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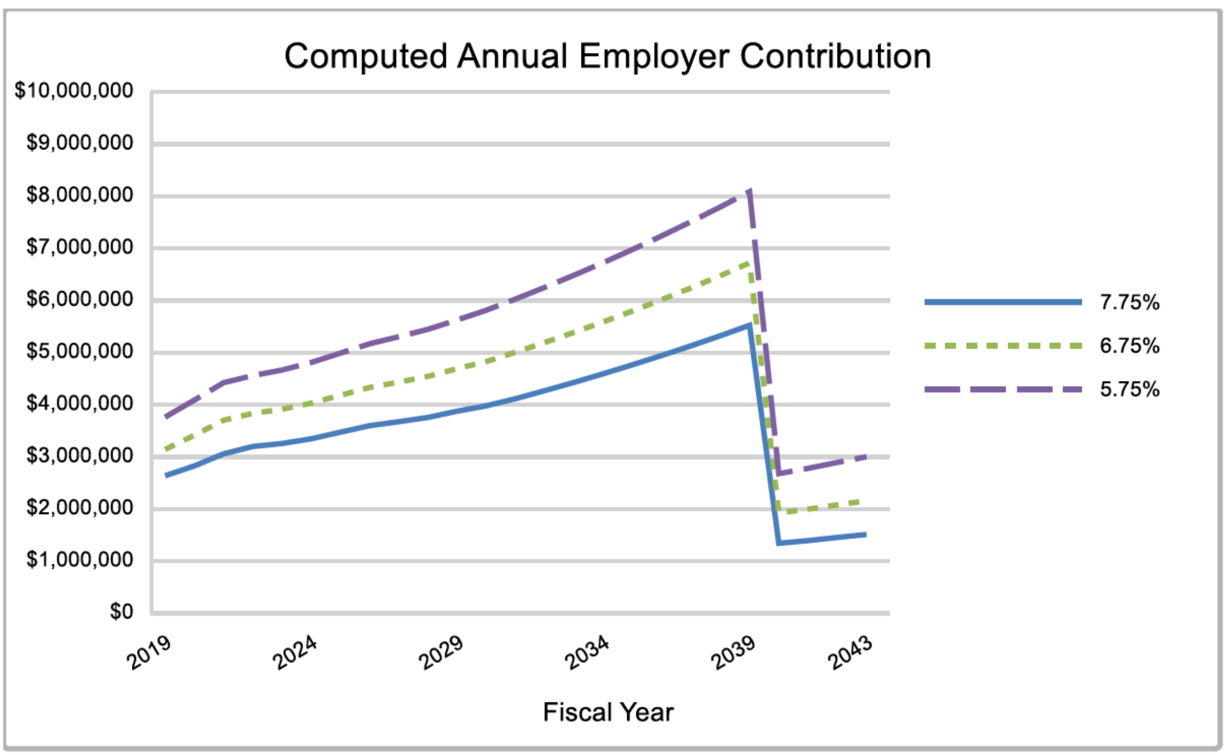
February 7, 2019

City Council
33000 Garfield Rd
Fraser, MI 48026

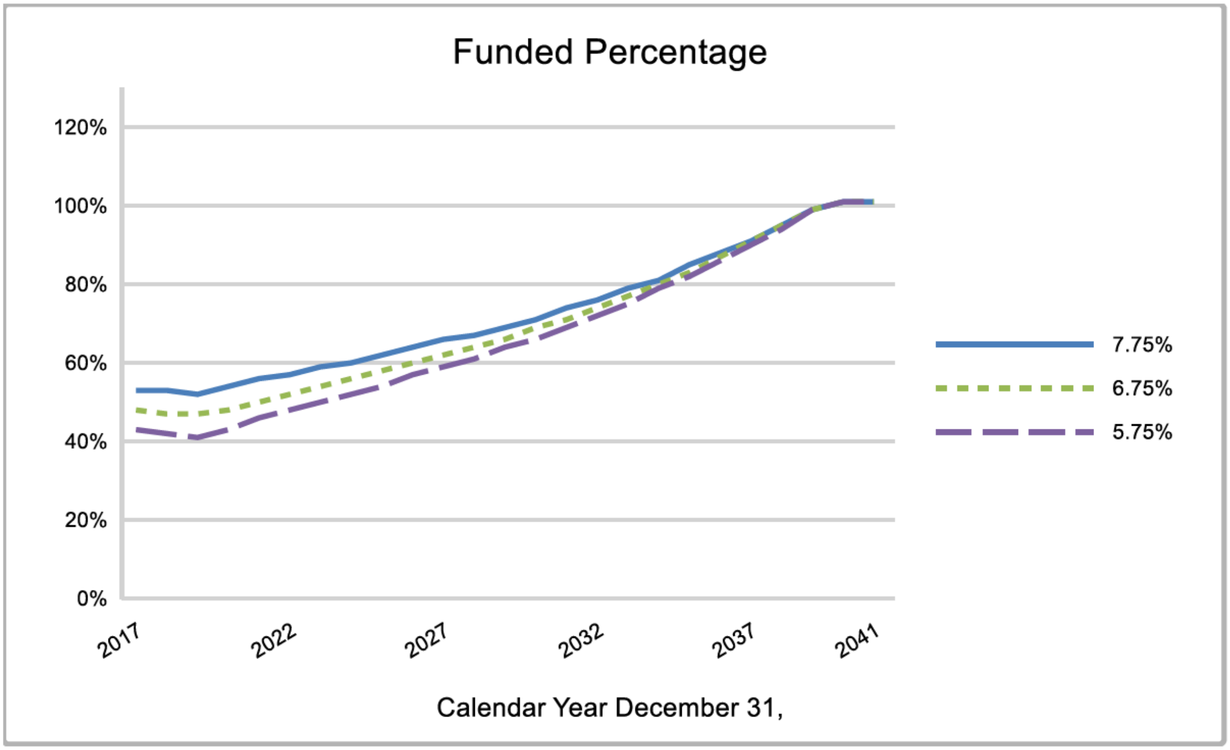
Re: Response to communication regarding FOIA's

> Jennings, Barbara. "Re: FOIA's. Message to Fraser Councilmembers. 7 February 2019. E-mail.
>
> "In the past couple of weeks I have requested a number of FOIA's regarding the Corrective Action Plan (CAP) required by the State of Michigan. I am especially concerned with one new fund that Council approved for the Pension. I have a copy of the CAP requirements and Fraser's submission of our CAP plan. After reading both documents carefully, I have come to the conclusion that this fund for $600,000 was unnecessary and added 1 1/2 mils to Fraser's budget that taxes our residents for up to 25 years without voter approval. The city did not need any corrective action for Pension costs because we are on a 20 plan with MERS to pay 100% of our unfunded liabilities (UAL) in 20 years. The Finance Director confirmed the 20 year schedule. Unfortunately, the Administration failed to file a waiver in 45 days triggering a complete CAP report.
>
> I have a document that states that MERS encourages employers to contribute more than the minimum contribution as these contributions will earn interest and may result in lower future contribution requirements. According to MERS if the City of Fraser raises it's contributions about $100,000/year, not $600,000/year, all pension unfunded liabilities will be 100% funded in 20 years. The State's CAP only requests 60% funding for pensions in 20 years. Fraser is already 54% funded, so they don't have far to go. This $600,000 fund is not necessary to meet the CAP requirements. And, the residents today will be paying for future residents. "

The Corrective Action Plan: Defined Benefit Pension Retirement Systems as approved by the Municipal Stability Board <u>does not mention anywhere</u> in the report a voluntary contribution of $600,000 and <u>definitely does not</u> include or authorize 1 ½ mills to the Fraser Budget that taxes our residents for up to 25 years without voter approval. What it does include is 1) A reduced multiplier for POAM and 2) Closing the Dispatch Division 22. Second, MERS communities are on the <u>standard</u> 20-year amortization schedule as reported by MERS and transmitted to the Municipal Stability Board and the Michigan Department of Treasury. The administration chose to file a detailed corrective action plan to the Municipal Stability Board for financial transparency and it did not fail to file a waiver. Next, MERS does encourage employers to contribute more than the minimum contribution to lower future contribution requirements (the reason for the $600,000 voluntary contribution). Again, MERS communities will be 100% funded in 20 years under the standard amortization schedule with no additional contributions and again the $600,000 is not part of the CAP or its requirements. The residents today are not paying for future residents; they are paying for past residents that have enjoyed services without funding pensions and other post-employment benefits (OPEB obligations) at the time those benefits were being earned. Below are two graphs from the MERS Annual Actuarial Valuation Report December 31, 2017 (Page 14) showing the minimum annual employer contribution and the funded percentage. **The first graph easily shows that without additional voluntary contributions that the minimum annual employer contribution is not sustainable in the future on only the City Operating millage.**



Again, the second graph shows the overall funded percentage of all divisions being funded at 100% within 20 years.



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"Regarding Retiree Healthcare, the CAP that Fraser submitted 9/13/18 to the State failed to list "steps already taken to address underfunded status" as required by the CAP instructions:
1. In 2004, City Manager Tom VanDamme changed the benefit level for new employees to only 4% earned for each year of service, e.g. an employee had to work 25 years to get full Retiree Healthcare.
2. In 2011, Retirees past 65 were switched from a Medicare Supplement plan from BCBS to Medicare Advantage, saving about $300,000/year.
3. In 2013, City changed the health plan to Self-insured with a stop loss, saving more money.
4. In 2015 Changed all pre-Medicare plans to high deductible plans which were the same as ALL active employees under PA 152 Hard CAP reducing costs $324,000. This was recommended in the CAP instructions.
So, as you can see 3 former City Managers had been addressing health care issues for the past 15 years but the current CM did not report them in our CAP submission to obtain a waiver."

The Municipal Stability Board issued the following guidance for a reasonable timeframe to be used in CAPs, "**A local unit with a severely underfunded retirement health system (25% or less) should reach a funded ratio of forty percent within thirty years." Prior to the CAP the City of Fraser was 0% funded.** The City of Fraser was not eligible for a waiver; instead, the city was 0% funded with an Unfunded Actuarial Accrued

Liability of $39,098,867 as reported (below) by the Gabriel Roeder Smith & Company's Actuarial Valuation Report as of June 30, 2015 (Page 16). Second, even with all the steps already taken by three former City Managers beginning Fiscal Year 2016 the Annual Required Contribution was $3,592,003 leaving just that year alones portion of the Unfunded Accrued Liability at a staggering $2,981,462 (below).

A. Present Value of Future Benefits	
i) Retirees and Beneficiaries	$27,934,549
ii) Vested Terminated Members	2,200,163
iii) Active Members	14,998,173
Total Present Value of Future Benefits	$45,132,885
B. Present Value of Future Normal Costs	6,034,018
C. Actuarial Accrued Liability (A.-B.)	39,098,867
D. Actuarial Value of Assets	0
E. Unfunded Actuarial Accrued Liability (C.-D.)	$39,098,867
F. Funded Ratio (D./C.)	0.0%

Contributions for	Development of the Annual Required Contribution
	Fiscal Year Beginning 2016
Employer Normal Cost	$ 610,541
Amortization of Unfunded Actuarial Accrued Liability	2,981,462
Annual Required Contribution (ARC)	$3,592,003
	Fiscal Year Beginning 2017
Annual Required Contribution (ARC)	$3,597,282
	Fiscal Year Beginning 2018
Annual Required Contribution (ARC)	$3,601,371

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"In various local newspapers members of this Council are quoted as saying the city "is or was on the verge of Receivership, Bankruptcy or the appointment of an Emergency Manager by the Governor" to justify their increase of 9 mils of taxes. For any of these to occur, the city would have liabilities exceeding assets, which has never been the case. The Finance Director has stated recently at a recorded Council Meeting that he never touched in 2 years the approximately $2 Million in Fund Balance left in the budget by the former City Manager in the 2016/17 Budget, so there was money to pay our bills. Even the CAP requirements (Senate Bill 686) shows that the State would not declare a financial emergency unless the the Board determined that the approved CAP was not being implemented in a manner that would not accomplish its objectives. "

The CAP requirements are not correlated to the city operating at a structural deficit in the 2017-2018 Budget. The structural operations of the City of Fraser unchanged from November 2017 through June 2019 would have resulted in liabilities exceeding assets. The city took action to reduce expenditures and increase revenues to prevent the use of the 2016-2017 Fund Balance and has successfully increased the fund balance to the targeted ratio through June 2019.

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"In the budget approved by Council in May of 2017, line 5 of the Budget shows $1,910,344 in a Revenue Account 101-000-427.000 Taxes - Community Wide Special Assessment. Then, when the budget was amended on 11/30/2017 (less than 6 months later) that line item was reduced to $793,652. Where did $1,116,682 go??? That represents about 3 mils of taxes. In my opinion, the original figure reflected an increase in revenue if PA 33 was approved by a vote of the residents. When the vote failed, the Administration had to reduce the Budget to balance it and implemented it's threatened plan to eliminate 8 PSO's ($840,666) and terminate Dispatch ($336,714). These terminations of $1,177,380 helped fill the deficit created by the inaccurate budget. I believe that booking revenue and building expenses in the budget around that revenue in anticipation of a positive vote is not in accordance with the Uniform Budgeting Act. "

The City Council that adopted the 2017-2018 Original Budget used five (5) mills in PA 33 Special Assessment Revenues in accordance with the Uniform Budgeting Act. After three (3) mills of PA 33 Special Assessment Revenues were not approved by the voters the budget was amended again in accordance with the Uniform Budgeting Act.

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"Since the city has not replaced the PSO's and Dispatch, the budget now has $4.9 Million in Fund Balance (plus the $600,000 put in an unnecessary pension fund). So, the city is laying off personnel and not restoring services so that they can have over $5 Million "in the bank". And, now they are not talking about cutting taxes but increasing them even more. The CM says he wants to get up to 14 mils. He has increased the city's total budget from $12,300,000 in the 2016/17 to $16,400,000 in the current budget, a $4 Million increase.

> That is why I am writing to you in anticipation of your future budget deliberations. In Sunday's newspaper, it appears that only one house in Fraser sold, while the surrounding communities had dozens, even 20 or 30 in one week. I believe Fraser's taxes have a negative impact on our housing sales and prices. Please debate the impact of all your tax increases on the health and future of our city."

Addressing the above statements are policy decisions left to the City Council during the budget process.

Very truly yours,

Timothy Matthew Sadowski

Timothy Matthew Sadowski
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