

## PUBLIC COMMENT

*Lee Zondel, 1575 Dutton Road, referred to an editorial in the Wall Street Journal that concluded that Michigan has the largest population loss, with two families moving out for every family moving in. He cited other states that are also experiencing losses, and inferred that outward migration patterns in these states are due to the fact that they have state income tax. He stated that governors would be wise to heed these migration trends when considering state finances. Mr. Zondel commented that raising taxes will merely cause the taxpaying class to leave.*

## LEGISLATIVE & ADMINISTRATIVE COMMENTS

*Mayor Barnett announced the following:*

*- The State of the City address will be held on Thursday evening, February 28, 2008, at 7 p.m. at the new DPS Facility. The Ribbon Cutting Ceremony was held last Friday, February 21, 2008. He encouraged residents to take a tour of the new facility.*

*- The Sound the Alarm Campaign has raised \$3,000 to date. The Mayor's goal is at least \$7,000. On March 15, between 9 a.m. and 3 p.m., Fire and City personnel will be targeting several areas and going door to door to find homes that need this installation. He invited Council members to join them.*

*Mayor Barnett presented a display board with an example of how residents can minimize the ice and snow that City snowplows push into their driveway approaches. The City plows 280 miles of road, and it is impossible to avoid snow and ice being pushed into residents' driveways, but if residents clear an approach just beyond their drive, they can help minimize this. With the increase of heavy snow and ice, it is also very difficult for the plows to clear much closer to mailboxes without damaging them.*

*Sara Etienne, Rochester Hills Government Youth Council Representative, gave a status update on the Youth Summit scheduled for April 26, 2008. She also informed Council of their plans for Voter Registration days at area high schools.*

*Vern Pixley welcomed Pei Wei Asian Cuisine, which opened in a new location in the Boulevard Shoppes on Walton across from Crittenton Hospital.*

## ATTORNEY MATTERS

*City Attorney John Staran had nothing to report.*

## PRESENTATIONS

2008-0072 Presentation Regarding the Impact of Other Post-Employment Benefits (OPEB)

on the City of Rochester Hills; Michael J. Blackburn of Blackburn Actuarial, Inc., presenter.

**Attachments:** [Agenda Summary.pdf](#)  
[OPEB Presentation.pdf](#)

*Julie Jenuwine, Director of Finance, discussed the City of Rochester Hills' Other Post-Employment Benefits (other than pension) and the fact that there was no actuarial service needed prior to the new Governmental Accounting Standards Board (GASB) statements. This includes the Supplemental Retiree Health Care (SRHC) program.*

**Background:**

*A committee established in 2000 developed recommendations to design a retiree health care program for City employees. There was no program prior to this. After discussion with the committee and employees, the following two programs were recommended: 1. A defined contribution-type benefit called the Retiree Health Savings (RHS) - a contribution of a certain percentage (four percent for most employees) paid on an annual basis to the employees' accounts. The City pays annually into that account and that is the expense of that liability. 2. A Supplemental Retiree Health Care Program (SRHC). This is a small benefit calculated and provided to certain employees at the City, determined by the following: As of March, 2001, if a City employee had ten years' of service, they would be included into the SRHC program. This program would supplement their defined contribution program. This was designed to help employees establish and accumulate enough money to be sufficient in their retirement to pay their retiree health care costs. A formula was determined that utilizes their years of service into a calculation in order to get a monthly contribution. There were 125 people who qualified at that time. The contribution range was \$75 to \$468 per month.*

*GASB 45 now requires municipalities to value Other Post-Employment Benefits, which is the City's SRHC program. This is provided in the following presentation.*

*GASB also requires the valuation of an Implicit Rate Subsidy, which will be explained in the presentation.*

*The intention of the presentation is to explain the requirements, and not to make decisions as to whether to establish a trust at this time.*

*Ms. Jenuwine introduced Michael Blackburn, A.S.A., E.A., M.A.A.A., President, Blackburn Actuarial, Inc., who gave the following presentation regarding the Impact of OPEB Benefits on the City of Rochester Hills:*

**Presentation:**

**Other Post-Employment Benefits (OPEB) added to GASB agenda in 1988:**

*-GASB 12 was issued in 1990, indicating an interim statement on OPEB disclosures - a "weak" disclosure standard.*

- GASB 26 was issued in 1994, detailing an interim standard for reporting OPEB administered through pension plans, and requiring separate reporting of pension and OPEB liabilities.
- GASB 34 was issued in 1999, requiring accrual-based accounting.
- A Proposed OPEB statement was issued in February 2003 and revised in January 2004.
- GASB 43 and 45 were issued in 2004, moving from a pay-as-you-go to accrual based accounting of OPEB benefits as required by GASB 34, similar to accounting for pensions.

### **What is OPEB (Other Post-Employment Benefits)**

- Include post retirement benefits other than pensions: Retiree healthcare insurance, including medical, dental, vision, hearing, retiree life insurance, retiree long-care insurance, implicit rate subsidies and retiree premiums based on blended active/retiree rates.
- Are considered a form of deferred compensation that should be recognized as benefits are earned while an employee is working.
- Benefits not included: Special termination benefits, early retirement incentive programs, payment of accumulated sick leave, retiree pays full cost of program, defined contribution plans, cash payments of stipends.

*Rochester Hills OPEB: The Supplemental Retiree Healthcare Program for closed group plus Implicit Rate Subsidy for all.*

### **What is an Implicit Rate Subsidy?**

- Medical Premiums are more expensive as a person ages. They utilize more medical services and utilize more expensive medical services
- Current single premium = \$466/month, regardless of age
- The approximate cost of insurance at various ages varies: Age 25=\$259/month; 35=\$331; 45=\$424; 55=\$564 (subsidy is \$98/month); 64=\$794 (subsidy is \$328/month).

### **Impact of Implicit Rate Subsidy**

OPEB must take into account the overage for all future years.

### **Why are the Rules Changing?**

#### *Objectives of the Proposed OPEB Statement*

- Provide a true picture of cost of providing government services by properly recognizing the ultimate cost of OPEB benefits.
- Systematically recognize OPEB cost over an employee's working lifetime as services are rendered
- Calculate the actuarial accrued liability for benefits earned to date
- Determine the "annual cost" of future benefits
- Estimate future cash flow requirements for benefits
- Monitor the funding progress of the plan.

### **Key Accounting Requirements**

*Required accounting calculations:*

- Annual Required Contribution (ARC) - the annual "actuarial" cost of the benefits earned. Normal Cost (value of benefits earned in current year) + Amortization of unfunded actuarial accrued liability (value of benefits previously earned).
- Balance Sheet Liability (Net OPEB Obligation). Cumulative difference between ARC and contributions paid to an irrevocable trust.

**Timeline and Frequency**

*Effective dates:*

- 2008 Fiscal Year
- Earlier application of the standards is encouraged
- Will require an actuarial valuation of the plan every 2 years

**What does this mean to the City of Rochester Hills?**

	SRHP	Implicit Rate	Total
New Minimum ARC (30 year)	\$133,000	\$156,000	\$289,000
Less Current Pay-as-you-go Cost	\$ 60,000	N/A	\$ 60,000
Less Implicit Rate Subsidy	N/A	\$ 19,000	\$ 19,000
Equals Increase in City Expenses	\$ 73,000	\$137,000	\$210,000
Actuarial Accrued Liability	\$ 1,969,000	\$ 1,541,000	\$3,510,000
ARC with 1 year Amortization	\$ 1,974,000	\$ 1,596,000	\$3,570,000

NOTES: These figures assume that the City funds the full ARC each year.

**What causes the increase in expense?**

Current (Pay as you go) vs. New (ARC)

*Current:* Includes only current retirees.

*New:* Includes projections for all employees and retirees

*Current:* Considers only current year premiums

*New:* Considers impact of anticipated future increases in medical costs.

*Current:* No recognition of benefits earned to date

*New:* Includes amortization of benefits earned to date, but not previously recognized

*Current:* All employees and retirees under age 65 charged the same rate.

*New:* Implicit subsidy of rates for retirees exists and must be valued.

**Financial Advantages of Funding the Liability**

*To Fund or Not to Fund:*

-*"The discount rate should be the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits"*

**Financial Advantages of Funding the Liability**

Funded vs Unfunded (pay as you go)

*Funded: Contributions deposited into an Irrevocable Trust (usually higher than current cash flow)*

*Unfunded: No change to current cash flow for payment of benefits*

*Funded: Benefits paid from the Trust*

*Unfunded: Benefits paid by the general assets of the employer*

*Funded: Long-term investments*

*Unfunded: Short-term investments*

*Funded: Higher investment return (2-3% for fixed income investments)*

*Unfunded: Lower investment returns*

*Funded: Decreases the Liability and ARC*

*Unfunded: Increases the Liability and ARC*

*Funded: Full ARC funded - no net book liability. Partial ARC funded - some book liability created*

*Unfunded: Book liability - ARC minus pay-as-you-go*

*Funded: No impact on credit rating*

*Unfunded: Adverse impact on credit rating*

*Funded: Benefit security for retirees*

*Unfunded: May not be able to afford even the pay-as-you-go in the future*

*Funded: Liability = \$3,510,000; Min ARC = \$289,000 (at 5%)*

*Unfunded: Liability = \$4,549,000; Min ARC = \$340,000 (at 3%)*

**Deciding whether or not to fund - impact of the discount rate**

	<i>Unfunded Plan</i>	<i>Funded Plan</i>
<i>General Fund Assets</i>	\$3,570,000	\$ 0
<i>Trust Assets</i>	\$ 0	\$3,570,000
<i>ARC</i>	(\$4,657,000)	(\$3,570,000)
<i>Net Fund Balance Impact</i>	(\$1,087,000)	\$ 0

*NOTE: ARC is the Normal Cost plus the Actuarial Accrued Liability amortized over one year.*

**Mr. Blackburn** responded to City Council's questions as follows:

*- An average cost is established when younger employees pay more than their cost, while older employees and retirees pay less than their cost. The difference between the average cost and the actual cost for older employees is called the Implicit Rate Subsidy.*

*- The City is paying the difference in the premiums for the retirees because retirees are being included in the entire group to be covered. This raises the age of*

*the group and in turn increases the premium.*

*- The annual recalculation of premium is higher each year both due to employees retiring and the aging population of the active employees.*

*- When calculating costs for the SRHC program into the future, the City has to consider the amount of benefit the employee is eligible for based on their years of service, and also the Implicit Rate Subsidy (the difference between what the retiree's total charge is [what the City is being charged based on the group rate] and the value of the insurance they are receiving based on their age). Retirees are actually receiving two benefits: the explicit amount that is defined by the Supplemental Plan and the implicit amount because they are receiving a substantial deal on the insurance.*

*- In order for retirees to be eligible to receive the Supplemental benefit, they must remain on the City's insurance policy.*

**Ms. Jenuwine** noted that the Implicit Rate Subsidy is an actuarial valuation, not an intentional program the City developed.

**Mr. Yalamanchi** inquired if the City would be better off not mixing the retirees into the same pool as the active employees, and somehow keeping the funding separate.

**Ms. Jenuwine** suggested that that discussion should be held at a later date. This discussion is to explain the valuation of the Post-Employment benefits, based on assumptions the actuary puts together.

**Mr. Blackburn** clarified that the City has thus far only considered the Supplemental benefit amount, and needs to consider the Implicit Rate Subsidy.

Responding to Mr. Pixley's question, **Mr. Blackburn** stated there is no personal tax implication to the benefit received by the employee because it is considered a welfare benefit, and welfare benefits are tax-free.

**Mr. Blackburn** responded to Mr. Rosen by stating that GASB now states that a portion of retirees' costs must be accrued now, during each year of employment, so that upon retirement, the value of the retirement benefit is recognized.

**Mayor Barnett** reminded Council that this is a closed program. Initially there were 125 members, and now only approximately 100 employees are in this program.

**Mr. Blackburn** responded to the inquiries of Council as follows:

*- GASB and the City's auditors will require that the Implicit Rate Subsidy be reported. This is not an assumption that all retirees currently included will be staying on the plan. Realistically those that have to pay the full premium may find other sources for insurance, whether that be a spouse's plan, or whether they choose not to pay the additional amounts. They use reasonable assumptions on how many will.*

- In 2001 there were few city councils, school boards, or county boards that were even considering this Implicit Rate Subsidy. The initial drafts of the GASB accounting statements did not take this into consideration.

- Based on typical populations, he feels the numbers cited in the study are adequate.

- GASB is moving to an accrual basis form of accounting and wants to begin monitoring retirement promises by public employers.

- The bottom line impact of all of this is going to be the impact on the City's credit rating and bond rating. If the City funds this the way GASB would like to see this done, the bond rating agencies will take it more favorably because the City will be staying current with reporting its liabilities.

- GASB rules say this amount can be amortized over a period of up to 30 years. Therefore, GASB believes that these liabilities should be paid into an Irrevocable Trust. GASB calls the amount paid into an Irrevocable Trust the Annual Required Contribution (ARC).

- ARC consists of two portions: The normal cost for that year that employees are earning, and the amortization payment to pay down the liability that has built up. The difference between the ARC and what is actually being paid will show up as an unfunded liability on the balance sheet. This is a cumulative amount over time and this number will affect the bond rating.

- The City will have to have an actuarial valuation of the plan done every couple of years. By redoing this at intervals, this number can be recalculated to monitor and plan for these amounts needed.

- The \$3.570 million represents today's dollars. Over the next 40 years the City could be looking at over \$8 million in undiscounted payments.

- The City's auditors will be looking to consider both the current liability and what the liability should actually be, estimating a cost for future retirees. In addition, projections should be made on future medical premiums to consider the Implicit Rate Subsidy. The third portion is the amortization of the amounts not recognized to date for prior years.

In response to Mr. Yalamanchi's question, **Ms. Jenuwine** stated that an expense amount of approximately \$40,000 per year was recorded on a pay-as-you-go basis for the Supplemental piece. The liability amount, however, has not been recorded.

**Mr. Blackburn** explained that the balance sheet for the City will start with a zero liability, with the actual amount disclosed in the footnotes to the financial statement. The only way the liability will build up is if there is no contribution to an Irrevocable Trust Fund. As long as the contribution to the Trust is made, the City will keep a zero net unfunded liability.

*Mr. Yalamanchi* noted that disclosing the liabilities in this manner would not reflect true liabilities and requested a discussion on the pros and cons of setting up the Irrevocable Trust.

This Matter was Presented.

(RECESS 9:12 p.m. - 9:19 p.m.)

## CONSENT AGENDA

All matters under Consent Agenda are considered to be routine and will be enacted by one motion, without discussion. If any Council Member or Citizen requests discussion of an item, it will be removed from Consent Agenda for separate discussion.

**2008-0050** Request for Acceptance of an Off-Site Watermain Easement granted by Rochester Community Schools for the Faith Evangelical Presbyterian Church.

Attachments: [Agenda Summary.pdf](#)  
[Map.pdf](#)  
[Watermain Easement.pdf](#)  
[Exhibits.pdf](#)  
[Resolution.pdf](#)

**This Matter was Adopted by Resolution on the Consent Agenda.**

Enactment No: RES0040-2008

Resolved that the Rochester Hills City Council, on behalf of the City of Rochester Hills, hereby accepts an off-site watermain easement granted by Rochester Community Schools, 501 W. University, Rochester Hills, MI 48307, for the construction, operation, maintenance, repair and/or replacement of a watermain easement over, on, under, through and across land more particularly described as Parcel No. #15-22-451-020.

**2007-0865** Request for Purchase Authorization - DPS/GAR: Increase of Blanket Purchase Order for OG Slag in the amount of \$6,500.00 for a total not-to-exceed amount of \$17,000.00; Edward C. Levy Co., Detroit, MI

Attachments: [Agenda Summary.pdf](#)  
[Resolution.pdf](#)  
[010708 Agenda Summary.pdf](#)  
[010708 Extension Letter.pdf](#)  
[010708 Bid Tabulation.pdf](#)  
[010708 Resolution.pdf](#)

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