



**City of Rochester Hills
AGENDA SUMMARY
FINANCIAL ITEMS**

**1000 Rochester Hills Dr.
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Legislative File No: 2006-0846

TO: City Council Members
FROM: Julie Jenuwine, Finance Director 248.841.2535
DATE: December 4, 2006
SUBJECT: Designation of Fund Balance – Supplemental Retiree Health Costs

REQUEST:

The purpose of this communication is to relay a proposal for consideration to City Council for the *designation* of fund balance/retained earnings in the General Fund, Fire Operating Fund and Water & Sewer Operating Fund to be used toward the City's future Supplemental Retiree Health Care benefit expenditures.

REASON FOR PURCHASE:

In 2001, the City implemented a Supplemental Retiree Health Care program intending to benefit existing long-term employees without enough years of service remaining to accumulate sufficient monies in their individual Defined Contribution Retiree Health Savings Plan. This Supplemental Retiree Health Care benefit is established for city service performed prior to 2001.

At this time, extreme conservative projections estimate (*not actuarially derived*) a program cost of approximately \$5.5 million dollars. Assuming a trust is established in the near future for the payment of these benefits, the approximate present value needed is estimated to be \$3.2 million (again, an extremely conservative projection).

Should the City wish to take a step toward recognizing the above obligation on its financial statements at this time, I recommend that \$2,000,000 be designated in the General Fund fund balance, \$400,000 be designated in the Fire Operating Fund fund balance, and \$800,000 be designated in Water & Sewer Operating Fund retained earnings. A designation is considered as *unreserved* fund balance that merely indicates that the governing body and the administration have tentative plans concerning the use of all or a portion of the unreserved fund balance that is designated. A designation does not signify a legal reservation of funds.

In the near future, I anticipate that a proposal for perhaps the establishment of a trust based on anticipated GASB guidelines, should City Council desire. After an establishment of a trust, a portion or all of the designated monies could be transferred to the trust.

Financial Services Committee did not consider this item, as the meeting was cancelled.

BUDGET:

The budget is not effected, this is a balance sheet transaction.

RECOMMENDATION:

Should the City Council wish to recognize the Supplemental Retiree Health Care obligation on its financial statements at this time, I recommend that \$2,000,000 be designated in the General Fund fund balance, \$400,000 be designated in the Fire Operating Fund fund balance, and \$800,000 be designated in Water & Sewer Operating Fund retained earnings.

RESOLUTION

NEXT AGENDA ITEM

RETURN TO AGENDA

APPROVALS:	SIGNATURE	DATE
Department Review		
Department Director		
Budget Content: Finance Director		
Purchasing Process: Supervisor of Procurement		
Mayor		
City Council Liaison		