

**Financial Health Team  
City of Lansing, Michigan**

May 13, 2019

Mayor Andy Schor and City Council President Carol Wood  
Members of City Council  
City of Lansing  
David C. Hollister City Hall  
124 W. Michigan Avenue  
Lansing, Michigan 48933

Dear Mayor Schor, Council President Wood, and Members of City Council:

In 2012 the Lansing Financial Health Team (“FHT”) was formed to assist the City of Lansing with a variety of financial challenges, especially the growing unfunded Pension and Other Post-Employment Benefit (“OPEB”) liabilities. In 2006, the cost of these obligations represented **13.5%** or **\$25 million** of total City revenue of \$184 million, while in the Mayor’s current proposed budget for Fiscal Year 2019/20 the cost will represent nearly **21.9%** or **\$49.5 million** of total City revenue of \$226.4 million. As predicted, unless City leaders take aggressive action to address these long term liabilities, an increasingly large percentage of annual revenues will be required to satisfy pension and healthcare liabilities.

In light of this alarming trend, the FHT is recommending that City Leaders take a holistic approach to address these systemic issues before these obligations consume an ever greater portion of discretionary dollars in future budgets. In this letter, we make a series of recommendations designed to focus and sustain attention on these issues in order to prevent the real future threat of the appointment of a financial emergency manager or other remedial measures prescribed by Public Act 436 of 2012 if these issues are ignored or action continues to be deferred.

In order to focus Mayoral and Council attention on these critical issues year round – not just during the budget development cycle, the FHT recommends that the City creates a new, full-time position to formulate a long-term financial strategy for the City. A Chief Restructuring Officer (“CRO”), Chief Strategy Officer (“CSO”), or for Lansing’s situation, a Chief Legacy Officer (“CLO”) has successfully been implemented or is currently utilized by other municipalities, school districts, and units of government. The CRO/CSO/CLO would be empowered to evaluate all departments and positions throughout the City in a manner not attempted by any prior administration. This position would seek to identify efficiencies and cost saving strategies, with a particular focus on addressing the City’s growing unfunded actuarial accrued liabilities (“UAALs”). The FHT will draft and present to the City the position description and stands ready to be an active participant in filling the position. Any deliverables from the CRO/CSO/CLO should be presented to both the Mayor and City Council.

In addition to hiring a CRS/CSO/CLO, there are a wide range of additional steps that the City needs to seriously consider before the long term liabilities consume a greater share of available City revenues.

Since 2013, the FHT has been recommending the City move toward multi-year budgeting/financial forecasting. In 2019, the utilization of multi-year budgeting/financial forecasting has become a best practice of high-performing, highly rated municipalities and recommended by the Government Finance

*Submitted @mtz*

Officers Association. By the next budget cycle, the City should present and adopt a multi-year budget/financial forecast, a comprehensive long-term capital budget, applicable policies and procedures, and each year work to identify a specific set of cost savings initiatives, ideally all with active citizen and employee engagement.

Among the areas of attention, the CRO/CSO/CLO should review all recommendations provided by the FHT since its inception. In March 2013, the FHT presented a report (the “[2013 Report](#)”) to the City summarizing some initial recommendations for consideration addressing a wide array of financial matters. On December 13, 2017, the FHT presented an updated letter to the City (“[2017 Letter](#)”) with a more targeted focus on addressing the City’s UAAL’s attributed to pension and other post-employment benefits. The 2017 Letter summarized the findings of two comprehensive reports completed by Segal Consulting that were delivered to the City on September 26, 2017. Those reports that were engaged per the direction of the FHT focused on Lansing’s Pension Plan Analysis (“[Segal Pension Report](#)”) and Lansing’s Retiree Health Plan Analysis (“[Segal OPEB Report](#)”) (collectively, the “Segal Reports”) and provided a wide range of recommendations for the City to consider. The Segal Reports represent a wealth of information about the Lansing City Pension and Healthcare Plans and the extent of outstanding unfunded liabilities. Importantly, the Segal Reports also contain a series of specific recommendations for policymaker consideration.

The [2017 Letter](#) prioritized nine initial recommendations for the City to begin with from the Segal Reports. Of those, one was a cautionary note regarding the consideration of funding the UAAL by issuing bonds, and two recommendations were intended to ensure accuracy in the assessment of the liability, but not necessarily to reduce the UAALs. Of the remaining six focal recommendations from the Segal Reports, three recommendations would affect the OPEB UAAL and were based on comparison to the City’s peer groups regarding those benefits. The remaining three recommendations were challenging to consider, but had the potential of providing a material impact on the reduction of the Pension and OPEB UAALs. Those three recommendations, once again, were as follows:

1. Consider replacing group Medicare-eligible medical and drug coverage with a “defined dollar” Health Reimbursement Account (“HRA”) arrangement. The City should review and analyze, possibly with additional input from outside counsel, recent case law examples with regard to this topic.
2. Conduct a thorough and systematic review of City-owned assets, starting with those assets with the highest potential market value.
3. Consider pursuing a special millage allowed under [Public Act 345 of 1937](#) for funding police and fire pensions.

Given the systemic importance and complexity of these issues, in addition to hiring a CRO/CSO/CLO tasked with focusing on these issues, City Council should appoint a standing committee on long term liabilities. This committee should be tasked with engaging in an ongoing discussion regarding the City’s growing UAALs, with a goal of formulating solutions to be implemented based upon all the prior recommendations from the Segal Reports and the FHT. The FHT offers to participate and assist with this committee in any way requested by Council.

In consideration of active and upcoming contract renewals for police, fire, and City employees, the City should re-review all recommendations provided by the Segal Reports. In particular, Section 4 of the [Segal Pension Report](#) provided Peer Group Benchmarking to seven plans from four cities in



Michigan (beginning on Page 20), including but not limited to the time period utilized for the final average compensation calculation. Additionally, the combination of one or more of the recommendations provided in the [Segal OPEB Report](#) may be a way for the City to manage its retiree health liability both currently and into the future.

In November 2018, the City was required to submit Corrective Action Plans (“CAPs”) for its [Lansing Employees’ Retirement System \(Pension\)](#), [Lansing Employees’ Retirement OPEB System](#), and [Lansing Police & Fire OPEB System](#) to the Michigan [Municipal Stability Board](#) (“MSB”) pursuant to [Public Act 202 of 2017](#). While the City’s CAPs were accepted by MSB, their acceptance was based on the demonstrated ability to reach a 60% or 40% funding level, respectively, for a pension or OPEB plan OR the annual actuarially determined contribution to the pension or OPEB plan is less than 10% or 12%, respectively, of general fund operating revenue. These low thresholds simply avoid a liquidity crisis. While the CAPs largely focused on actions that have already been taken, the City referenced the FHT repeatedly and included the 2013 Report and the Segal Reports as Attachments along with the submission. The FHT continues to caution City Leaders that the unfunded Pension and OPEB liabilities will ultimately need to be funded in full, and thus the acceptance by the MSB should not be misconstrued to indicate that the problem has been resolved.

On April 4, 2019, Standard & Poor’s (“S&P”) issued its Global Rating Report related to the City’s issuance of bonds to refinance outstanding indebtedness. In the report, S&P commented on the City’s very weak debt and contingent liability profile by stating, “...a credit weakness is Lansing’s large pension and OPEB obligation, without a plan in place that we (S&P) think will sufficiently address the obligation.”

In summary, the FHT once again implores City Leaders to resist the temptation to delay or defer action. As stated in the 2017 Letter, “... the FHT believes that not taking action will increase the likelihood that the City and its employees may ultimately have these difficult decisions made for them”. While the FHT recognizes the overall benefits of recent and future developments, we provide caution regarding the belief that the City can grow its way out of this problem. Continued economic development within the City is an important priority, but the FHT disagrees that this type of activity will play a material role in addressing the City’s mounting UAALs. As evidenced by the dramatically increasing proportion of the City’s annual budget that is being required to satisfy past obligations – every budget year that goes by without fundamental reforms makes the problem bigger and more difficult to address. Failure to seize this opportunity to develop a true, comprehensive plan to address these issues will result in fewer and more painful options available to current and future City Leaders.

Respectfully submitted,

Financial Health Team  
City of Lansing

cc: Chris Swope, Lansing City Clerk