

City of South Lyon  
City Council Workshop  
March 2, 2020

City Manager Zelenak explained the MERS report we are discussing tonight is dated 2018 and the 2019 report will be ready in a few months. He stated we met with the MERS representative a few weeks ago. He stated our unfunded liability is 68% funded. We are on a plan to be fully funded in 20 years. The representative from MERS said we are ahead much more than many communities in the State. He stated the graph on page 8 shows that we currently pay \$700,000 a year for all our departments. He stated this number is going to rise over the next 20 years as well as the amount funded. City Manager Zelenak stated there are employee contributions which are based on the collective bargaining agreements and that number will be rising. He stated the numbers have been going up over the last few years. He explained the percentage for being funded will continue to rise as well. He further stated the graph shows the employee and employer contributions. He further stated currently there are unions paying different contributions. Further discussion was held regarding the contributions by the employees and the city. City Manager Zelenak stated we need to realize we have the plan to be fully funded in 20 years. He stated he knows there are concerns about not being fully funded, but we do have a plan in place. He further stated the amounts we make each year is based on what MERS tells us as well as what is in our budget. If we hire any new people, they will be in the defined contribution. Benefit has been closed. The command union still has people in the original benefit program. Any new employees will be in the defined benefit program. Councilmember Richards stated we have had an increase in revenues the last 2 years and a million in building permit fees, that is expected to continue but then it will go down. Should we pay more than what we have been paying. Spencer stated this is just one of the expenditures the city has. He stated we tell our cities to have a 5- or 10-year plan and to project the revenue and expenditures as well. He further stated the city should look at that, then decide what the contribution should be. He stated once the City puts the money towards MERS you cannot get that back. Councilmember Kennedy stated we are still only at 75% of property tax revenue compared to 2008, as a result of the Great Recession. At the same time, during those 10-12 years wages, equipment and material costs all continued to increase leaving us with less money. Councilmember Kivell stated we are still on the 20-year plan and there have been years where we have not put money towards roads or other things. He stated we need to prioritize our expenses. We have a plan in place that is solving the problem. Councilmember Kennedy stated we don't have the money to repair the roads and that is the bigger issue than this. City Manager Zelenak stated this is one piece of the pie with all of our expenditures. He further stated this is a major component but we have a good plan in place. Councilmember Kurtzweil asked why the employee contribution rate is different for different groups and if the Police start to pay 2.5 as AFSCME does, will that help. Spencer Tawa of Plante Moran stated it will help over time. It will also decrease the amount of employer contributions. Councilmember Kurtzweil stated she doesn't understand why the lowest paid employees contribute 2.5% and the Police and Fire only pay 1.0 and 1.75%. City Manager Zelenak stated that was negotiated. He then stated we want to increase the percentages for all employees and he has expressed that to all the unions. Councilmember Kurtzweil stated we have to look at all the pieces to the puzzle to see how we fix this. She stated she has spoken with many communities and they are all attempting to get to 80% funded and we are happy with being funded at 68%. She further stated there are many cities that have the same issues we have and budget constraints as we do, and she would like to see the rest of the employees need to be contributing 2.5% as well. City Manager Zelenak stated he is going to negotiate that. Councilmember Kurtzweil stated she has spoken with many communities and they are increasing their minimum contribution. She further stated there is one community that is thinking about using their surplus. She stated she doesn't understand how the liability increased from 2015, what caused the increase. City Manager Zelenak stated it is the decrease in the market. The gap will widen any time there is a decrease in the market. He stated last year there was a 20% increase, but we don't know about this year. He further stated it would be great if we didn't have all the infrastructure issues we have. If we put more money toward MERS, we cannot take that money back. Other communities may not have the

same issues we have so they can put more money toward MERS. We already pay a little more than what MERS suggests. Councilmember Kurtzweil stated the multiplier is 2.5%. If we do a slight adjustment on the employee contribution rate and lower the contribution rate to 2.25, will that accommodate the unfunded liability. Spencer of Plante Moran stated it will decrease because that is saying in the future the city isn't paying 2.5, we are only paying 2.25 and it would decrease it instantly but that will have to be approved with the collective bargaining. She stated we could start with the non-union members. She further stated it would be a slight reduction and increase the employee contribution will help. Patricia stated where we are now with the contracts and the competition, we are failing to attract new employees and to keep current employees could work against us. Councilmember Kurtzweil stated she knows many people that would love to work for municipalities with these benefits. City Manager Zelenak stated all new employees do not get that benefit. He further stated the new employees aren't getting that benefit. He further stated we hardly had any applicants for the bookkeeping position and it is the same for Bob Donohue's position. If we decide to decrease some of the benefits, they will ask for an increase somewhere else to make up the dollar amount and if you don't settle it will go to arbitration and everything stays the same or we will have many people leave. Councilmember Kurtzweil stated we need to adjust it with the employees or contribute more each month. City Manager Zelenak stated this will not increase more because no one is entering this particular pool. Councilmember Kurtzweil stated if you have an employee that is 65 years old and he is married to a 45-year-old and he passes away at 95, that employee lived for 30 years and we paid the pension, most provide for benefits for their spouse. She further stated that person at 45 years old we are carrying that pension not only for the 30 years, but also for the surviving spouse. Spencer of Plante Moran stated MERS are using a mortality table. He further stated they are assumptions and it isn't going to happen. Individuals may pass away earlier; some may live longer. He further stated they factor in the spouse's age as well. Councilmember Kennedy stated this is the same logic people go through when they decide to take social security at 62 or 70. City Manager Zelenak stated the benefit would be reduced for the spouse of a deceased employee. Councilmember Kennedy stated these are things that will have to be discussed during negotiations. City Manager Zelenak stated you can see how this has changed over the years. They are changes that were made during negotiations. He further stated we need to look at the percentages to get everyone on the same rate. Spencer of Plante Moran stated the multiplier will only affect the current employees because the new employees aren't in that plan. He stated it is a give and take situation. Ms. Tiernan stated the representative for MERS stated the average is 8%. City Manager Zelenak stated these are things we try to get. Councilmember Kivell stated construction workers are working full time, the idea of competing in the market for DPW people, we have to make the right decision. Further discussion was held regarding how hard it is to hire employees right now. Other communities are paying more than we do. He further stated we do have unfunded liabilities, but we have a plan in place. We have many other issues as well, such as roads and water and sewer issues. We may need to do a wage study, but if we don't implement it, people will be asking why. He stated you have to look at the benefits as well. He then reminded everyone this plan is closed to any new employees and we have a plan in place. He further stated he wants everyone on the same page when we pass the budget. Councilmember Kurtzweil stated people are entitled to their opinion. She further stated he will have the 4 votes needed to pass the budget. City Manager Zelenak stated he wants to move the city forward and this is his job. He wants the Council to take his professional opinion. If we don't move forward with the budget and some people don't vote for the budget because you are upset about \$50,000. Further discussion was held regarding the budget being a give and take. Councilmember Kurtzweil stated she hasn't voted for one budget since she has been on council and the city has been fine. Councilmember Kennedy stated to say you aren't going to vote for the budget stops the city from moving forward and it means you don't care if the city manages itself. He further stated that is his opinion. Councilmember Dilg stated she is fiscally conservative and she hates debt. She has a house payment each month and it will be paid off in 20 years, she would love to pay it off early, but if she puts more money toward the principal, she wouldn't have the money for any home improvements and things like that. City Manager Zelenak stated if you want to make extra payments you won't have the money for the infrastructure. He further stated we need to compare ourselves to us, not

other communities. All communities have their own needs. He then stated he wants everyone to work together on this and be prepared. Councilmember Kurtzweil stated the issues that are important to her don't get addressed. Councilmember Dilg stated you can't assume this won't be taken care of. She further stated they can't get employees at their job; it is a tough time to get employees. City Manager Zelenak stated we have employees that want more money right now in between contracts.

Councilmember Kurtzweil stated she is interested in what Andy Meisner has to say about how other communities are dealing with unfunded liabilities. Spencer of Plante Moran stated to lower the unfunded liability you would need to close the plan which you have already done. From our aspect, the city is doing what they should be doing. Councilmember Dilg stated she is happy we have a plan and asked Councilmember Kurtzweil why she is so concerned about putting more money toward this.

Councilmember Kurtzweil stated it is important to her and the employees. She further stated one community is considering adding a mill for their unfunded liability. City Manager Zelenak stated if we put more money toward that, where do we take the money from. He further stated we have road issues we need to deal with. Councilmember Richards stated when we have an unused surplus on a line item, can we put that back into the general fund and pay that toward the retirement fund. Spencer stated you can do that; you just have to make that decision but that is still in the grand scheme of things.

Councilmember Kennedy stated we could do that but it would probably be a drop in the bucket, or we can pave the parking lot at the Historical Depot. City Manager Zelenak stated we can look at that at the end of each fiscal year. Councilmember Kurtzweil stated some communities are starting a contingency fund for each department. It can be used for that department for things that weren't budgeted for so you don't dip into the general fund and if it isn't spent at the end of the year, it is put toward the retirement fund.

City Manager Zelenak stated on page 3 of the Nyhart hand out shows what amounts we pay for our employee contributions that are receiving post-employment benefits. He stated last year was \$13,600 and the prior year was \$9,000. We have to contribute \$5349. We have not contributed any other amounts. This is different from MERS. Each year we have an amount we pay based on the benefits and the needs of the employees that have moved on to retire. He further stated our net OPEB liability is \$545,542 and we have discussed making a contribution of \$1,000 per employee to fund the future amount. He stated we can create a trust for this in the future. He stated we will continue to pay this as we have been.

The workshop closed at 7:40 p.m.