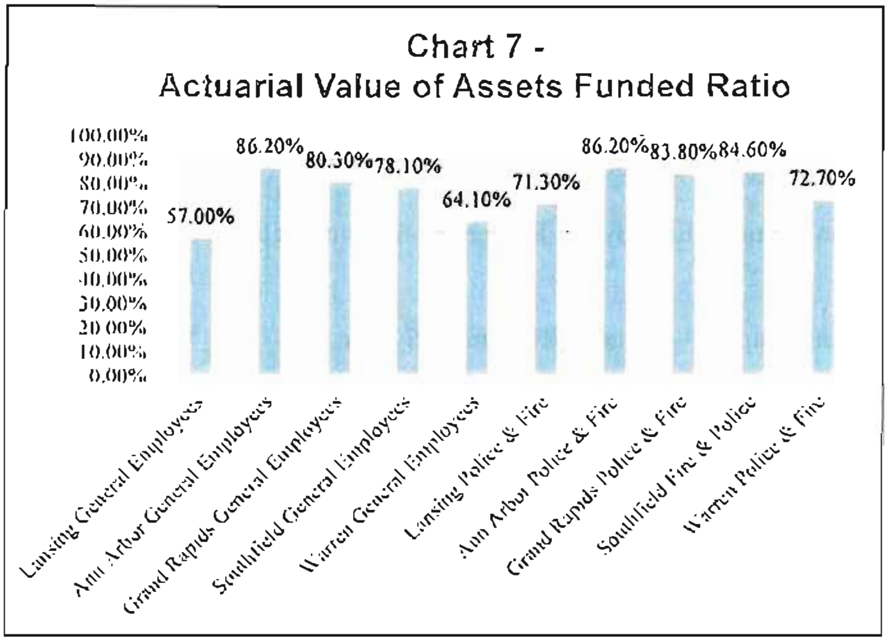
In order to compare the adequacy of plan design, funding methods, benefit provisions, and other features of the City of Lansing Retirement Systems, we have assembled information from other retirement programs, as directed. This peer group consists of seven plans from four cities in Michigan. The seven plans included are:

- City of Ann Arbor — Employees' Retirement System (includes General, Police, and Fire members)
- City of Grand Rapids — General Retirement System
- City of Grand Rapids — Police and Fire Retirement System
- City of Southfield — Employees Retirement System
- City of Southfield — Fire and Police Retirement System
- City of Warren — Employees Retirement System
- City of Warren — Police and Fire Retirement System

The information used in this analysis was drawn from the following reports:

- "City of Ann Arbor Employees' Retirement System June 30, 2015 Actuarial Valuation of Pension Benefits" prepared by Buck Consultants, November 2015
- "City of Grand Rapids General Retirement System 48th Annual Actuarial Valuation Report June 30, 2015 – Revised" prepared by Gabriel Roeder Smith, March 2016
- "City of Grand Rapids Police and Fire Retirement System 49th Annual Actuarial Valuation December 31, 2015" prepared by Gabriel Roeder Smith, April 2016
- "City of Southfield Employees Retirement System Fiftieth Actuarial Valuation Report as of June 30, 2015" prepared by Gabriel Roeder Smith, November 2015
- "City of Southfield Fire and Police Retirement System 63rd Actuarial Valuation Report as of June 30, 2015" prepared by Gabriel Roeder Smith, November 2015
- "City of Warren Employees Retirement System Summary Annual Report December 31, 2014"
- "City of Warren Police and Fire Retirement System Summary Annual Report December 31, 2014"

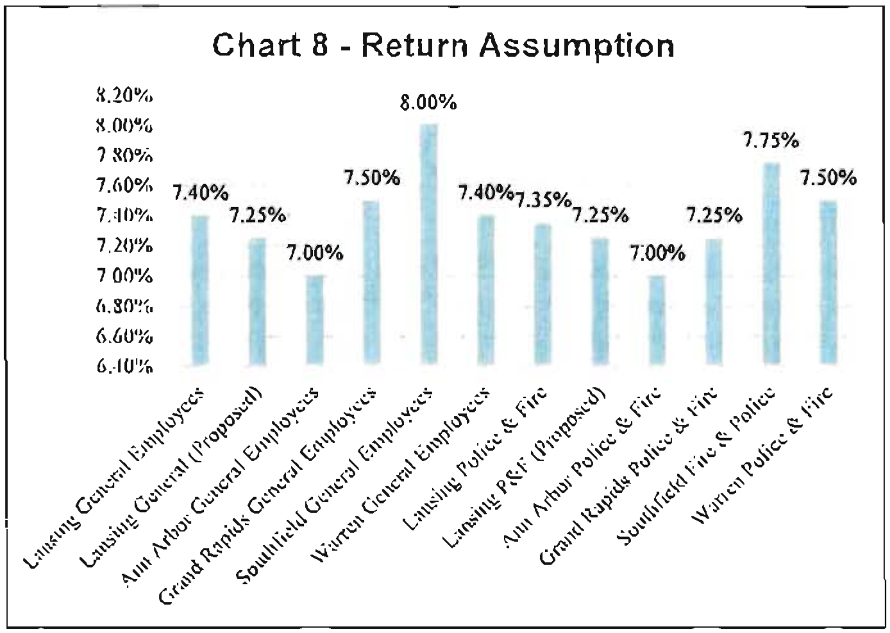
A summary of actuarial assumptions/methods and plan provisions is provided in the tables below.



Lansing's plans have the lowest funded ratios of the plans in the study for both General Employees and Police & Fire.

Table 1 - Asset Smoothing		
Plan	**Smoothing Period**	**Corridor**
Lansing General Employees	5 years	None
Ann Arbor General Employees	5 years	None
Grand Rapids General Employees	5 years	None
Southfield General Employees	5 years	None
Warren General Employees	4 years	None
Lansing Police & Fire	5 years	None
Ann Arbor Police & Fire	5 years	None
Grand Rapids Police & Fire	5 years	None
Southfield Fire & Police	6 years	None
Warren Police & Fire	4 years	None

All of the plans use an asset smoothing period of 4-6 years, which is also consistent with industry norms. None of the plans apply a corridor in the calculation of the actuarial value of assets.



The rate of investment return assumptions used by the plans are in the range of 7.00%-8.00%, which is consistent with other state and local pension funds in the industry. The investment return assumption for the Lansing plans is 7.60% and the information in this section is based on that assumption. The Employees' Plan lowered this assumption to 7.40% with the stated intention of lowering the rate to 7.25% next year. The Police and Fire plan lowered this assumption to 7.35% with the stated intention of lowering the rate to 7.25% next year. The decrease in the investment return assumptions will result in a decrease in the funded ratio and an increase in the liabilities and contribution rates.

Table 2 - Amortization of Unfunded Liablities			
Plan	Amortization Method	Payroll Growth	Amortization Period
Lansing General Employees	Level % of pay	3.10%	Partially Closed – 27 years reduced by one year each year until 15 years, when the period remains at 15
Ann Arbor General Employees	Level % of pay	3.50%	Closed – 25 years
Grand Rapids General Employees	Level dollar	N/A	Closed – 30 years
Southfield General Employees	Level % of pay	3.50%	Closed – 25 years
Warren General Employees	Level % of pay	4.00%	Closed over active working lifetime
Lansing Police & Fire	Level % of pay	3.10%	Partially Closed – 27 years reduced by one year each year until 15 years, when the period remains at 15

Ann Arbor Police & Fire	Level % of pay	3.50%	Closed – 25 years
Grand Rapids Police & Fire	Level % of pay	3.50%	Closed – 30 years
Southfield Fire & Police	Level % of pay	4.00%	Closed – 22 years
Warren Police & Fire	Level % of pay	5.00%	Closed – 25 years

All of the plans use a closed period for the amortization of unfunded liabilities, and all but one (Grand Rapids General) calculate the required contribution as a percent of payroll. Closed periods amortize unfunded liabilities more rapidly than open periods, which may not ever amortize the unfunded liability. Lansing's plans have the additional mechanism that the funding period will become open when the closed period reaches 15 years.

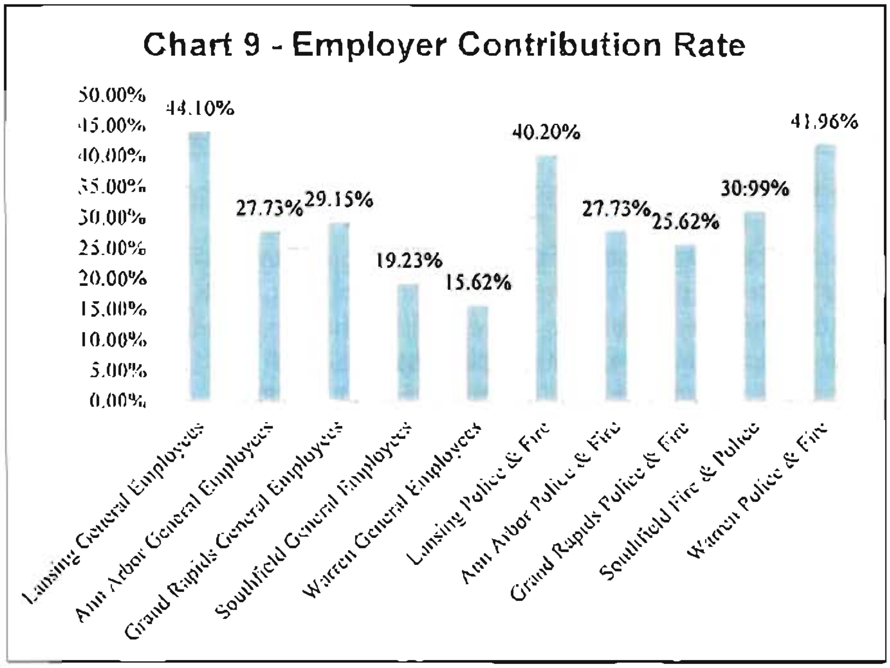
The payroll growth (inflation) assumption has been reduced from 3.10% to 2.925% for the Employees' Plan and from 3.10% to 2.85% for the Police and Fire Plan. Lansing has the lowest inflation assumptions, with other cities using rates up to 5.00% per year. Grand Rapids uses a flat-dollar amortization of unfunded liabilities, and hence does not apply an inflation adjustment in the context of financing the unfunded liability.

All employers are currently making contributions in accordance with their funding policies and actuarial valuations.

Table 3 - Employee Contributions

Plan	Employee Contribution Rate
Lansing General Employees	2.95% - 6.50% by job classification and tier
Ann Arbor General Employees	6.00%
Grand Rapids General Employees	4.22% - 11.54% by benefit election, job classification, and tier
Southfield General Employees	AFSCME 5.41%, all others 5.00%
Warren General Employees	None
Lansing Police & Fire	7.00% - 9.52% by job classification and tier
Ann Arbor Police & Fire	6.00%
Grand Rapids Police & Fire	9.86% - 10.70% by job classification; lower if funded percentage exceeds 100%
Southfield Fire & Police	3.00% or 5.00% based upon group and tier; no contributions for Fire Chief
Warren Police & Fire	3.67%

Employee contributions vary, from no contribution (Warren Employees) to 11.54% of payroll (Grand Rapids Emergency Communication Supervisors).



Lansing employer contribution rates are relatively high within the peer group, representing the highest rate (44.10% of covered payroll) for general employee groups and the second-highest rate (40.20%) for police and fire groups. This is a result of many factors, including the underlying benefits of the plans, the historical funding, and the current asset levels.

Table 4 - Retirement Eligibility		
Plan	**Normal Retirement Age**	**Early Retirement Age**
Lansing General Employees	New Plan: Age 50 with 25 years of service or at age 58 with 8 years of service	N/A
Ann Arbor General Employees	Age 50 with 25 years of service, or age 60 with 5 years of service (10 years for Tier 2)	Age 50 with 20 years of service
Grand Rapids General Employees	30 years of service, or age 62 and 8 years of service. Effective January 1, 2001, members covered by the Emergency Communications Operators Bargaining Unit may retire after age 55 and 8 years of service.	20 years of service, or age 55 and 10 years of service
Southfield General Employees	Tier II: Age 57 with 25 years of service, age 62 with 20 years of service, or age 65 with 10 or more years of service	Tier II: Age 57 with 20 or more years of service or age 60 with 10 years of service.
Lansing Police & Fire	Age 55 or 25 years of service, for FOP-NS hired on or after August 1, 2014, age 50 with 25 years of service	N/A
Ann Arbor Police & Fire	25 years of service, or age 55 with 5 years of service (10 years for Tier 2)	Age 50 with 20 years of service
Grand Rapids Police & Fire	Police: age 50 and 10 years of service. Firefighters: age 55 with 10 years of service.	Age 50 and 10 years of service
Southfield Fire & Police	20 years of service regardless of age	N/A
Warren Police & Fire	Unknown	Unknown
Note: Benefit information not available for City of Warren		

Table 5 - Retirement Benefits		
Plan	**Final Average Compensation**	**Benefit Multiplier**
Lansing General Employees	Highest annual compensation paid over 2 consecutive years of credited service within the last 10 years	1.25% to 2.8% based upon employee group and tier
Ann Arbor General Employees	Highest 3 consecutive years out of last 10 (last 5 for Tier 2)	2.5%
Grand Rapids General Employees	Highest 3 calendar years, with exceptions by group	1.8% to 2.7% based upon group, tier, and year of accrual
Southfield General Employees	Tier II: Highest 5 consecutive years out of last 10	Tier I: 2.0% (maximum benefit of 70% of FAC)
Lansing Police & Fire	Highest annual compensation paid over 2 consecutive years of credited service	2.5% - 3.2% based on employee group and tier
Ann Arbor Police & Fire	Highest 3 consecutive years out of last 10 (last 5 for Tier 2)	2.75%
Grand Rapids Police & Fire	Highest 3 consecutive years, increased by adjustment factors	2.0% - 2.8% based on employee group and tier
Southfield Fire & Police	Highest 3 or 5 years based upon group and tier	2.5% or 2.8% based upon group
Note: Benefit information not available for City of Warren		

The newest tier for the Lansing plans have a lower multiplier than the other members of the peer group. However, the newest tier of Lansing members also participate in a DC plan. Our analysis is confined to the defined benefit plans of each city.

All of the plans offer traditional defined benefits derived from years of service and final average compensation. Both Lansing plans have the shortest averaging period for final average compensation among the plans in the peer group. Use of a shorter averaging period results in higher average compensation, leading to higher benefits and liabilities.

Table 6 - Early Retirement Reductions	
Plan	**Reductions**
Lansing General Employees	N/A
Ann Arbor General Employees	.33% per month from the earlier of age 60 or 25 years of service
Grand Rapids General Employees	Actuarially reduced from age 62
Southfield General Employees	.50% per month from age 62 with 20 years of service or age 65 with 10 years of service
Lansing Police & Fire	N/A
Ann Arbor Police & Fire	.33% per month from the earlier of age 55 or 25 years of service
Grand Rapids Police & Fire	Actuarially reduced from age 55
Southfield Fire & Police	N/A
Note: Benefit information not available for City of Warren	

Table 7 - Post-Retirement Increases	
Plan	**Increases**
Lansing General Employees	Financed by Members' Benefit Fund, subject to limits and reductions
Ann Arbor General Employees	Ad-hoc, funded by financial gains
Grand Rapids General Employees	1.0% subject to 4-7 year delays by group
Southfield General Employees	None
Lansing Police & Fire	$525 (annual) per year, subject to limits and reductions
Ann Arbor Police & Fire	Ad-hoc, funded by financial gains
Grand Rapids Police & Fire	1.0% or 1.5% subject to 2 or 5 year delays by group
Southfield Fire & Police	Additional benefits provided through Reserve for Inflation Equity
Note: Benefit information not available for City of Warren	

Most of the plans offer some level of post-retirement increases. In some cases, the increases are limited by increases in the CPI or asset reserves that are specifically set aside for these increases.

In general, the plans in the peer group are very similar in design and funding. Lansing's benefit multiplier for new hires is lower than those in the peer group, but the final average salary period is shorter than the other plans and the City also provides benefits in the form of a DC plan for newly hired general employees. The assumptions Lansing uses in the actuarial valuation are similar to the other plans in the peer group. Lansing's plans have lower funded percentages than the other plans in the peer group.

5 Benefit Efficiency & Plan Design Alternatives

Defined Benefit Plans, Defined Contribution Plans, and Hybrid Plans

Governmental employers sponsor retirement plans in order to provide post-retirement income to their employees through pre-retirement contributions. These plans can be divided into three main categories: defined benefit (DB) plans, defined contribution (DC) plans, and hybrid plans. These classifications are defined by the forms of benefits that are provided and by the funding mechanisms used to supply those benefits.

Defined benefit plans are common in the public sector and are often referred to as "traditional" pension plans. Under a DB plan, the pension amount is defined by formula at retirement for each participant. The benefit is commonly based upon factors such as the participant's age, service, and salary at retirement. The contributions necessary to fund these benefits are adjusted, as needed, to ensure adequate funding of benefits. DB plans typically pay benefits as a monthly annuity for the life of the retiree, often with additional survivor benefits that can be elected upon retirement. Additional options that may be offered in DB plans include active death and disability benefits ("ancillary benefits"), subsidized early retirement benefits, and post-retirement cost-of-living adjustments. From the employer perspective, the amount of benefits that will be paid from the plan will drive the ultimate costs.

Defined contribution plans are common in the private sector, often in the form of a 401(k) plan or in the public sector, in the form of a supplemental 457(b) plan, referring to the sections of the IRS code that govern their administration. Under a DC plan, the contributions into the trust are fixed and the amount of benefits that each participant receives is unknown. At retirement, the benefit is simply the total of contributions allocated to the employee, with interest. DC plans typically pay a lump sum amount at retirement, although some DC plans also offer annuity options. Since the participant's benefit is defined to be their account balance, disability and death benefits are limited to this amount. Unlike DB plans, DC plans sometimes provide an active employee access to funds through loans or hardship distributions. From the employer perspective, the ultimate cost of the plan is fixed and the individual account balances will determine the amount of benefits that will be paid to individual employees from the plan.

Hybrid plans have a combination of defined benefit and defined contribution attributes. Hybrid plans have gained popularity in the last few decades, and are in effect for state employees in Oregon, Georgia, Utah, Washington, and Nebraska, among others. Examples of hybrid plans include DB/DC offset plans, cash balance plans, combined plans, and variable annuity plans. Hybrid plans can result in reduced cost volatility to the employer, depending upon how they are structured.

In most cases, DC plans are designed to have lower employer costs than DB or hybrid plans. The lower cost structure is a result of the transfer of risks from the employer to the employees. If a DB plan and a DC plan have the same employer cost, the benefits provided from a DC plan are lower than benefits provided from a DB plan. This is because there is a pooling of certain risks (such as longevity) in a DB plan that does not exist in a DC plan.

In a DB plan, primarily the employer assumes the risks, while in a DC plan the risks are borne by the employee. Hybrid plans were developed in part to share these risks between employers and employees.

Defined benefit plans have proven to be an efficient system for delivery of retirement benefits. Typically, defined contribution plans cannot provide the same level of benefits per dollar of cost as defined benefit plans. Some of the main reasons are as follows:

> Defined benefit plans provide significant cost-sharing by spreading mortality risk over a large pool of members. Defined contribution accounts are individually assigned and must be managed so that the retiree does not outlive his or her benefits.

> In practice, individually managed accounts can expect higher administrative costs and lower investment returns than a professionally managed defined benefit plan with a longer time horizon.

> Defined contribution accounts suffer from "leakage" as funds are used for purposes other than retirement.

> In a defined contribution plan, there is a higher cost of converting an account balance to an annuity at market rates or else members must assume the longevity risk of benefits.

> Defined contribution plans cannot provide pre-retirement death benefits or disability benefits at comparable costs and benefit levels as provided under a defined benefit plan.

While more efficient, defined benefit plans do bring a significant level of risk to employers, who are ultimately responsible for making required contributions in most cases. Because of this, many corporations have frozen participation in their defined benefit plans or shut them down entirely. This is often difficult in the public sector due to the contractual nature of the benefits.

Workforce Management

An important issue in employee retirement and benefit plans is the effect that the plans have on employee behavior. As part of a compensation package, employers use retirement plans to help attract and retain qualified employees. This is especially important in the public sector, where potential hires often have an expectation of participating in attractive retirement plans to make up for lower compensation than in the private sector. Due to onerous IRS and accounting rules and the high volatility associated with these measurements, private companies have mostly eliminated their DB plans and moved to DC plans. This has made DB plans (and hybrid plans that offer a meaningful DB benefit) an attractive feature for potential hires found predominantly in the public sector.

In some cases, DC plans may be more attractive to new hires. The portability feature of DC plans allows the participant to take the DC account balance when leaving service. This differs from a DB plan, where benefits payable upon withdrawal before retirement are typically smaller. This portability can make a DC plan a more attractive option to younger employees who may not plan to work with the same organization for an extended period. Recent trends indicate that employees' tenure with each employer is shorter than it was in the past.

Mid-career employees who are closer to retirement will often prefer the benefits provided by DB plans. Because their working lifetimes are shorter, these employees may not be as attracted to portable benefits. Instead, they may be more likely to find value in the lifetime benefits that DB plans provide.

In general, moving from a DB or hybrid plan to a DC plan will reduce the employer's ability to attract qualified employees to the extent that potential employees find DB plans valuable. This may have less of an effect for younger employees who value the portability of the DC plan benefits.

Because many hybrid plans have DB and DC features, these types of plans can be attractive to both older and younger new hires. Younger hires who plan to withdraw earlier will find the DC portion of the benefit attractive, while older hires who plan to work until retirement age will find the DB portion valuable.

The City of Lansing plans has DB plans. The multipliers for some new member groups have been reduced and are supplemented by participation in a DC plan. These benefits are expected to attract and retain older new hires and certain younger employees, depending on their preference.

The provisions of DB plans may also be used to affect employee behavior after the date of hire. Subsidized benefits like early retirement may encourage employees to retire when certain age or service thresholds are met. For example, a DB plan that offers an unreduced early retirement benefit at age 62 will invariably see a spike in retirements at age 62. To the extent that the employers whose employees participate in the plan desire that their employees leave active service at the age of 62, this would be an effective tool for workforce management. However, if not carefully considered, early retirement benefits can result in unwanted workforce implications. For example, an unreduced retirement benefit at a set level of service (30 years, for example) may have the effect of encouraging the retirement of participants who are at their most valuable to the organization. Participants who were hired at a young age would reach the service threshold in their early 50s, and would then be encouraged by the plan to retire. These employees may still be productive, and the costs of hiring and training new hires to fill these positions may be prohibitive. In short, this feature may have the effect of causing the employer's best employees to leave.

DC plans do not provide subsidized early retirement benefits, as the account balance structure of a DC plan benefit does not allow for these types of benefits. The DC plan structure does not allow for a retirement age that is considered "normal". In fact, if DC participants experience poor returns, they may be required to work well into old age.

DC plans are also unable to influence workforce behavior is through special retirement benefits, or "windows". Windows can be structured to target a group of employees to encourage their retirement during a specific period. This may be desirable for employers who would prefer that a group of employees leave active service. Windows will increase the liabilities of the DB plan as they encourage employees to retire sooner than expected and with an increased benefit.

The Lansing Plans provides for a "normal" retirement age and may assist with workforce management. If new employees are moved to a DC plan, it may be more difficult to address workforce management issues through the plan.

Transition

The effect of transition from one plan structure to another must also be considered when contemplating a plan change. Changing benefit structures for participants hired after a certain date will result in new plan "tiers" that will need to be maintained separately from the existing tiers. As a result, there may be an increase in actuarial valuation and administrative costs.

In the case of a transition from a DB plan to a DC plan, the administrative processes would need to be modified to include any new DC plans. Lansing has DC plans in place and therefore would need to amend the current DC plan administration structure to reflect the new provisions.

In addition, the plan change must be clearly communicated to employees. This is especially true if employees are given a choice between two plans. Since the City currently has tiers of employees, the staff has likely dealt with many of these transition issues in the past. This experience would likely reduce the effect of future transitions.

From a cost perspective, closing the DB plan to new members could have significant cost impacts on the current DB plan. If the current plan were closed to new members and the payroll for new DC members is not used in the amortization of the current UAAL, the payroll for the current plan would decline rather than grow during the remaining funding period. As a result, the amortization component would have to be determined as a level percent of declining payroll or as a level dollar amount. This creates a significant increase in the UAAL amortization rates as a percent of payroll.

Lansing's Plan Liabilities and Impact on Design Alternatives

The following table shows highlights from the December 31, 2015 actuarial valuations:

Table 9 – Summary of Valuation Results ($ in millions)		
	Employees' Retirement System	Police and Fire Retirement System
1. Actuarial Accrued Liability		
a) Active Employees	$ 68.6	$ 107.0
b) Retirees and Inactive Members	240.2	303.2
c) Total	$308.8	$410.2
2. Actuarial Value of Assets	176.0	292.5
3. Unfunded Actuarial Accrued Liability	$132.8	$117.7
4. Funded Ratio	57.0%	71.3%
5. City Normal Cost Rate	7.2%	14.2%
6. Active Member Payroll	$23.9	$27.9
7. City Contribution Dollars		
a) Normal Cost	$1.7	$3.8
b) Payment toward Unfunded	8.5	7.7
c) Total	$10.2	$11.5

We observe the following about the Plans' financial condition:

- Any plan changes would only affect active members' future benefits. The normal cost represents the value of benefits accruing for active members. The City normal cost rate is 7.2% of payroll for Employees' and 14.2% of payroll for Police and Fire. The normal cost portion of the City's contribution is \$1.7 million for Employees' and \$3.8 million for Police and Fire for a total of \$5.5 million. Reductions in future benefits would affect the City's contributions of the normal cost of \$5.5 million. As an example, if the value of benefit accruals were reduced across the Board by 10% for active members, the reduction in the City's contribution would by \$550,000.

- The unfunded actuarial accrued liability, which totals \$250 million, represents benefits that have already been earned. These benefits will not be affected by reducing future benefits. As mentioned above, new benefits accrue at the rate of approximately \$5.5 million per year. This unfunded liability will need to be paid by the City over a reasonable amortization period to ensure that promised benefits are secure.

- One of the ways to affect the unfunded actuarial accrued liability is to reduce benefits to retirees. This option is not being considered in this study, as it is our understanding that this type of plan change is not legal in the State of Michigan. It is important to note that reducing these benefits would affect retirees' income on which they depend for living expenses.

The City should consider whether a change in the delivery of retirement benefits for its active members should be modified from the current defined benefit structure given the minor impact a change would have on the contribution requirements. A change to a defined contribution plan would ultimately set the City's contribution at a certain percentage of payroll. However, the unfunded liability of the plans will need to be funded over a reasonable amortization period and the transition period to a 100% defined contribution plan will take many years. The City should consider whether this change in retirement benefit delivery, that will take many years to realize any significant reduction in contribution, is worthwhile. Furthermore, the City should consider whether the shifting of all retirement risks to its employees is appropriate and consistent with its workforce management goals.

Defined Benefit Plan Changes

In addition to changing the structure of benefits, many organizations have taken the approach of enacting changes to their defined benefit plans in order to reduce costs and lower contribution volatility. In many cases, plan changes are made for employees hired after a certain date, creating a new "tier" of benefits. This can slow down the financial effects of these changes, as cost savings are realized only as current employees leave active service and are replaced by new employees over time.

Some of the more common changes made to defined benefit plans are as follows:

- **Contribution increases**: Plan funding levels can be improved by increasing required contributions by employers, employees or both. In some cases, increases have been accompanied with caps on the amount that the employer will pay, with the rest of the actuarially recommended contribution being the responsibility of employees. This helps

to reduce the volatility of employer contributions, but increases the burden on employees. Employee contribution increases are often perceived as a decrease in pay and can affect the ability of plans to retain employees.

- **Benefit changes**: These changes are made to the mechanisms that determine the amount of retirement (for example, lowering the benefit multiplier from 1.80% to 1.25%). These changes are simple and are typically easy to implement. As with any change, a reduction in benefits can be negatively perceived by employees and conflict with workforce management objectives. The City has made similar changes for new hires with a supplemental DC arrangement for some groups.

- **Cost of Living Increases**: Unlike the private sector, many public sector plans have cost-of-living adjustments ("COLAs") that increase the amount of benefits as retirees age. This helps maintain benefit security, but can be quite expensive. A 1% ongoing COLA on all benefits can result in a 10%-15% increase in liabilities or more. Many plans have lowered costs by reducing COLAs for non-retirees through limiting increases to inflation, tying them to favorable asset returns, or removing them outright. In some cases, COLAs for current retirees have been lowered. In many cases, these changes have legally challenged with mixed results in courts.

- **Eligibility changes**: These changes are made to the eligibility for benefits (for example, raising the minimum retirement age from 55 to 60). While the ultimate benefit is not affected, the number of payments is reduced since younger retirements are not allowed. These can be a source of significant cost savings, but workforce management issues are very important. As an example, raising the retirement age for a plan that covers police and fire employees only makes sense if the underlying organization has a policy for allowing these employees to work past that age.

- **Compensation adjustments**: Another method for reducing liability is by changing the compensation used in determining the benefit (for example, using more years in the average compensation calculation). Other adjustments have been made to reduce the effect of "spiking", or the deliberate increase in compensation near the end of an employee's career to increase pension benefits. While anti-spiking provisions can be important tools in promoting plan fairness, their effects on costs are usually limited.

Any changes to the plan must balance cost savings with workforce management as discussed above. The plan's goals of attracting and retaining productive employees should always be taken into account when a plan change is considered.

6 Funding Approaches

Amortization Methods

The goal of an appropriate funding policy is to fund the benefits payable from the plan over a reasonable time period. For the purposes of generational equity, the amortization period should also be related to the working lifetime of the group being covered. An appropriate funding policy results in a contribution that funds the Normal Cost (*i.e.*, the cost of benefits accruing in the current year) and includes a payment towards the UAAL, which is the amount for which assets are insufficient to cover the benefits that have been earned in the past. Some commonly used methods of amortization are discussed below.

A "closed" amortization period will reduce the UAAL of the plan over a set timeframe, ending at a specific future date. A closed period has the advantage of effectively amortizing the liability in a predictable manner, but can result in volatile contributions, as the remaining period gets smaller.

An "open" amortization period re-amortizes the UAAL of the plan each year over the same period as the previous year. The contributions under an open amortization period are less volatile than with a closed period, but the UAAL is not amortized as quickly as with a closed period and may never be amortized. Depending on the amortization period, the UAAL may increase under an open amortization period. Open amortization periods are commonly used in the public sector.

A "level percent of payroll" amortization expresses the amortization payments over the future payroll of the group. An assumption must be made about the increase in payroll that is expected to occur over the amortization period. While the payments are expected to be level as a percent of pay, the amount of the payments is smaller in the earlier years of the amortization period and larger in the later years. This can result in a "negative amortization", where the UAAL grows during the first years of the amortization period. Typically, negative amortization occurs until the amortization period reaches about 15 years. The level percent of payroll amortization method generally results in a stable contribution rate. However, if actual payroll increases are less than expected, the payments are lower and future contributions as a percentage of payroll will increase. In addition, combining the level percent of payroll method with an open amortization period will result in the UAAL increasing every year in the future.

A "level dollar" amortization expresses the amortization payments as a fixed dollar amount over the amortization period. A typical example is a home mortgage payment, where a fixed amount is paid each month. This results in greater payments at the beginning of the period than with the level percent of payroll method. While the payments reduce the UAAL more quickly in the early years of the amortization period, the payments do not remain constant as a percent of payroll.

In some cases, retirement systems use a combination of the methods above in their funding policies. A common example is to use a short, closed period for a one-time benefit adjustment or window, while amortizing the remaining UAAL over a longer, open period. Another option is using fixed-length closed periods to amortize changes in the UAAL each year.

The Employees' and Police and Fire plans use a closed funding method with payments based upon a level percent of payroll. Additionally, when the funding period decreases to 15 years remaining, the funding method will then become an open 15-year period. The experience study recommends lowering this open period for the Employees' Plan to 10 years.

The City has many other options to either accelerate payments toward the plans' UAAL. Payments toward the unfunded liabilities of the Plans could be accelerated by the following changes to the valuation assumptions and methods, among others:

- Shortening the amortization periods of the plans (26 years remaining as of December 31, 2015)
- Lowering the payroll growth assumption (2.92%/2.85% per year) – the experience studies recommend lowering this assumption
- Lowering the rate of return assumption (7.40%/7.35% per year) – the experience studies recommend lowering this assumption

Changing the assumptions or amortization period as suggested will result in higher contributions in the short term. However, the accelerated contributions will earn investment returns and will lower future contributions. Ultimately, the City must determine the methods of funding the plans that provides for systematic funding while meeting the risk profile of the City and its stakeholders.

We recommend the City consider whether increasing contributions would be desirable as a mechanism for reducing future contributions.

We recommend that the City evaluate the use of an open amortization period when the plans reach the 15-year open funding period (or 10-year as recommended by the experience study) in 2026. The City should also consider adopting a funding policy that targets 100% funding over a reasonable time period.

7 Challenges, Conclusions and Recommendations

Based upon the analysis performed above, Segal has the identified the following challenges, conclusions and recommendations:

Challenges

The City faces the following challenges that make it difficult to achieve a meaningful reduction in the liabilities of and contributions to the plans:

1. The plans combined have 720 active members and 1,632 retirees and beneficiaries. The ratio of member in pay status to active members is 2.3.

2. The total actuarial accrued liability of the plans is $719 million, of which $543 million or 76% is attributable to retirees and beneficiaries.

3. The unfunded actuarial accrued liability as of December 31, 2015 is $250 million. The City contribution as of December 31, 2015 is $21.8 million, of which $16.8 million is toward the unfunded liability of $250 million. The remaining $5.5 million is to fund the annual pension benefit accrual for active members. If pension benefits were frozen for active members (i.e., active members would accrue no additional benefits) the reduction in annual contributions would be $5.5 million.

4. Because of the state limitations on property tax revenue growth, from the state Headlee Amendment and Proposal A, the City anticipates its largest revenue source accounting for 31% of General Fund Revenues, to increase only 2%-3% over the next several years and that pre-Recession property tax revenue levels, net of the extra four mills, will not be reached until 2025 to 2028. Further challenging Lansing and Michigan municipalities, municipal revenue sharing by the State of Michigan has been reduced over the past 15 years by more than $6 million in real dollars annually for the City, and almost $9 million annually when adjusted for inflation (see Background section on pages 9-12).

Conclusions and Recommendations

1. We conclude the assumptions and methods used in the valuation appear to be reasonable and comply with relevant standards of practice. We recommend the following:

   - Monitor the investment return assumption, particularly given that the inflation assumption is on the high side of reasonableness, as recommended in the experience studies. The fund is moving to lower this assumption in accordance with the recent experience study. Many public plans have lowered the investment return assumption in response to market conditions. Lowering the investment return assumption results in an increase in the actuarial accrued liability.

- Consider updating the mortality assumptions to the most recent Society of Actuaries' mortality and generational mortality improvement scale as recommended in the experience studies. An update to the mortality table would result in an increase in the actuarial accrued liability, in the range of 2% to 4%.

- Consider whether a corridor around the market value of assets should be included in the asset smoothing method.

- Evaluate the use of an open amortization period when the plans reach the 15-year open funding period (or 10-year as recommended by the experience study) in 2026. Consider adopting a funding policy that targets 100% funding over a reasonable time period. Monitor the payroll growth assumption to ensure that it remains consistent with actual increases in payroll.

- Consider refinements to the retirement assumptions as discussed in the report

2. The City should consider whether a change in the delivery of retirement benefits for its active members should be further modified from its current structure keeping in mind its workforce management goals for recruitment and retention.

3. The City could consider whether a pension obligation bond would be a means to fund the pension plans. There are a number of issues related to pension obligation bonds including that the bonds need to be issued as taxable bonds and there is a risk that there is a major market correction when the bond proceeds are invested. Some municipalities have seen total costs, including bond debt service, increase after a pension obligation bond is issued. Furthermore, the debt service is a fixed cost and must be paid each year regardless of investment returns.

4. Ideally, the City could consider accelerating its contributions to the pension plan; however, it is recognized that this may not be practical, given the City's much larger unfunded liability for retiree healthcare and significant resource constraints noted on pages 9-12 of the Background section. Measures the City could consider include:

   - Sale of City assets, which would a one-time, non-recurring source.

   - Increase in the City's income tax rates, although it is understood that to do so, changes would need to be made to State of Michigan legislation.

   - Levying a property tax millage, either within its operating millage or by special millage allowed under State of Michigan Public Act 345 of 1937 for police and fire pensions. It is understood from City officials that the City Charter maximum operating property tax levy is 20.0 mills, and the City is currently levying 19.44 mills. It is also understood from City officials that 1.0 mill currently generates approximately $2.0 million and equates to a $50 annual increase for a taxpayer owning a house valued at $100,000.

   - Levying a local sales tax, which would require a change in State of Michigan legislation, as it is understood to currently be prohibited at the municipal level.

5. The City could consider exploring the transfer of public assets or the revenue generated as sources to fund the pension plans. In the private sector, corporations have made in-kind contributions – non-cash assets such as securities and real estate to fund their retirement plans. US Steel contributed 170,000 acres of timberland to meet its pension liabilities. Pan American World Airways transferred the lease for its flagship terminal at New York's Kennedy Airport to its pension funds. The public sector has begun to implement or consider alternative revenue sources. Some strategies are as follows:

   - The private sector's practice of transferring assets to pension funds was cited in a New Jersey proposal to fund the state's beleaguered public pension plans with revenues from the state's lottery.

   - In Canada, the Ontario Teachers' Pension Plan owns the licenses to operate both the British and Irish national lotteries. These assets were not in-kind contributions but rather a direct investment aimed at boosting the pension fund's returns.

   - In 2010, the Pittsburgh City Council irrevocably dedicated parking revenues to the city's three employee pension funds for 31 years. The city effectively transferred the value of asset ownership to the pension plan without requiring it to assume the risks of ownership or management responsibilities.

   - The City of Hartford, Connecticut plans to donate a 600-acre public park, which does not produce revenue, as partial payment of the city's annual required contribution to the Municipal Employees Retirement Fund.

   - One of the most profitable in-kind contributions made to a pension fund was the conveyance in 2011 of a toll-road network owned by Australia's Queensland state government to the state's pension fund. Queensland Investment Corporation, the fund's manager, restructured the business, added two additional roads to the toll network and sold the asset three years later at a $3.8 billion profit for the pension fund.

The City must weigh these recommendations and its options with the costs of doing nothing. As demonstrated on Chart 3 of the Background section, pension contributions have tripled over the past fourteen years and, even with recent collective bargaining changes, are currently projected to increase another six million in the next twelve years. In light of the City's revenue constraints, combined with retiree healthcare obligations, pension funding obligations could have the effect of crowding out available resources for City services, as well as or in combination with, the path of emergency financial management or bankruptcy, as experienced by some other Michigan communities.

Protecting Local Government Retirement and Benefits Act Corrective Action Plan: Defined Benefit Pension Retirement Systems

Issued under authority of Public Act 202 of 2017.

1. MUNICIPALITY INFORMATION

Local Unit Name: City of Lansing Six-Digit Muni Code: 332020

Defined Benefit Pension System Name: Lansing Employee's Retirement System

Contact Name (Administrative Officer): Angela Bennett

Title if not Administrative Officer: Finance Director

Email: angela.bennett@lansingmi.gov Telephone: (517) 483-4511

2. GENERAL INFORMATION

Corrective Action Plan: An underfunded local unit of government shall develop and submit for approval a corrective action plan for the local unit of government. The local unit of government shall determine the components of the corrective action plan. This Corrective Action Plan shall be submitted by any local unit of government with at least one defined benefit pension retirement system that has been determined to have an underfunded status. Underfunded status for a defined benefit pension system is defined as being less than 60% funded according to the most recent audited financial statements, and, if the local unit of government is a city, village, township, or county, the annually required contribution (ARC) for all of the defined benefit pension retirement systems of the local unit of government is greater than 10% of the local unit of government's annual governmental fund revenues, based on the most recent fiscal year.

Due Date: The local unit of government has **180 days from the date of notification** to submit a corrective action plan to the Municipal Stability Board (the Board). The Board may extend the 180-day deadline by up to an additional 45 days if the local unit of government submits a reasonable draft of a corrective action plan and requests an extension.

Filing: Per Sec. 10(1) of PA 202 of 2017 (the Act), this Corrective Action Plan must be approved by the local government's administrative officer and its governing body. ***You must provide proof of your governing body approving this Corrective Action Plan and attach the documentation as a separate PDF document.*** Per Sec. 10(4) of the Act, failure to provide documentation that demonstrates approval from your governing body will result in a determination of noncompliance by the Board.

The submitted plan must demonstrate through distinct supporting documentation how and when the local unit will reach the 60% funded ratio. Or, if the local unit is a city, village, township, or county, the submitted plan may demonstrate how and when the ARC for all of the defined benefit pension systems will be less than 10% of annual governmental fund revenues, as defined by the Act. Supporting documentation for the funding ratio and/or ARC must include an actuarial projection, an actuarial valuation, or an internally developed analysis. The local unit must project governmental fund revenues using a reasonable forecast based on historical trends and projected rates of inflation.

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

The subject line of the email(s) should be in the following format: **Corrective Action Plan-2017, Local Unit Name, Retirement System Name** (e.g. Corrective Action Plan-2017, City of Lansing, Employees' Retirement System

Pension Plan). 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 application(s).

Municipal Stability Board: The Municipal Stability Board (the Board) shall review and vote on the approval of a corrective action plan submitted by a local unit of government. If a corrective action plan is approved, the Board will monitor the corrective action plan for the following two years, and the Board will report on the local unit of government's compliance with the Act not less than every two years.

Review Process: Following receipt of the email by Treasury, the Board will accept the corrective action plan submission at the next scheduled meeting of the Board. The Board shall then approve or reject the corrective action plan within 45 days from the date of the meeting.

Considerations for Approval: A successful corrective action plan will demonstrate the actions for correcting underfunded status as set forth in Sec. 10(7) of the Act (listed below), as well as any additional solutions to address the underfunded status. Please also include steps already taken to address your underfunded status as well as the date prospective actions will be taken. A local unit of government may also include in its corrective action plan, a review of the local unit of government's budget and finances to determine any alternative methods available to address its underfunded status. A corrective action plan under this section may include the development and implementation of corrective options for the local unit of government to address its underfunded status. The corrective options as described in Sec. 10(7) may include, but are not limited to, any of the following:

(i) Closing the current defined benefit plan.

(ii) Implementing a multiplier limit.

(iii) Reducing or eliminating new accrued benefits.

(iv) Implementing final average compensation standards.

Implementation: The local unit of government has up to 180 days after the approval of a corrective action plan to begin to implement the corrective action plan to address its underfunded status. The Board shall monitor each underfunded local unit of government's compliance with this act and any corrective action plan. The Board shall adopt a schedule, not less than every 2 years, to certify that the underfunded local unit of government is in substantial compliance with the Act. If the Board determines that an underfunded local unit of government is not in substantial compliance under this subsection, the Board shall within 15 days provide notification and report to the local unit of government detailing the reasons for the determination of noncompliance with the corrective action plan. The local unit of government has 60 days from the date of the notification to address the determination of noncompliance.

3. DESCRIPTIONS OF PRIOR ACTIONS

Prior actions are separated into three categories below: System Design Changes, Additional Funding, and Other Considerations. Please provide a brief description of the prior actions implemented by the local government to address the retirement system's underfunded status within the appropriate category section. Within each category are sample statements that you may choose to use to indicate the changes to your system that will positively affect your funded status. For retirement systems that have multiple divisions, departments, or plans within the same retirement system, please indicate how these changes impact the retirement **system** as a whole.

- **Please Note:** If applicable, prior actions listed within your waiver application(s) may also be included in your corrective action plan.

Please indicate where in the attached supporting documentation these changes are described and the impact of those changes (i.e. what has the local unit of government done to improve its underfunded status, and where can we find the proof of these changes in the supporting documentation?).

Note: Please provide the name of the system impacted, the date you made the change, the relevant page number(s) within the supporting documentation, and the resulting change to the system's funded ratio.

Category of Prior Actions:

☒ **System Design Changes** - System design changes may include the following: Lower tier of benefits for new hires, final average compensation limitations, freeze future benefit accruals for active employees in the defined benefit system, defined contribution system for new hires, hybrid system for new hires, bridged multiplier for active employees, etc.

Sample Statement: *The system's multiplier for current employees was lowered from 2.5X to 2X for the **General Employees' Retirement System** on **January 1, 2017**. On page **8** of the attached actuarial supplemental valuation, it shows our funded ratio will be **60%** by fiscal year **2020.***

Attachment 2a demonstrates the actuarial projection of funding levels for the Lansing ERS system, with 60% funding projected in year 2025.
Included in Attachment 6a(2) is a list of changes made to actuarial assumptions and benefit levels of the ERS pension system over the past several years, as well as information on budgetary restructuring in response to revenue losses.

☒ **Additional Funding** – Additional funding may include the following: Voluntary contributions above the actuarially determined contribution, bonding, millage increases, restricted funds, etc.

Sample Statement: *The local unit provided a lump sum payment of **$1 million** to the **General Employees' Retirement System** on **January 1, 2017**. This lump sum payment was in addition to the actuarially determined contribution (ADC) of the system. The additional contribution will increase the retirement system's funded ratio to **61% by 2025**. Please see page **10** of the attached enacted budget, which highlights this contribution of **$1 million**.*

The City provided a lump sum contribution of $658,000 in excess of the actuarially-determined contribution (ADC) of the on December 1, 2017.

☒ **Other Considerations** – Other considerations may include the following: outdated Form 5572 information, actuarial assumption changes, amortization policy changes, etc.

Sample Statement: *The information provided on the Form 5572 from the audit used actuarial data from **2015**. Attached is an updated actuarial valuation for **2017** that shows our funded ratio has improved to **62%** as indicated on page **13**.*

Attachment 6a(1) includes an actuarial statement showing what the funding ratio would be 61% if the assumption changes to decrease the assumed rate of return and to close the amortization schedule had not been implemented. The City has had the Lansing Financial Health Team (FHT) in place since 2012 for funding improvement necessity beyond the PA 202 minimums. Pension study performed by the City, in conjunction with the FHT, is Attachment 6a(3).

4. DESCRIPTION OF PROSPECTIVE ACTIONS

The corrective action plan allows you to submit a plan of prospective actions which are separated into three categories below: System Design Changes, Additional Funding, and Other Considerations. Please provide a brief description of the additional actions the local government is planning to implement to address the retirement system's underfunded status within the appropriate category section. Within each category are sample statements that you may choose to use to indicate the changes to your system that will positively affect your funded status. For retirement systems that have multiple divisions, departments, or plans within the same retirement system, please indicate how these changes impact the retirement **system** as a whole.

Please indicate where in the attached supporting documentation these changes are described and the impact of those changes (i.e. what will the local unit of government do to improve its underfunded status, and where can we find the proof of these changes in the supporting documentation?).

Category of Prospective Actions:

☒ **System Design Changes -** System design changes may include the following: Lower tier of benefits for new hires, final average compensation limitations, freeze future benefit accruals for active employees in the defined benefit system, defined contribution system for new hires, hybrid system for new hires, bridged multiplier for active employees, etc.

Sample Statement: *Beginning with **summer 2018** contract negotiations, the local unit will seek to lower the system's multiplier for current employees from 2.5X to 2X for the **General Employees' Retirement System**. On page **8** of the attached actuarial supplemental valuation, it shows our funded ratio would be **60%** funded by **fiscal year 2020** if these changes were adopted and implemented by **fiscal year 2019.***

All of the City's collective bargaining agreements will be negotiated this next year. For those and future negotiations, the City is considering further pension changes, including former (see Attachment 6a(4)) and ongoing/new pension recommendations from the Lansing Financial Health Team (FHT), including movement towards a defined contribution plan, as well as a pension study conducted in 2017 (see Attachment 6a(5)), in recognition of necessity of funding improvement beyond the State threshold of 60% funding.

☒ **Additional Funding –** Additional funding may include the following: voluntary contributions above the actuarially determined contribution, bonding, millage increases, restricted funds, etc.

Sample Statement: Beginning in **fiscal year 2019,** *the local unit will provide a lump sum payment of **$1 million** to the **General Employees' Retirement System**. This lump sum payment will be in addition to the actuarially determined contribution (ADC) of the system. The additional contribution will increase the retirement system's funded ratio to **61% by 2025**. Please see page **10** of the attached enacted budget, which highlights this contribution of **$1 million**. Please see page **12** of the attached supplemental actuarial valuation showing the projected change to the system's funded ratio with this additional contribution.*

The City has instituted a General Fund fund balance policy specifying that fund balance amounts in excess of 15% of General Fund expenditures will be contributed as additional payments to its pension and OPEB systems (see page 12 of Attachment 4a).

☒ **Other Considerations –** Other considerations may include the following: outdated Form 5572 information, actuarial assumption changes, amortization policy changes, etc.

Sample Statement: *Beginning in **fiscal year 2019**, the local unit 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 **2022** as shown in the attached actuarial analysis on page **13**.*

The City continues to evaluate City service delivery for cost efficiencies and joint venture/collaboration/regional opportunities.

5. CONFIRMATION OF FUNDING

Please check the applicable answer:

Do the corrective actions listed in this plan allow for (insert local unit name) City of Lansing to make, at a minimum, the annual required contribution payment for the defined benefit pension system according to your long-term budget forecast?

☒ **Yes**
☐ **No**
If No, Explain

6. DOCUMENTATION ATTACHED TO THIS CORRECTIVE ACTION PLAN

Documentation should be attached as a .pdf to this Corrective Action Plan. The documentation should detail the corrective action plan that would be implemented to adequately address the local unit of government's underfunded status. Please check all documents that are included as part of this plan and attach in successive order as provided below:

Naming convention: when attaching documents please use the naming convention shown below. If there is more than one document in a specific category that needs to be submitted, include a, b, or c for each document. For example, if you are submitting two supplemental valuations, you would name the first document "Attachment 2a" and the second document "Attachment 2b".

Naming Convention	Type of Document
☒ Attachment – 1	**This Corrective Action Plan Form (Required)**
☒ Attachment – 1a	**Documentation from the governing body approving this Corrective Action Plan (Required)**
☒ Attachment – 2a	**An actuarial projection, an actuarial valuation, or an internally developed analysis, which illustrates how and when the local unit will reach the 60% funded ratio. Or, if the local unit is a city, village, township, or county, ARC will be less than 10% of governmental fund revenues, as defined by the Act. (Required)**
☒ Attachment – 3a	Documentation of additional payments in past years that is not reflected in your audited financial statements (e.g. enacted budget, system provided information).
☒ Attachment – 4a	Documentation of commitment to additional payments in future years (e.g. resolution, ordinance)
☐ Attachment – 5a	A separate corrective action plan that the local unit has approved to address its underfunded status, which includes documentation of prior actions, prospective actions, and the positive impact on the system's funded ratio
☒ Attachment –6a	Other documentation not categorized above

7. CORRECTIVE ACTION PLAN CRITERIA

Please confirm that each of the four corrective action plan criteria listed below have been satisfied when submitting this document. Specific detail on corrective action plan criteria can be found in the Corrective Action Plan Development: Best Practices and Strategies document.

Corrective Action Plan Criteria	Description
☒ Underfunded Status	Is there a description and adequate supporting documentation of how and when the retirement system will reach the 60% funded ratio? Or, if your local unit is a city, village, township, or county, how and when the ARC of all pension systems will be less than 10 percent of governmental fund revenues?
☒ Reasonable Timeframe	Do the corrective actions address the underfunded status in a reasonable timeframe (see CAP criteria issued by the Board)?
☒ Legal and Feasible	Does the corrective action plan follow all applicable laws? Are all required administrative certifications and governing body approvals included? Are the actions listed feasible?
☒ Affordability	Do the corrective action(s) listed allow the local unit to make the annual required contribution payment for the pension system now and into the future without additional changes to this corrective action plan?

8. LOCAL UNIT OF GOVERNMENT'S ADMINISTRATIVE OFFICER APPROVAL OF CORRECTIVE ACTION PLAN

I Andy Schor, as the government's administrative officer *(enter title)* Mayor (Ex: City/Township Manager, Executive director, and Chief Executive Officer, etc.) approve this Corrective Action Plan and will implement the prospective actions contained in this Corrective Action Plan.

I confirm to the best of my knowledge that because of the changes listed above, one of the following statements will occur:

☒ The ____________________(**Insert Retirement Pension System Name)** will achieve a funded status of at least 60% by Fiscal Year ________ as demonstrated by required supporting documentation listed in section 6.

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

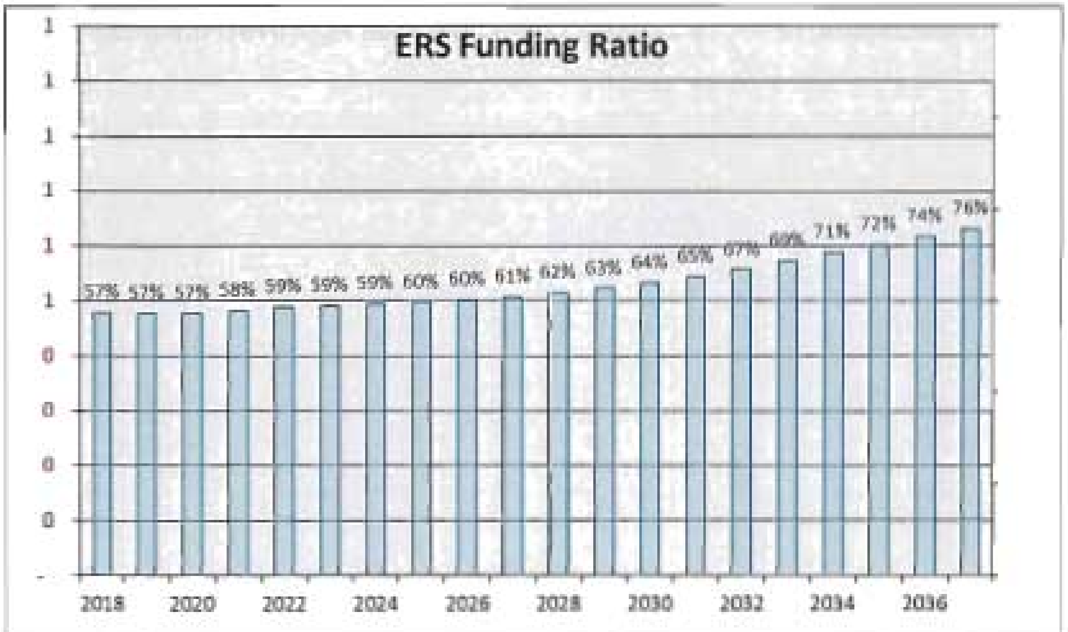
☐ The ARC for all of the defined benefit pension retirement systems of ____________________ (**Insert local unit name)** will be less than 10% of the local unit of government's annual governmental fund revenues by Fiscal Year ________ as demonstrated by required supporting documentation listed in section 6.

Signature ______________________________ Date ______________________

Attachment 1a – City Council Corrective Plan Approval Resolution

City of Lansing Employees' Retirement System, *prepared by Boomershine Consulting Group*

Baseline Scenario (no gains or losses, no changes in assumptions/methods)



The projection of funding shown above is based on the December 31, 2016 valuation projected forward, based on the benefit provisions and actuarial assumptions outlined in the valuation report, with one change: a 7.25% return assumption. The above reflects the City's current funding strategy of paying the full Actuarially Determined Contribution each year.

This projection has been completed in in accordance with generally accepted actuarial principles and practices. The undersigned is a member of the American Academy of Actuaries, and meets the Qualification Standards to provide the actuarial opinions herein.

Gregory M. Stump

Gregory M. Stump, FSA, EA, FCA, MAAA
Chief Actuary
Boomershine Consulting Group

3.2: Development of Employer Contributions

	12/31/2015	12/31/2016 Old Assumptions	12/31/2016 New Assumptions
	7.60%	7.60%	7.40%
1) Total Entry Age Normal Cost[1]	$ 2,818,470	$2,672,148	$2,664,411
2) Estimated Employee Contributions	1,158,291	936,319	1,018,614
3) Net City Normal Cost: (1) – (2)	$1,660,179	$1,735,829	$1,645,797
4) Valuation Payroll	$ 23,205,237	$21,906,185	$21,949,911
5) City Normal Cost Rate (% of pay): (3) ÷ (4)	7.2%	7.9%	7.5%
6) Amortization of Unfunded Actuarial Accrued Liability	$8,278,591	$7,555,389	$8,249,336
7) Amortization Rate (% of Pay): (6) ÷ (4)	35.7%	34.5%	37.6%
8) Total Contribution Rate: (5) + (7)	42.8%	42.4%	45.1%
9) Projected Fiscal Payroll	$ 23,924,600	$22,585,276	$22,593,044
10) Total City Contribution for FY2018: (8) x (9)	**$ 10,246,872**	**$9,579,246**	**$10,185,060**

Estimated Cash Flow for Next Five Years

Fiscal Year	City Contribution*	Member Contributions	Benefit Payments
2019	$10,600,000	$1,000,000	$23,300,000
2020	11,100,000	1,100,000	23,700,000
2021	11,500,000	1,100,000	24,100,000
2022	11,900,000	1,100,000	24,500,000
2023	12,200,000	1,200,000	25,000,000

* These amounts are based on a return of 7.40% each year. If actual returns are lower, the City contributions will be higher. For example, given a 7.25% return, the City contributions would be $0.2 million higher per year.

[1] A breakdown of the Normal Cost by bargaining unit is shown in Appendix III.

Current Date: 03/08/2018
Current Time: 16:48:25

GL Transactions by Date Range
3/8/2018 - 3/8/2018

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Report: LLL_GLTRANS_

Posting Date	Reference	Description	Vendor ID	Debit Amount	Credit Amount	Date Entered	Net
Org Key:	6503911	RETIREMENT CONTRIBUTIONS		Fund: 650	Cost Center:	173911	
Object:	715032	ERS CONTRIBUTIONS					
12/01/2017	CR20171201	TMW FUNDS TRANSFER TO	N/A..N/A	10,843,000.00	0.00	01/25/2018 JRE1258E	435:
		Subtotal for Object: 715032		10,843,000.00	0.00	10,843,000.00	
		Subtotal for Key: 6503911		10,843,000.00	0.00	10,843,000.00	
			TOTAL:	10,843,000.00	0.00	10,843,000.00	

RESOLUTION #2018-142

BY COMMITTEE OF THE WHOLE
RESOLVED BY THE CITY COUNCIL OF THE CITY OF LANSING

WHEREAS, in conformance with Article 7, Section 7-101 of the City Charter, on March 26, 2018, the Mayor submitted a proposed budget for the 2018/2019 fiscal year, which spans from July 1, 2018 through June 30, 2019; and

WHEREAS, the City Council held a series of televised public hearings to review Mayor's budget recommendations; and

WHEREAS, the City Council held special Committee of the Whole meetings during evening hours at the Foster Community Center on May 10, 2018 and at the Alfreda Schmidt Community Center on May 15, 2018, and as part of the Council meeting to provide opportunities for citizens to comment on the proposed City budget; and

WHEREAS, in accordance with City Charter and the State Uniform Budgeting and Accounting Act, notice was published and a public hearing was held on May 14, 2018, for the fiscal year 2018/2019 budget and capital improvements program; and
WHEREAS, Public Act 2 of 1968 of the State of Michigan, as amended, provides that the budget resolution of the City shall set forth the total number of mills to be levied under the General Property Tax Act, the estimated revenues, by source, and amounts appropriated to defray expenditures and meet the liabilities of the City for the ensuing fiscal year; and

WHEREAS, the City Council desires to establish certain budget policies for the fiscal year 2018/2019,

NOW, THEREFORE, BE IT RESOLVED that 19.70 mills be levied under the General Property Tax Act for fiscal year 2018/2019 as follows:

City Operating: 19.44
City Debt: .26

BE IT FURTHER RESOLVED that the City's sewage rate shall be increased by 3.0% for FY 2018/2019;

BE IT FURTHER RESOLVED that the following changes to the City's fee and charges be adopted:

	From Current FY 2018	To Adopted FY 2019
Fire Department		
Ambulance Fee - Advanced Life Support 2	$ 900.00	$ 1,150.00
Ambulance transport mileage (per mile)	$ 13.50	$ 16.50
EMS Report Fee	$ 4.00	$ 10.00
Economic Development & Planning - Building Safety		
Non-FOIA Search and Copy Charge (per 15 minutes)	new fee	$ 10.00
Non-FOIA Search and Copy Charge - CD/DVD (each)	new fee	$ 2.00
Economic Development & Planning - Parking System		
South Capitol Ramp Permits (Monthly)		
Reserved	$ 135.00	$ 141.00
Covered	$ 107.00	$ 115.00
Roof	$ 85.00	$ 90.00
Basement	$ 112.00	$ 120.00
North Grand Ramp Permits (Monthly)		
General	$ 128.00	$ 140.00
Reserved	$ 150.00	$ 160.00
Roof	$ 93.00	$ 110.00
North Capitol Ramp Permits (Monthly)		
General	$ 93.00	$ 110.00
Townsend Ramp Permits (Monthly)		
Reserved Basement/Level 1	$ 167.00	$ 170.00
General, Levels 2-5	$ 143.00	$ 150.00
General, Levels 6-8	$ 130.00	$ 133.00

Transient Parking Rates	From Current FY 2018	To Adopted FY 2019
VIP Hourly Rate per half-hour (all ramps)	$ 0.70	$ 1.05
Hourly rate per half hour (Townsend, South Capitol, North Capitol R	$ 1.00	$ 1.25
Hourly rate per half hour (North Grand Ramp)	$ 1.00	$ 1.50
Daily Maximum (Townsend, South Capitol, North Capitol Ramps)	$ 10.00	$ 12.50
Daily Maximum (North Grand Ramp)	$ 10.00	$ 15.00
Lot Rates (Monthly)		
Lot #1	$ 75.00	$ 85.00
Lot #49	$ 50.00	$ 60.00
Lot #49A	$ 50.00	$ 60.00
Lot #50	$ 22.00	$ 30.00
Lot #52	$ 63.00	$ 70.00
Lot #53	$ 63.00	$ 70.00
Lot #55	$ 68.00	$ 80.00
Lost Ticket Rates		
North Capitol Ramp	$ 10.00	$ 12.50
Townsend, South Capitol Ramps	$ 10.00	$ 25.00
North Grand Ramp	$ 20.00	$ 30.00

Office of Community Media

Inflatable Movie Screen & Equipment Rental - free community events	new fee	$	500.00
Inflatable Movie Screen & Equipment Rental - ticketed events	new fee	$	1,000.00
Media Center theatre space rental - professional video or ticketed eve	new fee	$	500.00
Media Center theatre space rental - free community event (per hour)	new fee	$	20.00
Media Center theatre space rental - non-commercial production, non-business hours (per hour)	new fee	$	20.00
Backpack studio rental - commercial production (per day)	new fee	$	100.00
Intermediate Production class - Resident	new fee	$	55.00
Intermediate Production class - Nonresident	new fee	$	105.00
Camera Package Rental - commercial production	new fee	$	100.00
Live Production Trailer with final edited product with staff and equipme	new fee	$	1,750.00

Parks & Recreation Department

Marshall Park Sand Volleyball - no equipment (per hour)	$	5.00	$	10.00
Marshall Park Sand Volleyball - with equipment (per hour)	$	8.00	$	15.00
Frances Park Pavilion Rental - 1/2 Pavilion, 1/2 Day Weekday		Change in rate structure	$	70.00
Frances Park Pavilion Rental - 1/2 Pavilion, 1/2 Day Weekend			$	80.00
Frances Park Pavilion Rental - Full Pavilion, 1/2 Day Weekday			$	115.00
Frances Park Pavilion Rental - Full Pavilion, 1/2 Day Weekend			$	135.00
Frances Park Pavilion Rental - Full Pavilion, Full Day - Weekday			$	190.00
Frances Park Pavilion Rental - Full Pavilion, Full Day - Weekend			$	220.00
Frances Park Pavilion Rental - 1/2 Pavilion, 1/2 Day Holiday			$	100.00
Frances Park Pavilion Rental - Rental of 1/2 Pavilion Full Day Holiday			$	165.00
Frances Park Pavilion Rental - Full Pavilion, Full Day Holiday			$	275.00
Frances Pavilion Clean Up Fee Rental - Deposit for Clean Up Forfeite			$	50.00
Hunter Park Pavilion Rental - 1/2 Day Weekday/Weekend			$	35.00
Hunter Park Pavilion Rental - Full Day Weekday/Weekend			$	60.00
Hunter Park Pavilion Rental - 1/2 Day Holiday			$	65.00
Hunter Park Pavilion Rental - Full Day Holiday			$	110.00
Moores Park Pavilion Rental - 1/2 Day, Weekday/Weekend			$	45.00
Moores Park Pavilion Rental - Full Day Weekday/Weekend			$	70.00
Moores Park Pavilion Rental - 1/2 Day Holiday			$	75.00
Moores Park Pavilion Rental - Full Day Holiday			$	125.00
Washington Park Pavilion Rental - 1/2 Day, Weekday/Weekend			$	45.00
Washington Park Pavilion Rental - Full Day Weekday/ Weekend			$	70.00
Washington Park Pavilion Rental - 1/2 Day Holiday			$	75.00
Washington Park Pavilion Rental - Full Day Holiday			$	125.00
Adado Riverfront Park Rental	$	150.00	$	500.00
		From		**To**
Grand River Park Boat Slip Rental - Resident	$	200.00	$	220.00
Grand River Park Boat Slip Rental - Nonresident	$	400.00	$	420.00
Turner Dodge - Teas	$	15.00	$	19.00
Turner Dodge / First Floor Rental - Resident (per hour)	$	110.00	$	120.00
Turner Dodge / First Floor Rental - Non-Resident (per hour)	$	125.00	$	135.00
Turner Dodge / Entire House Rental - Resident (per hour)	$	145.00	$	155.00
Turner Dodge / Entire House Rental - Non-Resident	$	160.00	$	170.00
Special Recreation - Road Rally	$	75.00	$	100.00
Community Center - Kids cooking class	$	20.00	$	30.00

SEPA Late Fee - Adado Riverfront Park <30 days from event	new fee	$ 150.00
SEPA Late Fee - Rivertrail Rental <30 days from event	new fee	$ 125.00
Adult Men's Baseball League - Age 30+	$ 907.00	$ 1,007.00
Adult Men's Baseball League - Age 40+	$ 907.00	$ 1,007.00
Adult Men's Baseball City League	$ 1,249.00	$ 1,350.00
Girl's Wildcat Softball, before May 10 - Resident	$ 30.00	$ 40.00
Girl's Wildcat Softball, before May 10 - Nonresident	$ 35.00	$ 45.00
Girl's Wildcat Softball, after May 10 - Resident	$ 40.00	$ 50.00
Girl's Wildcat Softball, after May 10 - Nonresident	$ 45.00	$ 55.00
Baseball Field Rentals - Youth Tournaments (per game)	$ 30.00	$ 100.00
Baseball Field Rentals - Adult Tournaments (per game)	$ 35.00	$ 120.00
Public Service Department Refuse and Recycling Funds:		
Refuse Bags:		
Individual Bags	$ 2.00	$ 2.25
5 bags	$ 10.00	$ 11.25
Carts:		
21 gallon cart	$ 40.00	$ 42.00
32 gallon cart	$ 43.00	$ 44.00
65 gallon cart	$ 48.00	$ 49.00
95 gallon cart	$ 54.00	$ 55.00
Blue cart late fee	$ 5.00	$ 10.00
Recycling Fee	$ 98.50	$ 105.00
Recycling Commercial Fee (per quarter)	$ 47.00	$ 52.00
Recycling Fee - Special Events, Cart Rental	$ 10.00	$ 15.00
Recycling Fee - Special Events, Noncompliance (contamination)	new fee	$ 10.00

BE IT FURTHER RESOLVED that the following appropriations and revenue projections are adopted as the City's budget for the FY 2018/2019 fiscal year:

	FY 2019 Proposed	Council Changes	FY 2019 Adopted
Estimated Revenues			
Property Taxes	$ 40,315,000		$ 40,315,000
Income Taxes	38,500,000		38,500,000
State Shared Revenues	19,196,700		19,196,700
Licenses and Permits	1,677,000		1,677,000
Charges for Services	9,017,200	10,000	9,027,200
Fines and Forfeitures	2,456,100		2,456,100
Interest and Rents	205,000		205,000
Return on Equity	22,500,000		22,500,000
Other Revenue	333,000		333,000
Transfers	100,000		100,000
Use of/(Contribution to) Fund Balance	-		-
Total Revenue	$ 134,300,000	$ 10,000	$ 134,310,000

Appropriations						
City Council						
Personnel	$	494,573			$	494,573
Operating		219,427				219,427
Total	$	714,000	$	-	$	714,000
Internal Audit						
Personnel	$	182,261			$	182,261
Operating		12,639				12,639
Total	$	194,900	$	-	$	194,900
Courts						
Personnel	$	5,186,717			$	5,186,717
Operating		1,418,783				1,418,783
Total	$	6,605,500	$	-	$	6,605,500
Mayor's Office						
Personnel	$	1,076,326			$	1,076,326
Operating		220,474				220,474
Total	$	1,296,800	$	-	$	1,296,800
Office of Community Media						
Personnel	$	431,375			$	431,375
Operating		38,525				38,525
Total	$	469,900	$	-	$	469,900
City Clerk' Office						
Personnel	$	955,857			$	955,857
Operating		241,143				241,143
Total	$	1,197,000	$	-	$	1,197,000
Neighborhood and Citizen Engagement						
Personnel	$	540,790			$	540,790
Operating		322,710				322,710
Total	$	863,500	$	-	$	863,500
Economic Development and Planning						
Personnel	$	2,576,020	$	70,000	$	2,646,020
Operating		2,415,280		(40,000)		2,375,280
Total	$	4,991,300	$	30,000	$	5,021,300
Finance						
Personnel	$	4,208,563			$	4,208,563
Operating		1,263,037				1,263,037
Total	$	5,471,600	$	-	$	5,471,600
Human Resources						
Personnel	$	1,239,243			$	1,239,243
Operating		878,757				878,757
Total	$	2,118,000	$	-	$	2,118,000
City Attorney						
Personnel	$	1,905,589			$	1,905,589
Operating		262,711				262,711
Total	$	2,168,300	$	-	$	2,168,300
Police						
Personnel	$	36,508,691			$	36,508,691
Operating		6,684,609				6,684,609
Total	$	43,193,300	$	-	$	43,193,300

Fire						
Personnel	$	29,283,556	$	(20,000)	$	29,263,556
Operating		4,866,344				4,866,344
Total	$	34,149,900	$	(20,000)	$	34,129,900
Public Service						
Personnel	$	2,857,678			$	2,857,678
Operating		8,714,822				8,714,822
Total	$	11,572,500	$	-	$	11,572,500
Human Relations & Community Service						
Personnel	$	1,427,118			$	1,427,118
Operating		171,182				171,182
Total	$	1,598,300	$	-	$	1,598,300
Parks & Recreation						
Personnel	$	4,947,423			$	4,947,423
Operating		3,353,577				3,353,577
Total	$	8,301,000	$	-	$	8,301,000
Human Services						
Operating	$	1,660,000			$	1,660,000
Total	$	1,660,000	$	-	$	1,660,000
City-Supported Agencies						
Operating	$	381,400			$	381,400
Total	$	381,400	$	-	$	381,400
Non-Departmental						
Vacancy Factor	$	(500,000)			$	(500,000)
Library Lease		150,000				150,000
Debt Service		1,154,000				1,154,000
Transfers		6,548,800				6,548,800
Total	$	7,352,800	$	-	$	7,352,800
Total Appropriations	$	134,300,000	$	10,000	$	134,310,000

II. SPECIAL REVENUE FUNDS

MAJOR STREETS FUND

Estimated Revenues			
Gas & Weight Tax Receipts	$ 9,588,800		$ 9,588,800
Utility Permit Fees (Metro Act)	450,000		450,000
Reimbursements	959,000		959,000
Miscellaneous Revenue	45,000		45,000
Transfer from Other Funds	100,000		100,000
Use of/(Contribution to) Fund Balance	1,811,200		1,811,200
Total Revenue	$ 12,954,000	$ -	$ 12,954,000
Appropriations			
Personnel	$ 3,003,107		$ 3,003,107
Operating	3,824,693		3,824,693
Capital	2,700,000		2,700,000
Debt Service	526,200		526,200
Transfers	2,900,000		2,900,000
Total Appropriations	$ 12,954,000	$ -	$ 12,954,000

LOCAL STREETS FUND

Estimated Revenues			
Gas & Weight Tax Receipts	$ 3,196,200		$ 3,196,200
Reimbursements	200,000		200,000
Miscellaneous Revenue	120,000		120,000
Transfer from Other Funds	5,270,000		5,270,000
Use of/(Contribution to) Fund Balance	(125,200)		(125,200)
Total Revenue	$ 8,661,000	$ -	$ 8,661,000
Appropriations			
Personnel	$ 3,042,012		$ 3,042,012
Operating	2,371,588		2,371,588
Capital	2,520,000		2,520,000
Debt Service	727,400		727,400
Total Appropriations	$ 8,661,000	$ -	$ 8,661,000

STADIUM FUND

Estimated Revenues			
Operating Revenues	$ 400,000		$ 400,000
Stadium Naming Rights	120,000		120,000
Reimbursements	125,000		125,000
Transfers In	512,000		512,000
Use of/(Contribution to) Fund Balance	-		-
Total Revenue	$ 1,157,000	$ -	$ 1,157,000
Appropriations			
Debt Service	$ 1,157,000		$ 1,157,000
Total Appropriations	$ 1,157,000	$ -	$ 1,157,000

BUILDING DEPARTMENT FUND

Estimated Revenues			
Licenses & Permits	$ 2,592,200		$ 2,592,200
Charges for Services	2,500		2,500
Miscellaneous	300		300
Use of/(Contribution to) Fund Balance	(25,000)		(25,000)
Total Revenue	$ 2,570,000	$ -	$ 2,570,000
Appropriations			
Personnel	$ 2,029,226		$ 2,029,226
Operating	540,774		540,774
Total Appropriations	$ 2,570,000	$ -	$ 2,570,000

CDBG FUND

Estimated Revenues			
Federal Grants	$ 2,850,968		$ 2,850,968
General Fund Transfer	152,530		152,530
Total Revenue	$ 3,003,498	$ -	$ 3,003,498
Appropriations			
Personnel	$ 1,058,885		$ 1,058,885
Operating	1,944,613		1,944,613
Total Appropriations	$ 3,003,498	$ -	$ 3,003,498

HOME GRANT FUND

Estimated Revenues			
Federal Grants	$ 1,689,435		$ 1,689,435
General Fund Transfer	26,720		26,720
Total Revenue	$ 1,716,155	$ -	$ 1,716,155
Appropriations			
Personnel	$ 201,697		$ 201,697
Operating	1,514,458		1,514,458
Total Appropriations	$ 1,716,155	$ -	$ 1,716,155

EMERGENCY SHELTER GRANT FUND

Estimated Revenues			
Federal Grants	$ 167,605		$ 167,605
General Fund Transfer	-		-
Total Revenue	$ 167,605	$ -	$ 167,605
Appropriations			
Operating	$ 167,605		$ 167,605
Total Appropriations	$ 167,605	$ -	$ 167,605

FEDERAL DRUG LAW ENFORCEMENT SPECIAL REVENUE FUND

Estimated Revenues			
Drug Forfeitures	$ -		$ -
Use of/(Contribution to) Fund Balance	108,000		108,000
Total Revenue	$ 108,000	$ -	$ 108,000
Appropriations			
Personnel	$ -	$ -	$ -
Operating	108,000	-	108,000
Total Appropriations	$ 108,000	$ -	$ 108,000

STATE/LOCAL DRUG LAW ENFORCEMENT SPECIAL REVENUE FUND

Estimated Revenues			
Drug Forfeitures	$ -		$ -
Use of/(Contribution to) Fund Balance	523,600		523,600
Total Revenue	$ 523,600	$ -	$ 523,600
Appropriations			
Operating	$ 523,600	$ -	$ 523,600
Transfers	-		-
Total Appropriations	$ 523,600	$ -	$ 523,600

DRUG LAW ENFORCEMENT FUND - TRI-COUNTY METRO

Estimated Revenues			
Drug Forfeiture Revenues	$ 428,220		$ 428,220
Contributions from Local Units	428,220		428,220
Total Revenue	$ 856,440	$ -	$ 856,440
Appropriations			
Personnel	$ 86,920	$ -	$ 86,920
Operating	769,520	-	769,520
Transfers	-	-	-
Total Appropriations	$ 856,440	$ -	$ 856,440

DOWNTOWN LANSING, INC.

Estimated Revenues			
Special Assessments	$ 420,400		$ 420,400
Grants	10,000		10,000
Miscellaneous	290,275		290,275
Transfer from General Fund	156,300		156,300
Use of/(Contribution to) Fund Balance	14,525		14,525
Total Revenue	$ 891,500	$ -	$ 891,500
Appropriations			
Personnel	$ 164,875		$ 164,875
Operating	726,625		726,625
Total Appropriations	$ 891,500	$ -	$ 891,500

III. ENTERPRISE FUNDS

CEMETERIES FUND

Estimated Revenues			
Cemetery Service Revenue	$ 190,150		$ 190,150
Sale of Lots	70,000		70,000
Other	3,000		3,000
Transfer from Perpetual Care	5,000		5,000
Transfer from Parks Millage	486,850		486,850
Use of/(Contribution to) Fund Balance	-		-
Total Revenue	$ 755,000	$ -	$ 755,000
Appropriations			
Personnel	$ 414,989		$ 414,989
Operating	313,011		313,011
Transfers	27,000		27,000
Total Appropriations	$ 755,000	$ -	$ 755,000

GOLF FUND

Estimated Revenues			
Transfers In - Parks Millage	$ 179,400		$ 179,400
Total Revenue	$ 179,400	$ -	$ 179,400
Appropriations			
Operating	$ 179,400		$ 179,400
Total Appropriations	$ 179,400	$ -	$ 179,400

PARKING FUND

Estimated Revenues						
Parking Revenue	$	5,985,600			$	5,985,600
Baseball Revenue		55,000				55,000
Parking Fines		500,000				500,000
Other Revenue		1,251,269				1,251,269
Use of/(Contribution to) Fund Equity		4,396,131				4,396,131
Total Revenue	$	12,188,000	$	-	$	12,188,000
Appropriations						
Personnel	$	2,406,137			$	2,406,137
Operating		2,500,053				2,500,053
Capital		3,976,810				3,976,810
Debt Service		3,305,000				3,305,000
Total Appropriations	$	12,188,000	$	-	$	12,188,000

WASTEWATER FUND

Estimated Revenues						
Sewer Charges	$	35,733,000			$	35,733,000
Interest Income		148,960				148,960
Low Income Credit		(2,000)				(2,000)
Miscellaneous Income		-				-
Use of/(Contribution to) Fund Equity		4,890,040				4,890,040
Total Revenue	$	40,770,000	$	-	$	40,770,000
Appropriations						
Personnel	$	8,329,628			$	8,329,628
Operating		8,467,596				8,467,596
Capital		9,228,000				9,228,000
Debt Service		14,744,776				14,744,776
Total Appropriations	$	40,770,000	$	-	$	40,770,000

REFUSE FUND

Estimated Revenues						
Operating Income	$	2,133,004			$	2,133,004
Interest Income		7,000				7,000
Use of/(Contribution to) Fund Equity		(215,004)				(215,004)
Total Revenue	$	1,925,000	$	-	$	1,925,000
Appropriations						
Personnel	$	945,893			$	945,893
Operating		929,107				929,107
Capital		50,000				50,000
Total Appropriations	$	1,925,000	$	-	$	1,925,000

RECYCLING FUND

Estimated Revenues						
Operating Income	$	4,130,540			$	4,130,540
Sale of Recycled Materials		-				-
Interest Income		-				-
Use of/(Contribution to) Fund Equity		169,460				169,460
Total Revenue	$	4,300,000	$	-	$	4,300,000
Appropriations						
Personnel	$	2,196,847			$	2,196,847
Operating		1,598,340				1,598,340
Debt Service		454,813				454,813
Capital		50,000				50,000
Total Appropriations	$	4,300,000	$	-	$	4,300,000

IV. CAPITAL PROJECT FUNDS

CAPITAL IMPROVEMENT (CIP) FUND

Estimated Revenues						
Transfer from the General Fund	$	1,395,000			$	1,395,000
Loan Revenue		180,000				180,000
PEG (Cable Capital) Revenues		400,000				400,000
Total Revenue	$	1,975,000	$	-	$	1,975,000

Appropriations			
Capital	$ 995,000		$ 995,000
PEG Capital	300,000		300,000
Debt Service	180,000		180,000
Transfer to General Fund	100,000		100,000
Transfers to Street Funds	400,000		400,000
Total Appropriations	$ 1,975,000	$ -	$ 1,975,000

PARKS MILLAGE FUND

Estimated Revenues			
Transfer from the General Fund	$ 2,036,250		$ 2,036,250
Total Revenue	$ 2,036,250	$ -	$ 2,036,250
Appropriations			
Transfers to Golf/Cemetery Funds	$ 666,250		$ 666,250
Capital	1,370,000		1,370,000
Total Appropriations	$ 2,036,250	$ -	$ 2,036,250

BE IT FINALLY RESOLVED, that the following policies are hereby established for the 2018/2019 fiscal year:

FY 2019 Budget Policies

In accordance with the State Uniform Budget and Accounting Act (Public Act 2 of 1968), the City of Lansing's annual appropriations, as set forth in the annual budget resolution, shall be made in accordance with Generally Accepted Accounting Principles (GAAP) and shall apply to all funds except internal service funds, debt service funds, permanent funds, and trust and agency funds.

The City's fiscal year is July 1 through June 30. In accordance with the City Charter, on or before the fourth Monday in March, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. No later than the third Monday in May, the Council adopts the budget and sets the property tax rates for the ensuing fiscal year.

Appropriations are set forth in the annual budget resolution. Authority to transfer between appropriations is dictated by City Charter; however, additional administrative budget transfer authority is granted for the following instances. The Administration is requested to submit to Council quarterly reports of such transfers.

Wastewater Funds – the transfer residual State Revolving Fund (SRF) loan and/or bond proceeds between projects and project segments.

Flood Control – the transfer of funds for flood control and/or storm sewer purposes to address flooding or unanticipated storm sewer maintenance needs.

Major and Local Street (Act 51) Funding – Transfer authority is not limited by departmental allocation, and administrative authority is included for appropriation of MDOT special authorization funding.

Parking System – the transfer of capital project accounts from operating accounts is permitted to meet bid or unforeseen capital needs.

Debt Service Funds – the transfer of residual balances between general obligation bond debt service accounts.

Vacancy Factor/funded and unfilled Positions - The budget includes an attrition vacancy allowance of $500,000. The Administration is requested to provide Council on July 1, 2018 and on a quarterly basis, thereafter, a list of vacant positions by department. The Administration is also requested to provide, on a quarterly basis, a detailed list by Department of all positions by title, FTE, wages and fringes, and impact on programs and/or services which are included within this allowance. The personnel wages and fringes associated with all positions identified above as of July 1, 2018 and any such position vacated, thereafter, shall be placed in a budget control account, and will require City Council approval for expenditure.

In addition, administrative authority is granted for the transfer of wage and fringe benefit reserves to departmental budgets upon settlement of a collective bargaining agreement.

Carryforwards

Authority is granted to reappropriate available capital project balances as of June 30, 2018 into the FY 2019 budget. All non-capital balances require City Council approval to carryforward, except for encumbered (purchase order) obligations less than $5,000 and not more than 8 months old.

- Human Services and Community Supported Agencies Funding
  The plan for funding Agencies submitted to Council designate particular Agencies. If any agency does not apply for or use their funding, all funds will remain in their respective account(s) for additional appropriation and approval by Council for Human Services and Community Supported Agencies use pursuant to the Charter transfer authority. The Administration/Human Relations Community Services Department is requested to submit to Council a quarterly report on the status of the Human Services and Community Supported Agencies' funding. This report should include the accounting level detail appropriation; amount spent, balance, and a notation as to whether the balance of funds is expected to be spent by the end of the Fiscal Year; if not, why.

General Fund Reserve Policy

The City's General Fund reserves consist of the General Fund fund balance and the Budget Stabilization Fund. Use of and contributions to the Budget Stabilization Fund are dictated by Ordinance section 218.05.

The targeted unrestricted balance for the combination of the General Fund fund balance and the Budget Stabilization Fund is a minimum of 12% of General Fund expenditures and a maximum of 15% of General Fund expenditures. If events necessitate that the combined balances drop below 12% of General Fund expenditures, annual appropriations of a minimum of $500,000 will be made until the 12% target is reached. In the event that combined reserves are projected to exceed 15% of General Fund revenues, the excess amount will be used to supplement pension and/or retiree healthcare prefunding.

Debt Management

Appropriations are made to adequately fund annual debt service obligations. Adherence will be made to required debt service reserves, where applicable, as well as to the provision of annual disclosures as required by outstanding bond obligations.

Investment Policy

Management of cash investments is governed by the City's investment policy and in accordance to State statute, with the objective being the maximization of return on the City's governmental funds through pooling of funds where appropriate and permitted, monitoring of interest rates and fee structures. Investments of the Employee Retirement System, the Police and Fire Retirement System, and the VEBA, are governed those respective boards and dictated by their respective investment policies.

Strategic Planning and Budget Development

In working toward the goal of the incorporation of strategic planning into the budget process, this next year, Administration is encouraged to work towards developing a multi-year budgeting process. This process should align the City's master plan, strategic goals, and performance metrics to short-term and long-term budget priority-setting by Council in accordance with Financial Health Team recommendations.

Civil Actions, Claims, and Damages

Whenever a claim is made or any civil action is commenced against the Mayor, a City Council member, a non-bargaining unit employee, or a Lansing retirement board trustee (collectively in this provision "the Employee") for damages caused by an act or acts of the Employee within the scope of his or her authority and while in the course of his or her employment with the City or his or her duties on behalf of the retirement board, the City will pay for, engage, or furnish the services of an attorney to advise the Employee as to the claim and to appear for and represent the Employees in the action. If the City Attorney does not provide the attorney services, the attorney selection shall be made by the City Attorney in the manner the City Charter requires. The City may compromise, settle, and pay a claim before or after the commencement of any civil action. Whenever any judgment for damages caused by the act or acts of the Employee covered under this provision is awarded against the Employee as the result of a civil action, the City will indemnify the Employee or will pay, settle, or compromise the judgment. The City's obligations under this provision, however, is contingent upon the Employee giving prompt notice of the commencement of the action and upon the Employee cooperating in the preparation, defense, and settlement of the action. The term "scope of authority" under this provision does not include any act or acts of Employee (i) fraud, (ii) dishonesty, (iii) willful, intentional, or deliberate violation of the law or breach of fiduciary duty, (iv) criminal act, or (v) traffic violation; nor does this provision abrogate or diminish governmental immunity.

Grants

In order to receive timely Council consideration of the approval of any grant award, every application for any grant requiring legislative approval shall be submitted to Council, and, upon notification of the award of such a grant, the acceptance shall be submitted to Council. Once accepted administrative authority is granted to create necessary accounts and transfers in accordance with the requirements

of the grantor. Any grant that can be applied for administratively should be submitted for Council review within 10 days of the application.

Transparency and Accountability in Government

Council will review, and when necessary, pass policies, procedures and ordinances to achieve improved transparency and accountability with respect to economic incentives, outsourcing of service and contracting within City government.

Corridor Façade Grants

The Council will generate a resolution of guidelines with LEAP describing the area and requirements for the implementation of the Corridor Façade Grants by August 1, 2018.

Chris Swope

Chris Swope, CMMC/MMC
Lansing City Clerk

I hereby certify that the foregoing is true and is a complete copy of the action adopted by the Lansing City Council.

Lansing ERS Pension Attachment 6a Index

6a(1) Actuarial statement showing what the funding ratio would be 61% if the assumed rate of return not been decreased

6a(2) List of ERS pension plan provisions changes

6a(3) History of Funding and Budgetary Actions Taken

6a(4) Lansing Financial Health Team Report/Recommendations, March, 2013

6a(5) Lansing ERS pension study conducted by the City in conjunction with the City's Financial Health Team, September, 2017

Lansing ERS Pension System – Recent Plan Provision Changes

- Hybrid System for New Hires: Decrease in DB multipliers from 1.6%/1.8% to 1.25% with supplemental DC program for clerical and professional positions (non-bargained, Teamsters 243, and Teamsters 214) and from 2.75% to 1.5% with supplemental DC program for laborer positions (UAW). These changes took effect 2012-2017, depending on the bargaining group.

- Pension benefit cap (previously none) of 110% of base wages for all ERS employees. This change took effect 2014-2016, depending on the bargaining group.

- Increase in employee contribution from 1.3% to 3.0% for laborers (UAW), effective October 21, 2013.

- Decrease in System's assumed rate of return from 8.0% to 7.25% between 2012 and 2018.

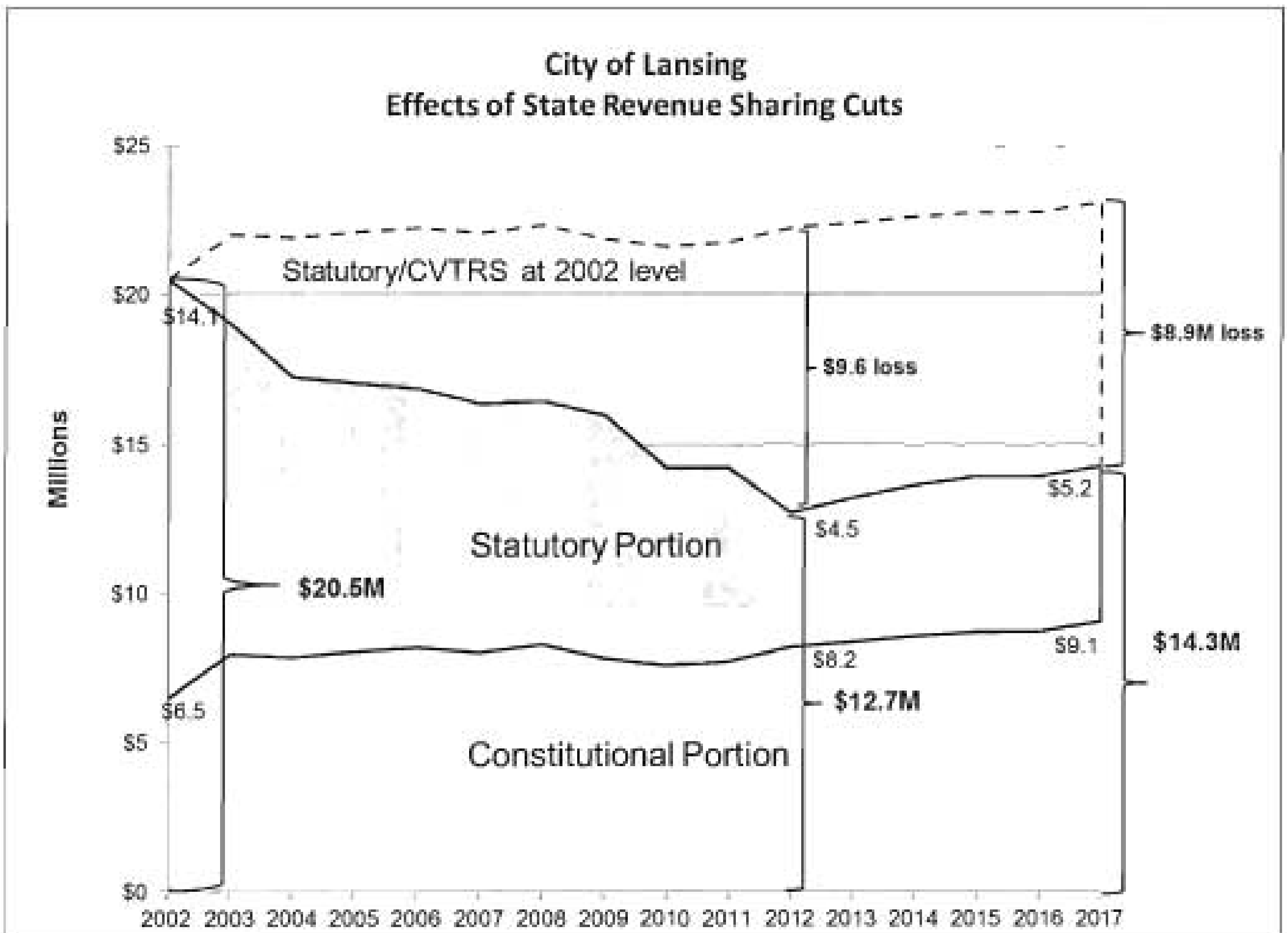
- Change from open amortization to closed period of thirty years, decreasing by 1 year to ultimate period of 10 years

- Updates of mortality tables

Lansing History of Funding and Budgetary Actions Taken

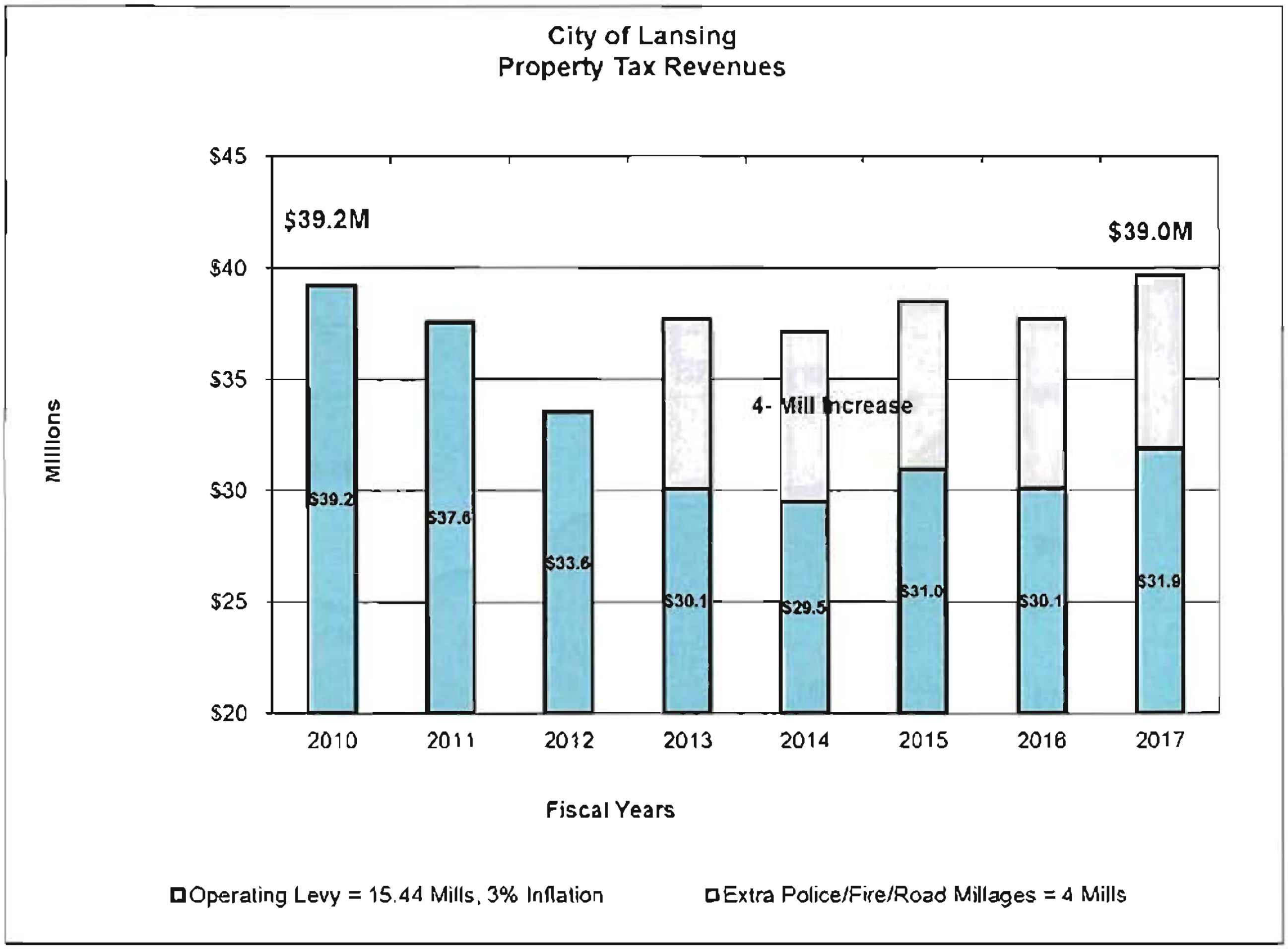
The City of Lansing, like other Michigan municipalities, is challenged in its revenue structure. The structure for Michigan's municipal funding is based on centralization of taxation and revenue diversification at the state level, with municipalities having limitations on ability to raise revenues. A prime example is sales taxes: in many other states, municipalities can levy sales taxes; in the state of Michigan only the state is allowed to levy sales tax. This structure was predicated on revenue sharing by the state with its municipalities.

Preceding and through the Great Recession, as the State of Michigan ran into its own budgetary challenges, the statutory portion of revenue sharing to municipalities by the state was reduced by approximately $8.1 billion. For the City of Lansing, these cuts have amounted more than $6 million in real dollars *annually* for the City, and almost $9 million annually when adjusted for inflation, or over $104 million from 2002-2017.

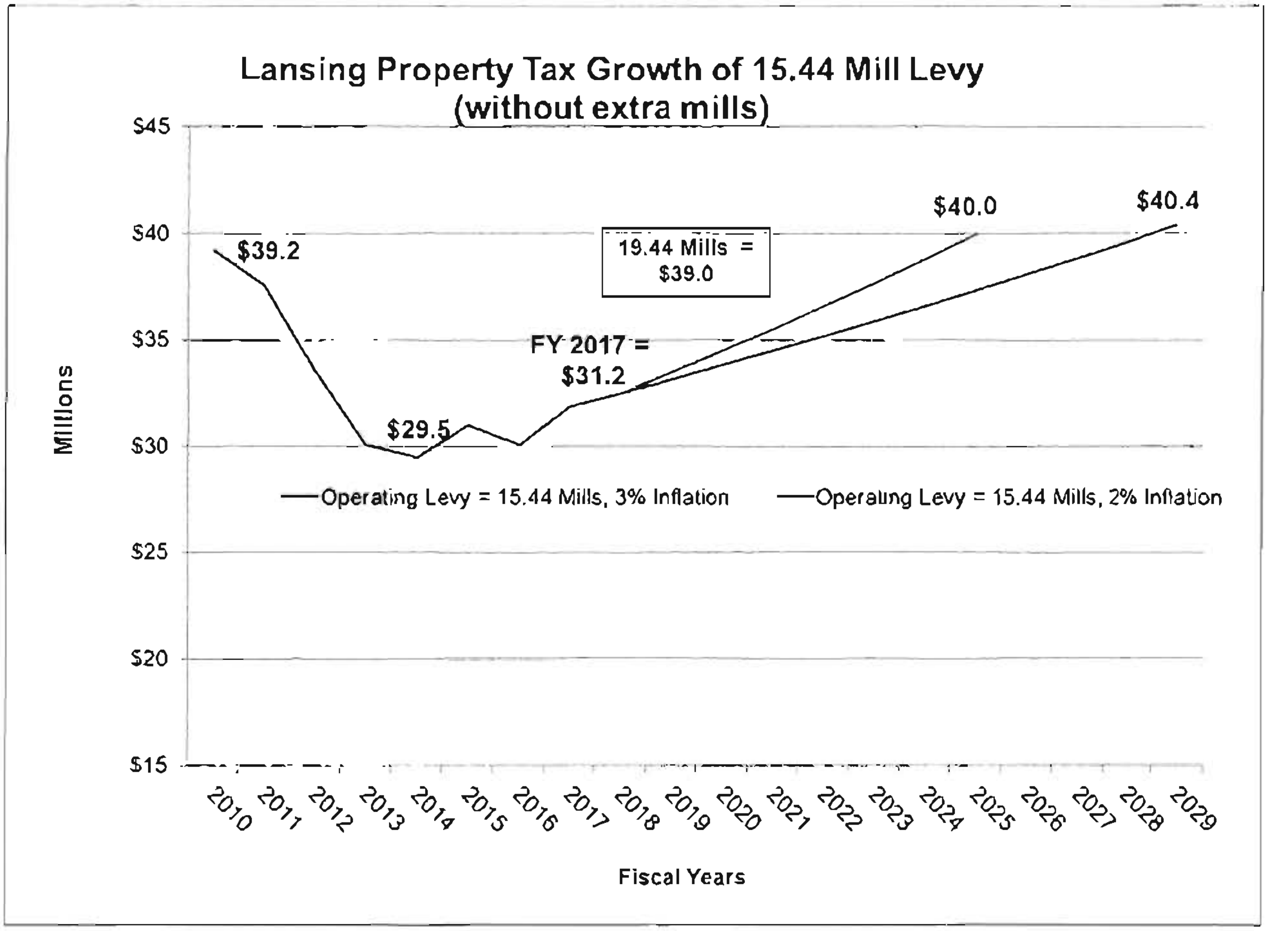


At the same time, due to limitations by the state Headlee Amendment and Proposal A, the City's (and other municipalities') largest General Fund revenue source, the property tax, is limited in growth by the lesser of the rate of inflation or five percent.

During the Great Recession, as property values declined, Lansing's property taxes decreased by 25%, or $9.7 million, over a four-year period, resulting in a four mill voted property tax increase for police, fire, and roads. While that four mill property tax levy substantially offset that loss, it brought the City's operating levy up to 19.44 mills, which within .56 mills of the 20-mill maximum allowed for home-rule cities in the State of Michigan. As a result, the City is unable to increase its operating property tax levy much further.



As demonstrated in the following chart, because of the above-stated state limitations on property tax revenue growth from the state Headlee Amendment and Proposal A, the City anticipates property taxes to increase only 2%-3% over the next several years and that pre-recession property tax revenue levels, net of the extra four mills, will not be reached until 2025 to 2028.



These funding cuts and revenue constraints have generally affected the state's urban core communities more than others. Urban core cities, like Lansing, tend to be older communities, having aged infrastructure; tend to be built-out with limited undeveloped land; tend have higher poverty rates; and tend to have higher legacy (pension and retiree healthcare) costs. These factors are true for the City of Lansing, which was incorporated in 1859 and has twice the number of retirees as current employees.

In response to these challenges, leading up to and during the Great Recession, the City enacted many different changes in City programs, staffing, and organization, including:

- Reducing the City's workforce by 30% since FY 2006, from 1,220 to 867

- Reducing City pension and retiree healthcare cost growth by negotiating increases in employee health insurance premium sharing, healthcare plan changes, and pension contributions
- Reducing City health insurance costs with a wrap program for Medicare-eligible retirees
- Closing 3 fire stations and eliminating associated costs
- Closing Waverly and Red Cedar Golf courses
- Closing Miller Road Senior Community Center
- Closing Washington Ice Dome and Scott House
- Consolidating functions within the City (grounds maintenance, engineering, fleet maintenance, parking enforcement, fire/building inspections)
- Consolidating functions with other governments (911, dive team)
- Entering into cooperative agreements with other governments (police and fire training, purchasing, economic development)
- Expanding mutual aid agreements and shared services studies with adjoining municipalities
- Transferring management of Sycamore Driving Range and Fenner Nature Center to non-profits
- Eliminating leased space by consolidating police Patrol and Investigations Divisions
- Increasing fees
- Implementing new technology to improve efficiency (including cash receipting, code compliance, financial system upgrades, payroll system, computerized traffic ticket system, E-filing for income taxes)
- Implementing energy efficiency measures in City buildings
- Instituting a voter-approved 4.0 mill property tax increase to mitigate further reductions to police, fire and road services

During this time, the City also worked with its unions to reduce the growth of pension and retiree healthcare costs. A recent actuarial study estimates that these efforts have reduced projected costs to by over **$200** million over the next forty years. However, the challenge remains in the projected growth of these costs, in combination with its aging infrastructure, reductions in revenue and revenue constraints in the next fifteen-to-twenty years.

As previously noted, these challenges are not unique to the City of Lansing. Additional information on the effects of state revenue reductions and constraints is available in the Michigan Municipal League's SaveMIcity website.

Staff Paper

Report of the Lansing Financial Health Team

by
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Christina Plerhoples
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Staff Paper 2013-1 March 18, 2013

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[1] The authors would like to thank Ms. Nicolette Bateson and Ms. Angela Bennett for their time and assistance with this research project.

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I. INTRODUCTION

City of Lansing Financial Health Team

MISSION

In an era of economic turmoil that has left some of Michigan's largest cities on the brink of bankruptcy, the city of Lansing remains in a relatively strong financial position that will allow it to perform the essential functions of city government both in the short and long term. However, to keep the city on sound financial footing into the future and to preserve and enhance the community's quality of life, Mayor Virg Bernero's Financial Health Team will conduct a comprehensive review of the city's financial health and make recommendations for strengthening the city's financial position now and in the future.

FINANCIAL HEALTH TEAM MEMBERS

David Hollister, Chair	Prima Civitas Foundation
Mark Alley	Emergent Biosolutions
Jerry Ambrose	City of Flint
John Brown	Jackson National Life
James Butler	MSHDA
Paula Cunningham	Capitol National Bank
Scott Dedic	United Auto Workers Region 1-C
Robert Emerson	McAlvey, Merchant and Associates
Jim Herbert	Neogen Corporation
Chris Holman	Greater Lansing Business Monthly
Dr. Rev. Melvin T. Jones	Union Missionary Baptist Church
Sergio Keck	Lansing School District
Steven C. Liedel	Dykema Law Firm
Joe Ruth	Sparrow Health System
Heather Shawa-DeCook	Demmer Corporation
Ron Simon	Auto-Owners Insurance
Robert Swanson	Michigan Civil Service Commission
Lisa Webb-Sharpe	Lansing Community College

STAFF

Angela Bennett	Interim Finance Director, City of Lansing
Renee Freeman	Office of the Mayor, City of Lansing
Randy Hannan	Chief of Staff, City of Lansing
Dr. Eric Scorsone	Michigan State University

This staff paper reflects the deliberations of the Lansing Financial Health Team. This Team was appointed by Mayor Virg Bernero of the city of Lansing in the fall of 2012. The city of Lansing has experienced several years of ongoing budgetary challenges, having made reductions of over \$60 million in its General Fund budget since 2006. Due to continued property value declines, the FY 2013-2014 budget process was shaping up to be another year of budgetary challenges. In this environment of ongoing fiscal stress experienced by the City and other municipalities, the mayor felt it was critical for a group of outside experts to provide him with a roadmap for changes and reforms to city operations, services and financial structure.

The Team's purpose then was to assess the city of Lansing's financial conditions and propose reforms and changes that will ensure the short and long term solvency of the city government. In order to accomplish this purpose, the Team set up three subcommittees including short term solutions, long term solutions and regional solutions. Each group met and deliberated in order to bring forth proposed reforms. This staff paper reflects those deliberations and recommendations. The Team presents this plan as a route for city government to achieve short and long term solvency as well as strengthen the regional economy.

City governments in Michigan have all been facing significant challenges throughout the last decade. These challenges include falling property values and associated tax revenues and falling state aid plus the rising cost of employee compensation, particularly health care costs. This combination of falling or stagnant revenues and higher costs has meant structural deficits for many communities including the city of Lansing. Tough choices have been made including pay cuts and layoffs, deferred capital projects and fewer city services. Now, even these solutions may not be enough and this report focuses its attention on even more broad-based and innovative solutions to the problem of municipal structural deficits in Michigan.

All of these challenges exist within the context of a broken model of municipal finance. For many decades, the state of Michigan has imposed a system of municipal finance that relied heavily on property taxes and state revenue sharing of the state sales tax. Because of state revenue sharing, Michigan municipalities are limited in the types of revenues they receive, the theory being that revenue sharing obviates the need for revenue sources like local sales tax. This model worked relatively well during the heyday of the auto industry. However, a number of factors converged to begin to erode this.

The major factors behind the erosion were the restraints put in place around the property tax system, including the Headlee Amendment to the Michigan Constitution and then later so-called Proposal A. Both of these put major restrictions on the growth of the property tax base and property tax revenues. A second and more recent factor has been the absolute decline in state revenue sharing. As the economy ground to a halt in the first decade of the 21st century, state revenue sharing was cut to address state budget deficits. These revenue forces were playing out in concert with declining population and high fixed costs for legacy infrastructure in major central cities. This combination has led to a broken system of municipal finance, which needs to be addressed by state policy makers. New tools are needed for municipalities to function in the 21^{st} century.

A New Model For Government

Given the financial challenges facing the city of Lansing, a new model is needed to describe how city government will function in the 21^{st} century, given the existing and likely future resource constraints. This new model envisions a city workforce wrapped in the best technology that enables services to be delivered at a high level of efficiency and effectiveness. This new model is based on the likelihood that city governments will likely have a smaller workforce and continue to face financial pressures.

The existing city government model presupposes a specialized and labor-intensive service delivery system. Each service delivery area requires trained specialists in their field, such as building inspectors, code compliance officers, police officers, firefighters, finance officials and accountants, and many other positions. In the past, city governments could not offer the wages that were competitive with the private sector, including items such as profit sharing, bonuses and other private sector perks. Instead, the public sector offered employees good benefits at low cost. This tradeoff made sense for much of the 20^{th} century and helped cities maintain a high quality and productive workforce. This combination of a specialized workforce with adequate compensation was a good model for the 20th century, but is now under threat in the 21st century.

Today, this tradeoff is no longer viable. Economic stress and legislative limitations means city governments have a much harder time raising revenues or sustaining revenue growth over any period of time. Even if the local economy improves, revenues will not likely grow at the same pace as costs in any case. A new model imagines that a smaller but more technology and capital intensive service delivery system replaces the current labor intensive system over some period of time.

One example of this innovative strategy is the city of San Francisco and Code for America. Code for America is a non-profit organization that puts young information technology experts in city government to set up new and innovative solutions to existing problems. In San Francisco, the cooperation of these two entities is leading to new citizen engagement apps for smart phones, putting city data in open access systems for citizens to use and learn from, develop standardized data protocols to improve services and implement a Gov 2.0 system in general throughout the city.

What are the benefits of this transition? The major benefit would be a city workforce that can still accomplish the goals of city government, such as maintaining viable neighborhoods and strengthening public safety, while operating with fewer people and lower costs. This does not mean that people will be compensated less. In fact, the city workforce of the future may see more generous wages and salaries. The boundaries between specializations will be broken down as the tools of information technology, networks and social media combine to create new service delivery models. A city employee may in the medium term future not be a police officer, firefighter or code compliance officer but some combination of these positions. The benefits of specialization are that each person is able to become very good at their job. The downside is that the workflow behind these positions ebbs and flows over the day, week, month and year. The

question now is how both new management strategies combined with information technology can provide the benefits of specialization with a flexible and networked workforce.

Such a strategy will directly involve capturing the insights and wisdom of the citizens and businesses that populate a city. While traditional strategies such as neighborhood watch, electoral volunteers and adopt-a-park programs have been used by cities in the past, new technology and social media enable these strategies to be put into hyper drive. Citizens are the eyes and ears of the city where employees are not able to be and are also the primary drivers of what services are needed where and when in a city. Some of these models cannot be anticipated today, but a city government can begin to invest in capital, technology and workforce training that will enable the city to move nimbly in adopting new strategies as they emerge and perhaps even pioneer some of its own strategies.

In 2007, the city of Lansing implemented the CitiStat performance management model. It is now time to revamp and reemphasize that approach to government and in fact expand its scope. This approach promises to provide both lagged and real-time data to government managers as they seek out efficiencies in their operations. Networked citizens are those who can access the government and government services through a variety of channels whether it be the web, smart phones, a library kiosk or Facebook. This reduces the cost of accessing government services to the users.

Technology greatly expands the ability of employees to use the appropriate tools to deliver the right services to clients at the right time. These employees have the ability to move quickly across service areas and address needs as they arise or are identified. This type of transition may take many years for any city government to achieve. However, in the short term, the city may be able to pilot this type of transitional process in specified service areas. This general model of city government informs many of the recommendations proposed in this report.

History

The city of Lansing, Michigan is located in central Michigan primarily in Ingham County with a small portion located in Eaton County. Lansing is the state capital and has a population of 114,297 (as of 2010). The city's larger metropolitan region contains 464,036 people (also as of 2010) and houses industry in healthcare, manufacturing, insurance, banking and education.

The first settlement was established in 1837, near the confluence of the Grand and Red Cedar River. In 1847, the State Legislature voted to move the state capital from Detroit, and the decision for Lansing was approved in December 1847. The name was changed from the original, "Town of Michigan", to Lansing in 1859. It was incorporated by legislative act on February 15, 1859 and named for a New York State town from which most of the early settlers had migrated. The city grew slowly around the state capitol and mills on the Grand River. As the railroads were built, the industry developed and the city began to grow. The city later became an automobile industry powerhouse, beginning with the founding of Olds Motor Vehicle Company in 1897.

When the American auto industry began to decline in 1980s due to the appearance of foreign car production and sales in the United States, the population of Lansing also began to decline.[i ii] The city's population peaked in the 1970's at about 131,403 and is now down to 114,297 as of 2010.

The present charter of the city of Lansing, adopted in 1978, provides for a strong mayor form of government in which the mayor holds most of the city's administrative powers, subject to legislative authority.[iii] The mayor is elected at-large every four years. The city clerk is also elected every four years. The city council consists of eight members, and includes four members elected from the city's four wards, as well as four "at-large" members elected citywide. Lansing is the only state capital that is not also a county seat.[iv]

The major industries in the Lansing's metropolitan region are now government, education, insurance, healthcare, and automobile manufacturing. The main employers are the State of Michigan, Michigan State University, Sparrow Health System, General Motors, Lansing Community College, McLaren-Greater Lansing Hospital, the Lansing School District, Meijer, Auto-Owners Insurance, and Peckham, a vocational rehabilitation organization.

II. ECONOMIC AND DEMOGRAPHIC HISTORY

Demographics

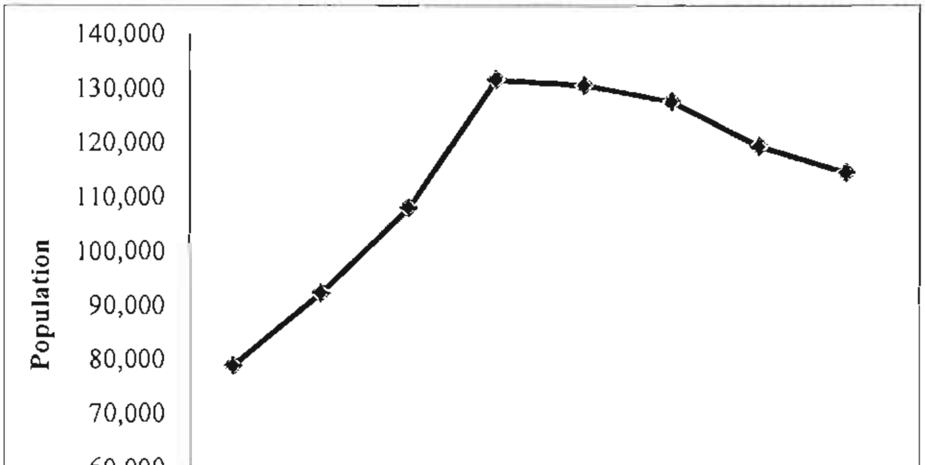
The city of Lansing's population has changed drastically over the past fifty years. In this section we explore the historical changes that have occurred throughout the city and region. These trends will help to predict the city's future revenues and costs and help the city plan for alterations in the size of government to reflect population predictions.

The economic and demographic material presented in this section provides a backdrop for a thorough and comprehensive analysis of the city of Lansing's financial situation. Given population decline, income decline and general stress in the real estate market, we would expect the city government to have experienced some degree of fiscal stress. The question becomes how well did the city respond to this period of fiscal stress and what prognostications can be made regarding the city's fiscal future?

Population

The U.S. Census Bureau reported the fourth decade of double-digit declines in population for the city of Lansing for the 2000s. From 2000 to 2010, the city experienced a decline of 4% in population from 199,128 in 2000 to 114,297 in 2010 (Exhibit II-1). The 1970s, 1980s, and 1990s also saw a population decline of 1%, 2%, and 6% respectively. Previous decades had seen large population increases of 17%, 17%, and 22%.

Exhibit II-1 City Population

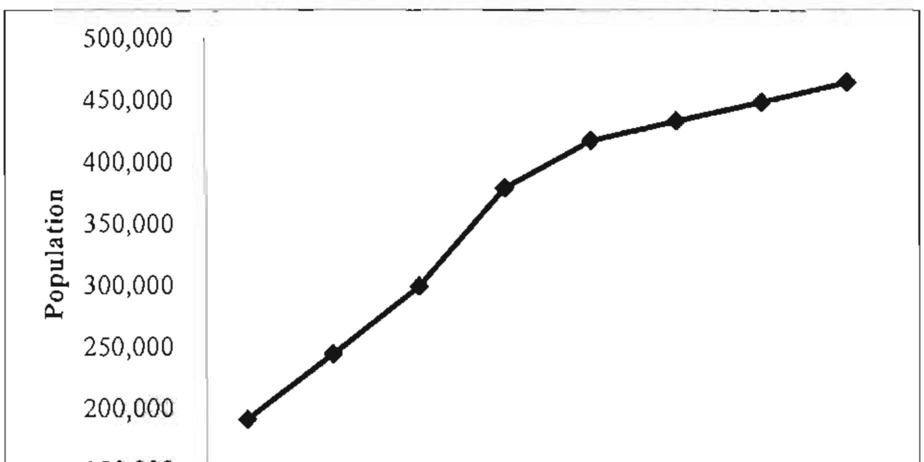


	1940	1950	1960	1970	1980	1990	2000	2010
Population	78,75	92,12	107,8	131,4	130,4	127,3	119,1	114,2

Data source: U. S. Census Bureau

Despite the decline in the city of Lansing's population, the Lansing Metropolitan Statistical Area (MSA) has increased in population each decade since the 1940s (Exhibit II-2). However, this growth has slowed since 1970, when the percent increased changed from 27% in the 1960s to 10% in the 1970s. MSA growth continued to weaken into the 1980s, 1990s, and 2000s, which saw growth rates of 4%, 3%, and 4% respectively.

Exhibit II-2 Lansing-East Lansing Metropolitan Area Population

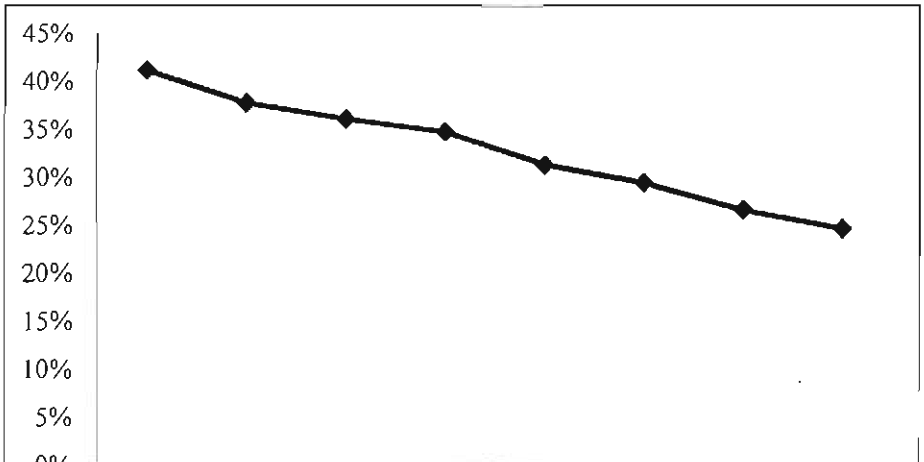


	1940	1950	1960	1970	1980	1990	2000	2010
Population	191,4	244,1	298,9	378,4	416,6	432,6	447,7	464,0

Data source: U. S Census Bureau

In the 1940s, the city of Lansing contained 41% of the population of the MSA as a whole. By 2010, the number dropped to 25% (Exhibit II-3). This is due to both the city population decline and the MSA population increase.

Exhibit II-3 City Population as a Percent of MSA



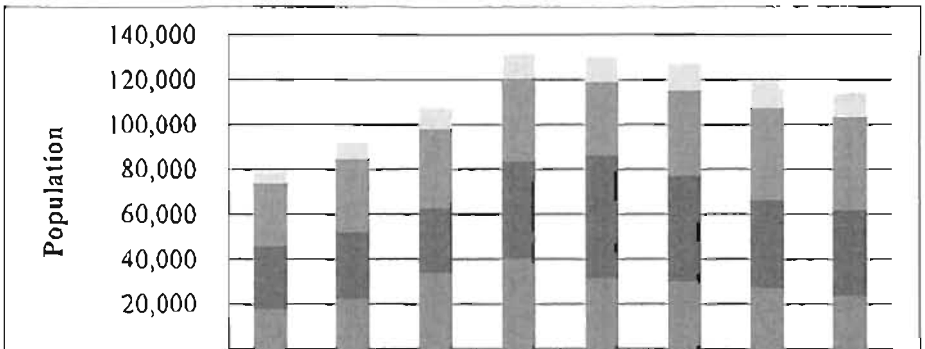
1940	1950	1960	1970	1980	1990	2000	2010
41%	38%	36%	35%	31%	29%	27%	25%

Data source: U. S. Census Bureau

Population Characteristics

Lansing's population has been aging over the past four decades. Exhibit II-4 shows a breakdown of the number of people by age group in Lansing from 1940 through 2010. Even after the city population began to decline in 1970, the number of people 65 years and over continued to increase until the 2000s. The number of people age 35 to 64 also increased during this time period.

Exhibit II-4 Age of Population

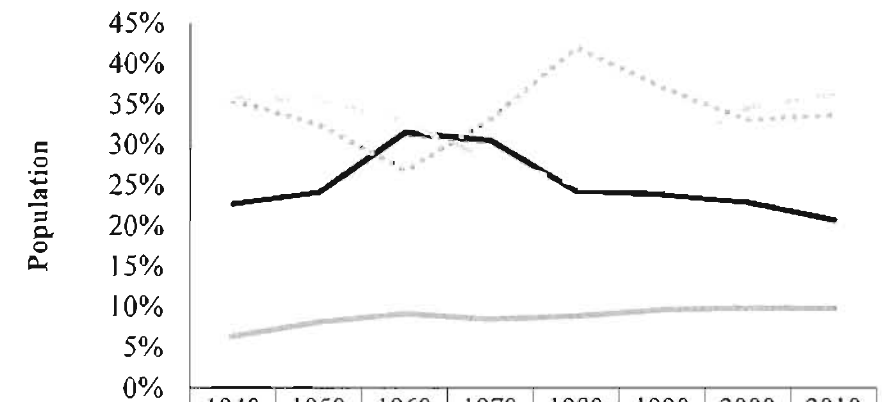


	1940	1950	1960	1970	1980	1990	2000	2010
65 and over	4,951	7,399	9,734	11,03	11,41	12,17	11,60	11,04
35 to 64	28,11	32,67	35,32	36,81	32,82	37,93	41,06	41,31
15 to 34	27,84	29,83	28,86	43,56	54,58	47,00	39,25	38,37
14 and under	17,84	22,22	33,88	40,12	31,59	30,21	27,20	23,56

Data source U.S. Census Bureau

To see this more clearly, Exhibit II-5 shows the percent of the population in each category in each year. The percent of the population that is older than 65 has been steadily increasing, but at a slow rate, since the 1970s. The percent of the population between the ages of 35 and 64 reached a minimum around 1980, then increased in the 1980s, 1990s, and 2000s. The percent of the population between the ages of 15 and 34 followed the opposite path where it peaked around 1980 then declined in the 1980s, 1990s, and 2000s. And the percent of the population under the age of 14 peaked around 1960, then declined in the subsequent 6 decades. These changes in demographics may have an impact on the demand for city services over time as the population ages. This could include a greater demand for example for EMS services and older adult recreation programming.

Exhibit II-5 Age by Percentage of Population



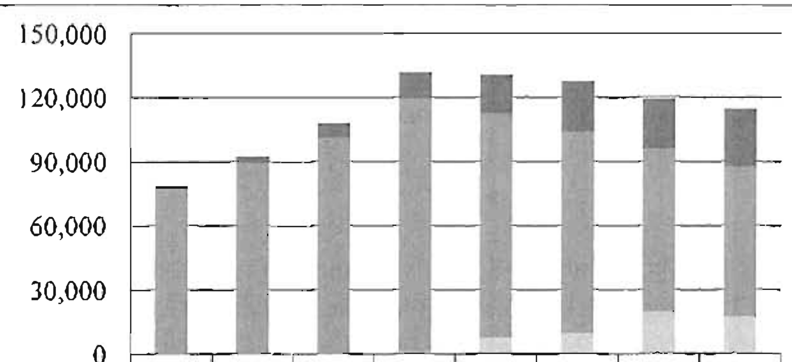
	1940	1950	1960	1970	1980	1990	2000	2010
14 and under	23%	24%	31%	31%	24%	24%	23%	21%
15 to 34	35%	32%	27%	33%	42%	37%	33%	34%
35 to 64	36%	35%	33%	28%	25%	30%	34%	36%
65 and over	6%	8%	9%	8%	9%	10%	10%	10%

14 and under · 15 to 34 · 35 to 64 · 65 and over

Data source: U. S. Census Bureau

The racial distribution of the city has also changed since the 1940s as can be seen in Exhibit II-6. The percent of white people in the city went from 97.9% in 1940 to 61.2% in 2010. The city has become more diverse over the last few decades.

Exhibit II-6 Population by Race



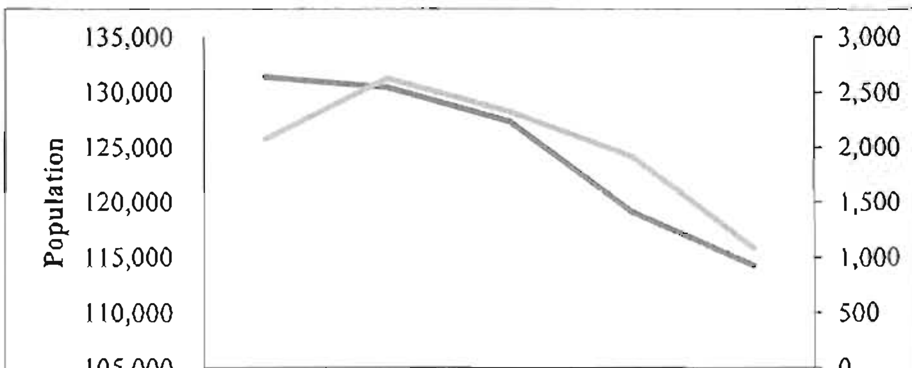
	1940	1950	1960	1970	1980	1990	2000	2010
Black/African American	1,638	2,971	6,745	12,23	18,17	23,62	23,64	27,13
White	77,08	89,08	100,8	118,2	104,8	94,13	75,98	69,98
Other	28	75	248	1,025	7,355	9,560	19,49	17,17

Data source: U. S. Census Bureau

City Government Response to Demographic Changes

As the demographics of a city change, the government must alter its budget to reflect these changes. As the population declines and revenues decrease, the government must spend less money. Exhibit II-7 shows the total population of the city and the total number of full time equivalents city employees. With the exception of the 1970s when the number of employees continued to rise even though the city population was declining, the city government has responded fairly well to population change by reducing its total number of employees. Thus unlike some of its peers, the city of Lansing has managed this transitional period quite well. At the same time, this has meant that potentially fewer city services have been available to the remaining population. Further, fiscal strain remains despite the cutbacks in city personnel as the cost per employee has risen dramatically.

Exhibit II-7 Number of Employees and Total Population

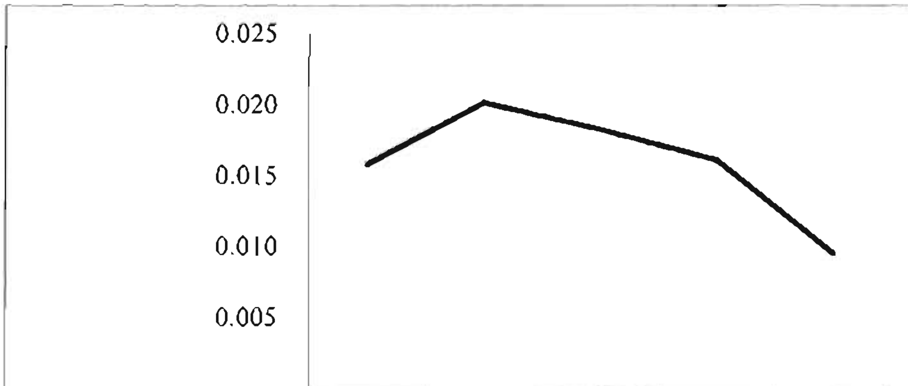


	1972	1980	1990	2000	2010
Population	131,403	130,414	127,321	119,128	114,297
Total FTE	2,074	2,625	2,321	1,916	1,090

Data source: U. S. Census Bureau

To see this more clearly, Exhibit II-8 shows the number of full time equivalent employees per capita from 1972 through 2010. This ratio increased in the 1970s, but then decreased in the 1980s, 1990s, and 2000s, indicating that Lansing has responded well to population decline since the 1980s in terms of number of public employees.

Exhibit II-8 Full Time Equivalent Employees Per Capita



	1972	1980	1990	2000	2010
Employees Per Capita	0.016	0.020	0.018	0.016	0.010

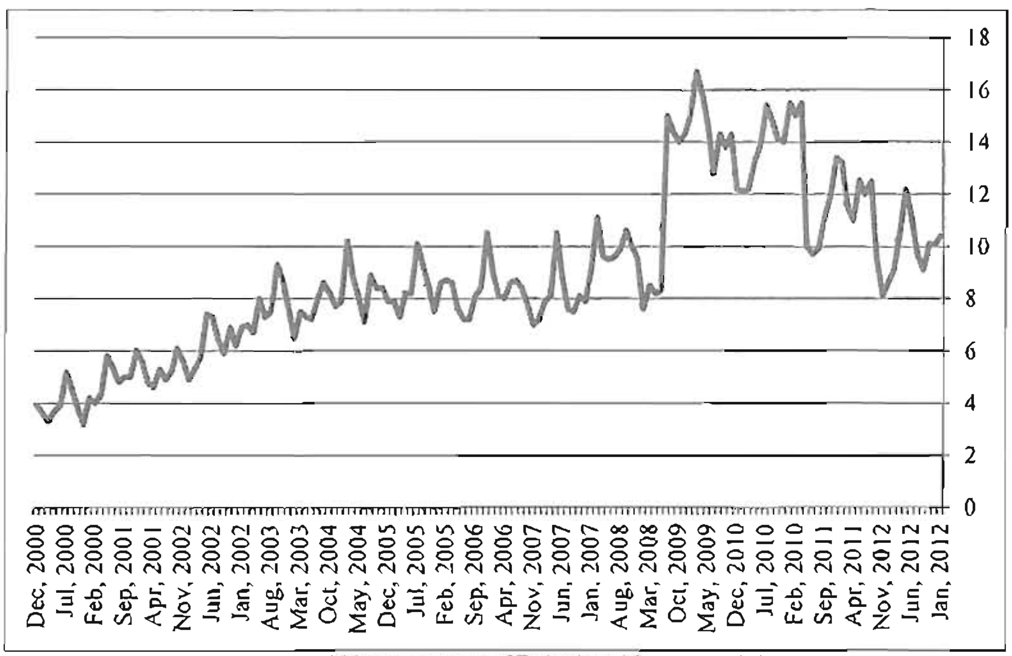
Data source: U. S. Census Bureau

Economy

Unemployment and Income

The city of Lansing's jobless rate is returning to pre-recession levels (Exhibit II-9). City level unemployment for 2012 was at 10%, 11th highest in the state. Lansing's jobless rate ranks 5th amongst some benchmark communities (Exhibit II-10).

Exhibit II-9 Jobless Rate



Data source: Michigan Department of Technology, Management & Budget

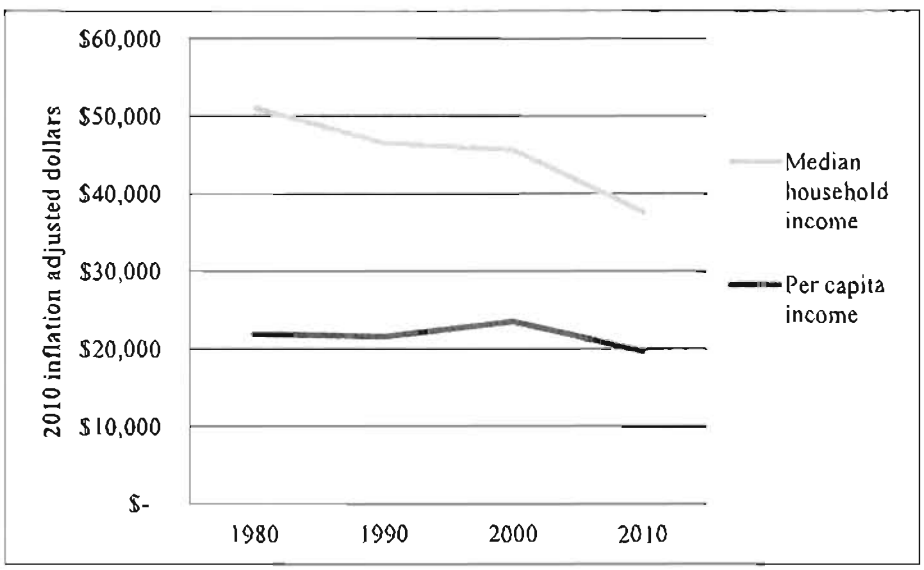
Exhibit II-10 Jobless Rate

Year	Area	Jobless Rate
2012	Detroit city MI	18.2
2012	Flint city MI	16.1
2012	Warren city MI	11.7
2012	Clinton township MI	11.2
2012	**Lansing city MI**	**10**
2012	Grand Rapids city MI	9.1
2012	East Lansing city MI	8.4
2012	Sterling Heights city MI	7.7
2012	Dearborn city MI	7.3
2012	Ann Arbor city MI	5.8
2012	Livonia city MI	4.4

Source: Bureau of Labor Statistics

The city of Lansing's median household income in 2010 was $37,666 as shown in Exhibit II-11. This decreased from a median household income of $50,985 in 1980. The per capita income level remained steady since 1980, beginning at $21,866 and ending at $19,673. This difference may be due to the changing structure of the typical household in the city. A higher than average unemployment rate may place a strain on city resources as citizens may demand more government services while simultaneously having fewer resources to pay for such services.

Exhibit II-11 Real Median Household Income and Per Capita Income

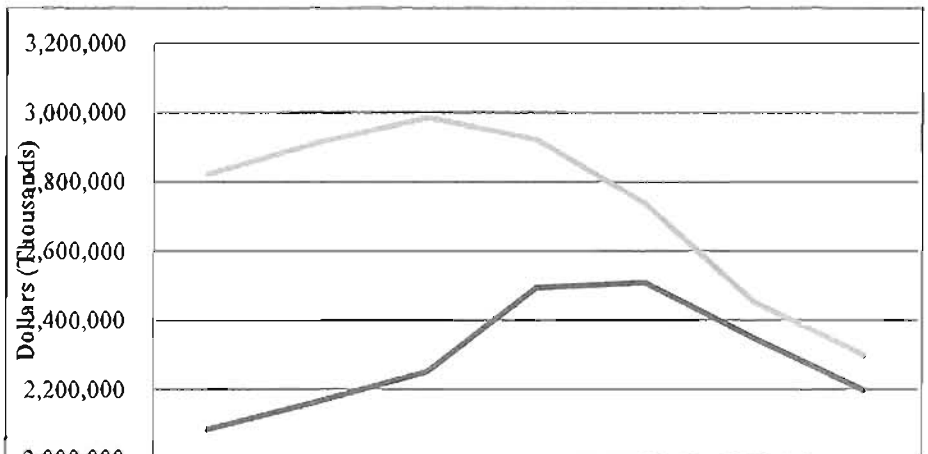


Source: U. S. Census Bureau

Property Values

Like many communities across the state, property values in the city of Lansing have declined drastically since the onset of the Great Recession, as can be seen in Exhibit II-12. Due to the structure of the property tax in Michigan, the total taxable value (TV) of property in the city continued to increase in 2007 and 2008 even though the state equalized value (SEV) of properties was declining. After 2009, however, the taxable value of properties began to fall as well, as the SEV and TV for many properties in the city began to intersect. This reduction in property tax revenue may have bottomed out based on recent data from the city. This is an important trend that will help at least partially in reducing the damage inflicted by falling revenues over the past decade.

Exhibit II-12 State Equalized Value (SEV) and Taxable Value (TV)



	2005	2006	2007	2008	2009	2010	2011
SEV	2,821,1	2,912,2	2,982,8	2,919,1	2,735,2	2,450,4	2,297,5
TV	2,083,8	2,163,6	2,249,1	2,491,3	2,506,5	2,345,5	2,196,8

Data Source: F65 Treasury Database Portal

This reduction in property values means that the property tax burden on the median household in the city has also gone down. In 2010, the median household income was $37,666. The total assessed valuation for residential properties was $1,200,886,000 and the total millage rate paid by residents, inclusive of county taxes, city taxes, and school taxes but not including the 6 mill State Education Tax, was 48.79 mills. Therefore, the total property tax burden for all residential properties was $58,591,227. Since the total number of households in Lansing in 2010 was

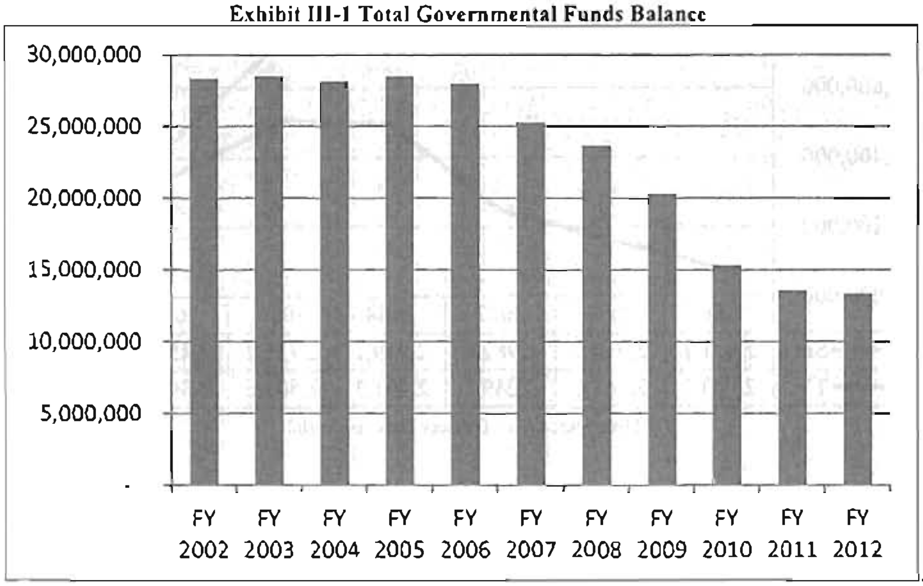
48,450, this means that the average property tax burden per household was $1,209. This equates to 3.2% of the average per capita income.

III. CITY FINANCES

This section focuses on the background of city finances over the last few years. This background was critical in allowing the team to understand the keys sources of fiscal stress and identify points for change and reform. This section covers the General Fund, Special Revenue Funds and Enterprise Funds.

One indicator of a city undergoing fiscal stress is a long-term trend of governmental fund balance depletion, which is a symptom of continuously operating under budget deficits. As of June 30, 2012, city of Lansing's governmental fund balance, excluding capital and debt service funds, is approximately $13.3 million, which is 47% of its balance in 2002. This fund balance number has fallen from $28.2 million in FY 2002. Fiscal stress has meant that the city has reduced overall fund balance by almost $15.0 million in the last nine years. This trend was particularly prevalent as the impact of the Great Recession of 2008-09 began to hit the city. As shown in Exhibit III-1, the city of Lansing has been experiencing significant depletion of governmental fund balance since 2009.

Exhibit III-1 Total Governmental Funds Balance



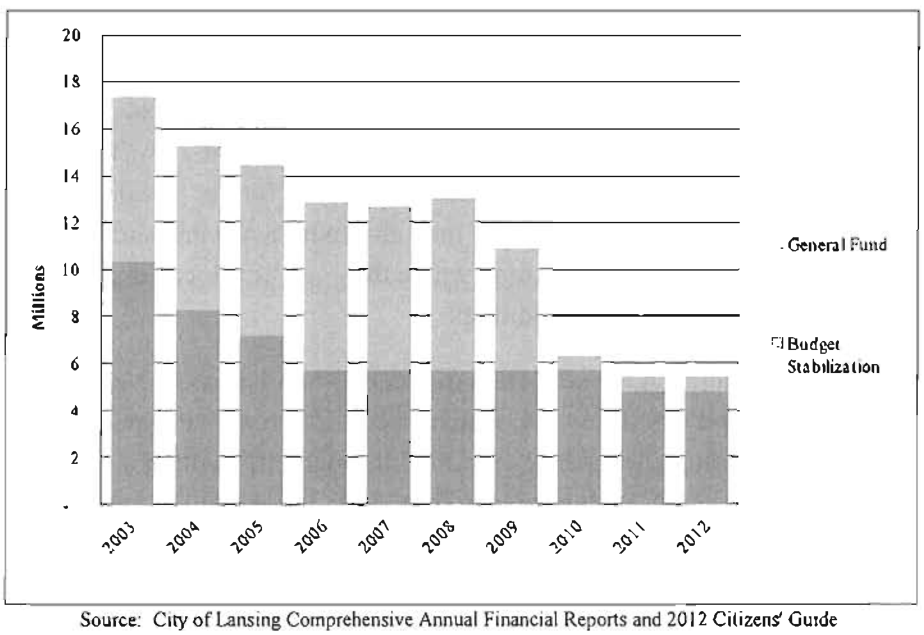
Source: City of Lansing Comprehensive Annual Financial Reports

General Fund

The city of Lansing General Fund is the main discretionary part of the budget and is where general taxes are allocated when collected. It is the main point of focus for most governments when considering fiscal health and stability.

According to the city of Lansing 2012 Comprehensive Annual Financial Report, the city of Lansing's General Fund ended the year with a combined General Fund and Budget Stabilization Fund balance of $5.4 million. Of this amount, the General Fund balance in 2012 was approximately $554,000, and the Budget Stabilization Fund was $4.8 million (Exhibit III-2). As of June 30, 2002, the combined General Fund and Budget Stabilization Fund balance was $17.1 million. Again, this reduction in General Fund Balance is an important indicator of fiscal stress. Generally, local governments are recommended to keep a fund balance reserve of 10 to 15% of revenues or expenditures. At this time, the city total General Fund balance reserve is only approximately 5%. This is well below industry standards as expressed by credit rating agencies and the Government Finances Officers Association (GFOA).

Exhibit III-2 Reserve Funds – Ten Year History of Fund Balance



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide

The General Fund and reserve fund balances declined from 2002 to 2009. For four consecutive years (2007 through 2010), the city of Lansing was able to operate without relying on its reserve funds. Despite having adopted balanced budgets with significant reductions and without reliance on reserves, higher-than-anticipated revenue losses during the onset of the Great Recession

resulted in a draw-down in reserves from FY 2009-FY 2011, with the highest loss being a $4.6 million deficit in 2010 (Exhibit III-3).

Exhibit III-3 General Fund Revenues, Expenditures, and Changes in Fund Balance (condensed)

Fiscal year	2007	2008	2009	2010	2011	2012
Revenues and transfers in						
Property taxes	$ 35,844,777	$ 36,041,763	$ 36,703,522	$ 37,965,131	$ 36,352,257	$ 32,501,559
Income taxes	28,209,913	31,168,012	29,312,762	27,408,443	28,699,749	27,943,070
State shared revenue	16,369,853	16,369,853	15,981,941	14,214,339	14,214,339	12,710,114
Other	28,556,321	28,622,193	29,669,295	28,558,228	30,113,633	29,529,233
Revenues and transfers in	108,980,864	112,201,821	111,667,520	108,146,141	109,379,978	102,683,976
Expenditures and transfers out						
General Government	26,313,988	26,794,259	26,529,134	25,418,251	23,846,234	22,439,973
Public safety	59,513,582	61,577,212	63,557,003	63,442,190	63,794,594	58,696,097
Other	23,347,329	23,484,048	23,735,598	23,870,144	22,651,122	21,506,194
Expenditures and transfers out	109,174,899	111,855,519	113,821,735	112,730,585	110,291,950	102,642,264
Net change in fund balance (deficit)	$ (194,035)	$ 346,302	$ (2,154,215)	$ (4,584,444)	$ (911,972)	$ 41,712
Fund balance (deficit) - beginning	7,078,185	6,884,150	7,230,452	5,076,237	491,793	5,330,487
Restatement increase					5,750,666	
Fund balance (deficit) - ending	$ 6,884,150	$ 7,230,452	$ 5,076,237	$ 491,793	$ 5,330,487	$ 5,372,199

Source: City of Lansing Comprehensive Annual Financial Reports

The city targets maintaining the General Fund and reserve levels at 10-15% of fund revenues; however, this metric has been less than 6% since 2010.[v] Operating at a low fund level places the city at risk of lacking the ability to adapt to fiscal shocks in the future. In addition low fund balances, cities undergoing chronic fiscal stress may also experience pressure due to spending constraints. Funds may be restricted regarding where they can be allocated and constrain a city's flexibility in addressing unexpected expenditures.

Exhibit III-4 shows constraints in the allocation of General Fund monies over the past ten years. In FY 2011, the city adopted GASB No. 54, which established fund balance classifications. The city did not retroactively adjust the balances for 2003 through 2010 with the updated classifications in its FY 2012. Also, the balance from 2003 through 2010 does not include the Budget Stabilization Fund, which was considered a Special Revenue Fund at the time.

Exhibit III-4 General Fund Constraints (in thousands)

Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Nonspendable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 172	$ 93
Restricted	-	-	-	-	-	-	-	-	41	16
Committed	-	-	-	-	-	-	-	-	178	65
Unassigned	-	-	-	-	-	-	-	-	4,940	5,198
Reserved	945	1,324	2,483	2,443	1,848	1,765	1,320	103	-	-
Unreserved	5,986	5,607	4,710	4,635	5,036	5,465	3,756	389	-	-
Total General Fund	6,931	6,931	7,192	7,078	6,884	7,230	5,076	492	5,330	5,372

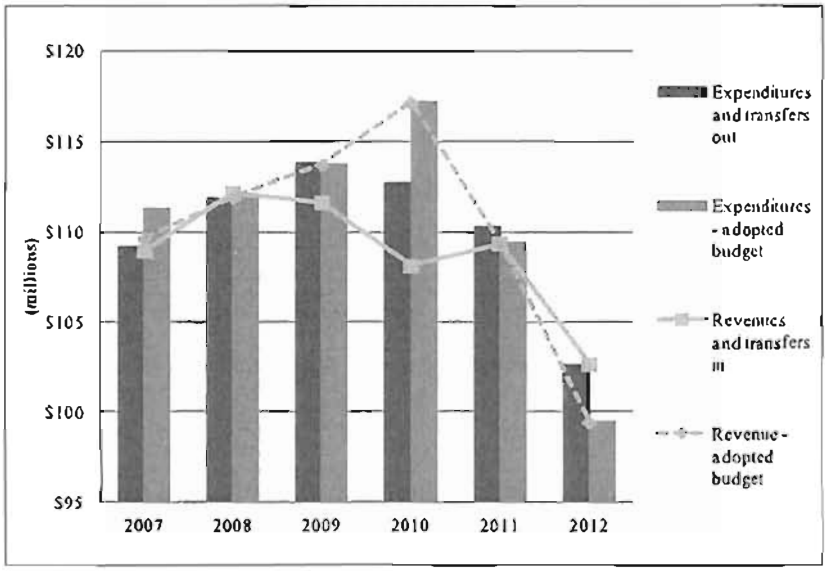
(note for comparison: due to financial reporting changes, "Unreserved" can most closely be compared to "Unassigned")

Source: City of Lansing Comprehensive Annual Financial Reports

In comparing the actual and intended General Fund expenditures and revenues over the last five years, the recent budget shortfalls coincide with greater-than-anticipated declines in revenue (Exhibit III-5). From FY 2007 through 2008, actual expenditures were on-or below-target compared to original budgeted expenditures and revenues were close to original budget. In FY 2009, actual revenues were $2 million less than anticipated revenues, resulting in a $2 million deficit. Similarly, revenues in FY 2010 adopted budget were underestimated by $9 million, the result of higher-than-anticipated reductions in income tax revenue and mid-year reductions by the state in the form of revenue sharing and property tax multipliers for automotive suppliers. Actual expenditures were $4.5 million less than budgeted, which closed the gap by about 50%, but there still was a $4.5 million deficit in FY 2010, reducing the General Fund balance by 90%.

Greater-than-anticipated revenue declines were also experienced in FY 2011. Expenditures and transfers came within the adopted budget, but the revenue shortfall resulted in a $0.9M reduction in reserve funds. In FY 2012, the city underestimated its income tax revenues, but was able to end the year with a $41,712 surplus.

Exhibit III-5 General Fund Revenues and Expenditures – Actual vs. Adopted Budget



Source: City of Lansing Comprehensive Annual Financial Reports and City of Lansing Adopted Budgets

Revenues

Revenues represent incoming resources that can be used to fund government services. These revenues for a Michigan city government are typically general taxes, user fees, interest income, state revenue sharing and other miscellaneous sources. The three primary sources of revenue, and their proportionate share of the city of Lansing General Fund, are currently property tax (31.7%), income tax (27.2%), and state shared revenue (12.4%). In Michigan, municipalities are limited by state law in the types of revenues they can raise. Property taxes for most local governments are the major source of revenue along with state revenue sharing. For a number of Michigan cities, the city income tax has become an important revenue source. Local sales tax is not an option in Michigan. Historically, the state of Michigan has been relatively constrained in allowing for local option taxes as compared to other states.

Property Tax

Property tax in Michigan is assessed on real and personal property. Municipalities are limited in levying property taxes in a few ways. First, the Home Rule City Act of 1909 limits cities in the state of Michigan to levying property taxes of no more than 20 mills for direct municipal services.[vi] Also, the Headlee Amendment, ratified in 1978, limits the authorized millage rate when aggregate property values rise at a faster rate than the rate of inflation.[vii] Increase in property values due to improvements or new construction are not subject to this limit. Finally, in 1994, Michigan voters approved Proposal A, which limited annual increases on individual properties to the taxable value to five percent or the rate of inflation, whichever is lower, until there is a transfer of ownership.[viii]

Compared to the ten most populated local units in Clinton, Eaton, and Ingham Counties, which represent 67% of the population, the city of Lansing levies the second highest homestead tax rate (Exhibit III-6). This may cause the city to be less competitive in attracting residents, which hinders its ability to increase its tax base. For example, a homeowner in the city of Lansing will pay, on average, 12% more than residents in the nine other largest communities. If a residential property has a taxable value of $75,000, the city of Lansing homeowner will pay $4,216. A homeowner in adjacent Lansing Township will pay $3,776.

Exhibit III-6 Millage Rates within Ingham, Eaton, and Clinton Counties for Fiscal Year 2012 (2011 Tax Rates)

				Tax Rates					Annual Bill Based on
Taxing Unit	County	Type of Unit	Population	County	Local	School	State Education	Total	Taxable Value
East Lansing	Ingham	City	48,579	9.21	23.70	26.44	6.00	65.35	$ 4,901
Lansing	**Ingham**	**City**	**114,297**	**9.40**	**20.08**	**20.74**	**6.00**	**56.21**	**$ 4,216**
Lansing	Ingham	Township	8,126	9.52	13.04	25.78	6.00	54.34	$ 4,076
Delhi	Ingham	Township	25,877	9.55	12.38	24.18	6.00	52.10	$ 3,908
Mason	Ingham	City	8,252	9.55	14.81	21.69	6.00	52.05	$ 3,904
Meridian	Ingham	Township	39,688	9.55	11.49	23.60	6.00	50.64	$ 3,798
Charlotte	Eaton	City	9,074	7.59	16.14	19.24	6.00	48.97	$ 3,673
Delta	Eaton	Township	32,408	7.59	6.92	23.35	6.00	43.86	$ 3,290
Bath	Clinton	Township	11,598	5.80	6.93	22.37	6.00	41.09	$ 3,082
DeWitt	Clinton	Township	14,321	5.80	6.67	20.34	6.00	38.82	$ 2,912
Population of Ten Largest Units			**312,220**				**Average Rate**	**50.34**	
As a % of Tri-County Total			**67%**				**Average Tax Bill**		**$ 3,776**

Source: U.S. 2010 Census and Michigan Department of Treasury

According to the Exhibit III-7, property owners in the city of Lansing are subject to the third highest property tax rate, on both a homestead and non-homestead basis, out of the ten most-populated municipalities in Michigan. The direct city rates include levies not subject to the Home Rule City Act, such as solid waste services.

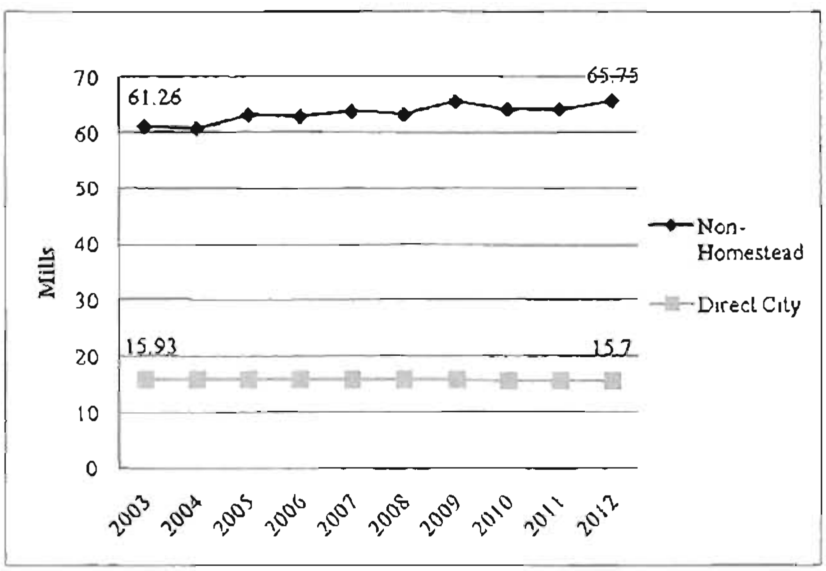
Exhibit III-7 Property and Income Tax Rates for Michigan's Ten Largest Cities – FY 2012 (2011 Tax Rates)

		Property Tax - Millage Rates			Income Tax Rates	
Jurisdiction	Pop. Rank	Non-Homestead	Principal Residence	Direct City	Resident	Non-resident
Detroit	1	85.1106	67.2798	29.51	2.5%	1.25%
Dearborn	8	66.4509	54.0491	21.90	-	-
Lansing	5	65.7612	47.8350	15.70	1.0	0.5
Flint	7	62.8550	44.8550	16.10	1.0	0.5
Clinton Township	10	58.8339	40.8339	12.70	-	-
Ann Arbor	6	58.6096	45.3008	16.57	-	-
Warren	3	55.2611	44.6668	19.89	-	-
Livonia	9	54.1048	36.1048	13.39	-	-
Sterling Heights	4	50.1545	39.5602	12.69	-	-
Grand Rapids	2	47.8921	29.8921	8.37	1.5	0.75

Source. Michigan Department of Treasury and 2012 Comprehensive Annual Financial Reports

Although the millage rate levied for direct city services has remained constant, the total non-homestead millage rate (non-city millages) has increased steadily over time (Exhibit III-8). In November 2011, voters were asked to approve a 4-mill levy to fund police, fire, and road maintenance services in order to mitigate reductions to such services. The proposal passed marginally with 51.9% approval;[ix] a similar ballot proposal was rejected earlier that year in May with only 47.8% approval.[x] During FY2013, this levy will increase the direct city millage to 19.44 mills, which raised the 19.16 mill cap imposed by the Headlee Amendment, and is anticipated to increase General Fund revenue by $7.6 million.[xi] However, this millage also reduces the city's capacity to raise revenue in the future due to the limitations imposed by the Home Rule City Act.

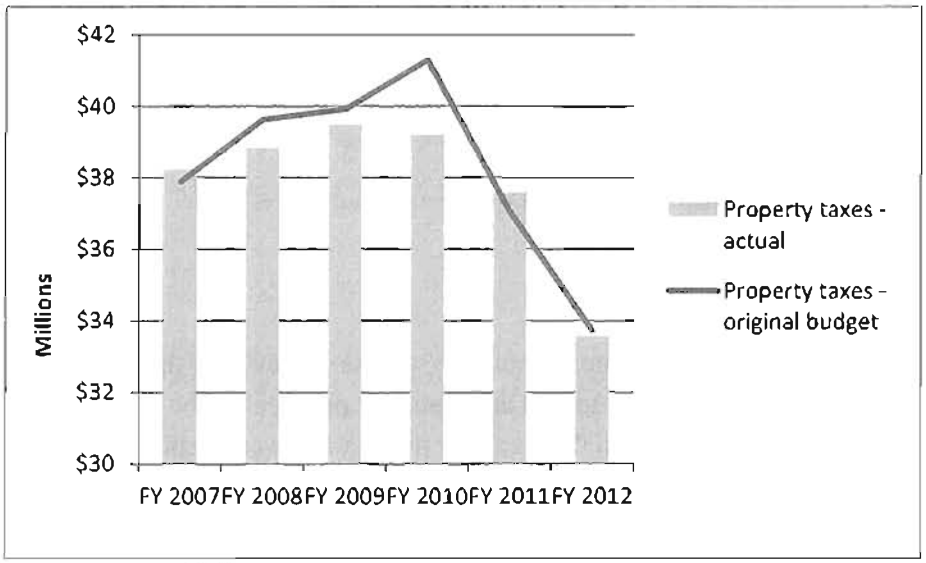
Exhibit III-8 City of Lansing Millage Rates (Fiscal Years)



Source: City of Lansing Comprehensive Annual Financial Reports

As discussed in section I, property values in Lansing have dramatically decreased over the past four years. Exhibit III-9 shows the impact of this with trends of the city's actual and budgeted property tax revenues. Property tax revenues have generally been within $500,000, or 2%, of adopted budgeted amounts, with two exceptions: FY 2008, where lesser amounts were received than anticipated as part of a 425 revenue sharing agreement and FY 2010, when mid-year changes by the State to auto supplier tax multipliers affected those 425 revenue sharing agreements by $1.3 million.

Exhibit III-9 Property Tax Revenue - Adopted Budget vs. Actual

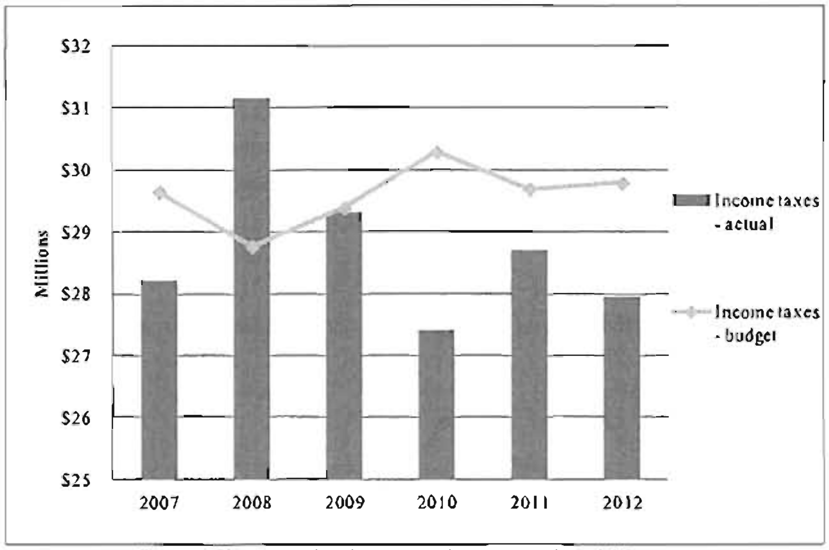


Source: City of Lansing Comprehensive Annual Financial Reports

Income Tax

Of the ten largest cities in Michigan, three are authorized to levy an income tax, which includes the city of Lansing. Effective since July 1, 1968, the income tax rate has been 1% for those who live within the city limits and 0.5% for non-residents who work within the city limits.[xii] The city's ability to estimate income tax revenue has been rather inconsistent over the past six years, as seen below (Exhibit III-10). Since 2010, income tax revenue has been overestimated by $1 to almost $3 million (FY 2010), as a result of the effects of the recession.

Exhibit III-10 Income Tax Revenue - Adopted Budget vs. Actual

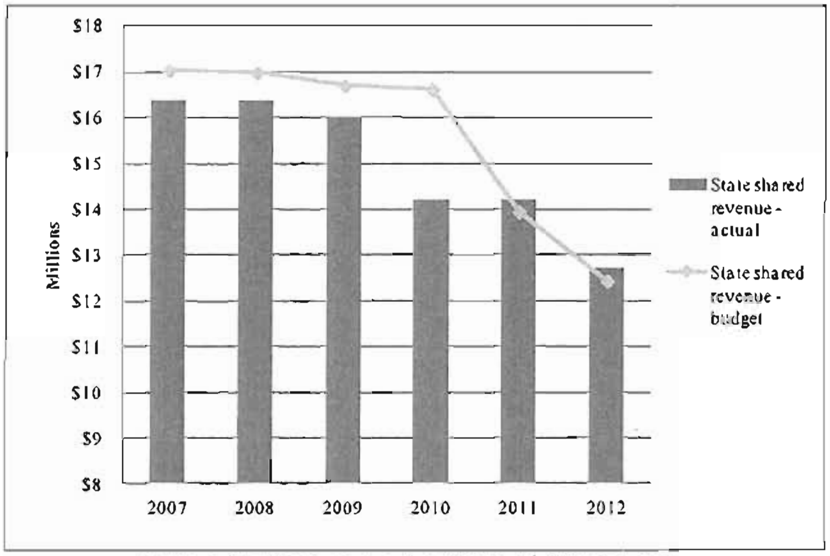


Source: City of Lansing Comprehensive Annual Financial Reports

State Shared Revenue

State shared revenue is generated from a statewide sales tax. Revenue sharing to local governments consists of both constitutional and statutory payments. The constitutional portion is distributed on a population basis, and the statutory portion of revenue sharing is defined by a formula. The Michigan State Legislature budget for 2010 fiscal year cut statutory funding to municipalities across the state, which included a reduction of $1.7 million for the city of Lansing compared to 2009 fiscal year.[xiii] Cuts to revenue sharing from the state resulted in adopted budget shortages of about 4% during FY2007 through FY2009. In 2011 and 2012, the City actually underestimated its state shared revenue. A decade of cuts to statutory revenue sharing over by the State has had a significant impact on Michigan municipalities. In 2001, Lansing received $21 million annually in revenue sharing from the State; in 2012, the amount was $12.5 million, a cumulative loss of over $54 million.

Exhibit III-11 State Shared Revenue - Adopted Budget vs. Actual



Source: City of Lansing Comprehensive Annual Financial Reports

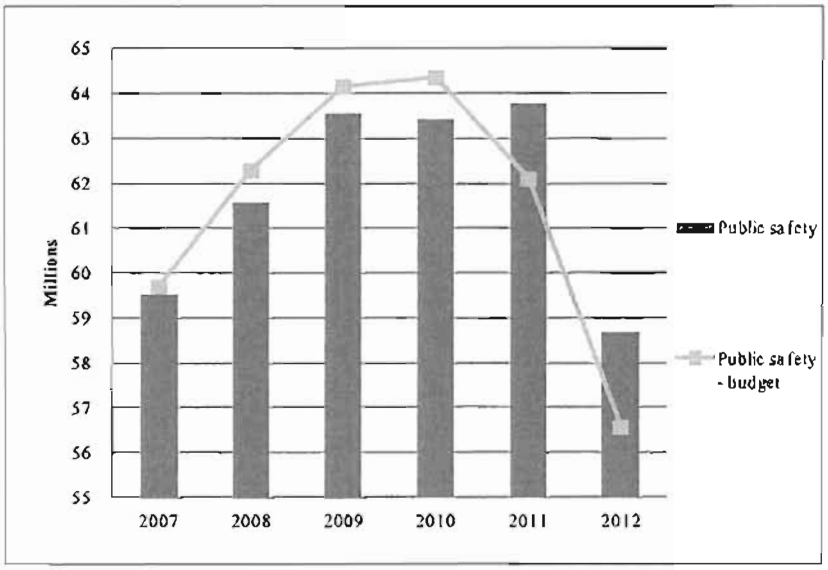
Expenditures

Expenditures represent the use of resources in order to provide government services. This section mostly focuses on General Fund expenditures. The primary General Fund expenditures are public safety and general government services (such as City Council, the Mayor's office, court systems, city attorney, etc.). In 2012, 57.2% of spending was allocated to public safety and 21.9% to general government.

Public Safety

Public safety consists of the majority of the General Fund expenditures. The city managed to spend under the adopted budget in 2007 through 2010 (Exhibit III-12). However, in 2011 expenditures exceeded the adopted budget by about $2 million, due to overtime costs and increases in city-wide health insurance. In FY 2012, the adopted budget anticipated the elimination of statutory revenue sharing and budget cuts to public safety personnel were enacted accordingly. That year, when statutory revenue sharing was added back by the State in the form of the Economic Vitality Incentive Program (EVIP), some of the positions, in conjunction with healthcare concessions by unions, were reinstated by a budget amendment. In both FY 2011 and 2012, Public Safety expenditures came within amended budget amounts. Budgetary challenges have impacted Public Safety budgets. For example, the city closed a total of three fire stations in 2011 and 2012 and closed one police station in 2012.

Exhibit III-12 Public Safety Expenditure - Adopted Budget vs. Actual



Source: City of Lansing Comprehensive Annual Financial Reports

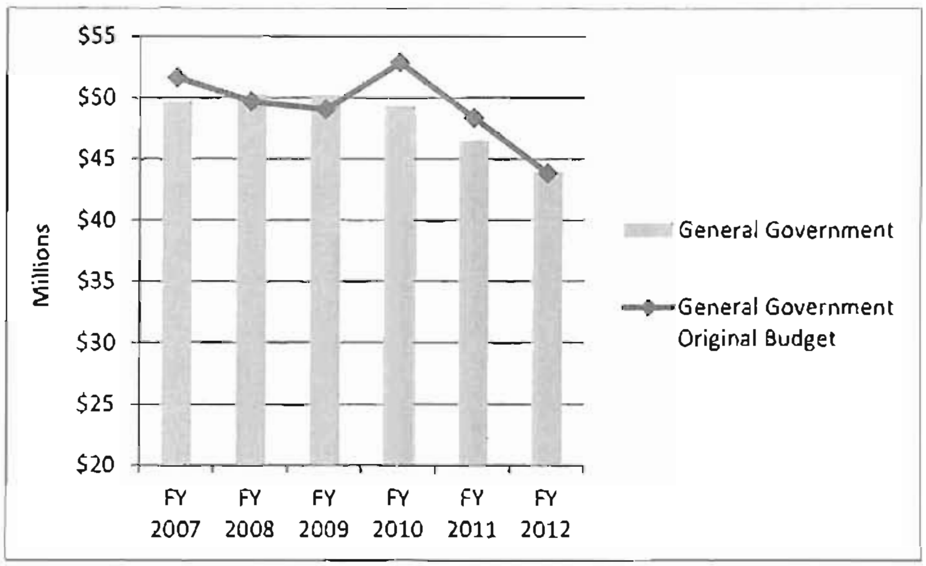
General Government

General government generally compasses the following areas of local government operations:

- Circuit Court Building Rental
- City Attorney's Office
- City Council
- City Clerk's Office
- City Television
- District Court
- Finance Department
- Human Resources
- Internal Audit
- Lansing Entertainment and Public Facilities Authority
- Library Building Rental
- Mayor's Office
- Planning and Neighborhood Development
- Vacancy Factors

General government expenditures have generally been less than original budget over the past six years (Exhibit III-13).

Exhibit III-13 General Government Expenditure - Adopted Budget vs. Actual

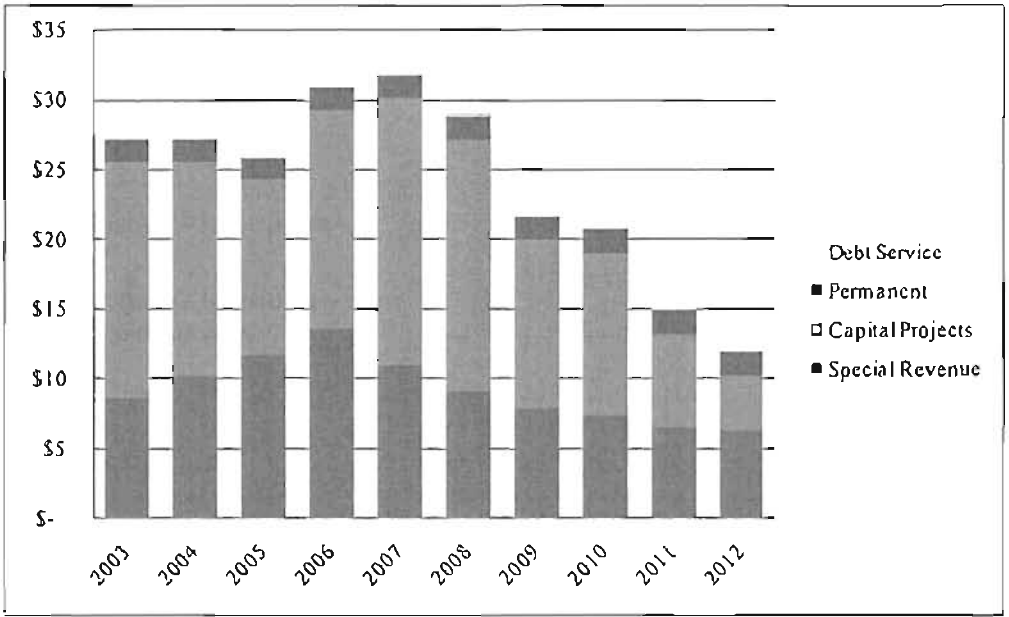


Source: City of Lansing Comprehensive Annual Financial Reports

Special Revenue Funds

Special revenue funds are generally used to track and account for monies tied to grant programs, dedicated millages and other government functions where separate accounting is used. These funds must be used for their specified purpose and are not available for general discretionary usage. Other governmental funds are shown in Exhibit III-14. These include special revenue funds, debt service funds, capital projects funds, and permanent funds. Special revenue funds and capital projects funds comprise the majority of the other governmental funds.

Exhibit III-14 Other Governmental Funds – Ten Year History of Fund Balances



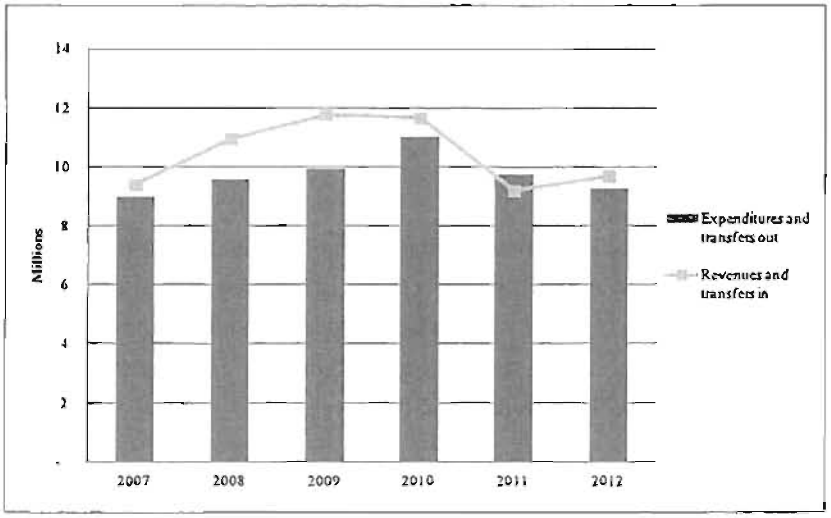
Source. City of Lansing Comprehensive Annual Financial Reports

As of FY2012, special revenue funds consist of the following types of funds:

- Major Streets
- Local Streets
- Drug Law Enforcement
- Community Development Block Grant
- Downtown Lansing, Inc.
- 911 Communications Center
- Building Department
- Parks Department
- Tri-County Metro Narcotics

The main special revenue funds are the Major Streets Fund and the Local Streets Fund. Major Streets Fund supports the City's maintenance of 44 miles of state trunk-lines. The majority of funding is sourced from the State of Michigan through the Gas and Weights tax, subject to Public Act 51 of 1951. In 2009, the fund was also subsidized by $2.3 million in federal stimulus funds from the American Recovery and Reinvestment Act (ARRA), which were budgeted for improvements in 3.5 miles in roads. Occasionally, the Major Streets Fund has also been supported by the General Fund, ranging from $300,000 to $2.2 million in transfers.

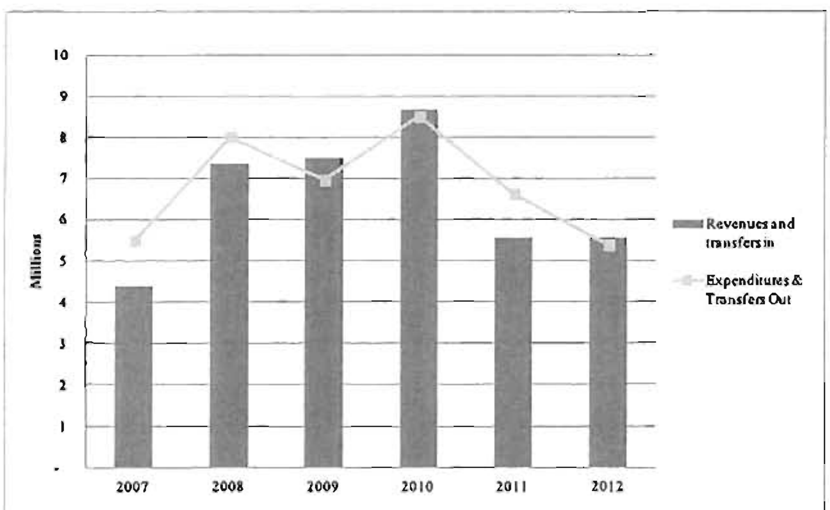
Exhibit III-15 Major Streets Fund Revenues and Expenditures



Source: City of Lansing Comprehensive Annual Financial Reports

The Local Streets Fund is mainly supported by Act 51 Gas and Weight tax revenues from the State of Michigan and transfers from the Major Streets Fund, which have ranged from $1.1 to 2.2 million since 2007. The Local Streets Fund has also received subsidies from the General Fund for debt service, which have declined since 2009 due to budget constraints. Diminishing support from both Act 51 and General Fund, have led to the elimination of road construction projects. The property tax millage that was passed in November 2012 will allocate 1 mill toward local streets maintenance to relieve this burden, from which the city has budgeted $1.9 million in revenues for FY2013.

Exhibit III-16 Local Streets Fund Revenues and Expenditures



Source: City of Lansing Comprehensive Annual Financial Reports

Gas taxes in Michigan have been declining for a number of years as cars become more efficient and fewer people have been driving fewer miles especially during the Great Recession of 2008-09. The state of Michigan recognizes these funding challenges and it has been reported that overall the state has underfunded roads by nearly $3 billion annually. Cities like Lansing have in turn received less funding for roads and thus struggle to maintain this critical infrastructure.

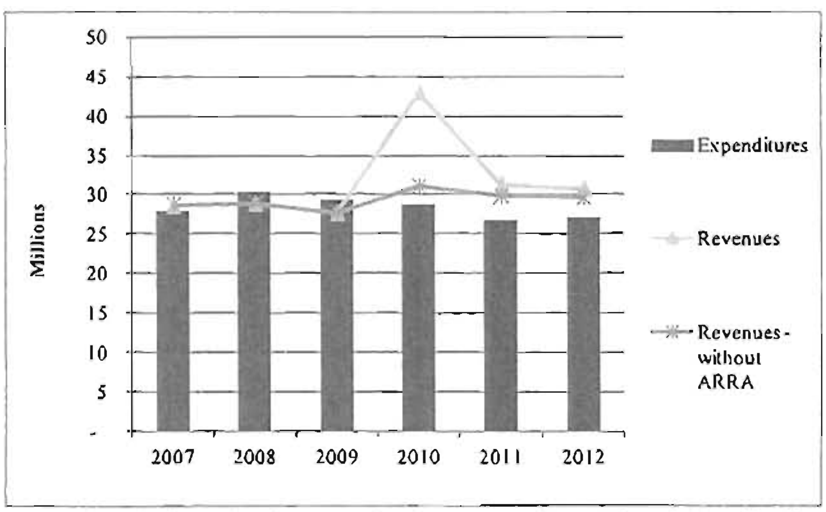
Proprietary (Enterprise) Funds

The city's proprietary funds include the sewage and disposal system, municipal parking system, cemetery, golf, and garbage and recycling collection. Enterprise funds are used for those government operations that are run more like a business entity with specific user charges for services. The user fees that finance these funds are intended to be structured to support day-to-day operations as well as capital improvements; however this is not always the case, as discussed below.

In 2008, the city of Lansing transferred Potter Park Zoo operations to Ingham County, although the city still retained the title to the Zoo property. This resulted in an outgoing transfer of $5.7 million from the zoo enterprise fund.

From 2010 through 2012, the Sewage Disposal System Fund received a total of $16.0 million in American Recovery and Reinvestment Act (ARRA) funds in order to support the Combined Sewer Operations (CSO) project and other smaller projects. The CSO is a 30-year project that was launched in 1991 to separate the sanitary and storm sewer systems in order to prevent sewage overflow into Grand River during high rainfall.[xiv] In addition to receiving federal grants for this project, the city has also generated additional revenue to the Sewage Disposal Fund by raising user rates.

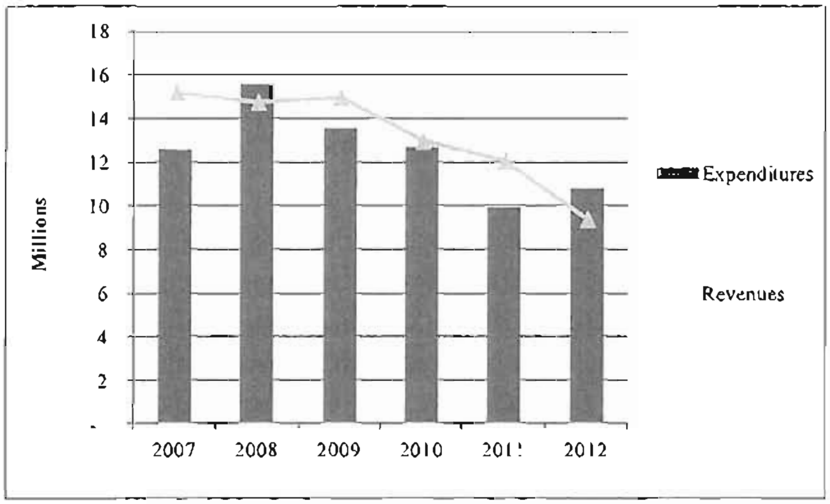
Exhibit III-17 Sewage Disposal Fund Revenues and Expenditures



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

The city's Municipal Parking System Fund has generally been self-sustaining, requiring no transfers from the General Fund. It incurred a $1.3 million operating loss in 2008 due to transfers to the Capital Projects Fund and a $455,000 loss in 2011 due to scheduled maintenance, as part of a five-year maintenance plan. The loss in 2011 was off-set by the conversion of a loan from the State of Michigan into a grant. In 2012, the city's parking system underwent an operating loss of $1.2 million due to scheduled maintenance and an additional $1.4 million loss in net assets due to sale of parking system properties.

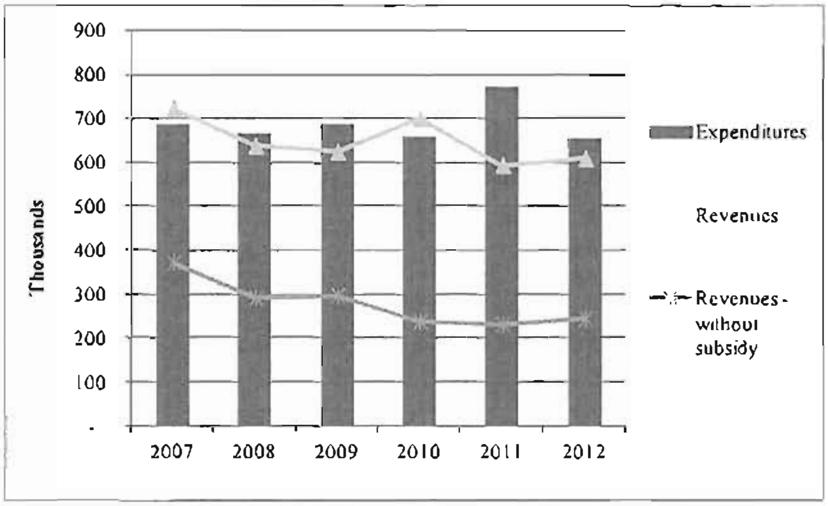
Exhibit III-18 Municipal Parking Fund Revenues and Expenditures



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

Over the past several years, the General Fund and/or the Parks Millage Fund have subsidized the Cemetery Fund. Since 2007, own-sourced revenues have only met 30-50% of annual expenditures. Even with the subsidies, revenues have typically been insufficient to cover expenses (Exhibit III-19).

Exhibit III-19 Cemetery Fund Revenues and Expenditures

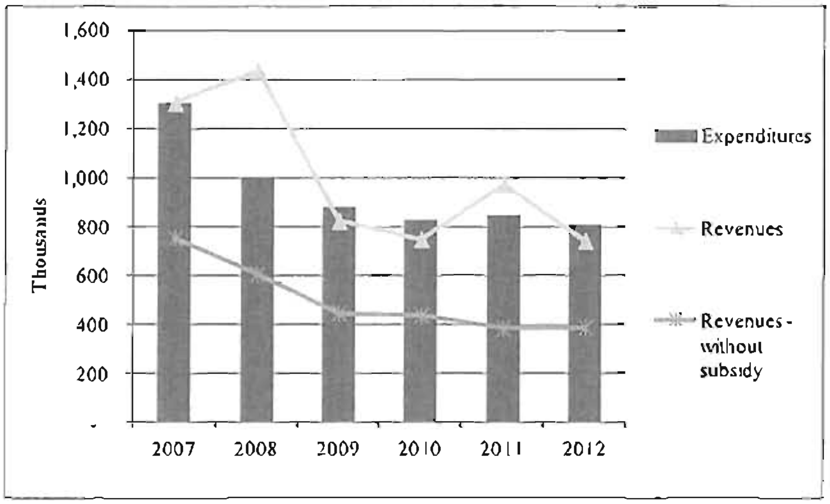


Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

General Fund and Parks Millage Fund also subsidize the Golf Fund since own-sourced revenues are insufficient to cover expenses. Previous efforts to manage costs include closure of the Waverly and Red Cedar golf courses in 2008. Also, in November 2012, voters approved a ballot proposal to authorize the City to sell the Red Cedar Golf Course with 67% approval.[xv] The City plans to sell up to 48 acres of the golf course for redevelopment and use the remaining the land for a storm water management project. The proceeds of the sale would be allocated toward improvements in recreational facilities in Red Cedar Park, support of the storm management project, and/or support the city of Lansing's park system.[xvi]

The city has also pursued partnerships with organizations outside of the Parks and Recreation Department to assist in controlling costs for its remaining facilities, the Groesbeck Golf Course and Sycamore Creek Driving Range. First Tee of Mid-Michigan, a non-profit organization, assumed management of the latter in 2011, and in the spring of 2013, the Lansing Entertainment and Public Facilities Authority (LEPFA) will assume management over marketing and concessions for the Groesbeck Golf Course.

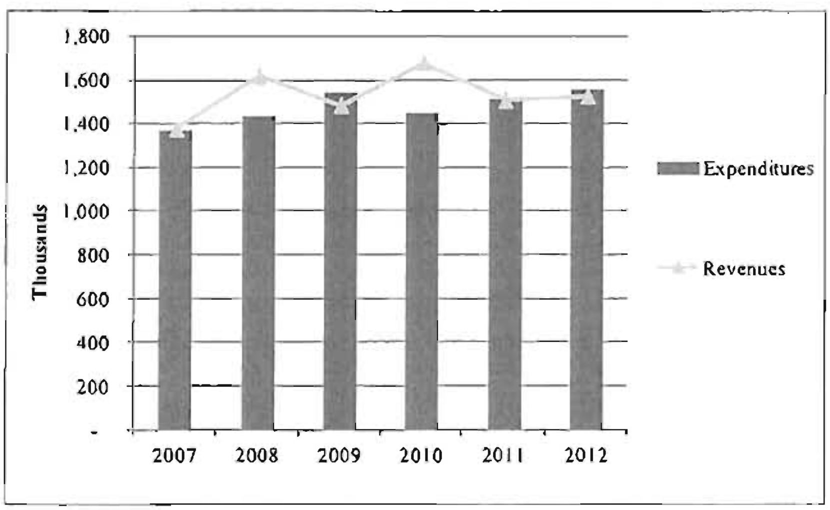
Exhibit III-20 Golf Fund Revenues and Expenditures



Source. City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

In general, the Garbage Collection Fund has managed to stay self-sustaining over the last six years. The city raised rates for the 2013 fiscal year in order to offset increased operating costs.

Exhibit III-21 Garbage Collection Fund Revenues and Expenditures

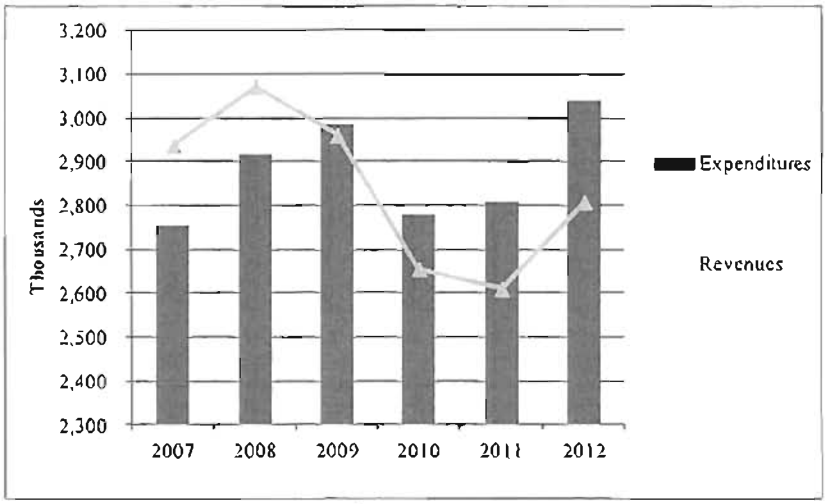


Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

On the other hand, expenditures have exceeded revenues in the Recycling Fund for the past four years (Exhibit III-22). In late 2009, the city launched a pilot program of single-stream recycling, in which all recyclables are collected in one container in the collection truck in order to streamline the collection process. In 2010, the annual fee was reduced from $74.50 to $67, and later in 2012 the fee was increased to $69. In 2012, the city expanded the single-stream process and implemented another pilot program using recycling carts instead of plastic bins. During the

2013 fiscal year, the city plans to expand cart recycling, which will require increasing fees to levels comparative to those in 2007, after accounting for inflation.

Exhibit III-22 Recycling Fund Revenues and Expenditures



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

Internal Service Funds

The city allocates internal service funds for fleet maintenance, engineering, and certain fringe benefits such as retiree health care. Similar to the enterprise funds, these funds should be self-sustaining as long as charges for services are sufficient to cover operating and capital costs.

Exhibit III-23 Internal Service Fund Assets

Fiscal year	2007	2008	2009	2010	2011	2012
Revenues and Transfers In						
Charges for services	$ 58,068,589	$ 58,100,182	$ 59,392,910	$ 60,045,701	$ 65,351,606	$ 64,726,153
Transfers In	3,337,958	673,861	1,726,941	-	-	-
Investment Income	-	-	-	-	5,622	8,041
Gain on sale of capital assets	88,605	124,436	32,310	75,094	108,601	123,066
Revenues and transfers in	61,495,152	58,898,479	61,152,161	60,120,795	65,465,829	64,857,260
Expenditures						
Fleet Maintenance	7,079,971	8,066,722	8,817,129	6,960,819	7,170,594	7,746,441
Fringe Benefits	47,078,497	49,809,983	50,428,650	53,657,193	54,093,450	55,859,083
Engineering	2,806,053	2,408,158	2,411,742	2,476,697	3,041,017	3,056,757
Expenditures and transfers out	56,964,521	60,284,863	61,657,521	63,094,709	64,305,061	66,662,281
Net change in fund balance (deficit)	4,530,631	(1,386,384)	(505,360)	(2,973,914)	1,160,768	(1,805,021)
Fund balance - beginning	8,069,991	12,600,622	11,214,238	10,708,878	7,734,964	8,895,732
Fund balance - ending	$ 12,600,622	$ 11,214,238	$ 10,708,878	$ 7,734,964	$ 8,895,732	$ 7,090,711

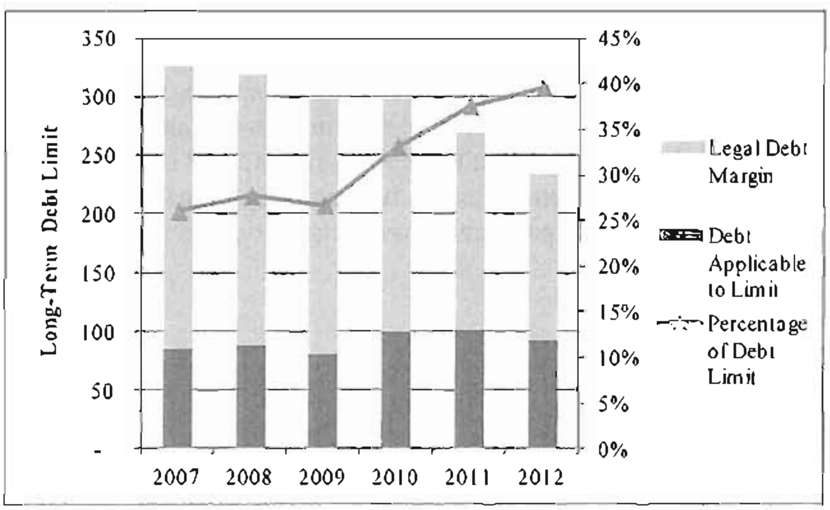
Source City of Lansing Comprehensive Annual Financial Reports

IV. DEBT

The city of Lansing is fairly well-positioned in terms of long-term debt obligations. The city published in its 2012 Citizens' Guide to City Finances that its general obligation bond ratings are A1 (Moody's) and AA (Standard and Poor's) and its revenue bond ratings are 'Aa3' (Moody's) and AA- (Standard and Poor's). In October 2011, Moody's had downgraded the city's general obligation debt from Aa2, citing declines in valuations and operating under deficits that have depleted General Fund balance,[xvii] as discussed in section II. In December 2012, Standard and Poor's issued a report which upgraded the city's outlook from 'negative' to 'stable' and affirmed its 'AA' bond rating.[xviii] However, the report also cautioned that this rating is subject to the city's response to revenue fluctuations and budget gaps and that it could be downgraded if these issues are not addressed.

Exhibit III-1 illustrates the effect of valuations on the city's long-term debt limit, which is 10% of the assessed value of real and personal property.[xix] Although the nominal debt applicable to the debt limit has remained fairly steady over the past six years, the decline in property values has caused the debt as a percentage of the legal debt limit to rise by 14 percentage points since 2007.

Exhibit IV-1 Long-Term Debt Limit

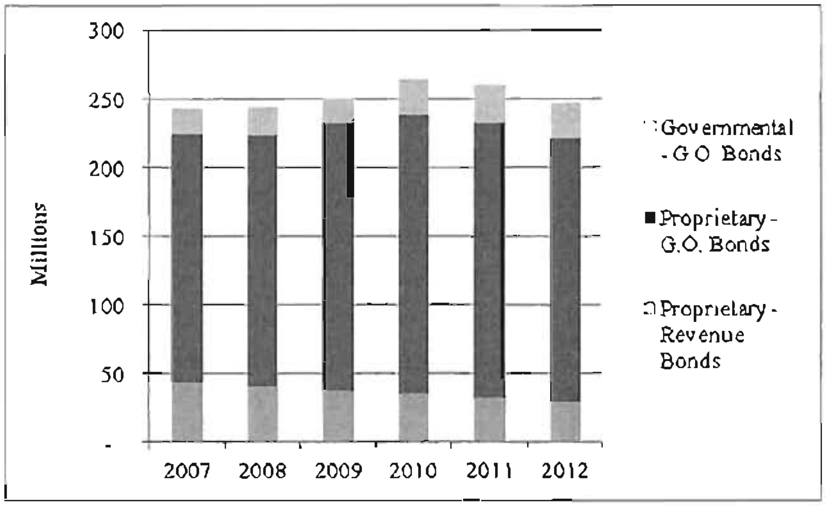


Source. City of Lansing Comprehensive Annual Financial Reports

As of June 30, 2012, the majority of the city's outstanding debt is comprised of bonds for proprietary funds (81%) as opposed to governmental funds (19%). The proprietary fund debt is mostly due to general obligation bonds for the sewer fund for the EPA-mandated Combined

Sewer Overflow (CSO) sewer separation project. Exhibit IV-2 shows a breakdown of the city's general obligation and revenue bond balances.

Exhibit IV-2 Bonded Debt - General Obligation and Revenue Bonds



Source. City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

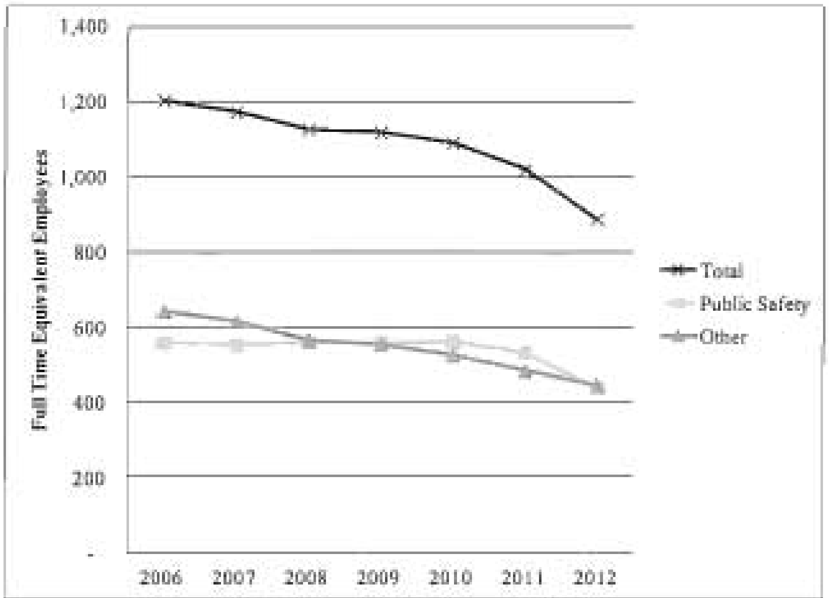
V. PERSONNEL TRENDS AND COSTS

The city of Lansing's budget is primarily driven by personnel costs as the city government, like most local governments, is a labor-intensive operation. Therefore, it is critical that these costs be examined to assess trends and key issues where reforms can be enacted. It should be pointed out that city of Lansing employees have already stepped forward and been willing to reduce their own benefit packages and have been subject to furlough days. Further, the city has reduced the workforce by nearly 30% over the past few years. This section reviews the trends in personnel and personnel costs

Annual Earnings and Benefits

The city of Lansing's payroll has declined by over 300 full-time equivalent employees, about 26%, over the last six years due to attrition, transfers, and layoffs. This breaks down to a 21% reduction in public safety employees and 30% reduction in other city employees.

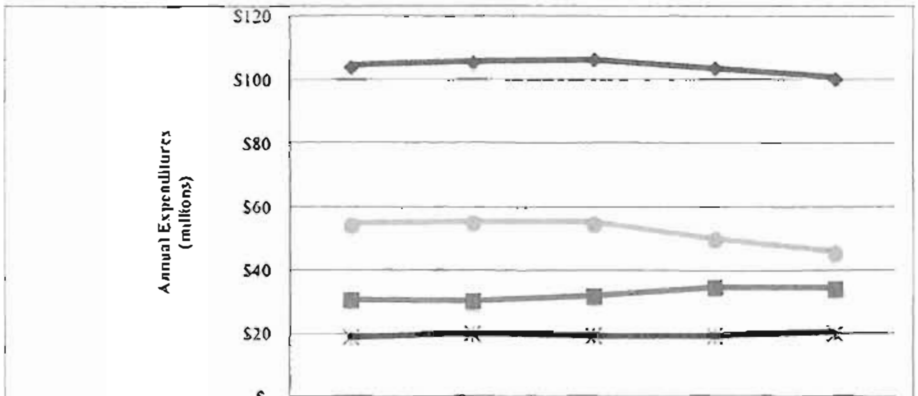
Exhibit V-1 Full Time Equivalent Employees



Source: City of Lansing Comprehensive Annual Financial Report

However, these personnel reductions have not necessarily induced comparative reductions in expenditures. Exhibit V-2 illustrates the overall personnel costs since 2008, which include annual earnings (including overtime), fringe benefits (such as health care, pension, workers compensation, FICA, and life insurance), and retiree health care and other post-employment benefit (OPEB) payments, which cover current premiums and any pre-funding. In addition to staff reductions, the city has attempted to control costs through measures such as furloughs, or reductions in work hours, and reductions in overtime for non-emergency employees. This reduced the base earnings by about 17%, but overall personnel costs have remained fairly constant. This is mainly due to increases in pension costs from 2010 through 2012. This chart provides a relative perspective on the relationship between payments for employee compensation and payments for employees after they retiree for health care coverage.

Exhibit V-2 Annual Earnings and Benefits Expenditures & Retiree Health Care Payments

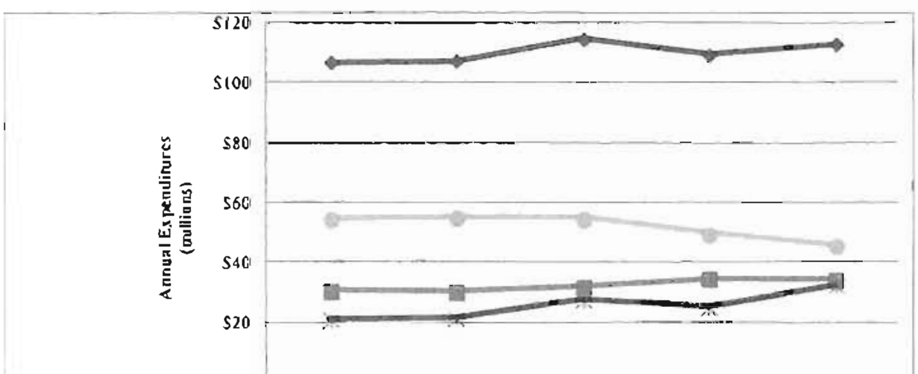


	2008	2009	2010	2011	2012
Annual Earnings	$54.8	$55.3	$55.1	$49.9	$46.0
Employee Benefits	30.9	30.4	32.0	34.6	34.5
Retiree Healthcare Contribution	18.9	20.1	19.3	19.3	20.3
Total Earnings and Benefits	$104.6	$105.7	$106.4	$103.7	$100.7

Source: City of Lansing Finance Department

Exhibit V-3 depicts a more comprehensive assessment of personnel costs by including the retiree health care legacy costs. This exhibit accounts for both the normal cost of benefits for the current year of service and an amortization payment to reduce the Unfunded Actuarial Accrued Liability (UAAL). Since the city has not contributed the full amount of the annual required contribution (ARC) over the years, overall costs have actually increased despite staff reductions.

Exhibit V-3 Annual Earnings and Benefits Expenditures - Retiree Health Care Annual Required Contribution

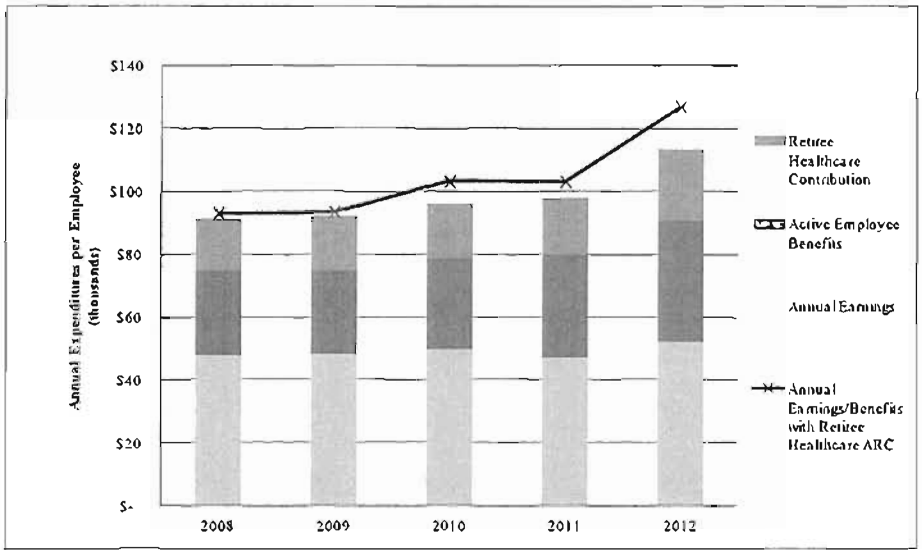


	2008	2009	2010	2011	2012
Annual Earnings	$54.8	$55.3	$55.1	$49.9	$46.0
Employee Benefits	30.9	30.4	32.0	34.6	34.5
Retiree Healthcare Required Contribution	21.0	21.5	27.5	25.1	32.4
Total Earnings and Benefits	$106.7	$107.1	$114.6	$109.5	$112.9

Source: City of Lansing Finance Department

Another illustration of how the city of Lansing's personnel costs have changed over time depicts the costs from Exhibit V-3 and Exhibit V-4 on a per active employee basis. Since 2008, there has been a 24% increase in actual costs per employee and 36% increase in costs taking into account amortized payments to fund the OPEB liabilities.

Exhibit V-4 Earnings and Benefits on a Per Employee Basis



Source: City of Lansing Finance Department

The city of Lansing may potentially realize cost savings for medical benefits in FY 2014. The Publicly Funded Health Insurance Contribution Act (PA 152), passed in September 2011, places limits on public employer contributions to medical benefit plans for active employees.[xx] Public employers can choose between a dollar amount cap based on a formula or pay no more than 80% of the annual health care costs. The has adopted the hard cap option. In August 2012, the Administration recommended and the City Council adopted a resolution that established a base plan healthcare plan for the executive management group with lower rates than the hard cap. That plan includes deductibles and coinsurance, with the option to pay extra for additional coverage or a smaller deductible. The resolution included pre-existing FY 2012 benefit plans in the list of alternative plans; however, continued participation is contingent on payment for the additional cost of coverage.[xvi] The Teamsters Local 214 collective bargaining unit adopted a similar benefit plan, and in October 2012, the City Council passed a resolution that applied this plan structure to City Council staff.[xxi]

Pension Benefits

The city of Lansing has a wide variety of pension plans offered to employees. Like many cities, pension plans were offered as a benefit in order to attract employees to city employment in the face of historically stiff competition from the auto industry in particular. An analysis was undertaken to determine the status of the city's pension systems.

Exhibit V-5 Comparison of Pension Benefits

Patrol Officer Labor Contracts - Pension
As of June 2011

Community	Type	Defined Contribution	Defined Benefit: Multiplier	EE Contribution	Eligibility	Maximum	FAC	COLA
Ann Arbor	DB	n/a	2.75	5.00%	55/5	none	3	No
Grand Rapids	DB	n/a	2.7	8.66% if funded < 100%		80%	5	1% after 5 years
Livonia	DC	11% ER	n/a	n/a	n/a	n/a	n/a	n/a
Southfield	DB	n/a	2.8	3.75%	any age/25	70%	3	No
Sterling Heights			2.8 up to 25 years; 1%/year thereafter	0.00%	any age/25	75%	3	No
Warren	Annuity	n/a	Annuity at 2.5 (25yrs); 1.0 (after 25 yrs)	5.00%	55/25	Scale up to 85% at 30 years	3	Maintain pension at no less than 40% of top paid officer salary
Westland	DB	n/a	2.8 up to 30 years; 1%/year thereafter	5% (if hired after 7/1/07); otherwise 0%	any age/25	none	3	No
Lansing	DB	n/a	3.2	8.50%	50/25	80%	2	$525/year
Battle Creek	DB	n/a	2.5	7.20%	55/25	none	3	E2
Jackson	DB	n/a	2.9	11.24%		none	3 plus 1%/year for each year > 25	No
Muskegon								
hired prior to 7/28/06	DB	n/a	3.0	6.00%	50/25; 55/10	75%	3	No
hired after 7/28/06	DC	10% ER	n/a	6.00%	n/a	n/a	n/a	n/a
Saginaw								
hired prior to 7/1/02	DB	n/a	2.6 up to 25 years	11.50%	any age/20	65%		One time 2.5%
hired after 1/1/02	DC	10% ER	n/a	5.00%	n/a	n/a	n/a	n/a
Pontiac	Annuity	n/a	Annuity at 3.0 (20yrs); 2.5 (next 5yrs); 1.0 (after 25 yrs)	5.00%	50/20	77.50%	n/a	n/a
Flint	DB	n/a	2.6%	5.00%	50/25	62.5	3	No

Abbreviations: Cost of Living Adjsutement (COLAS), Defined Benefit (DB), Defined Contribution (DC), Employee (EE), Employer (ER), and Final Average Compensation (FAC)

Source: Scorsone & Bateson, 2011[xxii]

Defined benefit plan pensions guarantee retiree benefit payments to retirees, with benefit levels being determined by a three part formula. The formula for calculating the annual pension benefit is shown below.

$$\text{Annual Pension Benefit} = \text{Years of Service} \times \text{Final Average Compensation (FAC)} \times \text{Pension Multiplier}$$

Years of Service - Years of service is based on actual employee service, although sometimes the employee or employer may "buy" years of service at an actuarially determined cost. Unless this is fully funded in advance, it increases the long-term liability.

Final Average Compensation (FAC) – The final average compensation is the average of wages or salary paid to the employee based on a predetermined number of years. Identifying what type of compensation is included in the FAC is important. If it includes overtime, vacation leave payout, longevity, and other pay items, the cost to the employer increases. When the FAC is determined using fewer years, typically the benefit is higher since it is based on highest years. When the FAC period is very short, even small increases in overtime, compensatory time payout, or accrued leave time payout will increase the pension. This is how some retiree's actual pension benefit can be higher than their regular full time pay as an active employee.

Pension Multiplier – The pension multiplier represents a percent of pay for each year of service.

A cost of living adjustment (COLA) provides an annual increase in benefit retirement. A COLA benefit provides a 2% annual increase in pension for retirees. A concern for granting automatic pension increases is that it further constrains future administrations. Employers typically have a pension plan design where they may instead grant a one-time COLA adjustment to retirees.

Based on the most recent actuarial valuations, the city of Lansing incurs the third-largest unfunded pension liability out of the ten largest cities in the state with $218 million (Exhibit V-6). The City also has the lowest funded ratio at 66.9%.

Exhibit V-6 Pension Funding Status for Michigan's Ten Largest Cities - Sorted by Unfunded Actuarial Accrued Liability

Jurisdiction	Population Rank	Population Census	Liability	Unfunded AAL	Funded Ratio
Detroit	1	713,777	$ 7,528,809,731	$ 643,754,129	91.4%
Flint	7	102,434	835,052,000	267,837,000	67.9%
Lansing	**5**	**114,297**	**659,854,217**	**218,260,616**	**66.9%**
Warren	3	134,056	534,599,101	133,133,119	75.1%
Grand Rapids	2	188,040	811,062,755	129,575,222	84.0%
Sterling Heights	4	129,699	384,904,232	98,570,813	74.4%
Ann Arbor	6	113,934	496,770,000	86,061,000	82.7%
Dearborn	8	98,153	489,475,591	58,272,507	88.1%
Clinton Township	10	96,796	114,226,069	8,962,719	92.2%
Livonia	9	96,942	195,105,000	(8,829,000)	104.5%

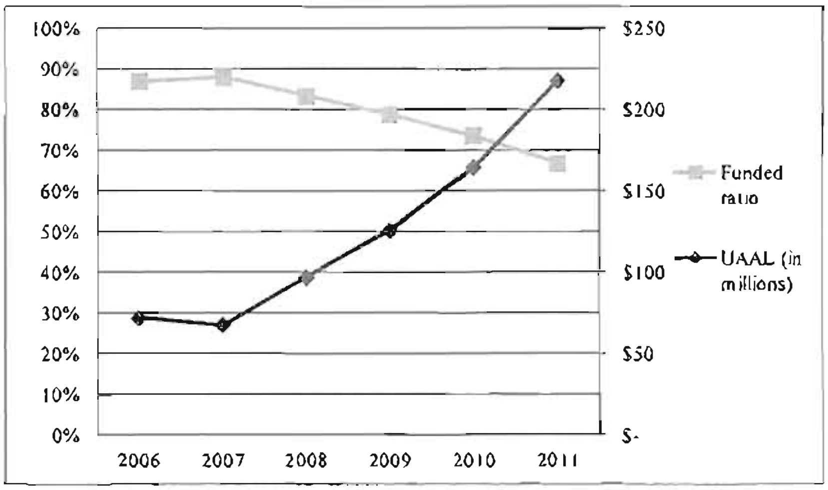
Source: U.S. 2010 Census and 2012 Comprehensive Annual Financial Reports[1]

The city of Lansing's combined pension UAAL for the two systems has increased from $72 million in 2006 to $218 in 2011 which was the time of the last actuarial valuation (Exhibit V-7). The funded ratio fell during this time from 87% to 67%. A significant cause of this decrease in

[1] Data source for the City of Livonia is the 2011 Comprehensive Annual Report, since the 2012 copy was unavailable at the time this report was written.

funding ratios was the 2008 stock market decline, the losses of which are amortized over the succeeding five-year period. Because stock market gains in more recent years are also amortized over the succeeding five years, those gains, which will help increase the funding ratio, have not been fully realized.

Exhibit V-7 Pension Funded Ratio and UAAL



Source: City of Lansing Comprehensive Annual Financial Reports

Only one community in our comparison communities has a defined contribution plan for current employees (Livonia). Two other communities, Muskegon and Saginaw, have recently implemented a defined contribution plan for new hires after a certain date. This is a common way for employers to transition the workforce to defined contribution plans to control long-term costs.

Other Post-Employment Benefits

The city contributes to other post-employment benefits (OPEB) for employees who are eligible to receive pension benefits from the Employees Retirement System and from the Police and Fire Retirement System. The city also contributes to a Voluntary Employee Beneficiary Association (VEBA) trust fund. Based on the most recent actuarial valuations, the city of Lansing incurs the second-largest unfunded OPEB liability out of the ten largest cities in the state with $431 million (Exhibit V-8). The city, despite consistent, albeit significantly lesser-than-needed, prefunding contributions for longer than most other communities, also has the fourth-lowest funded ratio at 9.9%.

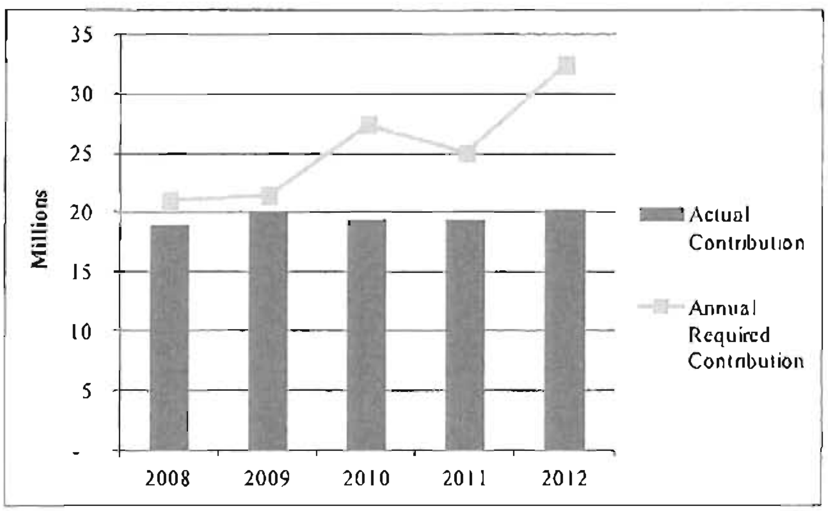
Exhibit V-8 OPEB Funding Status for Michigan's Ten Largest Cities - Sorted by Unfunded Actuarial Accrued Liability

Jurisdiction	Population Rank	Census	Liability	Unfunded AAL	Funded Ratio
Detroit	1	713,777	$ 5,718,286,228	$ 5,718,286,228	0.0%
Lansing	**5**	**114,297**	**479,135,588**	**431,776,738**	**9.9%**
Flint	7	102,434	366,832,597	366,832,597	0.0%
Warren	3	134,056	322,084,682	280,243,704	13.0%
Ann Arbor	6	113,934	249,844,000	162,184,000	35.1%
Grand Rapids	2	188,040	168,237,016	161,433,227	4.0%
Dearborn	8	98,153	191,997,781	156,323,331	18.6%
Sterling Heights	4	129,699	178,487,654	139,812,173	21.7%
Livonia	9	96,942	153,223,000	92,862,000	39.4%
Clinton Township	10	96,796	65,453,220	44,939,735	31.3%

Source. U S 2010 Census and 2012 Comprehensive Annual Financial Reports[2]

As discussed earlier, the proportion of the ARC that the city has paid to cover OPEB has declined over the last five years, from 90% in 2008 to only 62% in 2012. This has mainly been attributed to the budget constraints that were described in section II. In order to cover other expenditures, the city reduced its contributions relative to the ARC.

Exhibit V-9 Other Post-Employment Benefits - Actual vs. Annual Required Contribution

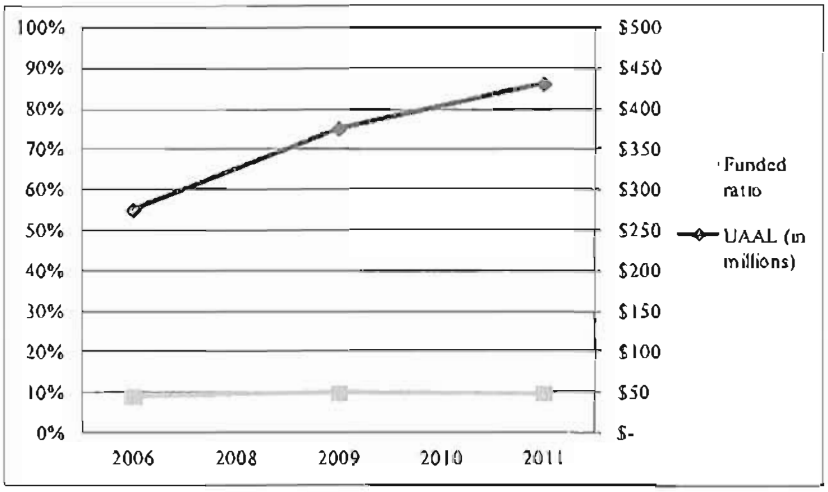


Source City of Lansing Finance Department and Comprehensive Annual Financial Reports

[2] Data source for the City of Livonia is the 2011 Comprehensive Annual Report, since the 2012 copy was unavailable at the time this report was written.

Since the actuarial valuation in 2006, the city's unfunded OPEB liability has increased by almost 60%, from $276 million to $432 million. The city's contributions levels have maintained funding at around 10%. Unfunded liabilities can be addressed via increased contributions from employees or employers or through changes in the benefit structure.

Exhibit V-10 Other Post-Employment Benefit Funding Status



Source: City of Lansing Comprehensive Annual Financial Reports and 2012 Citizens' Guide to City Finances

VI. COMMITTEE RECOMMENDATIONS

Short Term Subcommittee

This section is intended to summarize the deliberations of the Lansing Financial Health Team (LFHT) - Short Term Subcommittee. The LFHT was appointed by the mayor of Lansing in the fall of 2012 to begin to provide recommendations to address the short and long term financial stress facing the city government. These recommendations are designed to address the short term deficit facing the city as well as put a down payment on the need to address long term solvency challenges.

The first order of business is determining what services the city must provide and how efficiently they can be provided. It is only after such evaluation that consideration should be given to increasing costs to taxpayers. In the longer-term, the city should regularly examine all of its service delivery mechanisms and determine on a business case basis how they can most efficiently be provided. Property management, assessing, sign shop, street sweeping, billing, and collections are all examples of areas where the city should evaluate the cost/benefit of providing these services with its own staff or through contracts with others.

FY 2014 Budget Recommendations:

1. There must be a continued and increased commitment to aggressively reducing the city's unfunded pension and retiree health care liabilities. Thus, future projection of city revenue and expense gaps should acknowledge these liabilities. Additionally, the FY 2013-14 budget should include an additional financial commitment of $1 million for prefunding retiree health care. This is only a small percent of what would be needed to fully fund the city's pension and OPEB obligations and this should be increased over time. The city should also work to negotiate changes in benefit plans with its unions to address those costs.

2. The city must aggressively pursue the use of technology to improve productivity and improve services. The current level of financial commitment is inadequate, and the FY 2013-14 budget should include a significant additional appropriation to improve the level of technology used in the city. It is recommended that a minimum $1 million investment be made in information technology. Additionally, the city should create a new Chief Information Officer (CIO) position at the cabinet level which is expected to cost $200,000 in total compensation (including benefits). The city should work with the School District to examine the possibility of jointly hiring a CIO to serve both groups. Although this is a substantial investment now, it will make the government more efficient and provide better services, and will save money in the long run.

3. The city's financial reserves are at dangerously low levels. The city should increase these reserves by at $1,000,000 in order to have funding for emergency situations.

4. The city should undertake a facility study in order to determine which facilities are necessary and which can be sold. This should be undertaken in conjunction with the school district. It is estimated that this study will cost $100,000 but that it will result in long term cost savings.

5. A comprehensive fee study for all city services should be undertaken and fees should be set at a level to fully fund each service or a conscious decision should be made to partially subsidize the service. It is estimated that this will cost approximately $100,000.

6. The city should determine the amount of general tax subsidy that is made to support recreational programming, and should take all actions necessary to eliminate that subsidy. There are many other organizations that provide such programming. As in human services, while recreational programming is important, it is not essential for the city to provide when its available resources dictate that it must focus on its essential services of police, fire, roads, and utilities. Eliminating the recreational program General Fund subsidy will result in savings of $1,000,000. The Subcommittee recommends a three-phased in approach so the FY 2013-14 savings will be $300,000.

7. The city should take all actions necessary to eliminate the more than $500,000 annually budgeted as a subsidy for cemetery operations. These actions could include total outsourcing of operations or the sale of the properties. There are numerous competent providers other than the city government. The city currently operates the three cemeteries, for which current charges for services only cover 30-40% of expenditures. The Subcommittee recommends that the city consider outsourcing operations or selling the property. However, the potential negative impacts of outsourcing should be identified before it is implemented. For example, in addition to providing burial plots, private cemeteries market for business by providing services that city cemeteries do not provide, such as sale of monuments and other services. The potential increase in competition may negatively affect monument companies, funeral homes, etc. if the city cemeteries were managed by or sold to private entities.

8. The city's funding for human service agencies as reflected in the current ordinance should be phased out as there are numerous other providers and funders. Support of human services by a municipal entity, while valuable and important, is not an essential service in comparison to police, fire, roads, and utilities. The city currently designates 1.25% of general fund revenue annually to support Lansing area human services organizations. The city had budgeted $1,260,000 to support approximately 60 agencies for FY2013, with contributions ranging from $2,000 to $120,000. Programs funded through this subsidy include homeless shelters, child care, food, clothing, housing assistance, transportation, senior citizen assistance, and legal assistance for indigents, as well as other life skills, employability development, and

health programs. However, it is believed that in the absence of this subsidy, community organizations would fill in the gaps of service provision. This is not the case for fire, police, and infrastructure maintenance. For the FY2014 budget, the Subcommittee recommends to eliminate the 1.25% set-aside by ordinance and instead consider including 75% of that amount (equivalent to 0.9375% of General Fund revenue) in the budget with the condition that allocation decisions be made in comparison to other demands for city services This change will result in savings of $275,000, and eliminating the mandatory set-aside will require human services to compete with all other budget needs.

9. The current schedule of reduced hours of work for non-emergency/non-24 hour personnel should be made permanent, but any further reductions should be made only if an evaluation of impact has concluded that service to the public is not reduced. This change is expected to reduce costs in the General Fund budget by $1,000,000. In addition, a study should be undertaken to determine how much cost savings the city would incur if it instead laid off an equivalent number of employees rather than having reduced work hours for the current number. If the savings are significant and it is feasible to do, this should be implemented instead of the current schedule of reduced work hours.

10. The Building Department Fund is responsible for building, plumbing, electrical, mechanical, and plan review and inspections. Subsidies for building safety from the General Fund have typically been $200,000 - $500,000. During FY2013, the city raised user fees for permits, which has helped reduce the anticipated subsidy to $200,000. Thus, eliminating the subsidy altogether would result in a projected savings of $200,000.

11. The city should take all actions necessary to eliminate the tax subsidy for golf courses. While improvement has been made, the fact remains that there are many golf courses in this area that operate without a general tax subsidy. These include both private clubs, such as the Country Club of Lansing, and privately-owned courses that are open to the public, such as Forest Acres, College Fields, and a suite of four courses owned by Hawk Hollow Golf Properties.

The Golf Fund consists of all revenues and expenditures related to the Groesbeck Golf Course and the Sycamore Driving Range. Previous efforts to control costs include closing two golf courses in 2008 and transferring management of the driving range to a non-profit organization. In FY2013, the city transferred management of marketing and concessions for the Groesbeck Golf Course to the Lansing Entertainment and Public Facilities Authority (LEPFA). However, the Golf Fund will still receive a $350,000 subsidy from the Parks Millage Fund in order to cover expenditures;. the Golf Course seems unable to compete with private courses in the area because it does not have a banquet facility. The Subcommittee recommends selling or transferring management of these entities which may require special attention to timing so that the course does not fall into disrepair and sell at a lower profit.

12. Consolidation of services among agencies of the city with a specific focus on the Board of Water and Light should be done. This change alone is estimated to save the General Fund budget approximately $100,000.

13. Funding for fire services should be examined to determine that the current level of funding is necessary to provide an adequate level of service. It is estimated that staffing changes can be undertaken with an acceptable impact on services. In addition, consolidation efforts with other fire departments within the region should be pursued. A recent study undertaken by Plante Moran found that fire department collaboration is an attractive option for all communities that participated in the study, including Lansing. The study found that economies of scale can exist within contiguous communities for fire and EMS and that, through collaboration, municipalities can deliver improved fire protection and EMS services at a reduced cost. Based on these findings, the Subcommittee recommends a reduction in fire department funding of $2,000,000.

14. It is estimated that police funding reductions can be undertaken with an acceptable impact on services. According to the FY2011 report from the Michigan Local Government Benchmarking Consortium, the city's police department costs per resident and per full-time equivalent (FTE) officer are 35% and 20% higher than the sample average, respectively. Based off of the 2011 data, the city would need to reduce its expenditures by about $7,900,000 to match the average costs per resident or by about $6,000,000 to match the average costs per FTE officer. The city also has 10% more FTE officers per 1,000 people served than average, but 2.5% fewer calls for service. However, efforts to match the performance of comparison municipalities should be implemented gradually since the city's response time to both emergency and non-emergency calls are greater than average, and sweeping cuts may negatively impact the quality and efficiency of police services. In order to provide the police department with a realistic starting point for developing innovative ways to improve efficiency without making major compromises in service quality, the Subcommittee recommends a $1,000,000 reduction in police department funding, which is 3% of its FY2013 budget.

15. Efforts to contain health care costs must continue. Thus, proposed changes to health care for police should be pursued aggressively and included in the budget, with explicit offsetting reductions if changes are not accomplished. This includes a recommendation that active police union employees adopt a health care benefit plan that complies with the PA 152 hard cap, a year before their contract expiration, which will save the city $700,000.

16. Based upon the comprehensive fee study, it is estimated that the city should be able to raise an additional $175,000 from increases to other fees that have not been adequately increased over time.

17. The city and the Board of Water and Light should move to a user fee concept to pay for the use of hydrants and street lights. It is standard practice in many communities to charge the users for these services. The projected annual increase in fees will be approximately $45 and $1,394 for residential and commercial BWL customers, respectively. However, because property values and thus property taxes have diminished drastically since the Great Recession, this fee increase will likely be offset by the reduction in other taxes felt by city residents and business owners. For example, the property tax levied on a property with a taxable value of $70,000 is projected to decrease by $31. These changes will result in a permanent reduction in General Fund expenditures that is estimated to be $5,500,000.

18. The Lansing Entertainment and Public Facilities Authority (LEPFA) manages the Lansing Center, the Lansing City Market, and the Cooley Law Stadium. The General Fund currently transfers $1,100,000 to LEPFA and $500,000 to the stadium to assist in covering operating costs. Current debt service for the stadium ends in FY2014, which may reduce expenditures, but will likely be replaced by new debt for capital improvements. The city's subsidy of the Lansing Center is unsustainable. However, if the city were to cease funding for the Lansing Center it would likely shut down, divesting the downtown of a venue for attracting conventions and commerce. There are alternative funding sources that should be explored to keep the convention center open.

Currently, the Lansing Center indirectly receives bed tax support through funds disbursed by the Greater Lansing Convention and Visitors Bureau (GLCVB), which receives 80% of the bed tax receipts that Ingham County collects under Public Act 263 of 1974. Under Public Act 180 of 1991 (PA 180), the city of Lansing is authorized to levy a bed tax of no more than 1% of gross receipts or a car rental tax of no more than 2% of gross receipts for supporting sports stadia and convention facilities, which is subject to voter approval. The 425 tax-sharing agreement to conditionally transfer the Capital Region International Airport from DeWitt Township to the city of Lansing may facilitate this recommendation since it allows the city to levy and collect taxes on this property. The Airport serves as a source of car rental business and thus, a potential source of car rental tax revenue. However, according to the sharing agreement, the city may be required to remit 50% of such revenues to DeWitt Township.

Other cities have funded their convention centers through similar means. For instance, the COBO Center in Detroit, MI relies on a bed tax levied by Wayne, Macomb, and Oakland Counties in order to subsidize bonds sold for an expansion to the facility. The convention center in Columbus, Ohio is funded by the county. The San Diego Convention Center is undergoing a $520 million expansion that is being funded by hotel taxes ($35 million per year), the city ($3.5 million per year), and the San Diego Unified Port District ($3 million annually for 20 years).

In accordance with existing policy, the Subcommittee recommends that the city pursue an addition to the bed tax and/or levy a car rental tax that will raise $100,000 and reduce the General Fund subsidy for the Lansing Center. The city should take into account potential impacts on smaller inns and other issues raised when Wayne County proposed these taxes in 1996. Further, the Subcommittee recommends that the city move toward completely eliminating the General Fund subsidy of the Lansing Center over the next few years.

The following is a summary of the short term committee recommendations:

	Deficit Projection	$9,000,000
	New Investments:	
1.	Additional Prefunding of Legacy Costs	1,000,000
2.	Information Technology and CIO	1,000,000
3.	Financial Reserves	1,000,000
4.	Facility Improvements	100,000
5.	Comprehensive Fee Study	100,000
	Investments Total	$3,400,000
	Total Deficit Plus New Investments	$12,200,000
	Proposed Savings:	
6.	Phase Out Recreational Programming Subsidy	$300,000
7.	Eliminate Cemetery Subsidy	$500,000
8.	Phase Out Human Services Support	$275,000
9.	Make Permanent a 4 1/2 Day Work Week	$1,000,000
10.	Eliminate Building Inspection Subsidy	$200,000
11.	Eliminate Golf Subsidy	$350,000
12.	BWL Administrative Consolidation (GF Cost Savings)	$100,000
13.	Reduce Fire Funding	$2,000,000
14.	Reduce Police Funding	$1,000,000
15.	Police Health Care Restructuring	$700,000
16.	Other Fee Increases	$175,000
17.	BWL Revenue Adjustment (GF Cost Savings)	$5,500,000
18.	Car Rental and Bed Tax Increase (Reduce Lansing Center Subsidy)	$100,000
	Total Proposed Savings	$12,200,000

Long Term Subcommittee

The city lacks the ability to implement many of the following recommendations on a unilateral basis. Many recommendations relating to the terms and conditions of employment of city employees will require negotiations through the collective bargaining process and agreement with representatives of city employees. Some recommendations may be subject to binding arbitration under state law before implementation. In addition, the Michigan Constitution prohibits diminishing or impairing accrued pension benefits.

Pension Systems and Benefits

1. Some city employees do not currently participate in Social Security. The city and its employees should move toward 100% participation in the Social Security program and then reduce pension costs incurred by the city to offset non-participation in Social Security.

2. The city should conduct a thorough evaluation of its defined pension systems and implement changes for both current and future city employees. The efforts should focus on reduced costs, best practices, and the financial sustainability of benefit levels. As part of this process, the city and its employees should consider all of the following:

a. Adjusting the multiplier used in determining the pension benefit based upon the age of an employee at retirement;

b. Pension multipliers should be evaluated with other well-managed defined benefit pension systems in Michigan and elsewhere to identify best practices in establishing multipliers.

c. Dissuade spiking in pension benefits by basing pension benefit on average compensation over a period of 5 or more years, or over the total period of employment, rather than final salary;

d. Increase eligible retirement ages consistent with other public and private sector employers;

e. Evaluate the financial viability of moving new city employees to a defined contribution retirement benefit and/or offering such an option to current employees;

f. Evaluate the financial viability of moving new city employees to a hybrid defined benefit/defined contribution retirement plan and/or offering such an option to current employees; and

g. Evaluate whether the administration or investment responsibilities for the pension systems, or both, could be more efficiently and effectively performed by others rather than by current city boards and personnel. This evaluation should include evaluation of both a potential transfer to the Michigan Municipal Employees' Retirement System, as has successfully occurred in many other Michigan communities, or to another governmental entity, such has the city of Kalamazoo, which has a strong performance track record. Other cities moving from city-administered systems have realized substantial savings.

Retiree Health Care

3. Currently city retirees receive a health care benefit during retirement established on the date of retirement, requiring the city to administer of different health care plans. The city should move to a single health care plan for all city retirees receiving health care benefits that is consistent with the standard plan provided to active city employees.

4. Move to a uniform schedule for vesting in retiree health care benefits, consistent with best practices in other communities..

5. Consistent with other governments and the private sector, the city should move to a defined retirement health care benefit contribution for retired city employees, at a minimum for new city employees. This may take the form of a lump-sum payment or an annual fixed contribution to a health savings account. Closing the retiree health care plan for new employees will result in an immediate actuarial savings for the city. The Commission on Retiree Healthcare Benefits for the City of Chicago recently recommended that the city end the provision of health care benefits to retirees in 2014 when the employees have the ability to purchase coverage through the Illinois State Health Exchange. The city should conduct a similar analysis for Lansing.

6. After moving to a defined retirement health care benefit, the city should consider whether the issuance of bonds to finance the city's significant unfunded obligations for retiree health care is financially advisable.

Health Care Benefits

7. When city employees are involved in auto accidents, the city should require that primary health coverage be provided through auto insurance and not the city's health care plan.

8. The city should implement an aggressive and on-going program to audit dependents of city employees to assure only those eligible receive health care benefits.

9. The city should require implementation of a program to incentivize employee with health care coverage under a plan provided by the employer of his or her spouse to obtain health care benefits from the spouse's plan, where the city hold-harmless the city employees from any reduced benefits under the spouse's plan.

10. The city should move to a uniform health care benefit plan with a simplified plan design for all city employees. The plan should include a traditional self-insurance option, a health maintenance organization option, and a high deductible option supplemented with a health savings account.

11. The city should actively participate in the activities of the Michigan Municipal Services Authority (MMSA) to establish a statewide health insurance pool for government employees through its virtual health and wellness initiative. When operational, this program has significant potential to provide cost savings to the city and its employees.

12. When evaluating health insurance plan changes, the city should include the economic impact on the city when any change in providers.

13. The city should implement new health and wellness initiatives to reduce health care costs. The city should attempt to implement with another city a health and wellness challenge competition to incentivize behavior like that currently underway between the city of Chicago, Illinois and the city of San Antonio, Texas. This competition was supported by a $5 million grant from a private foundation.

14. The city should contract with a third party to review claims and manage costs under the city's self-insurance program.

15. The city should adopt more aggressive drug formulary management and drug utilization protocols, improved prior authorization and other demand management tools.

Workforce

16. With a recommendation by the Short Term Solutions Group that the current reduced work schedule for city employees be made permanent, it is recommended that in the longer term this change be fully recognized as structural reduction in the number of city employees. Employees should be restored to a full work schedule but the number of authorized city employees should be reduced accordingly. A reduced city workforce reduces the space needed in City Hall.

Technology

17. The city should participate in the Michigan Municipal Services Authority's initiative to create a cloud-based financial management system for local governments.

18. The city should move to a cloud-based office software suite such as Microsoft Office 365 or Google Apps for Government. The city of Chicago reports that its move to Microsoft Office 365 will save $1.3 million over 4 years. Chicago Public Schools indicates that its move to Google Apps will save $2 million per year.

Facilities

19. Lansing's City Hall was built and designed for a different era when services provided in a different way involving many more employees. Given the age of the building and many of its vital systems and the likely need for significant repairs and updates, the city should immediately undertake a study as to whether city services could be more effectively delivered from another location, financed in part by the sale of the current City Hall property. Any new location should be designed not just to serve the needs of the city but also function as a center for multi-jurisdictional and regional governance and cooperation, including, but not limited to, enhanced coordination with the Lansing School District, Ingham County, and others in the delivery of governmental services.

Efficient Provision of Non-Core Functions

20. The city should undertake an effort to determine if certain non-core functions currently performed directly by city employees could be instead performed more efficiently by the private section. In evaluating costs and benefits, city employees should be afforded the opportunity to bid on work, and the impact of moving functions outside of city government on legacy costs

such as post-retirement benefits should be analyzed. Areas for initial consideration should include:

- Parking;
- Waste hauling;
- Ambulance / Emergency Medical Services;
- Information Technology; and
- Accounting services.

Maximizing City Revenue

21. The city of Lansing is the seat of state government under the Michigan Constitution. As such, the city should actively encourage the State to locate its employees within the city. The city should maintain an inventory of properties within the city that could meet the needs of state department and agencies and should regularly interface with state officials on the state's future needs.

22. The city should authorize and actively seek advertising on city buildings, property, vehicles and websites to generate additional revenue to provide vital services to Lansing residents.

23. The city currently provides law enforcement and fire protection services to public educational entities within the city that provide no financial support to the city to support those services. The city should pursue authorization to assess a public safety fee on students attending public institutions of higher education within the city to cover the costs of those services. The state of Michigan, as an example, provides the city with fire protection grants to partially cover the public safety costs incurred by the city in protecting state employees and facilities.

24. The city should develop an initiative, possibly in partnership with the Ingham County Land Bank, to encourage college, university and law school students to purchase and invest in housing in the city of Lansing.

25. The city should develop an initiative to encourage trade associations and other similar organizations interacting regularly with state government to locate at the seat of state government, in the city of Lansing.

26. The city should modify its income tax to allow collection of the tax by the state on behalf of the city, eliminating a separate income tax withholding and filing process for the city.

27. The city should support state legislation to move to a formula for distributing state revenue sharing to local governments based upon population density rather than a per capita distribution.

Regional Subcommittee

Regional cooperation, collaboration and consolidation in the Lansing metropolitan area has been a topic of discussion, as well as action, for decades. Today, however, regionalism has become a more urgent imperative, driven by unprecedented financial pressures on local units of government to provide public services in the most efficient, cost-effective manner possible.

Beyond providing essential public services more efficiently, a key dimension of regionalism is sharing the benefits of economic development between neighboring jurisdictions. One of the Lansing region's first and most successful regional initiatives was the P.A. 425 tax-sharing agreement between General Motors, the city of Lansing and Delta Township for the construction of GM's Lansing Delta Assembly Plant.

The Lansing-Delta agreement became the template for subsequent 425 agreements successfully negotiated between Lansing and Alaiedon Township for the construction of the Jackson National Life headquarters, and between Lansing and DeWitt Township for the creation of the Next Michigan Development Zone (aka "Aerotropolis") at Capital Region International Airport.

Another recent regional initiative is the shared fire services study commissioned by the cities of Lansing, East Lansing and the neighboring townships of Lansing, Delta and Delhi. Lansing and East Lansing, entering their second year of a shared fire chief, are systematically evaluating the prospects for greater coordination between their fire departments, facilitating the process of synchronizing two similar but different organizations. All of the regional partners in this important endeavor have our strong support and encouragement to continue moving forward along the path outlined in the fire study, including the possible merger of one or more existing departments if it means that fire protection can be provided more efficiently and cost-effectively.

The Subcommittee applauds these efforts, and thanks the leaders in both the public and private sectors who are pursuing them. We recognize that regionalism is often complex and challenging, even under the best of economic conditions. Yet there is still more to do as the economic imperatives of our times and the broken model of municipal financing in Michigan push us toward finding new ways to provide essential public services more efficiently and cost-effectively.

The Subcommittee spent a number of months assessing the prospects for future regional initiatives between Lansing and neighboring jurisdictions. Perhaps our most important conclusion is that this vital work must continue. Toward this end, the Subcommittee encourages Mayor Bernero to join with other regional leaders in establishing a forward-looking, ongoing regional initiative to study the potential and evaluate the business case for future regional initiatives, including the possible regional consolidation of key public services or even jurisdictions.

In the course of our review, the Regional Subcommittee interviewed numerous regional leaders from both the public and private sectors. Productive and insightful conversations were held on a wide range of topics, many of which are encapsulated in the specific recommendations of the Subcommittee.

The Subcommittee has identified several areas in which the region can better work together to provide more efficient, cost-effective services that maintain or even enhance current service levels. The subcommittee met with representatives from the Lansing School District, Clinton County and Eaton County to discuss ways that the city of Lansing can work with the other entities to improve efficiency.

The Lansing School District is looking to create a strategically-located, consolidated secondary school campus. They would also like to right-size their office facilities. They welcome a partnership with the city of Lansing to tackle these issues.

The Lansing School District also has a need to streamline in three areas: operational support, instructional programs, and infrastructure. Operational support includes services such as food services, a regional kitchen, custodial services, and grounds maintenance. Instructional programs include special education and career technology education. Infrastructure areas include personnel, payroll and benefits, procurement, information technology, legal counsel, and public relations.

The two most promising ways in which the Lansing School District and the city of Lansing can cooperate are in the sharing of an administration building and an information technology delivery system with a joint Chief Information Officer.

Clinton and Eaton Counties are also open to regionalism. However, they believe that regionalism should be approached through small steps. Many residents in Lansing suburbs do not see their survival being dependent on the city of Lansing, even though these areas are dependent upon and driven by the success of Lansing.

Business leaders in the city of Lansing feel that Lansing lacks a unified vision for regional cooperation and that Lansing's current financial situation must be resolved in order to gain the support and trust of outlying areas.

The Regional Subcommittee identified the following as areas that are ripe for further exploration:

1. In accord with the Long Term subcommittee recommendation relative to City Hall, the city and school district should explore the possibility of establishing a combined facility for municipal offices and school offices.

2. The city and school district should collaborate on a shared technology upgrade and hire a joint Chief Information Officer (CIO).

3. The city and school district should explore additional areas of collaboration, including key operational areas and infrastructure needs where economies of scale and cost-savings can be obtained, such as personnel, procurement, IT, public relations and legal counsel.

4. District court functions for the city are currently housed within City Hall. The city should support state legislation combining the three separate district courts in Ingham County into a single county-wide district court, allowing the elimination of one or more district judgeships within the county through attrition. A similar consolidation was recently and successfully implemented in Kalamazoo County.

5. The city should continue to work toward greater cooperation, collaboration and possible merger of the Lansing and East Lansing Fire Departments, as well as other local jurisdictions, in accord with the regional Fire Services Study. In the interim, the city should reorganize the delivery of Lansing fire services to facilitate the establishment of a regional authority for the provision of such services with East Lansing and other communities in the region. Area business and government leaders have a particular interest in the negotiations with Lansing fire unions and bringing staffing and cost more in line with regional standards.

6. The city should consider a service agreement with the county sheriff for the operations of the city's detention facilities and engage in a longer-term evaluation of establishing a consolidated courts and detention facility that would serve the major communities of the Lansing region.

7. To more efficiently deploy law enforcement assets, the city should evaluate joining the Courts and Law Enforcement Management Information System (CLEMIS) operated by Oakland County and effectively serving communities throughout Southeast Michigan.

8. Related to the Long-Term subcommittee recommendation concerning the efficient provision of non-core services by private entities, the city should also undertake an effort to determine if core and non-core functions could be performed more efficiently by the public sector on a regional basis.

9. The city of Lansing should seek state legislation authorizing a new form of agreement for the conditional transfer of land under 1984 PA 425. Existing 425 agreements between the city, Jackson National Life and Alaiedon Township, and between the city, General Motors and Delta Township, greatly benefit the city, neighboring jurisdictions and the companies. State law should be amended to allow the city to enter into a new form of agreement with the Director of the Department of Technology, Management and Budget (DTMB) to allow property such as the state's Secondary Complex to be conditionally transferred to the city.

10. City assets with regional benefits should be funded on a regional basis. For example, both the Lansing Convention Center and the Thomas Cooley Stadium benefit communities and residents throughout the region, but direct operational support is provided only by the city. Under state law, convention centers in both Detroit and Grand Rapids are operated by regional authorities. The city should work to amend state law to provide Lansing with the same tools.

11. The city should fully explore moving parks and recreation functions to a regional or multi-jurisdictional entity. Many city recreational resources, such as the River Trail, are regional resources benefitting the entire region. This effort should be supplemented by a formalized park adoption program in partnership with the private and nonprofit sectors.

12. The Regional Subcommittee recommends that the Mayor establish an ongoing regional initiative to systematically evaluate the potential for regional cooperation, collaboration and consolidation, and to build the business case for specific measures that would regionalize public services where there are demonstrated cost efficiencies and/or service level enhancements. The initiative will require staff support from one or more of our major institutions of higher education, or another research-based organization that focuses on the revitalization of urban core communities. The initiative will also require funding for the research and evaluation phase. Significant financial support may be available from the state of Michigan's Competitive Grant Assistance Program (CGAP), which seeks to assist communities in evaluating and implementing regional solutions to the challenges of providing robust public services in an era of limited resources, or from private foundations in the form of grants.

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CITY OF LANSING, MICHIGAN
PENSION PLAN ANALYSIS

September 26, 2017

Segal Consulting

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City of Lansing, Michigan

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September 26, 2017

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Segal Consulting

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September 26, 2017

Mayor Virg Bernero
City Hall
124 W Michigan Avenue
Lansing, MI 48933

Re: Final Pension Plan Analysis Report

Dear Mayor Bernero:

We are pleased to present the final report of Segal's analysis of the City of Lansing's pension plans. This analysis provides a detailed review of the City's pension plans, including the actuarial assumptions and methods used in determining the City's contributions. This report includes the following:

1. ***Methods and assumptions review*** – an analysis of the actuarial assumptions and a review of the actuarial methods utilized in determining the funded status and accrued liability for compliance with generally accepted actuarial principles.

2. ***Peer group benchmarking*** – a detailed comparison of the City's plans with other cities' plans in the State of Michigan.

3. ***Plan design and funding approach alternatives*** – a discussion of other means of retirement benefit delivery and alternate strategies for funding the plans.

This review was conducted under the supervision of Kim Nicholl, a Fellow of the Society of Actuaries, a member of the American Academy of Actuaries, and an Enrolled Actuary under the Employee Retirement Income Security Act (ERISA). This review was conducted in accordance with the standards of practice prescribed by the Actuarial Standards Board.

The assistance of the City of Lansing's staff is gratefully acknowledged.

We appreciate the opportunity to serve as an independent actuarial advisor for the City of Lansing and we are available to answer any questions you may have on this report.

Sincerely,

Kim Nicholl, FSA, FCA, MAAA, EA
Senior Vice President, Public Sector
Retirement Practice Leader

Brad Ramirez, FSA, FCA, MAAA, EA
Vice President and Actuary

Matthew A. Strom, FSA, MAAA, EA
Vice President and Actuary

/cz

Enclosure

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1 Executive Summary

The City of Lansing (City) is seeking analysis and recommendations for potential ways to mitigate the cost and liability of its outstanding pension obligations and retiree healthcare and other post-employment benefits ("OPEB") obligations, both present and future.

Segal Consulting (Segal) was engaged by the City to perform this analysis. This report will concern itself with the pension plans currently sponsored by the City. The analysis of the OPEB plans will be provided under separate cover. As of the December 31, 2015 actuarial valuations, the City sponsors two defined benefit pension plans:

> Police & Fire Retirement System ("Police and Fire")

> Employees' Retirement System ("Employees'")

The City's actuary recently performed a five-year experience analysis of both Plans in order to improve the accuracy of the Plans' actuarial valuation assumptions. This study resulted in an increase in projected contributions for both Plans.

The objectives of this study are as follows:

> Review the actuarial assumptions used in the valuation of the City's retirement plans

> Evaluate the City's current pension benefit plan designs, including the efficiency of benefit delivery

> Discuss appropriate plan design/structure alternatives to the structure currently in place, including hybrid plans, defined contribution plans and other alternatives

> Benchmark the design and funding aspects of the pension plans relative to a peer group

> Develop alternative funding approaches to increase financial stability of the City's retirement plans

> Develop recommendations for the City's consideration

Segal reviewed the plans' actuarial assumptions and methods. We performed this analysis based upon the plans' valuation reports as prepared by the plans' actuaries, Boomershine Consulting Group, LLC ("Boomershine"). As part of this review, Segal did not independently replicate Boomershine's calculations, and can only comment on the assumptions and methods as presented in the valuation reports and other supplemental material. Segal did not include an analysis of detailed actuarial data and this report is limited to review and reliance on existing actuarial reports and experience studies.

In addition, we reviewed the Actuarial Assumption Review and Experience Studies covering the period January 1, 2012 through December 31, 2015, which was prepared by Boomershine after the most recent 2015 valuations. The assumptions and methods recommended in these studies

were not incorporated into the valuation reports that we reviewed. However, we have noted where the experience study recommendations address the issues we observed.

The assistance of the City in creating this report is gratefully acknowledged.

The key findings of this report are below along with recommendations of areas that need additional review.

- The current actuarial valuation assumptions and methods appear to be reasonable and comply with relevant actuarial standards of practice. We recommend the following:
  - Review the inflation assumption and give consideration to whether the assumption should be lowered – the experience studies recommended lowering the inflation assumption from 3.10% to 2.75%. The Employees' Plan lowered this assumption to 2.925% with the stated intention of lowering the rate to 2.75% next year. The Police and Fire plan lowered this assumption to 2.85% with the stated intention of lowering the rate to 2.75% next year.
  - Monitor the investment return assumption, particularly given that the inflation assumption is on the high side of reasonableness – the experience studies recommended lowering the investment return assumption from 7.60% to 7.25%. The Employees' Plan lowered this assumption to 7.40% with the stated intention of lowering the rate to 7.25% next year. The Police and Fire plan lowered this assumption to 7.35% with the stated intention of lowering the rate to 7.25% next year.
  - Consider updating the mortality assumptions to the most recent Society of Actuaries' mortality and generational mortality improvement scale – the experience studies recommended updating the mortality tables.
  - Consider whether a corridor around the market value of assets should be included in the asset smoothing method

- The City's pension plans are similar to the plans of the peer group, and are funded on a similar basis. The City's pension multiplier for new participants is lower than those within the peer group for defined benefit plans but is supplemented by a Defined Contribution plan. The City's plans use similar assumptions and funding methods to those in the peer group, with the City's plans' assumptions being slightly more conservative than the overall group.

- There are many items to consider when transitioning to a defined contribution plan (DC) or a hybrid plan. While defined benefit (DB) plans are a more efficient mechanism for delivery of pension benefits, the contributions can be volatile due to investment performance and demographic changes, as the employer retains these risks. DC contributions are typically fixed as a percentage of payroll, and the employee bears the investment and demographic risks. Hybrid plans share these risks between the employer and employee. Before considering any changes to the current systems, it is important that the City balance the risks of their benefit plans with the goals of the City and its stakeholders.

- Retirement benefits are one of the tools that employers can use to manage its workforce. Plan design can attract, motivate, and retain talent. Plan design can also encourage individuals to terminate employment or to retire. Employers need to assess their current and future workforce needs and then design retirement arrangements that support those needs. Generally, DB plans encourage longer-term employment but may not be as useful as DC plans in attracting workers who do not intend to remain with an employer for a long period

and desire portability. Hybrid plans can be attractive options as they combine the attributes of both DC and DB plans. Knowing what the workforce goals are is essential to a viable retirement benefit strategy, and if changes are needed to the overall retirement structure.

> The pension plans' unfunded liabilities represent benefit promises already made to active and retired employees. As of December 31, 2015, these unfunded liabilities are amortized over a closed 26-year period, decreasing by one year each year to an ultimate period of 15 years; at which point the amortization period will become a rolling 15-year amortization period. The experience study for the Employees' Plan recommends changing the ultimate period to 10 years. The experience study for the Police and Fire Plan recommends retaining the 15-year ultimate period. This means that the amortization period will remain at 15 years for the Employees' Plan and 10 years for the Police and Fire Plan and the plans will **never** be fully funded. Contributions toward the unfunded liabilities are based upon a payroll growth assumption of 3.10% per year. This means that the payments toward the unfunded liabilities will increase by this amount each year, which is intended to mirror the actual growth in member payroll. The payroll growth assumption and the actual increase in payroll each year determine how quickly the unfunded liabilities of the plans are amortized. The experience studies recommend lowering the payroll growth assumption to 2.75%. This assumption should be closely monitored and consideration should be given to adopting a funding policy that targets 100% funding over a reasonable period.

> If the existing plans were to be completely closed to new members, with new hires entering a DC plan, the closed group's active payroll would decrease. Since the current plans are being funded as a percent of payroll, including payroll for future members, this would result in an immediate need to accelerate DB contributions. Alternatively, the City could adopt a different funding policy not related to payroll.

> The unfunded liabilities of the plans would not be affected by transitioning to a DC or hybrid plan. Any plan changes would only affect active members' future benefits. The normal cost represents the value of benefits accruing for active members. A portion of the normal cost is funded by member contributions. The remaining portion is funded by the City. The City's normal cost rate is 7.2% of payroll for Employees' and 14.2% of payroll for Police and Fire. The normal cost portion of the City's contribution is $1.7 million for Employees' and $3.8 million for Police and Fire for a total of $5.5 million. Reductions in future benefits for active members would lower the City's normal cost contributions of $5.5 million. As an example, if the value of benefit accruals were reduced by 10% for all active members, the reduction in the City's contribution would be $550,000.

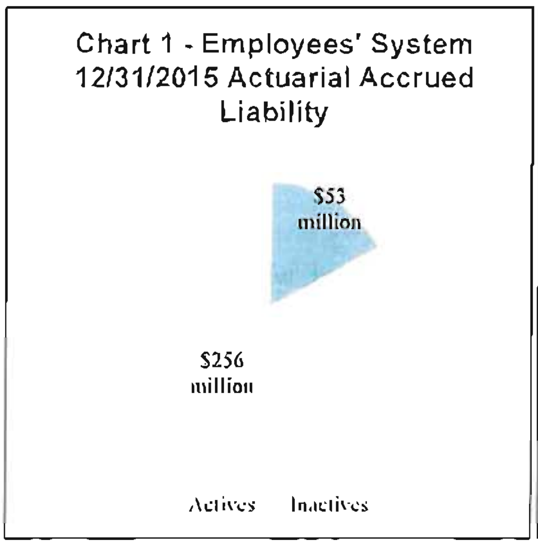
> The unfunded actuarial accrued liability, which totals $250 million, will not be affected by reducing new members' benefits. This liability will need to be paid by the City.

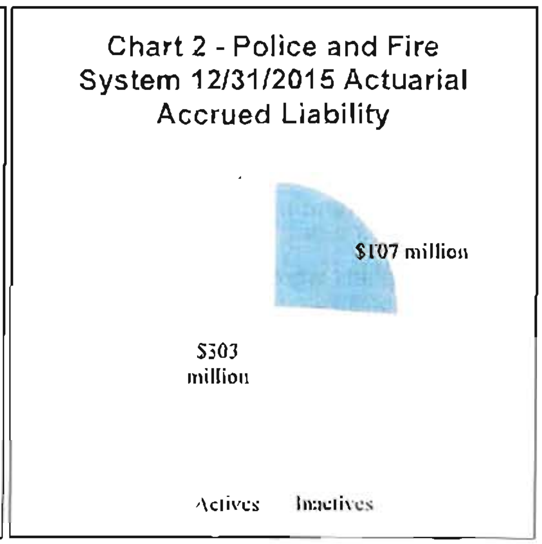
> The City could accelerate its contributions to the pension plans, which would reduce future contributions. However, like other Michigan municipalities, the City of Lansing is challenged in its revenue structure, which limits its ability to do so.

2 Background

The Employees' Plan has a Funding Ratio (actuarial value of assets divided by liabilities) of 57.0%. The plan has 981 inactives and 371 active participants, and over 80% of the Plan's liability is devoted to inactive members. As a result, a significant portion of annual contributions is made toward benefits earned in previous years. Of the total projected City contribution of $10.2 million for 2016, only $1.7 million represents benefits earned for actives during the year.

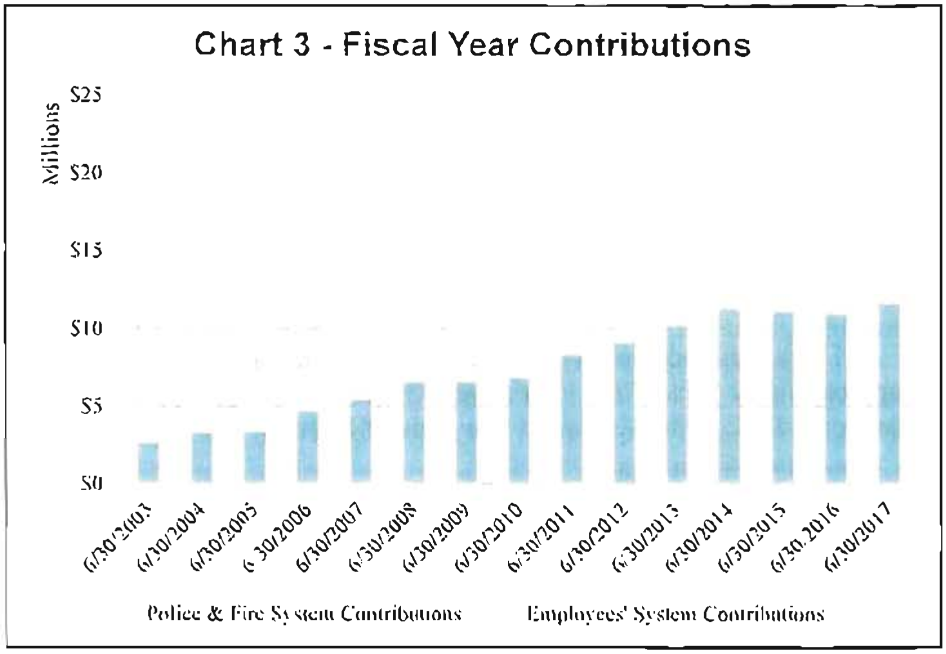
The Police and Fire plan faces similar challenges. The Funding Ratio is 71.3%, and inactives represent approximately 75% of the Plan's liability. Of the total projected City contribution of $11.5 million, only $3.8 million represents new benefits earned.





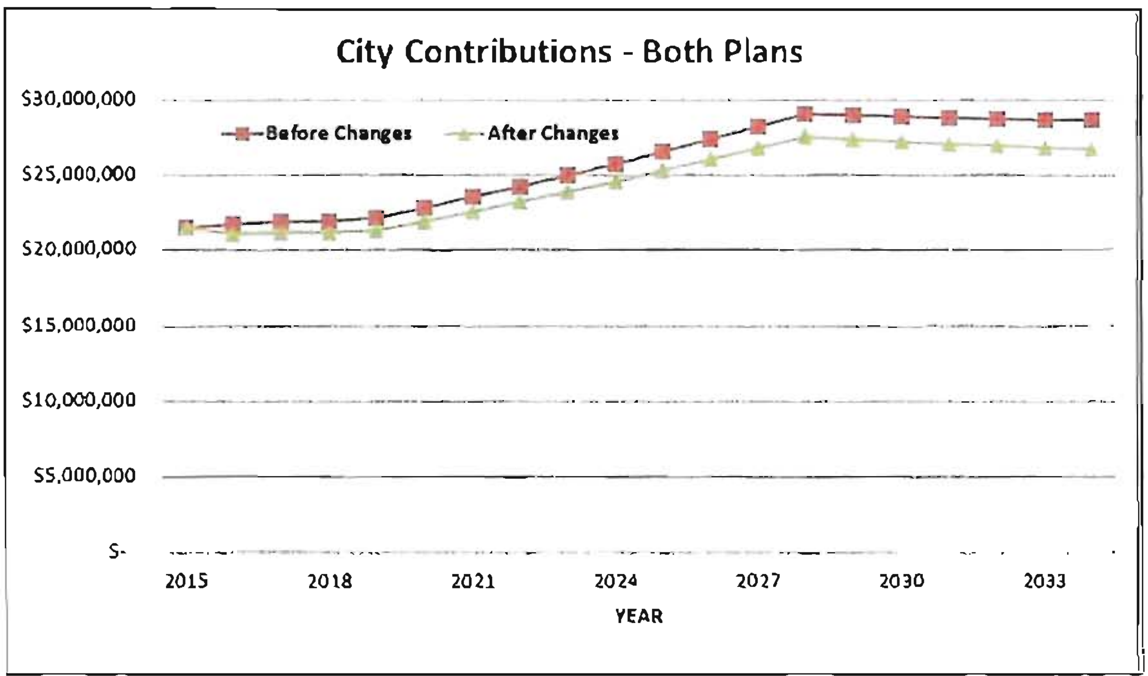
Because the majority of liability is devoted to inactive benefits, the total elimination of benefits for actives going forward would result in a reduction of $5.5 million per year. However, the remaining unfunded liability would remain and continued payments would be necessary.

Contributions to fund these and retiree health obligations have increased dramatically over the last ten years, and currently comprise 35% of the city's budget. Projections indicate that the contributions will increase significantly for the next several years. As with other cities across the country, this presents a challenge in light of cuts in state funding and legal restrictions on revenue growth.



The City has made a number of changes to collective bargaining agreements that have impacted the Plans, including increasing employee contributions and lowering the retirement benefit formula. Because most of these changes apply to new hires after a certain date, the cost savings are recognized slowly over time as active employees are replaced by those subject to the new provisions.

Chart 4 - Projected Contributions



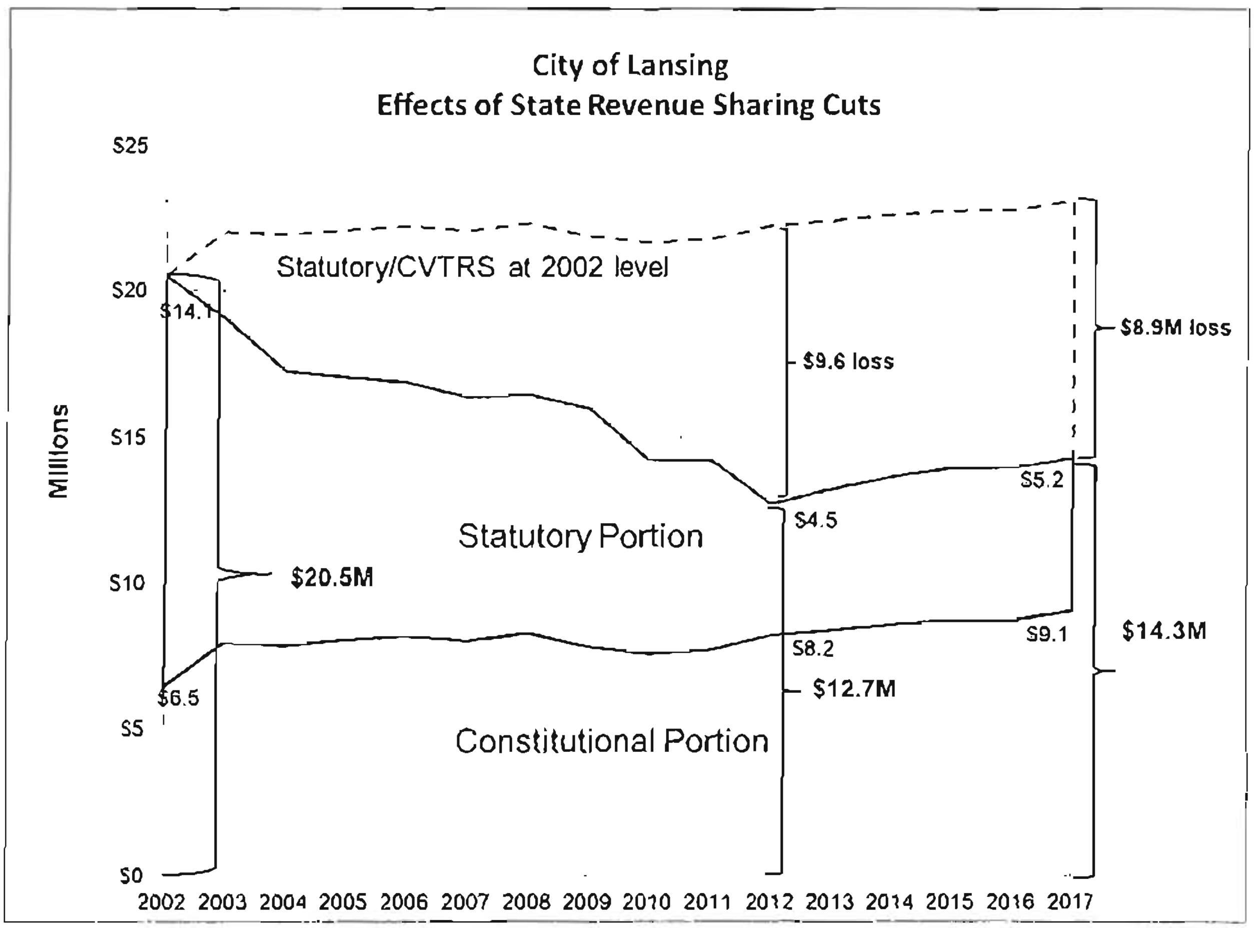
Source: "The City of Lansing Employees' Retirement System and Police and Fire Retirement System Analysis of Recent Benefit Changes" by Boomershine Consulting Group, March 2, 2015

City Resource Challenges

The City of Lansing, like other Michigan municipalities, is challenged in its revenue structure. The structure for Michigan's municipal funding is based on centralization of taxation and revenue diversification at the state level, with municipalities having limitations on ability to raise revenues. A prime example is sales taxes: in many other states, municipalities can levy sales taxes; in the state of Michigan, only the state is allowed to levy sales tax. This structure was predicated on revenue sharing by the state with its municipalities.

Preceding and through the Great Recession, as the State of Michigan ran into its own budgetary challenges, the statutory portion of revenue sharing to municipalities by the state was reduced by approximately $8.1 billion. For the City of Lansing, these cuts have amounted more than $6 million in real dollars *annually* for the City, and almost $9 million annually when adjusted for inflation, or over $104 million from 2002-2017.

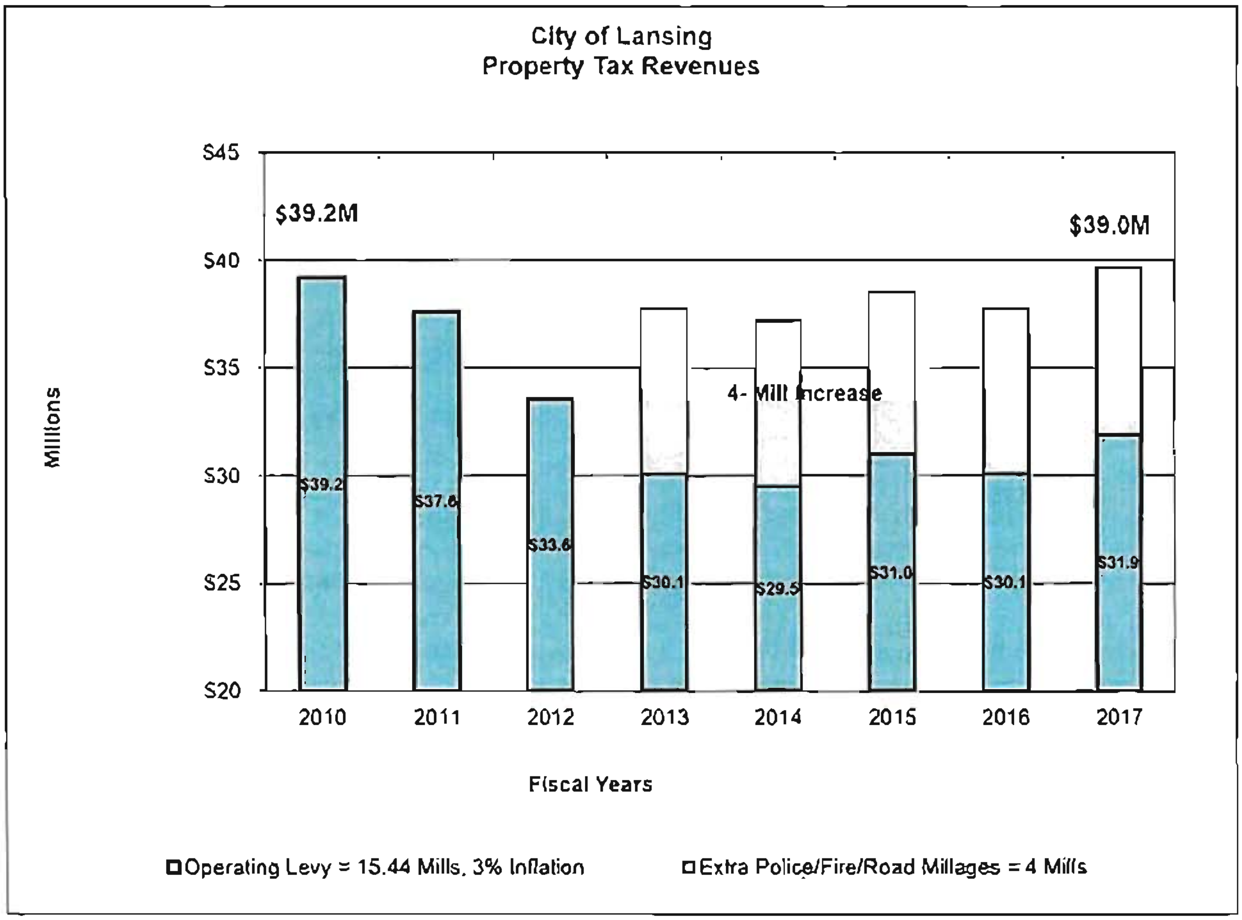
Chart 5 – Effect of State Revenue Sharing Cuts



At the same time, due to limitations by the state Headlee Amendment and Proposal A, the City's (and other municipalities') largest General Fund revenue source, the property tax, is limited in growth by the lesser of the rate of inflation or five percent.

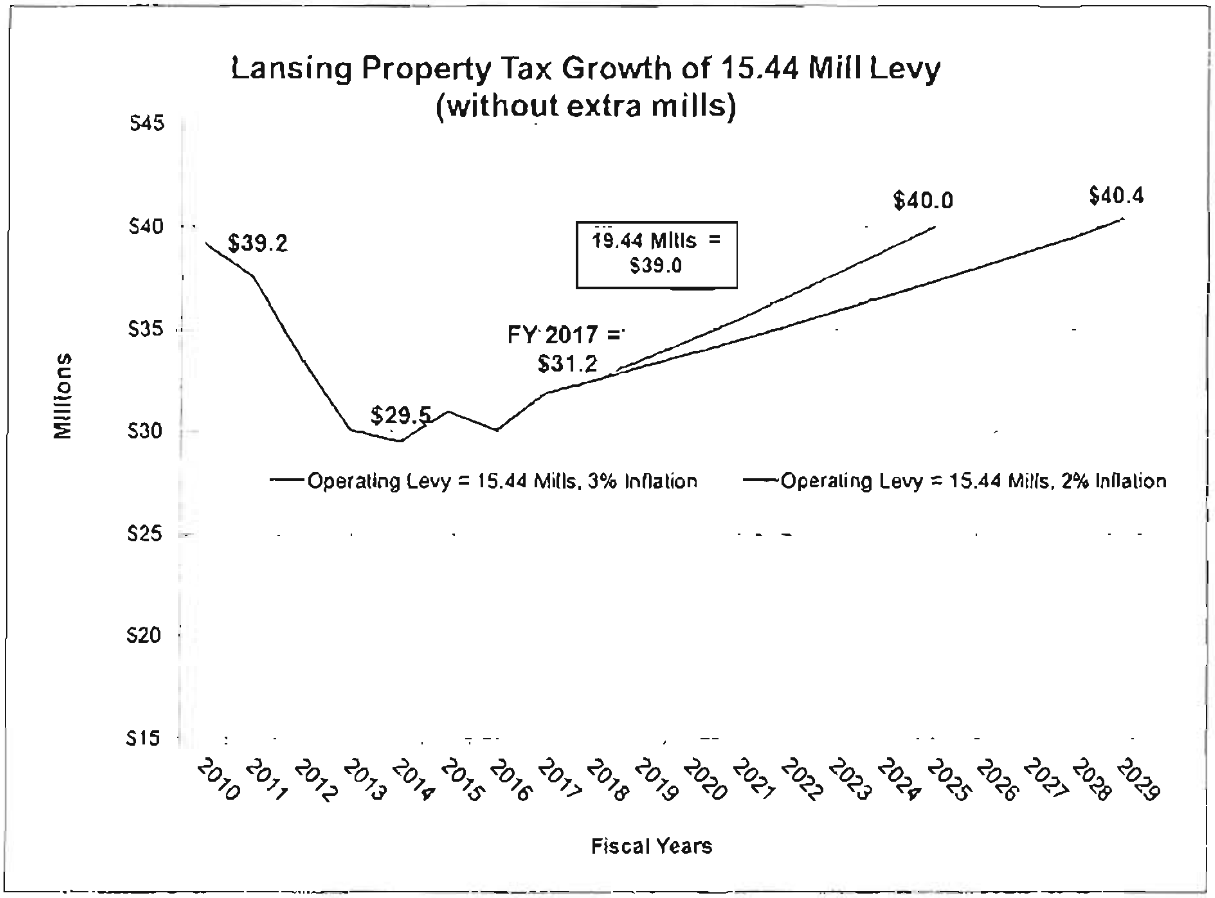
During the Great Recession, as property values declined, Lansing's property taxes decreased by 25%, or $9.7 million, over a four-year period, resulting in a four mill voted property tax increase for police, fire, and roads. While that four mill property tax levy substantially offset that loss, it brought the City's operating levy up to 19.44 mills, which within .56 mills of the 20-mill maximum allowed for home-rule cities in the State of Michigan. As a result, the City is unable to increase its operating property tax levy much further.

Chart 6 – Property Tax Revenues



As demonstrated in the following chart, because of the above-stated state limitations on property tax revenue growth from the state Headlee Amendment and Proposal A, the City anticipates property taxes to increase only 2%-3% over the next several years and that pre-recession property tax revenue levels, net of the extra four mills, will not be reached until 2025 to 2028.

Chart 7 – Property Tax Growth



These funding cuts and revenue constraints have generally affected the state's urban core communities more than others. Urban core cities, like Lansing, tend to be older communities, having aged infrastructure; tend to be built-out with limited undeveloped land; tend have higher poverty rates; and tend to have higher legacy (pension and retiree healthcare) costs. These factors are true for the City of Lansing, which was incorporated in 1859 and has twice the number of retirees as current employees.

In response to these challenges, leading up to and during the Great Recession, the City enacted many different changes in city programs, staffing, and organization, including:

> Reducing the City's workforce by 30% since FY 2006, from 1,220 to 867

> Reducing City pension and retiree healthcare cost growth by negotiating increases in employee health insurance premium sharing, healthcare plan changes, and pension contributions

> Reducing City health insurance costs with a wrap program for Medicare-eligible retirees

> Closing 3 fire stations and eliminating associated costs

- Closing Waverly and Red Cedar Golf courses
- Closing Miller Road Senior Community Center
- Closing Washington Ice Dome and Scott House
- Consolidating functions within the City (grounds maintenance, engineering, fleet maintenance, parking enforcement, fire/building inspections)
- Consolidating functions with other governments (911, dive team)
- Entering into cooperative agreements with other governments (police and fire training, purchasing, economic development)
- Expanding mutual aid agreements and shared services studies with adjoining municipalities
- Transferring management of Sycamore Driving Range and Fenner Nature Center to non-profits
- Eliminating leased space by consolidating police Patrol and Investigations Divisions
- Increasing fees
- Implementing new technology to improve efficiency (including cash receipting, code compliance, financial system upgrades, payroll system, computerized traffic ticket system, E-filing for income taxes)
- Implementing energy efficiency measures in City buildings
- Instituting a voter-approved 4.0 mill property tax increase to mitigate further reductions to police, fire and road services

Noteworthy is the fact that the City's FY 2018 General Fund Budget is still less than the budget proposed by former Mayor Hollister in **FY 1999**, when adjusted for inflation.

During this time, the City also worked with its unions to reduce the growth of pension and retiree healthcare costs. A recent actuarial study estimates that these efforts have reduced projected costs to by over **$200** million over the next forty years. However, the challenge remains in the projected growth of these costs, in combination with its aging infrastructure, reductions in revenue and revenue constraints in the next fifteen-to-twenty years.

As previously noted, these challenges are not unique to the City of Lansing, especially within the State of Michigan.

3 Assumption Review

The valuation of a defined benefit pension plan is dependent upon assumptions of future experienee. These assumptions are utilized in order to project the benefits that will be paid from the system. Using these projections, organizations make contributions under a funding policy that will timely fund the benefits as they are payable.

It is important to note that the assumptions used in the valuation do not affect the benefits that are promised to participants. Ultimately, the "true cost" of a pension plan will be the benefits that are paid to its participants. Assumptions are used, along with the plan's funding policy, to determine how to fund the pension plan over time in accordance with the governing entity's budgetary concerns and risk profile.

Assumptions are the actuary's best estimate of future events and are rarely perfectly accurate. It is important that the assumptions used in these calculations are monitored and modified as appropriate so that the true cost of the benefits paid is being accurately measured.

For the purposes of this study, we evaluated the following reports:

> City of Lansing Employees' Retirement System Actuarial Valuation for Funding and Contributions as of December 31, 2015 (prepared October 2016)

> City of Lansing Police and Fire Retirement System Actuarial Valuation for Funding and Contributions as of December 31, 2015 (prepared October 2016)

> City of Lansing Employees' Retirement System Actuarial Assumption Review and Experience Study Covering January 1, 2012 through December 31, 2015 (prepared December 2016)

> City of Lansing Police and Fire Retirement System Actuarial Assumption Review and Experience Study Covering January 1, 2012 through December 31, 2015 (prepared December 2016)

The reports were produced by the Boomershine Consulting Group ("Boomershine"), the plans' actuaries.

Segal's analysis of the assumptions and methods was based upon those reported in the valuation reports and recommended in the experience study reports as prepared by Boomershine. Segal did not independently perform a replication of these valuations or the analysis of experience.

There are two types of actuarial valuation assumptions: demographic and economic. Demographic assumptions are used to model the expected individual behavior of plan participants and include assumptions for retirement, disability, withdrawal, and mortality. Economic assumptions are used to model more global financial effects, such as rates of inflation, rates of return on assets, and salary increases.

Inflation Assumption

The inflation assumption underlies every other economic assumption. It is important that the inflation assumption be consistent throughout all of the economic assumptions. In fact, most actuaries start the economic assumption-setting process by specifying the inflation assumption and then building the other economic assumptions from that amount (referred to as the "building-block method").

The inflation assumption may also directly affect other valuation elements, including cost-of-living increases and the amortization of the unfunded liabilities. If plan cost-of-living increases are tied to inflation, the assumption will determine the amount of projected increases in retirement benefits each year. The Plans' cost-of-living increases are linked to actual inflation.

The inflation assumption has been reduced from 3.10% to 2.925% for the Employees' Plan and from 3.10% to 2.85% for the Police and Fire Plan. These assumptions are consistent with historic averages. However, recent years have seen historically low inflation--the CPI-W increased approximately 1.8% per year from 2006-2016. Horizon's 2016 Survey of Capital Market assumptions indicates that the average median inflation is expected to be 2.31% over the next 20 years with expectations ranging from 2.00% to 2.80%. As of June 2016, the difference between the yields on US Treasury bonds with and without inflation indexing is 1.61%, which represents one measure of the financial market's current expectation of inflation over the next 30 years. The 2016 OASDI Trustees Report uses three inflation assumptions to project its future financial status:

- Low inflation of 2.00%
- Moderate inflation of 2.60%
- High inflation of 3.2%

The median inflation assumption for the 160 public pension plans that are included in the Public Plans Database (collected by the Center for Retirement Research at Boston College) is 3.05%.

The experience studies recommend a decrease to the inflation assumption, from 3.10% to 2.75%, which we believe are reasonable. The plans' inflation assumptions have been reduced to 2.92% for the Employees' Plan and 2.85% for the Police and Fire Plan and appear to be reasonable. We understand that the boards' intent is to lower the inflation assumptions to 2.75% in 2018. Because of the importance of the inflation assumption, we recommend that these assumptions be evaluated on an ongoing basis.

Investment Return Assumption

The investment return assumption is of key importance to the actuarial valuation. For public sector funding valuations, benefit payments are typically discounted at the same interest rate as the investment return assumption. In order for this discounting to be valid, the investment return assumption must be supported by the underlying asset mix of the fund. In other words, the rate of return of a pension plan's assets over the projection period should match the plan's rate of return assumption.

The investment return assumption has a large effect on plan funding. A drop in the investment return assumption corresponds with an immediate increase in the plan's liabilities. Typically, a 1% decrease in the assumption results in an immediate 10%-15% increase in Actuarial Accrued Liability.

Using a relatively high investment return assumption will result in lower liabilities and lower current contributions. The fund's projected market returns will be expected make up for the lower contributions. However, it actual investment returns are lower than the assumption, the contributions will increase. Using a relatively low investment return assumption will result in higher liabilities and higher current contributions. The fund's higher contributions will be expected to make up for the lower projected returns. In addition, a lower investment return assumption may result from a desire for the plans to take on less risk in their investment portfolios.

There are significant risks in not meeting the investment rate of return assumption. If the plan consistently underperforms the assumed rate of return, funding will not occur in accordance with the plan's policy. Future contributions will need to be higher in order to balance the lower returns.

The City's investment return assumption has been reduced from 7.60% to 7.40% for the Employees' Plan and from 7.60% to 7.35% for the Police and Fire Plan. These assumptions are within industry standards as the majority of public sector pension plans use an investment return assumption between 7.00% and 7.75%. In recent years, many public sector plans have lowered this assumption in light of recent economic events. The City and its advisors should continue to carefully monitor returns to verify that the plans' asset mixes support the use of this assumption.

The experience studies recommend that the investment return assumption be lowered from 7.60% to 7.25% along with lowering the inflation assumption. We believe this assumption would be reasonable. The plans' investment assumptions have been reduced to 7.40% for the Employees' Plan and 7.35% for the Police and Fire Plan and appear to be reasonable. We understand that the boards' intent is to lower the investment return assumptions to 7.25% in 2018. Because of the importance of the investment return assumption, we recommend that these assumptions be evaluated on an ongoing basis.

Mortality Assumption

The assumptions for mortality attempt to accurately project how long plan members will live. Since defined benefit plans pay benefits until a retiree and/or beneficiary dies, increases in life expectancies result in benefits being paid for a longer period and increased liabilities.

Because only the largest pension plans are able to provide enough mortality exposure to develop their own assumptions, industry standard mortality tables are typically used for actuarial valuations. In addition, plans often use different tables for healthy and disabled members, reflecting the higher mortality observed for those that retire with a disability pension.

There have been significant improvements in mortality over the last several decades. It is common for actuaries to use mortality tables that have a built-in projection scale, so that mortality is assumed to improve over time. In fact, Actuarial Standards of Practice now specify that pension plan actuaries explicitly reflect the effects of mortality improvement in retirement plan valuations, unless there is a specific reason for not doing so.

The Employees' Plan uses the RP-2000 Combined Healthy Mortality Tables set back one year for females, with projection to 2023 using 50% of Scale BB. For disabled members, the corresponding Disability Tables are used with projection to 2008 using Scale BB.

The Police and Fire Plan uses the RP-2000 Combined Tables with Blue Collar Adjustments, with projection to 2029 using 50% of Scale BB. For disabled members, the corresponding Disability Tables are used with a five-year setback for males and projection to 2008 using Scale BB. Future improvements in mortality are anticipated by projecting these tables to 2021 (for Police and Fire) and to 2023 (for Employees) using 50% of Scale BB. Projection of the tables to a specific year will allow for some projection of future mortality, but not the total amount of projection that is implied by the Scale.

Since the previous experience study, the Society of Actuaries has published the RP-2014 mortality table as well as a generational mortality improvement scale (MP-2016).

We recommend that consideration be given to updating the mortality assumptions to a more recent mortality table and generational improvement scale. The experience studies recommend maintaining the current tables (RP-2000) and applying Scale BB in full to 2026. Based upon the data in the experience study, this table appears to allow for a reasonable margin for improvement. We believe that the recommended assumption is reasonable.

Asset Smoothing Method

Pension plans often use smoothing methods to dampen the short-term effects of asset returns. The Employees' and Police and Fire Plans use a five-year smoothing mechanism, which is the most common period used in the public sector.

As part of the asset smoothing mechanism, some plans apply an additional "corridor" so that the smoothed value of assets does not differ from the market value of assets by more than a set amount. A common example of a corridor would be 80% to 120%, meaning that the actuarial value of assets cannot be less than 80% of the market value nor more than 120% of market value. We note that no corridor is applied in the Employees' and Police and Fire plans asset smoothing method. However, the smoothing period is short enough that the application of a corridor would only occur in rare circumstances, such as the 2008 market crash.

Actuarial Standards of Practice specify that asset smoothing methods be unbiased, reflect market returns in a systematic matter, and result in an actuarial asset value that falls within a reasonable range of market value. The City's methodology satisfies these requirements.

The asset smoothing method is reasonable. Consideration may be given to the application of an 80% to 120% corridor.

Funding Method

In order to determine the Actuarial Accrued Liability, the actuary must apply a funding method to assign benefits to past and future service. There are several methods commonly used in this process. For the Employees' and Police and Fire Plans, the Entry Age Actuarial Cost Method is used. This method is the most commonly used allocation method in the public sector and results in relatively stable contributions as a percent of payroll.

The amortization period of both the Employees' and Police and Fire Plans is **partially** closed with 26 years remaining as of December 31, 2015. The partially closed amortization period means that the funding period will decrease each year, and according to the plans' funding policies, will decrease until the remaining period is 15 years at which point it will remain at 15 years. Closed periods have the feature that every dollar of unfunded liability will be retired by a certain date, although required contributions can become very volatile in the final years of the amortization period. This volatility can be managed through a funding policy that tracks the source of change in unfunded liability by year and amortizes each year's change in unfunded liability over a closed period.

The plans will use an open 15-year amortization period when there are 15 years remaining in the funding period (December 31, 2026). The experience study recommends changing the length of this period to 10 years for the Employees' Plan. Open amortization periods are often used in the public sector, but are not expected to fully amortize the unfunded liabilities by a specified date. An important concept in funding pension plans is "negative amortization".

When unfunded liability payments are made as a percent of payroll, the dollar amount of payments rise over time as the payroll base increases. Because smaller payments are made at the beginning of the payment period, the unfunded liability will increase for several years, then rapidly decrease in the last few years of the period. This is a result of the payments in early years not being sufficient enough to pay the interest accruing on the unfunded liability. While this type of payment stream is often used to fund public sector plans, it is important that stakeholders understand this effect.

Payments on the plans' unfunded liabilities are made using a projection of future payroll increases for the groups. This is done in order to reflect the growth of payroll over the payment period. The City's plans use assumptions of 2.92% and 2.85% annual payroll growth. This means that the current payment calculation assumes that total payroll will grow at a rate of 2.92% or 2.85%% per year over the payment period. In years where total payroll growth is less than the assumption, payments toward the unfunded will be less than assumed. This will have the effect of increasing required payments in the future.

An alternative to funding the plans on a percent-of-pay basis would be to make payments on the unfunded liability on a "flat-dollar" basis. This method would amortize the unfunded with an unchanging payment over the period, similar to a home mortgage. Though the dollar amount would remain the same, the payments as a percent of payroll would decrease as the period goes on. This would have the effect of paying the unfunded liability more quickly, but would result in significantly higher payments in early years.

The assumption of 2.92% or 2.85% annual payroll growth (and 2.75% as recommended by the experience studies) is consistent with other entities in the public sector. As shown in the peer group analysis, the City's assumptions are lower than any of the comparable plans in the peer group. Because of the importance of this assumption to payments made on the unfunded liabilities, we recommend that this assumption be carefully monitored, particularly if payroll increases are expected to be lower than the assumption.

The City should be aware of the effect of the negative amortization inherent in making unfunded liability payments as a percent of payroll.

We recommend that the plans evaluate the use of an open amortization period when the plans reach the 15-year (or 10-year) open funding period in 2026. We recommend that consideration be given to adopting a funding policy that targets 100% funding over a reasonable time period. Due to the importance of the payroll growth assumption on unfunded liability payments, we recommend that it be carefully monitored.

Retirement Rates

The retirement rates used in the valuation appear to be reasonable. We note the following points for consideration.

- The retirement assumptions for the Employees' System are split by group (UAW/Others) and by age. Many public sector systems see higher retirement rates in the early years of retirement eligibility, especially in the first year. If this behavior is being observed, the actuary may consider applying an ultimate rate for the first year of eligibility to reflect these retirements.

- It appears that the City has mandatory retirement ages for Police (60) and Firefighters (70), but it is unclear from the report whether these age limits are being taken into account in the valuation assumptions. If these limits are being applied, they should be noted in the report.

The experience studies recommend changes to some of the rates currently used and the data indicate that the new assumptions match recent experience. We believe that the recommended assumptions appear to be reasonable.

Other Assumptions

The other assumptions used in the valuations appear to be reasonable. We note the following:

- The Employees' System and the Police and Fire System both provide special benefits for active deaths that are incurred in the line of duty. However, the valuation does not specify what percentage of active deaths are considered to be duty-related. In contrast, the percentage assumption for duty disabilities is stated in both reports. The percentage assumption for duty deaths should also be stated.

In general, we conclude the assumptions and methods used in the valuation appear to be reasonable and comply with relevant standards of practice. The recommended assumptions in the experience studies also appear to be reasonable. We recommend the following:

- **Review the inflation assumption and give consideration to whether the assumption should be lowered as recommended in the experience studies**

- **Monitor the investment return assumption and consider lowering the assumption as recommended in the experience studies**

- **Consider updating the mortality assumptions to the most recent Society of Actuaries' mortality table and generational mortality improvement scale as recommended in the experience studies**

- Consider whether a corridor around the market value of assets should be included in the asset smoothing method

- Evaluate the use of an open amortization period when the plans reach the 15-year open funding period (or 10-year as recommended in the experience study) in 2026. Consider adopting a funding policy that targets 100% funding over a reasonable time period. Monitor the payroll growth assumption to ensure that it remains consistent with actual increases in payroll.

- Consider refinements to the retirement assumptions as noted above

4 Peer Group Benchmarking

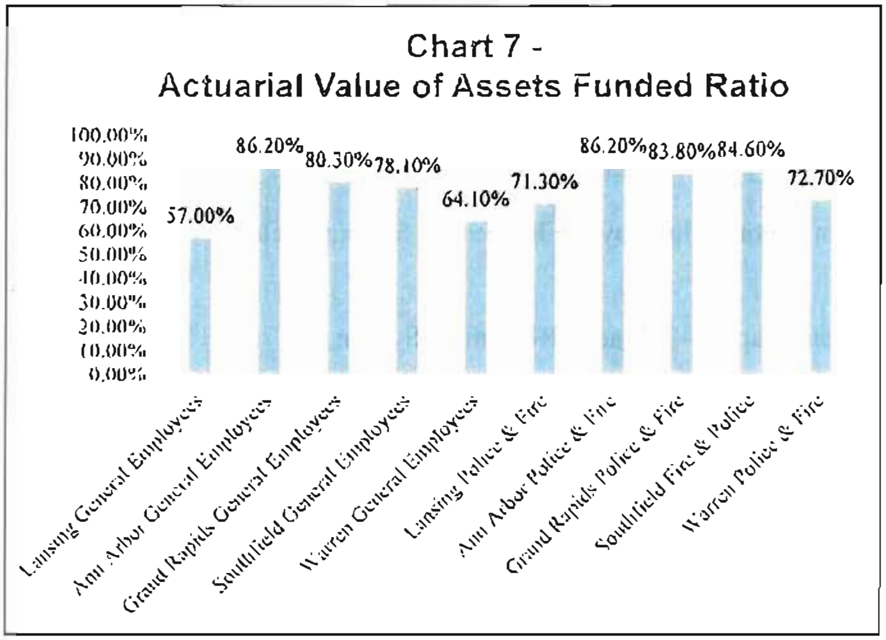
In order to compare the adequacy of plan design, funding methods, benefit provisions, and other features of the City of Lansing Retirement Systems, we have assembled information from other retirement programs, as directed. This peer group consists of seven plans from four cities in Michigan. The seven plans included are:

- City of Ann Arbor — Employees' Retirement System (includes General, Police, and Fire members)
- City of Grand Rapids — General Retirement System
- City of Grand Rapids — Police and Fire Retirement System
- City of Southfield — Employees Retirement System
- City of Southfield — Fire and Police Retirement System
- City of Warren — Employees Retirement System
- City of Warren — Police and Fire Retirement System

The information used in this analysis was drawn from the following reports:

- "City of Ann Arbor Employees' Retirement System June 30, 2015 Actuarial Valuation of Pension Benefits" prepared by Buck Consultants, November 2015
- "City of Grand Rapids General Retirement System 48th Annual Actuarial Valuation Report June 30, 2015 – Revised" prepared by Gabriel Roeder Smith, March 2016
- "City of Grand Rapids Police and Fire Retirement System 49th Annual Actuarial Valuation December 31, 2015" prepared by Gabriel Roeder Smith, April 2016
- "City of Southfield Employees Retirement System Fiftieth Actuarial Valuation Report as of June 30, 2015" prepared by Gabriel Roeder Smith, November 2015
- "City of Southfield Fire and Police Retirement System 63rd Actuarial Valuation Report as of June 30, 2015" prepared by Gabriel Roeder Smith, November 2015
- "City of Warren Employees Retirement System Summary Annual Report December 31, 2014"
- "City of Warren Police and Fire Retirement System Summary Annual Report December 31, 2014"

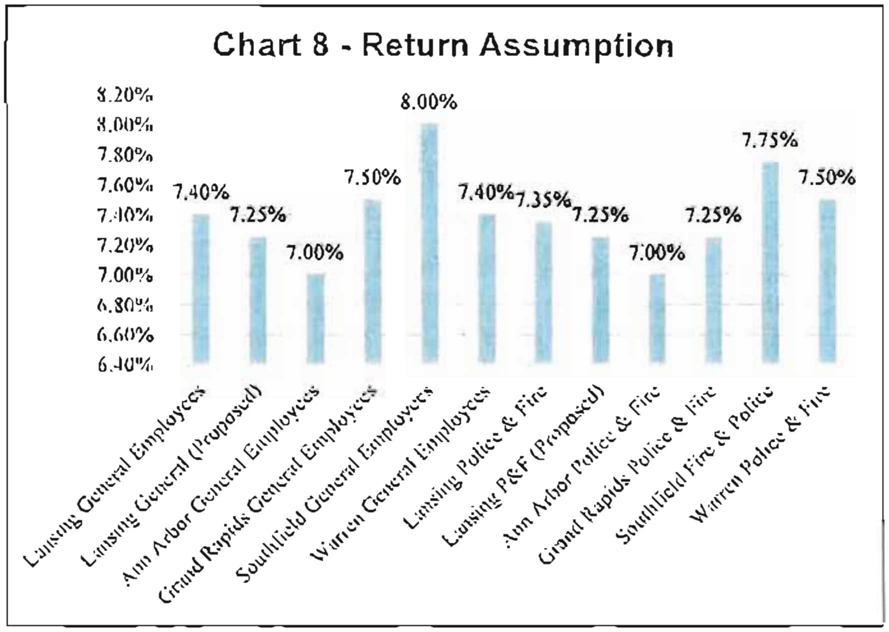
A summary of actuarial assumptions/methods and plan provisions is provided in the tables below.



Lansing's plans have the lowest funded ratios of the plans in the study for both General Employees and Police & Fire.

Table 1 - Asset Smoothing		
Plan	**Smoothing Period**	**Corridor**
Lansing General Employees	5 years	None
Ann Arbor General Employees	5 years	None
Grand Rapids General Employees	5 years	None
Southfield General Employees	5 years	None
Warren General Employees	4 years	None
Lansing Police & Fire	5 years	None
Ann Arbor Police & Fire	5 years	None
Grand Rapids Police & Fire	5 years	None
Southfield Fire & Police	6 years	None
Warren Police & Fire	4 years	None

All of the plans use an asset smoothing period of 4-6 years, which is also consistent with industry norms. None of the plans apply a corridor in the calculation of the actuarial value of assets.



The rate of investment return assumptions used by the plans are in the range of 7.00%-8.00%, which is consistent with other state and local pension funds in the industry. The investment return assumption for the Lansing plans is 7.60% and the information in this section is based on that assumption. The Employees' Plan lowered this assumption to 7.40% with the stated intention of lowering the rate to 7.25% next year. The Police and Fire plan lowered this assumption to 7.35% with the stated intention of lowering the rate to 7.25% next year. The decrease in the investment return assumptions will result in a decrease in the funded ratio and an increase in the liabilities and contribution rates.

Table 2 - Amortization of Unfunded Liabilities			
Plan	Amortization Method	Payroll Growth	Amortization Period
Lansing General Employees	Level % of pay	3.10%	Partially Closed – 27 years reduced by one year each year until 15 years, when the period remains at 15
Ann Arbor General Employees	Level % of pay	3.50%	Closed – 25 years
Grand Rapids General Employees	Level dollar	N/A	Closed – 30 years
Southfield General Employees	Level % of pay	3.50%	Closed – 25 years
Warren General Employees	Level % of pay	4.00%	Closed over active working lifetime
Lansing Police & Fire	Level % of pay	3.10%	Partially Closed – 27 years reduced by one year each year until 15 years, when the period remains at 15

Ann Arbor Police & Fire	Level % of pay	3.50%	Closed – 25 years
Grand Rapids Police & Fire	Level % of pay	3.50%	Closed – 30 years
Southfield Fire & Police	Level % of pay	4.00%	Closed – 22 years
Warren Police & Fire	Level % of pay	5.00%	Closed – 25 years

All of the plans use a closed period for the amortization of unfunded liabilities, and all but one (Grand Rapids General) calculate the required contribution as a percent of payroll. Closed periods amortize unfunded liabilities more rapidly than open periods, which may not ever amortize the unfunded liability. Lansing's plans have the additional mechanism that the funding period will become open when the closed period reaches 15 years.

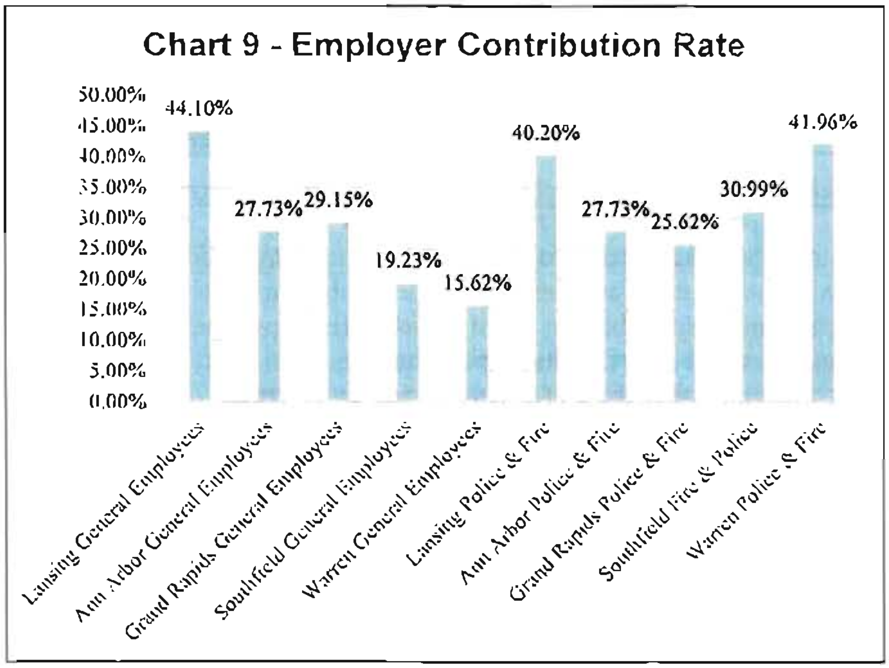
The payroll growth (inflation) assumption has been reduced from 3.10% to 2.925% for the Employees' Plan and from 3.10% to 2.85% for the Police and Fire Plan. Lansing has the lowest inflation assumptions, with other cities using rates up to 5.00% per year. Grand Rapids uses a flat-dollar amortization of unfunded liabilities, and hence does not apply an inflation adjustment in the context of financing the unfunded liability.

All employers are currently making contributions in accordance with their funding policies and actuarial valuations.

Table 3 - Employee Contributions

Plan	**Employee Contribution Rate**
Lansing General Employees	2.95% - 6.50% by job classification and tier
Ann Arbor General Employees	6.00%
Grand Rapids General Employees	4.22% - 11.54% by benefit election, job classification, and tier
Southfield General Employees	AFSCME 5.41%, all others 5.00%
Warren General Employees	None
Lansing Police & Fire	7.00% - 9.52% by job classification and tier
Ann Arbor Police & Fire	6.00%
Grand Rapids Police & Fire	9.86% - 10.70% by job classification; lower if funded percentage exceeds 100%
Southfield Fire & Police	3.00% or 5.00% based upon group and tier; no contributions for Fire Chief
Warren Police & Fire	3.67%

Employee contributions vary, from no contribution (Warren Employees) to 11.54% of payroll (Grand Rapids Emergency Communication Supervisors).



Lansing employer contribution rates are relatively high within the peer group, representing the highest rate (44.10% of covered payroll) for general employee groups and the second-highest rate (40.20%) for police and fire groups. This is a result of many factors, including the underlying benefits of the plans, the historical funding, and the current asset levels.

Table 4 - Retirement Eligibility		
Plan	**Normal Retirement Age**	**Early Retirement Age**
Lansing General Employees	New Plan: Age 50 with 25 years of service or at age 58 with 8 years of service	N/A
Ann Arbor General Employees	Age 50 with 25 years of service, or age 60 with 5 years of service (10 years for Tier 2)	Age 50 with 20 years of service
Grand Rapids General Employees	30 years of service, or age 62 and 8 years of service. Effective January 1, 2001, members covered by the Emergency Communications Operators Bargaining Unit may retire after age 55 and 8 years of service.	20 years of service, or age 55 and 10 years of service
Southfield General Employees	Tier II: Age 57 with 25 years of service, age 62 with 20 years of service, or age 65 with 10 or more years of service	Tier II: Age 57 with 20 or more years of service or age 60 with 10 years of service.
Lansing Police & Fire	Age 55 or 25 years of service, for FOP-NS hired on or after August 1, 2014, age 50 with 25 years of service	N/A
Ann Arbor Police & Fire	25 years of service, or age 55 with 5 years of service (10 years for Tier 2)	Age 50 with 20 years of service
Grand Rapids Police & Fire	Police: age 50 and 10 years of service. Firefighters: age 55 with 10 years of service.	Age 50 and 10 years of service
Southfield Fire & Police	20 years of service regardless of age	N/A
Warren Police & Fire	Unknown	Unknown
Note: Benefit information not available for City of Warren		

Table 5 - Retirement Benefits		
Plan	**Final Average Compensation**	**Benefit Multiplier**
Lansing General Employees	Highest annual compensation paid over 2 consecutive years of credited service within the last 10 years	1.25% to 2.8% based upon employee group and tier
Ann Arbor General Employees	Highest 3 consecutive years out of last 10 (last 5 for Tier 2)	2.5%
Grand Rapids General Employees	Highest 3 calendar years, with exceptions by group	1.8% to 2.7% based upon group, tier, and year of accrual
Southfield General Employees	Tier II: Highest 5 consecutive years out of last 10	Tier I: 2.0% (maximum benefit of 70% of FAC)
Lansing Police & Fire	Highest annual compensation paid over 2 consecutive years of credited service	2.5% - 3.2% based on employee group and tier
Ann Arbor Police & Fire	Highest 3 consecutive years out of last 10 (last 5 for Tier 2)	2.75%
Grand Rapids Police & Fire	Highest 3 consecutive years, increased by adjustment factors	2.0% - 2.8% based on employee group and tier
Southfield Fire & Police	Highest 3 or 5 years based upon group and tier	2.5% or 2.8% based upon group
Note: Benefit information not available for City of Warren		

The newest tier for the Lansing plans have a lower multiplier than the other members of the peer group. However, the newest tier of Lansing members also participate in a DC plan. Our analysis is confined to the defined benefit plans of each city.

All of the plans offer traditional defined benefits derived from years of service and final average compensation. Both Lansing plans have the shortest averaging period for final average compensation among the plans in the peer group. Use of a shorter averaging period results in higher average compensation, leading to higher benefits and liabilities.

Table 6 - Early Retirement Reductions	
Plan	**Reductions**
Lansing General Employees	N/A
Ann Arbor General Employees	.33% per month from the earlier of age 60 or 25 years of service
Grand Rapids General Employees	Actuarially reduced from age 62
Southfield General Employees	.50% per month from age 62 with 20 years of service or age 65 with 10 years of service
Lansing Police & Fire	N/A
Ann Arbor Police & Fire	.33% per month from the earlier of age 55 or 25 years of service
Grand Rapids Police & Fire	Actuarially reduced from age 55
Southfield Fire & Police	N/A
Note: Benefit information not available for City of Warren	

Table 7 - Post-Retirement Increases	
Plan	**Increases**
Lansing General Employees	Financed by Members' Benefit Fund, subject to limits and reductions
Ann Arbor General Employees	Ad-hoc, funded by financial gains
Grand Rapids General Employees	1.0% subject to 4-7 year delays by group
Southfield General Employees	None
Lansing Police & Fire	$525 (annual) per year, subject to limits and reductions
Ann Arbor Police & Fire	Ad-hoc, funded by financial gains
Grand Rapids Police & Fire	1.0% or 1.5% subject to 2 or 5 year delays by group
Southfield Fire & Police	Additional benefits provided through Reserve for Inflation Equity
Note: Benefit information not available for City of Warren	

Most of the plans offer some level of post-retirement increases. In some cases, the increases are limited by increases in the CPI or asset reserves that are specifically set aside for these increases.

In general, the plans in the peer group are very similar in design and funding. Lansing's benefit multiplier for new hires is lower than those in the peer group, but the final average salary period is shorter than the other plans and the City also provides benefits in the form of a DC plan for newly hired general employees. The assumptions Lansing uses in the actuarial valuation are similar to the other plans in the peer group. Lansing's plans have lower funded percentages than the other plans in the peer group.

5 Benefit Efficiency & Plan Design Alternatives

Defined Benefit Plans, Defined Contribution Plans, and Hybrid Plans

Governmental employers sponsor retirement plans in order to provide post-retirement income to their employees through pre-retirement contributions. These plans can be divided into three main categories: defined benefit (DB) plans, defined contribution (DC) plans, and hybrid plans. These classifications are defined by the forms of benefits that are provided and by the funding mechanisms used to supply those benefits.

Defined benefit plans are common in the public sector and are often referred to as "traditional" pension plans. Under a DB plan, the pension amount is defined by formula at retirement for each participant. The benefit is commonly based upon factors such as the participant's age, service, and salary at retirement. The contributions necessary to fund these benefits are adjusted, as needed, to ensure adequate funding of benefits. DB plans typically pay benefits as a monthly annuity for the life of the retiree, often with additional survivor benefits that can be elected upon retirement. Additional options that may be offered in DB plans include active death and disability benefits ("ancillary benefits"), subsidized early retirement benefits, and post-retirement cost-of-living adjustments. From the employer perspective, the amount of benefits that will be paid from the plan will drive the ultimate costs.

Defined contribution plans are common in the private sector, often in the form of a 401(k) plan or in the public sector, in the form of a supplemental 457(b) plan, referring to the sections of the IRS code that govern their administration. Under a DC plan, the contributions into the trust are fixed and the amount of benefits that each participant receives is unknown. At retirement, the benefit is simply the total of contributions allocated to the employee, with interest. DC plans typically pay a lump sum amount at retirement, although some DC plans also offer annuity options. Since the participant's benefit is defined to be their account balance, disability and death benefits are limited to this amount. Unlike DB plans, DC plans sometimes provide an active employee access to funds through loans or hardship distributions. From the employer perspective, the ultimate cost of the plan is fixed and the individual account balances will determine the amount of benefits that will be paid to individual employees from the plan.

Hybrid plans have a combination of defined benefit and defined contribution attributes. Hybrid plans have gained popularity in the last few decades, and are in effect for state employees in Oregon, Georgia, Utah, Washington, and Nebraska, among others. Examples of hybrid plans include DB/DC offset plans, cash balance plans, combined plans, and variable annuity plans. Hybrid plans can result in reduced cost volatility to the employer, depending upon how they are structured.

In most cases, DC plans are designed to have lower employer costs than DB or hybrid plans. The lower cost structure is a result of the transfer of risks from the employer to the employees. If a DB plan and a DC plan have the same employer cost, the benefits provided from a DC plan are lower than benefits provided from a DB plan. This is because there is a pooling of certain risks (such as longevity) in a DB plan that does not exist in a DC plan.

In a DB plan, primarily the employer assumes the risks, while in a DC plan the risks are borne by the employee. Hybrid plans were developed in part to share these risks between employers and employees.

Defined benefit plans have proven to be an efficient system for delivery of retirement benefits. Typically, defined contribution plans cannot provide the same level of benefits per dollar of cost as defined benefit plans. Some of the main reasons are as follows:

- Defined benefit plans provide significant cost-sharing by spreading mortality risk over a large pool of members. Defined contribution accounts are individually assigned and must be managed so that the retiree does not outlive his or her benefits.
- In practice, individually managed accounts can expect higher administrative costs and lower investment returns than a professionally managed defined benefit plan with a longer time horizon.
- Defined contribution accounts suffer from "leakage" as funds are used for purposes other than retirement.
- In a defined contribution plan, there is a higher cost of converting an account balance to an annuity at market rates or else members must assume the longevity risk of benefits.
- Defined contribution plans cannot provide pre-retirement death benefits or disability benefits at comparable costs and benefit levels as provided under a defined benefit plan.

While more efficient, defined benefit plans do bring a significant level of risk to employers, who are ultimately responsible for making required contributions in most cases. Because of this, many corporations have frozen participation in their defined benefit plans or shut them down entirely. This is often difficult in the public sector due to the contractual nature of the benefits.

Workforce Management

An important issue in employee retirement and benefit plans is the effect that the plans have on employee behavior. As part of a compensation package, employers use retirement plans to help attract and retain qualified employees. This is especially important in the public sector, where potential hires often have an expectation of participating in attractive retirement plans to make up for lower compensation than in the private sector. Due to onerous IRS and accounting rules and the high volatility associated with these measurements, private companies have mostly eliminated their DB plans and moved to DC plans. This has made DB plans (and hybrid plans that offer a meaningful DB benefit) an attractive feature for potential hires found predominantly in the public sector.

In some cases, DC plans may be more attractive to new hires. The portability feature of DC plans allows the participant to take the DC account balance when leaving service. This differs from a DB plan, where benefits payable upon withdrawal before retirement are typically smaller. This portability can make a DC plan a more attractive option to younger employees who may not plan to work with the same organization for an extended period. Recent trends indicate that employees' tenure with each employer is shorter than it was in the past.

Mid-career employees who are closer to retirement will often prefer the benefits provided by DB plans. Because their working lifetimes are shorter, these employees may not be as attracted to portable benefits. Instead, they may be more likely to find value in the lifetime benefits that DB plans provide.

In general, moving from a DB or hybrid plan to a DC plan will reduce the employer's ability to attract qualified employees to the extent that potential employees find DB plans valuable. This may have less of an effect for younger employees who value the portability of the DC plan benefits.

Because many hybrid plans have DB and DC features, these types of plans can be attractive to both older and younger new hires. Younger hires who plan to withdraw earlier will find the DC portion of the benefit attractive, while older hires who plan to work until retirement age will find the DB portion valuable.

The City of Lansing plans has DB plans. The multipliers for some new member groups have been reduced and are supplemented by participation in a DC plan. These benefits are expected to attract and retain older new hires and certain younger employees, depending on their preference.

The provisions of DB plans may also be used to affect employee behavior after the date of hire. Subsidized benefits like early retirement may encourage employees to retire when certain age or service thresholds are met. For example, a DB plan that offers an unreduced early retirement benefit at age 62 will invariably see a spike in retirements at age 62. To the extent that the employers whose employees participate in the plan desire that their employees leave active service at the age of 62, this would be an effective tool for workforce management. However, if not carefully considered, early retirement benefits can result in unwanted workforce implications. For example, an unreduced retirement benefit at a set level of service (30 years, for example) may have the effect of encouraging the retirement of participants who are at their most valuable to the organization. Participants who were hired at a young age would reach the service threshold in their early 50s, and would then be encouraged by the plan to retire. These employees may still be productive, and the costs of hiring and training new hires to fill these positions may be prohibitive. In short, this feature may have the effect of causing the employer's best employees to leave.

DC plans do not provide subsidized early retirement benefits, as the account balance structure of a DC plan benefit does not allow for these types of benefits. The DC plan structure does not allow for a retirement age that is considered "normal". In fact, if DC participants experience poor returns, they may be required to work well into old age.

DC plans are also unable to influence workforce behavior is through special retirement benefits, or "windows". Windows can be structured to target a group of employees to encourage their retirement during a specific period. This may be desirable for employers who would prefer that a group of employees leave active service. Windows will increase the liabilities of the DB plan as they encourage employees to retire sooner than expected and with an increased benefit.

The Lansing Plans provides for a "normal" retirement age and may assist with workforce management. If new employees are moved to a DC plan, it may be more difficult to address workforce management issues through the plan.

Transition

The effect of transition from one plan structure to another must also be considered when contemplating a plan change. Changing benefit structures for participants hired after a certain date will result in new plan "tiers" that will need to be maintained separately from the existing tiers. As a result, there may be an increase in actuarial valuation and administrative costs.

In the case of a transition from a DB plan to a DC plan, the administrative processes would need to be modified to include any new DC plans. Lansing has DC plans in place and therefore would need to amend the current DC plan administration structure to reflect the new provisions.

In addition, the plan change must be clearly communicated to employees. This is especially true if employees are given a choice between two plans. Since the City currently has tiers of employees, the staff has likely dealt with many of these transition issues in the past. This experience would likely reduce the effect of future transitions.

From a cost perspective, closing the DB plan to new members could have significant cost impacts on the current DB plan. If the current plan were closed to new members and the payroll for new DC members is not used in the amortization of the current UAAL, the payroll for the current plan would decline rather than grow during the remaining funding period. As a result, the amortization component would have to be determined as a level percent of declining payroll or as a level dollar amount. This creates a significant increase in the UAAL amortization rates as a percent of payroll.

Lansing's Plan Liabilities and Impact on Design Alternatives

The following table shows highlights from the December 31, 2015 actuarial valuations:

Table 9 – Summary of Valuation Results ($ in millions)		
	Employees' Retirement System	Police and Fire Retirement System
1. Actuarial Accrued Liability		
a) Active Employees	$ 68.6	$ 107.0
b) Retirees and Inactive Members	240.2	303.2
c) Total	$308.8	$410.2
2. Actuarial Value of Assets	176.0	292.5
3. Unfunded Actuarial Accrued Liability	$132.8	$117.7
4. Funded Ratio	57.0%	71.3%
5. City Normal Cost Rate	7.2%	14.2%
6. Active Member Payroll	$23.9	$27.9
7. City Contribution Dollars		
a) Normal Cost	$1.7	$3.8
b) Payment toward Unfunded	8.5	7.7
c) Total	$10.2	$11.5

We observe the following about the Plans' financial condition:

- Any plan changes would only affect active members' future benefits. The normal cost represents the value of benefits accruing for active members. The City normal cost rate is 7.2% of payroll for Employees' and 14.2% of payroll for Police and Fire. The normal cost portion of the City's contribution is $1.7 million for Employees' and $3.8 million for Police and Fire for a total of $5.5 million. Reductions in future benefits would affect the City's contributions of the normal cost of $5.5 million. As an example, if the value of benefit accruals were reduced across the Board by 10% for active members, the reduction in the City's contribution would by $550,000.

- The unfunded actuarial accrued liability, which totals $250 million, represents benefits that have already been earned. These benefits will not be affected by reducing future benefits. As mentioned above, new benefits accrue at the rate of approximately $5.5 million per year. This unfunded liability will need to be paid by the City over a reasonable amortization period to ensure that promised benefits are secure.

- One of the ways to affect the unfunded actuarial accrued liability is to reduce benefits to retirees. This option is not being considered in this study, as it is our understanding that this type of plan change is not legal in the State of Michigan. It is important to note that reducing these benefits would affect retirees' income on which they depend for living expenses.

The City should consider whether a change in the delivery of retirement benefits for its active members should be modified from the current defined benefit structure given the minor impact a change would have on the contribution requirements. A change to a defined contribution plan would ultimately set the City's contribution at a certain percentage of payroll. However, the unfunded liability of the plans will need to be funded over a reasonable amortization period and the transition period to a 100% defined contribution plan will take many years. The City should consider whether this change in retirement benefit delivery, that will take many years to realize any significant reduction in contribution, is worthwhile. Furthermore, the City should consider whether the shifting of all retirement risks to its employees is appropriate and consistent with its workforce management goals.

Defined Benefit Plan Changes

In addition to changing the structure of benefits, many organizations have taken the approach of enacting changes to their defined benefit plans in order to reduce costs and lower contribution volatility. In many cases, plan changes are made for employees hired after a certain date, creating a new "tier" of benefits. This can slow down the financial effects of these changes, as cost savings are realized only as current employees leave active service and are replaced by new employees over time.

Some of the more common changes made to defined benefit plans are as follows:

- **Contribution increases**: Plan funding levels can be improved by increasing required contributions by employers, employees or both. In some cases, increases have been accompanied with caps on the amount that the employer will pay, with the rest of the actuarially recommended contribution being the responsibility of employees. This helps

to reduce the volatility of employer contributions, but increases the burden on employees. Employee contribution increases are often perceived as a decrease in pay and can affect the ability of plans to retain employees.

- **Benefit changes**: These changes are made to the mechanisms that determine the amount of retirement (for example, lowering the benefit multiplier from 1.80% to 1.25%). These changes are simple and are typically easy to implement. As with any change, a reduction in benefits can be negatively perceived by employees and conflict with workforce management objectives. The City has made similar changes for new hires with a supplemental DC arrangement for some groups.

- **Cost of Living Increases**: Unlike the private sector, many public sector plans have cost-of-living adjustments ("COLAs") that increase the amount of benefits as retirees age. This helps maintain benefit security, but can be quite expensive. A 1% ongoing COLA on all benefits can result in a 10%-15% increase in liabilities or more. Many plans have lowered costs by reducing COLAs for non-retirees through limiting increases to inflation, tying them to favorable asset returns, or removing them outright. In some cases, COLAs for current retirees have been lowered. In many cases, these changes have legally challenged with mixed results in courts.

- **Eligibility changes**: These changes are made to the eligibility for benefits (for example, raising the minimum retirement age from 55 to 60). While the ultimate benefit is not affected, the number of payments is reduced since younger retirements are not allowed. These can be a source of significant cost savings, but workforce management issues are very important. As an example, raising the retirement age for a plan that covers police and fire employees only makes sense if the underlying organization has a policy for allowing these employees to work past that age.

- **Compensation adjustments**: Another method for reducing liability is by changing the compensation used in determining the benefit (for example, using more years in the average compensation calculation). Other adjustments have been made to reduce the effect of "spiking", or the deliberate increase in compensation near the end of an employee's career to increase pension benefits. While anti-spiking provisions can be important tools in promoting plan fairness, their effects on costs are usually limited.

Any changes to the plan must balance cost savings with workforce management as discussed above. The plan's goals of attracting and retaining productive employees should always be taken into account when a plan change is considered.

6 Funding Approaches

Amortization Methods

The goal of an appropriate funding policy is to fund the benefits payable from the plan over a reasonable time period. For the purposes of generational equity, the amortization period should also be related to the working lifetime of the group being covered. An appropriate funding policy results in a contribution that funds the Normal Cost (*i.e.*, the cost of benefits accruing in the current year) and includes a payment towards the UAAL, which is the amount for which assets are insufficient to cover the benefits that have been earned in the past. Some commonly used methods of amortization are discussed below.

A "closed" amortization period will reduce the UAAL of the plan over a set timeframe, ending at a specific future date. A closed period has the advantage of effectively amortizing the liability in a predictable manner, but can result in volatile contributions, as the remaining period gets smaller.

An "open" amortization period re-amortizes the UAAL of the plan each year over the same period as the previous year. The contributions under an open amortization period are less volatile than with a closed period, but the UAAL is not amortized as quickly as with a closed period and may never be amortized. Depending on the amortization period, the UAAL may increase under an open amortization period. Open amortization periods are commonly used in the public sector.

A "level percent of payroll" amortization expresses the amortization payments over the future payroll of the group. An assumption must be made about the increase in payroll that is expected to occur over the amortization period. While the payments are expected to be level as a percent of pay, the amount of the payments is smaller in the earlier years of the amortization period and larger in the later years. This can result in a "negative amortization", where the UAAL grows during the first years of the amortization period. Typically, negative amortization occurs until the amortization period reaches about 15 years. The level percent of payroll amortization method generally results in a stable contribution rate. However, if actual payroll increases are less than expected, the payments are lower and future contributions as a percentage of payroll will increase. In addition, combining the level percent of payroll method with an open amortization period will result in the UAAL increasing every year in the future.

A "level dollar" amortization expresses the amortization payments as a fixed dollar amount over the amortization period. A typical example is a home mortgage payment, where a fixed amount is paid each month. This results in greater payments at the beginning of the period than with the level percent of payroll method. While the payments reduce the UAAL more quickly in the early years of the amortization period, the payments do not remain constant as a percent of payroll.

In some cases, retirement systems use a combination of the methods above in their funding policies. A common example is to use a short, closed period for a one-time benefit adjustment or window, while amortizing the remaining UAAL over a longer, open period. Another option is using fixed-length closed periods to amortize changes in the UAAL each year.

The Employees' and Police and Fire plans use a closed funding method with payments based upon a level percent of payroll. Additionally, when the funding period decreases to 15 years remaining, the funding method will then become an open 15-year period. The experience study recommends lowering this open period for the Employees' Plan to 10 years.

The City has many other options to either accelerate payments toward the plans' UAAL. Payments toward the unfunded liabilities of the Plans could be accelerated by the following changes to the valuation assumptions and methods, among others:

- Shortening the amortization periods of the plans (26 years remaining as of December 31, 2015)
- Lowering the payroll growth assumption (2.92%/2.85% per year) – the experience studies recommend lowering this assumption
- Lowering the rate of return assumption (7.40%/7.35% per year) – the experience studies recommend lowering this assumption

Changing the assumptions or amortization period as suggested will result in higher contributions in the short term. However, the accelerated contributions will earn investment returns and will lower future contributions. Ultimately, the City must determine the methods of funding the plans that provides for systematic funding while meeting the risk profile of the City and its stakeholders.

We recommend the City consider whether increasing contributions would be desirable as a mechanism for reducing future contributions.

We recommend that the City evaluate the use of an open amortization period when the plans reach the 15-year open funding period (or 10-year as recommended by the experience study) in 2026. The City should also consider adopting a funding policy that targets 100% funding over a reasonable time period.

7 Challenges, Conclusions and Recommendations

Based upon the analysis performed above, Segal has the identified the following challenges, conclusions and recommendations:

Challenges

The City faces the following challenges that make it difficult to achieve a meaningful reduction in the liabilities of and contributions to the plans:

1. The plans combined have 720 active members and 1,632 retirees and beneficiaries. The ratio of member in pay status to active members is 2.3.

2. The total actuarial accrued liability of the plans is $719 million, of which $543 million or 76% is attributable to retirees and beneficiaries.

3. The unfunded actuarial accrued liability as of December 31, 2015 is $250 million. The City contribution as of December 31, 2015 is $21.8 million, of which $16.8 million is toward the unfunded liability of $250 million. The remaining $5.5 million is to fund the annual pension benefit accrual for active members. If pension benefits were frozen for active members (i.e., active members would accrue no additional benefits) the reduction in annual contributions would be $5.5 million.

4. Because of the state limitations on property tax revenue growth, from the state Headlee Amendment and Proposal A, the City anticipates its largest revenue source accounting for 31% of General Fund Revenues, to increase only 2%-3% over the next several years and that pre-Recession property tax revenue levels, net of the extra four mills, will not be reached until 2025 to 2028. Further challenging Lansing and Michigan municipalities, municipal revenue sharing by the State of Michigan has been reduced over the past 15 years by more than $6 million in real dollars annually for the City, and almost $9 million annually when adjusted for inflation (see Background section on pages 9-12).

Conclusions and Recommendations

1. We conclude the assumptions and methods used in the valuation appear to be reasonable and comply with relevant standards of practice. We recommend the following:

   > Monitor the investment return assumption, particularly given that the inflation assumption is on the high side of reasonableness, as recommended in the experience studies. The fund is moving to lower this assumption in accordance with the recent experience study. Many public plans have lowered the investment return assumption in response to market conditions. Lowering the investment return assumption results in an increase in the actuarial accrued liability.

> Consider updating the mortality assumptions to the most recent Society of Actuaries' mortality and generational mortality improvement scale as recommended in the experience studies. An update to the mortality table would result in an increase in the actuarial accrued liability, in the range of 2% to 4%.

> Consider whether a corridor around the market value of assets should be included in the asset smoothing method.

> Evaluate the use of an open amortization period when the plans reach the 15-year open funding period (or 10-year as recommended by the experience study) in 2026. Consider adopting a funding policy that targets 100% funding over a reasonable time period. Monitor the payroll growth assumption to ensure that it remains consistent with actual increases in payroll.

> Consider refinements to the retirement assumptions as discussed in the report

2. The City should consider whether a change in the delivery of retirement benefits for its active members should be further modified from its current structure keeping in mind its workforce management goals for recruitment and retention.

3. The City could consider whether a pension obligation bond would be a means to fund the pension plans. There are a number of issues related to pension obligation bonds including that the bonds need to be issued as taxable bonds and there is a risk that there is a major market correction when the bond proceeds are invested. Some municipalities have seen total costs, including bond debt service, increase after a pension obligation bond is issued. Furthermore, the debt service is a fixed cost and must be paid each year regardless of investment returns.

4. Ideally, the City could consider accelerating its contributions to the pension plan; however, it is recognized that this may not be practical, given the City's much larger unfunded liability for retiree healthcare and significant resource constraints noted on pages 9-12 of the Background section. Measures the City could consider include:

> Sale of City assets, which would a one-time, non-recurring source.

> Increase in the City's income tax rates, although it is understood that to do so, changes would need to be made to State of Michigan legislation.

> Levying a property tax millage, either within its operating millage or by special millage allowed under State of Michigan Public Act 345 of 1937 for police and fire pensions. It is understood from City officials that the City Charter maximum operating property tax levy is 20.0 mills, and the City is currently levying 19.44 mills. It is also understood from City officials that 1.0 mill currently generates approximately $2.0 million and equates to a $50 annual increase for a taxpayer owning a house valued at $100,000.

> Levying a local sales tax, which would require a change in State of Michigan legislation, as it is understood to currently be prohibited at the municipal level.

5. The City could consider exploring the transfer of public assets or the revenue generated as sources to fund the pension plans. In the private sector, corporations have made in-kind contributions – non-cash assets such as securities and real estate to fund their retirement plans. US Steel contributed 170,000 acres of timberland to meet its pension liabilities. Pan American World Airways transferred the lease for its flagship terminal at New York's Kennedy Airport to its pension funds. The public sector has begun to implement or consider alternative revenue sources. Some strategies are as follows:

   - The private sector's practice of transferring assets to pension funds was cited in a New Jersey proposal to fund the state's beleaguered public pension plans with revenues from the state's lottery.

   - In Canada, the Ontario Teachers' Pension Plan owns the licenses to operate both the British and Irish national lotteries. These assets were not in-kind contributions but rather a direct investment aimed at boosting the pension fund's returns.

   - In 2010, the Pittsburgh City Council irrevocably dedicated parking revenues to the city's three employee pension funds for 31 years. The city effectively transferred the value of asset ownership to the pension plan without requiring it to assume the risks of ownership or management responsibilities.

   - The City of Hartford, Connecticut plans to donate a 600-acre public park, which does not produce revenue, as partial payment of the city's annual required contribution to the Municipal Employees Retirement Fund.

   - One of the most profitable in-kind contributions made to a pension fund was the conveyance in 2011 of a toll-road network owned by Australia's Queensland state government to the state's pension fund. Queensland Investment Corporation, the fund's manager, restructured the business, added two additional roads to the toll network and sold the asset three years later at a $3.8 billion profit for the pension fund.

The City must weigh these recommendations and its options with the costs of doing nothing. As demonstrated on Chart 3 of the Background section, pension contributions have tripled over the past fourteen years and, even with recent collective bargaining changes, are currently projected to increase another six million in the next twelve years. In light of the City's revenue constraints, combined with retiree healthcare obligations, pension funding obligations could have the effect of crowding out available resources for City services, as well as or in combination with, the path of emergency financial management or bankruptcy, as experienced by some other Michigan communities.

ORDINANCE NO. ______

AN ORDINANCE OF THE CITY OF LANSING, MICHIGAN, TO AMEND CHAPTER 404, SECTION 404.01 OF THE LANSING CODIFIED ORDINANCES TO PROVIDE FOR THE IMPOUNDMENT OF VEHICLES OR OTHER TRANSPORTATION DEVICES, INCLUDING BUT NOT LIMITED TO BICYCLES, ELECTRIC BICYCLES, SCOOTERS, ELECTRIC SCOOTERS, SKATEBOARDS, AND ELECTRIC SKATEBOARDS, THAT ARE IMPROPERLY PARKED OR ABANDONED.

THE CITY OF LANSING ORDAINS:

Section 1. That Section 404.01 of the Lansing Code of Ordinances of the City of Lansing is hereby amended as follows:

404.01– ADOPTION OF THE UTC

For the purpose of supplementing the regulations contained in the MVC, the Uniform Traffic Code for Cities, Townships, and Villages, promulgated by the Michigan State Police in 2003 ("UTC"), 2009 AC, R 28.1001 et seq., copies of which are available in the City Clerk's Office, is adopted by reference, as though set forth herein in full, with the following additions and alterations:

(a) Where the UTC uses "this Governmental Unit" or "the Governmental Unit," it shall mean "the City."

(b) Where the UTC uses "the ordinance making body," it shall mean "council."

(c) Subsection (1) of Rule 125 shall read: The Office of Traffic Engineer is hereby established. The Traffic Engineer shall exercise the powers and duties of the office in a manner that is consistent with prevailing traffic engineering and safety practices and in the best interests of the City. If a traffic engineer is not appointed, then the authority of the traffic engineer shall be vested in the Director of Public Service or his or her designee.

(d) The following language is added to the end of Rule 140: The fee for such a permit shall be established by council resolution.

(e) The following language is added to the end of Rule 141: The operating hours for all metered parking in the Lansing Municipal Parking System are 8:00 a.m. through 6:00 p.m., Monday through Friday.

(f) The following language is added after Rule 151:

(1) The Traffic Engineer or his or her designee may establish truck routes within the City and designate which of the truck routes are subject to springtime restrictions. The Traffic Engineer shall maintain and make available, for a fee established by council resolution, maps displaying the truck routes and indicating which of the truck routes are subject to springtime restrictions.

(2) No person shall operate a truck on a street not designated as part of a truck route, except for either of the following purposes:

(A) Travelling directly from a truck route to a destination where freight is being picked up or delivered, or

(B) Travelling directly to a truck route from a point of origin.

(g) The following language is added to the end of Rule 153:

All permanent traffic control orders in effect on the effective date of this ordinance and not inconsistent with the provisions of this ordinance shall remain in effect until rescinded or modified by traffic control order.

(h) The following language is added to the end of Rules 155 and 156: The fees for these permits shall be set by council resolution.

(i) The following language is added after Rule 618:

1. The Police Department may impound any ~~bicycle~~VEHICLE OR TRANSPORTATION DEVICE, INCLUDING BUT NOT LIMITED TO BICYCLES, ELECTRIC BICYCLES, SCOOTERS, ELECTRIC SCOOTERS, SKATEBOARDS, AND ELECTRIC SKATEBOARDS from a public way or public property when it is (A) improperly parked ~~and creating a hazard~~CONTRARY TO SECTION 674 OF THE MICHIGAN VEHICLE CODE, MCL 257.674, UNLESS OTHERWISE LAWFULLY PERMITTED, or (B) abandoned.
2. Upon impounding a ~~bicycle~~VEHICLE OR TRANSPORTATION DEVICE, the Police Department shall give notice to the owner in any manner reasonably calculated to inform the owner that the ~~bicycle~~VEHICLE OR TRANSPORTATION DEVICE was impounded and how to retrieve the ~~bicycle~~VEHICLE OR TRANSPORTATION DEVICE. Unless a manner more likely to notify the owner is available, notice may be given in the form of a newspaper announcement or posting on the Police Department's website describing the provisions of this subsection.
3. Upon payment of any storage fees incurred by the City, the ~~bicycle~~VEHICLE OR TRANSPORTATION DEVICE shall be returned to its owner.

4. Any ~~bicycle~~VEHICLE OR TRANSPORTATION DEVICE not claimed within six months of its impoundment may be donated, upon approval by council, to a State licensed charitable organization.

5. State licensed charitable organizations may apply to participate in the City's ~~bicycle~~VEHICLE OR TRANSPORTATION DEVICE donation program by submitting the following to the City Clerk: (A) Proof of State licensure as a charitable organization; (B) A mission statement or other description of the organization's purpose; (C) A description of the intended use of the ~~bicycles~~VEHICLES OR TRANSPORTATION DEVICES, including any method and eligibility criteria for distribution; (D) An agreement to indemnify and hold harmless the City for any damages resulting from donation of the ~~bicycles~~VEHICLES OR TRANSPORTATION DEVICES; and (E) An agreement to provide, upon request, a list of the names and addresses of any recipients of the ~~bicycles~~VEHICLES OR TRANSPORTATION DEVICES. The City Clerk shall submit any such applications to council for referral to the appropriate committee.

6. The City will attempt to donate ~~bicycles~~VEHICLES OR TRANSPORTATION DEVICES on a rotating basis to all approved organizations in roughly equal numbers. Donated ~~bicycles~~VEHICLES OR TRANSPORTATION DEVICES must be picked up from the quartermaster unit by the recipient organization. Any donated ~~bicycles~~VEHICLES OR TRANSPORTATION DEVICES that are not picked up by the recipient organization may be donated to another approved organization in the discretion of the quartermaster unit.

(j) The following language is added after Rule 822:

No person shall park any vehicle on either side of any street between 2:00 a.m. and 5:00 a.m. of any day.

(k) The following language is added after Rule 822:

(1) No detached trailer shall be parked in any street or alley.

(2) No truck with three or more axles on the power unit shall be parked in any street for more than one hour.

(3) No vehicle shall project more than 20 feet from the curb when parked.

Section 2. All ordinances, resolutions or rules, parts of ordinances, resolutions or rules inconsistent with the provisions hereof are hereby repealed in their entirety and shall be null and void and of no effect.

Section 3. Should any section, clause or phrase of this ordinance be declared to be invalid, the same shall not affect the validity of the ordinance as a whole, or any part thereof other than the part so declared to be invalid.

Section 4. This ordinance shall take effect on the 30th day after enactment, unless given immediate effect by City Council, and shall expire on December 31, 2027.

APPROVED BY ORDINANCE REVIEW COMMITTEE
OF THE OFFICE OF THE CITY ATTORNEY

ORDINANCE NO. ______

AN ORDINANCE OF THE CITY OF LANSING, MICHIGAN, TO AMEND CHAPTER 812, SECTION 812.04 OF THE LANSING CODIFIED ORDINANCES TO INCLUDE WITHIN THE PROHIBITED TRANSPORTATION DEVICES ON SIDEWALKS IN THE PRINCIPAL SHOPPING DISTRICT ELECTRIC BICYCLES, ELECTRIC SKATEBOARDS, SCOOTERS, ELECTRIC SCOOTERS, AND ELECTRIC PERSONAL ASSISTIVE MOBILITY DEVICES. SIGNS TO THIS EFFECT SHALL BE ERECTED IN COMPLIANE WITH SECTION 660 OF THE MICHIGAN MOTOR VEHICLE CODE, MCL 257.660.

THE CITY OF LANSING ORDAINS:

Section 1. That Section 812.04 of the Lansing Code of Ordinances of the City of Lansing is hereby amended as follows:

812.04. – Prohibited Activities.

(a) No person shall do any of the following in the Principal Shopping District without first obtaining a permit to do so, in addition to any permit issued by the City Clerk for the same activity throughout the City:

(1) Engage in the business of a peddler, solicitor, canvasser, transient merchant, itinerant merchant, or itinerant vendor, as those terms are defined in Article I of Chapter 844 of the Lansing Codified Ordinances;

(2) Engage in the business of selling ice cream, ice cream products or confections, as that term is defined in Article II of Chapter 844;

(3) Engage in the activities of a street performer;

(4) Engage in the activities of a charitable solicitor;

(5) Maintain a temporary encroachment.

(b) No person shall use a bicycle, ELECTRIC BICYCLE, skateboard, ELECTRIC SKATEBOARD, SCOOTER, ELECTRIC SCOOTER, ELECTRIC PERSONAL ASSISTIVE MOBILITY DEVICE, or in-line skates on the sidewalk in Zone A without first obtaining a permit to do so. SIGNS TO THIS EFFECT SHALL BE ERECTED IN COMPLIANCE WITH SECTION 660 OF THE MICHIGAN MOTOR VEHICLE CODE, MCL 257.660.

Section 2. All ordinances, resolutions or rules, parts of ordinances, resolutions or rules inconsistent with the provisions hereof are hereby repealed in their entirety and shall be null and void and of no effect.

Section 3. Should any section, clause or phrase of this ordinance be declared to be invalid, the same shall not affect the validity of the ordinance as a whole, or any part thereof other than the part so declared to be invalid.

Section 4. This ordinance shall take effect on the 30th day after enactment, unless given immediate effect by City Council, and shall expire on December 31, 2027.

APPROVED BY THE ORDINANCE REVIEW COMMITTEE
OF THE OFFICE OF THE CITY ATTORNEY

Not Without Us

Needs Assessment

Michigan Department of Civil Rights Division on Deaf, DeafBlind and Hard of Hearing

Director Annie Urasky

pkt / website

Background

- The Division obtained funding to conduct a comprehensive census and needs assessment of Michiganders who are Deaf, DeafBlind, and Hard of Hearing. The last statewide needs assessment in Michigan for the Deaf, DeafBlind, and Hard of Hearing communities was in 1989, thus inaccurate data exists, even with the accurate population statistics for Michiganders who are deaf, deafblind, and hard of hearing
- Comprehensive effort to better understand the size and needs of the Deaf, DeafBlind, and Hard of Hearing communities throughout Michigan

Partners

- Public Sector Consultants and Madonna University

Primary Goals

- Gather current and accurate information about the numbers of Deaf, DeafBlind, and Hard of Hearing residents throughout the state
- Understand the needs, preferences and experiences of these communities to guide development of future policies and programs
- Share and discuss this data with a broad audience

Survey Development

- A project steering team led by Michiganders who are Deaf, DeafBlind, and Hard of Hearing has provided important guidance on the design and deployment of the survey and will help shape recommended actions based on the broad input of the communities and study results.

Who can take the survey?

- Any Michigan resident who is deaf, deafblind and hard of hearing
- Any parent who has a child that is deaf, deafblind or hard of hearing

Accessing Survey

- The survey will be conducted primarily online in both English or American Sign Language and will also be available to take with assistance at in-person events and via mail by request.
- Survey link: www.notwithoutusmich.org/survey

Not Without Us

Survey Questions

- Demographics; identity; use of services and technologies for communication access and effectiveness; education and employment experiences; access to healthcare and other services; housing and transportation; barriers to accessing services and ideas for reducing those barriers; and priorities for state agencies

Final Report

- The final report from the study will be shared with the Department of Civil Rights and others to help guide the development of policies, programs, services, and funding which will help to secure access to effective communication and to improve the life experiences for Michiganders who are deaf, deafblind and hard of hearing

Website Link and Contact Info

- www.notwithoutusmich.org
- Contact email: info@notwithoutusmich.org
- Director Annie Urasky: uraskya@michigan.gov

State PA 202 Uniform Assumptions - Lansing Comparison

Actuarial Assumption	PA 202	City
Rate of Return	7.00%	7.25%
Salary Increases	3.50%	Inflation + 0.6%-7.35% (1)
Mortality Tables	RP2014	RP2000 (1)
Amortization Period	20 years for pensions; 30 years for OPEB	30 years (both pension & OPEB) with 10 yr. (ERS) and 15 yr. (P&F) considerations
Healthcare Trend	Pre-65: 8.5% initial down to 4.5% LT Post-65: 7.0% initial down to 4.5% LT	Pre-65: 6.5% initial down to 4.5% LT Post-65: 4.5%

(1) Alternate assumption may be used if supported by experience studies.

Submitted County