



CITY OF EAST LANSING

The Home of Michigan State University

October 16, 2017

City Hall
Office of the City Manager
410 Abbot Road
East Lansing, Michigan 48823

Dear East Lansing Resident,

In 2016 the East Lansing City Council created the East Lansing Financial Health Team and tasked them with evaluating the overall financial stability of the City and considering new revenue options. The Financial Health Team consisted of 11 experts in the field of finance and public sector management. The team presented 42 recommendations in December 2016, all of which can be found on the city's website: www.cityofeastlansing.com/1732/Financial-Health-Review-Team.com.

City staff and I worked closely with the Financial Health Team, providing them with resources and information in order to facilitate their investigation. Below, is a report on the City's implementation of the recommendations. As you will see, many of the recommendations are contingent upon the adoption of an income tax, or are recommendations against moving in a certain direction. The City staff and the City Council have carefully reviewed these recommendations and are addressing each one of them. Please see the report below.

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Sincerely,

George Lahanas
City Manager
City of East Lansing

Pension Plan Recommendations

1. Changes must be made to the City's pension plan: A combination of actions to reduce future unfunded liabilities through plan design changes, making additional employer pension contributions, bonding (to a degree consistent with the City's overall bonding authority limits, after considering other pressing needs), and possible income tax revenue. Creative financing mechanisms for police and fire services are available.

This recommendation mirrors some recommendations made later in the FHT report with more specificity. Pension plan changes began in the 1990's, and have continued to be a feature of labor negotiations. In addition to the City's required pension payments, in the last two fiscal years the Council has authorized and the City has deposited an additional \$3 million in the pension fund in an attempt to address unfunded liabilities. All new hires are now covered by a cost-controlling, sustainable retirement plan. Additionally, the City explored multiple bonding scenarios at the May 16, 2017 City Council Discussion-Only Session. The bonding recommendation is discussed later in this report.

In accordance with the recommendation of the FHT, the City Council has placed two ballot proposals on the November 7 ballot: to authorize an income tax and to reduce City operating millage to 13 mills, a reduction of 4.56 mills. The net revenue from the income tax would generate an estimated \$5 million. The City Council has adopted a budget directive requiring 60% of this revenue to be deposited in the pension fund, 20% to be used for infrastructure improvements and 20% to be used for other governmental purposes.

2. The FHT recommends no changes in amount or in benefit provisions, received by current DB plan retirees.

The City has agreed with this recommendation.

3. Increase Employee Contributions for DB covered employees: As a matter of equity, bargain in the future to increase employee contributions to not less than 5.5% of pay for non-uniformed employees, and 11% for police and fire. Bargaining should take into consideration the funded level for the employee group (MERS Division), current contribution rate (if any), and the pattern of compensation increases or concession over the past few years.

Additional employee cost sharing will be implemented. Over successive years of bargaining the City has agreed to a combination of a compensation increase and pension contributions that attempt to provide equity. An across the board modification that treats every group the same does not recognize that balance. The City also needs to reflect bargaining differences when setting employee contribution amounts.

4. Revise the DB plan Final Average Compensation limit ('cap') on overtime and final payouts: The City is encouraged to continue to negotiate overtime and personal leave limits

in FAC, and work towards a 240 hour (or less) maximum of final payouts in FAC. Doing so will ameliorate the 5% contributions ‘load’ and reduce future liabilities.

The City will pursue FAC caps during the next round of negotiations.

5. For three reasons, the FHT does not recommend negotiating a Bridged Benefit: 2.25% Multiplier for future service in the four open-to-new hires DB police and fire divisions: #20, 22, 23, and 50.

- 1. The MERS Supplemental Valuation indicates that the potential decrease in future liabilities results in lower immediate contributions—but unless a substantial amount is regularly paid as additional employer contributions, the funded level in 10 years will be largely the same as now.**
- 2. Considerable time and effort would be expended in an effort to implement the Bridged Benefit.**
- 3. Bridging a defined benefit plan will not allow the City to bond unfunded pension liabilities under 2012 PA 329.**

The City has agreed that a bridged benefit provides little to no financial relief and could adversely impact employee retention.

- 6. The FHT does not recommended that the City close open DB Divisions, and place all current employees and new hires in a Hybrid Plan.**
 - **If pension bonding is not to be employed, and new revenue sources exist to pay down unfunded pension liabilities, then FHT recommends closing all open DB divisions and adopting Hybrid for new hires only. This is because current DB employees cannot be compelled to enroll in Hybrid, it is the individual employee’s choice whether to convert to Hybrid.**

The City agrees with the FHT that all new hires should be enrolled in a hybrid plan. The City has accomplished this objective with the exception of public safety units. The City will examine the feasibility of instituting a hybrid retirement for newly hired public safety positions.

7. The FHT believes it is prudent to engage expert municipal finance analysts and bond counsel to provide advice on closing all DB and Hybrid divisions to new hires, and place all new hires in DC.

As can be seen below in relation to bonding, after a careful analysis by retained experts, the City Council determined that the better course of action is as set forth in FHT recommendation 6. The City has decided against bonding its pension liability.

8. The FHT does NOT recommend closing open DB and Hybrid Divisions, and adopting DC plans for all future service for current and new employees:

- **Offering current employees in DB or Hybrid the opportunity to enroll in DC or not requires that the City be 80% actuarially funded (the City has a 55% actuarial funded level as of 12/31/2015).**

- *It is not permissible to compel current employees to enroll in DC for future service; employees possess the right to individually choose whether to enroll in DC or not.*

The City agrees with this recommendation

9. The FHT recommends pension bonding for unfunded liabilities if all DB divisions and hybrid divisions are closed and DC is adopted for all new hires.

The City Council was provided an analysis of bonding for portions of the City's unfunded liability. Based on the City's debt cap, market risk and the potential impact on citizens if the bonds failed to earn an amount sufficient to pay debt service. City staff recommended, and City Council agreed, that it is not in the City's best interest to bond for pension debt.

10. The FHT Recommends that the City explore financing mechanisms for Police and Fire Services. As of December 31, 2015, the unfunded pension liabilities for the police and fire divisions was about \$51 million (or about 63%) of the overall \$81 million in unfunded liabilities.

The City has already implemented cost-saving initiatives with Police and Fire. We provide mutual aid to surrounding communities and share a Fire Chief with the City of Lansing. Additionally, the City has retained outside consultants to study the feasibility of a Fire Authority.

Real Property Recommendations

11. Utilize Real Estate Asset Map and estimated market value of real estate assets to educate City staff, council, and public on difference between book value and market value.

The City has created a layered asset map that highlights city owned real estate and the values of those properties. The asset map is on the City's website.

12. Utilize Real Estate Asset Map and market value of real estate assets to understand implications in monetization of assets (net proceeds, additions to tax base) for potential sale or sale/lease-back.

The City Council evaluated the value of Parking Lot 1 in its determination to proceed with a ground lease and the requirement of a long term lease of parking spaces, in approval of the Center City project. The same asset analysis was used conjunction with the Park District project. The City Council will continue to use asset valuation and income analysis in evaluating any future development proposals which wish to utilize City owned assets.

13. Place on City website most recent Asset Map and estimated values.

The map can be found here:

<http://gis2.cityofeastlansing.com/City%20Property%20Assets/bin-debug/index.html>

14. Annually update estate sales. Market value of real estate assets annually, 4 to 6 months in advance of budget approval process.

City staff will be recommending a process by which City owned assets can be valued prior to budget discussions which begin in February, 2018. Thereafter, that valuation will be updated prior to annual budget discussions.

15. Determine operational expense containment and avoidance measure in relation to the City's real estate assets.

The City has been proactive in leasing underutilized assets such as Bailey Community Center. Retained assets such as the Library and Parking Garages have undergone strategic investments to reduce annual operating costs where possible. For example, all of the lighting in the Parking Garages has been upgraded to LED for significant annual cost savings. All of the upgrades in the Library have reduced overall utility costs.

16. Utilize the DDA district map to present a new development; whether inside the DDA district and subject to the TIF plan, or outside the DDA district.

Staff is developing a communication and assessment procedure to inform Council of the tax revenue impact of development projects within the TIF capture area of the DDA district, as well as those in other areas or under different incentive programs.

Development Incentives Recommendations

17. Use multiple methods, to initially, and regularly, educate the City staff, council, and public on the impact of new development for the City.

Staff provides detailed reports for all projects that require Planning Commission and City Council review, as well as annual reports summarizing all of that activity. Future reports will include data regarding completed project value.

18. Utilize Real Estate Asset Map and DDA boundary to understand implications in approving projects in each geographic location and how economic incentives may differ by geography.

Staff is developing a communication and assessment procedure to inform Council of the tax revenue impact of development projects within the TIF capture area of the DDA district, as well as those in other areas or under different incentive programs.

19. Through outreach and professional organizations in which City staff participate encourage best of class sharing of ideas with other like size and Big 10 University towns.

Senior staff, including the City Manager, Deputy City Manager, Police Chief, Housing and University Relations Administrator, will continue to participate in the Annual Big 10 City Managers

Conference. The City is also a member of the International Town and Gown Association, an organization to promote networking, education, and best practices of university communities.

20. Through a process created by City Development staff as approved by Council, establish and implement a plan to encourage long-term development within the City:

- **Providing for flexibility with transparency in the process when considering incentives**
- **Improve number and quality of Developers through prequalification with high standards**
- **Empower and hold City employees accountable for the plan**

The Planning Commission is working to complete the Comprehensive Plan by the end of the year, a number of the proposed goals and objectives address these issues. Future development proposals for City controlled sites will require a two-step process, with a Request for Qualifications being the first step.

21. Through clear Guidelines recommended by Development staff, communicate process and steps leading to council approval, and streamline project approval process to assist in initial expense containment for the Developer.

Staff will be updating its Guide to Development last published in May of 2014 with a focus on developing a “quick view” segment for easier navigation. The City is also enrolled in the Michigan Economic Development Corporation’s Redevelopment Ready Communities program with a goal of being certified in the next two years.

22. Have City Development staff target business, corporate, and institutional occupiers to determine if any City real estate assets could and should be utilized to encourage economic development.

A formal process evaluating the use of public assets in economic development needs to be established. That evaluation will include consideration whether assets should be sold.

23. Through direct collaborative meetings between the City and MSU Administration

- **Identify complementary AND competing priorities held by the City and MSU**
- **Determine how MSU may play a greater role in improving economic development in the City**

City Council and senior staff meet with MSU Administration, including President Simon, each quarter to discuss development and related issues. Development staff also meet monthly with MSU staff to discuss project specifics and opportunities for joint projects.

Citizen Services and Communications Recommendations

- 24. Citizen Communications - to improve citizen communications, we recommend the city undertake a review of the accessibility of its website to community members to improve website communications capability.**

Pending additional finances and staff, the launch of a new website will be considered. Communications staff continues to work to improve accessibility to the current site as time allows and will also be looking into the feasibility of a redesign of the current site in 2018.

- 25. City Services – City staff members were asked to provide proposed budget reductions at 5% and 10% of city service personnel and programs to maintain the viability of the city budget moving forward. Thus, we recommend a five percent budget cut managed by the city manager. We do not recommend 5% cuts across each unit, but suggest cuts be chosen to minimize the impact on East Lansing citizens and city staff.**

A suggested list of cutbacks associated with a 5% and 10% general fund reduction was provided per the request of the Financial Health Team on October 7, 2017. After years of deep cuts to the organization, staff advised, and City Council agreed, that additional cuts could not be made without a significant impact on services to residents. The Council determined that this recommendation should be viewed as a last resort proposal rather than a first resort proposal. If the Income Tax proposal is approved by voters on November 7, the recommended 5% reduction will likely not be necessary. If, on the other hand, the Income Tax Proposal is not approved on November 7, 2017, the proposed budget reduction along with others will likely need to be implemented.

- 26. Consultants – City will establish a volunteer network of East Lansing residents and other interested parties who can assist the city to find and implement creative cost savings using volunteers.**

The City does utilize a network of volunteers for Arts & Cultural offerings, Community Events, City Clerk assistance, Department of Public Works events, East Lansing Public Library assistance, the Environmental Stewardship program and the Prime Time Senior's Program. Community members can sign up to be a volunteer at www.cityofeastlansing.com/volunteer. As additional volunteer needs are recognized, additional options can be included on this webpage.

Revenue Options Recommendations

- 27. To maintain City services at the present level, it is recommended that Council seek voter approval of a City Income Tax WITH millage reduction based upon the residential income tax estimated to be paid.**

The City Council agreed with this recommendation and has approved two ballot proposals to be voted on in November. The first is Authorization of the adoption of the Uniform City Income Tax provisions of state law. The second would change the City Charter to prohibit a property tax for City operating purposes in excess of 13 mills. The current millage is 17.56 mills. If passed, property taxes, (most of which is not City operating taxes) would be reduced by about 10%.

28. As an alternative to Recommendation 27, seek voter-approval of a Headlee Rollback to reinstate the City's 20 mills charter authority.

City Council has examined this recommendation and determined from a public policy standpoint, proceeding with recommendation 27 is better. The City Council has had an objective to reduce property taxes and recommendation 27 presents a method to achieve that objective. Should the ballot proposals fail, City Council will look at other options such as the Headlee Rollback.

29. Explore Financing Mechanism for Police and Fire Services under 1988 PA 57, is incorporated, relied upon and specifically reaffirmed. In addition, FHT encourages the City Council to actively explore combination of services with neighboring communities, in the areas of public safety, the district court, and other service consolidations.

The City has begun conversations with a neighboring community regarding creation of a fire authority and has retained consultants to conduct a study. The City will continue to explore other cost sharing and efficiencies relating to City services and programs.

30. The City Council is encouraged to continuously review fees for services and permits. The expense of providing a City service or amenity should include the actual cost to the City, including compensation and benefits.

City Council reviews all fees for services and permits as part of its annual budget consideration and the fee schedule is approved in conjunction with the annual budget. This year, City Council completed a thorough review of the parks and recreation fees and parking fees. The Council will continue to perform an annual review of fees. State law requires permit fees to reflect actual costs to the City, so any review is so limited.

31. In the context of Revenue Options, the second Recommendation [25] of the Citizen Communications and Services Group, for a 5% budget reduction, is noted with approval and endorsed.

See the discussion of recommendation 25.

Retiree Health Care (OPEB) Recommendations

32. For current employees in those divisions where the City will pay 100% or 97% of the cost once entitled to retiree health benefit coverage, bargain to implement a minimum of 10% retiree & spouse share of the cost. State of Michigan Civil Service employees and retirees pay 10% of the cost of retiree health care, until Medicare coverage begins, then the State pays the expense for a secondary-to-Medicare Part B and D plan.

Contractual language at the time of retirement dictates how much an employee pays for their retiree health care. Currently, union contracts state that a retiree will continue the same cost-sharing arrangement that was in place at the time of their retirement, into his/her retirement.

The City's Health Care Task Force is charged with keeping employer costs below the hard caps established by Public Act 54. The Task Force has successfully managed to do this since the Act's inception; and, prior to PA 54, the group controlled for annual cost increases of 3.5% or less. Although employee premium co-share arrangements are currently at approximately 4% of total plan costs, the employee's pharmacy co-pays, deductibles and other plan costs have gone up considerably over the past five years to keep plan costs down. These costs and the corresponding benefit plan structure are shared by both employees and retirees.

33. The FHT recommends that the City studies moving Medicare-eligible retirees from the present Medicare Advantage Plan to a comparable Medigap plan.

A significant cost-savings resulted in 2007 when the City moved the 65+ year old retirees off of the active employee health care plan onto a Medicare Advantage Plan. Over the past ten years, cost increases for the advantage plan have been reasonably low, averaging 1% over 5 years with a 30 % increase in calendar year in 2014 due to the Affordable Care changes. A preliminary cost comparison of advantage plans and comparable Medigap plans indicates that there may be a cost savings. A health care consultant will conduct a comparison analysis of these two plan offerings during the next fiscal year to determine if a change would be financially beneficial.

34. The City should study the feasibility of eliminating contribution for retirees over the age of 75.

Currently, the City does not have any retirees/retiree spouses who are 75 years old or older and pay a contribution. Over time retirees will age into this category, as newer contract language provides for a cost sharing arrangement throughout retirement. Eliminating contributions would result in additional costs to the City of East Lansing.

35. The FHT recommends establishing and monitoring a robust program for verifying beneficiary health care entitlement (must be married at MERS retirement date); and annual verification of no health coverage available at either the retiree's or spouse's current, post-retirement place of employment.

During this year's open enrollment process, retirees were asked to verify their spouse of record by providing supporting documentation. The City received verification from 103 of those 107 retirees, and the documentation resulted in zero changes to plan enrollment. Currently, beyond a certain age of retiree health care access, contract language does not state that a retiree must verify that they do not have access to health care from any other source. New language would need to be bargained into contracts.

36. The City should look into bonding for OPEB under 2012 PA 329 is NOT recommended.

The City agreed with this recommendation.

37. The City is encouraged to redouble its cost containment initiatives with its Health Care Task Force, as it is clear that such efforts have a measurable positive impact in decreasing (or severely limiting any increase in) actuarial OPEB liabilities.

The Health Care Task Force model continues to be utilized and successful. The Task Force bids healthcare coverage on an annual basis and continually monitors plan performance in order to maximize results.

Infrastructure Recommendations

38. Water and Sewer: We recommend that all necessary work and projects be financed by

- **State Revolving Fund bonds for sewers, waste water recovery facilities, and water system improvements, and**
- **Increases in water and sewer rates.**

The City continues to pursue SRF funding for larger projects that cannot be effectively cash funded. Potential future rate increases have been identified for FY 19-21 during the FY 18 budget, to provide the capability to cash fund projects up to \$2.5 million for sewer projects and \$1.8 million for water projects in FY 21. This translates to an average three year increase of 12% per year for sewer and 10% per year for water.

39. Streets and Sidewalks: We recommend creation of a dedicated fund, with Voter approval. Dedicated revenue sources are not dependent on the City's General Fund on which there are multiple competing demands.

This may be considered as a future option if the income tax ballot initiative does not pass.

40. Parks and Recreation (including Hannah Community Center): We recommend creation of a dedicated fund, with voter approval. Dedicated revenue sources are not dependent on the City's General Fund on which there are multiple competing demands.

If the proposed Income Tax proposal is approved by voters on November 7, the City Council could choose to implement this FHT recommendation.

41. Dedicated funds to implement Recommendations 2 [39] and 3 [40] could be created as a component of a Headlee Rollback re-instating the City's 20 mill charter authority (from the present 17.5891 mills), with millage revenues generated by 2.4109 mills spread on an annual basis into separate funds:

- **Streets and Sidewalks Fund, 1.6876 mills (about \$1.8 million), and**

This may be considered as a future option if the income tax ballot initiative does not pass.

42. Dedicated funds to implement Recommendations 2[39] and 3[40] could be created as a component of a voter-approved City Income Tax (with, or without, a residential property tax millage reduction), with income tax revenues of \$2.7 million spread on an annual basis into separate dedicated funds:

- **Streets and Sidewalks Fund \$1.9 million, and**
- **Parks and Recreation Fund, \$800,000.**

The City Council chose to follow this recommendation and adopted a budget directive which provides that 60% of and City Income Tax revenue by deposited in the pension fund, 20% be utilized for infrastructure improvements and 20% be utilized for general services. Within that directive it is possible to allocate \$600,000 for roads and sidewalks and \$400,000 for parks infrastructure.