

Corrective Action Plan Monitoring: Policy and Procedures

PA 202 of 2017 Sec. 10(6): The Municipal Stability Board (the Board) shall monitor each underfunded local unit of government's compliance with Public Act 202 of 2017 (the Act) and any corrective action plan. The Board shall adopt a schedule, not less than every 2 years, to certify that the underfunded local unit of government is in substantial compliance with this act.

Monitoring Methodology and Intent: Corrective action plans (CAP) thus far have been approved under a broad scope in support of locally developed plans. As such, great flexibility in approval of these CAPs has been given to allow local governments to determine the components of their plan. CAPs were approved based on the CAP Approval Criteria, but much of the supporting documentation provided to support the approval criteria was imprecise. In order to ensure that the local governments are reaching the goals outlined in their CAPs, the CAP monitoring process is intended to provide greater scrutiny and validation of the components and details of local governments plans. This process will ensure that local governments are taking the necessary steps to address their underfunded status.

Timeline: Local governments must begin implementation within 180 days of CAP approval and will be monitored for substantial compliance with the Act every two years.

CAP Changes: If at any time after a CAP has been approved, a local government determines their previous submission is no longer substantially in effect, an updated CAP may be filed for review by the Municipal Stability Board.

Corrective Action Plan Monitoring Process

Local Government Communication: Monitoring Notifications

- **Step 1: 180-Day Implementation Notification**
 - 180 days after a CAP is approved, a letter is sent to the local government informing them that they have reached the 180-day deadline. They should have begun implementing actions listed in their CAP as required by the Act.
 - Treasury will provide guidance in this notification that local governments should be receiving projections within their annual valuations in accordance with the Board's best practices document as follows:
 - ADC's, retirement benefit payments, assets, liabilities, and discount rate
 - It is recommended that local governments utilize these projections as part of their monitoring certification
- **Step 2: CAP Monitoring Form – Sent 1.5 years after initial CAP approval**
 - In the CAP monitoring notification, local governments will be reminded that the Retirement System Annual Report (Form 5572) is due annually six months after their fiscal year end
 - Failure to submit the Form 5572 could result in a determination of noncompliance
 - **Local governments will be required to submit the proposed "CAP Monitoring Form" to be used by the Board when evaluating CAP compliance and implementation**
 - The completed CAP monitoring form is due 3 months after receipt
 - Treasury will provide administrative support by preparing a detailed review and recommendation for the Board's compliance certification
 - The Board will review and certify the local government for compliance with the Act every 2 years

Proposed Municipal Stability Board Corrective Action Plan Monitoring Criteria

To assist local governments in preparing for the statutorily required monitoring process for their approved CAP(s), the Board is publishing CAP monitoring approval criteria. The Board will be considering these criteria when monitoring corrective action plan implementation and determining if funding progress has been made as outlined by each underfunded local government. Local governments are encouraged to continue to use a balanced approach to address their underfunded status by using one or more of the [best practice principles](#) published by the Board. Additionally, local

governments may use CAP monitoring approval criteria to ensure their approved corrective actions are in compliance with the Board.

CAP Monitoring Criteria:

1. Underfunded Status

- Using detailed supporting documentation, is the local government addressing their underfunded status in the same timeframe or less, as the approved CAP?
 - **Supporting documentation**
 - It is recommended that supporting documentation show a projection for the duration of the plan that includes, but is not limited to, assets, liabilities, funded ratios, normal cost payments (if applicable), actuarial assumptions, and retiree benefit payments, using reasonable calculations
 - **If underfunded status is not being addressed in a timeframe less than or equal to approved CAP timeframe:**
 - If a corrective action plan by a local government is not addressing its underfunded status within the original approval criteria timeframe (20 years for pension or 30 years for OPEB, for severely underfunded systems), the local government may be found noncompliant with the Board's CAP monitoring criteria
 - As general guidance, a local government with a severely underfunded pension system is 45% funded or less. A local government with a severely underfunded retirement health care system (OPEB) is 25% or less

2. Substantial Changes

- A local government must certify that the corrective action plan remains substantially the same as the original approved submission.
 - **If a local government cannot certify that their plan is substantially the same as the approved submission, the local government must provide the following with their CAP Monitoring Form:**
 - All proposed actions the local government was *able* to implement
 - All proposed actions the local government was *unable* to implement.
 - Any actions in addition to the original CAP
 - Governing body approval is required for additional actions
- The Board will use CAP criteria to approve or disapprove CAP changes, thereby certifying their compliance with the Act or finding them in noncompliance

3. Sustainability

- **Local government must certify sustainability**
 - Local government must certify the plan is still affordable, through detailed supporting documentation. This includes documentation that the local government's retirement costs are not increasing at a rate greater than what can be afforded through reasonable revenue growth. Retirement costs also must not have substantially increased above the original projection in their approved CAP.
 - Local governments with a combined payment that increases by greater than 5% annually as a percentage of governmental fund revenues, which is also greater than the rate documented in the approved CAP, may be determined to be unsustainable by the Board.
 - It is recommended that supporting documentation include a projection of all annual retirement payments (Pension ADC(s)+OPEB Insurance Premium Payments(s)+all additional contributions) as a percentage of projected governmental fund revenues for the duration of the plan.
 - The local government must confirm that corrective actions listed in the CAP allow for the local government to make, at a minimum, the actuarially determined contribution (ADC) payment for pension plans and/or the retiree healthcare premium payment, as well as the normal cost payment for new hires for retirement health benefits (*Sec. 4(1) of the Act, MCL 38.2804*). This confirms that local governments have linked long-term future payment expectations with revenue expectations and have concluded that those payments are sustainable now and into the future, without additional changes to their CAP.

- **If the local government cannot document that the CAP will continue to be sustainable or the Board determines that plan may no longer be sustainable:**
 - The Board may certify compliance; however, the Board will note that the local government is not on track, as their annual payments have significantly increased. Prior to the local government's next monitoring period, they must address the change in affordability, or they may be determined noncompliant.

Step 3: Certification of Compliance

- **Compliant:** If a local government has met all published CAP monitoring criteria and satisfied all reporting requirements:
 - The Board certifies the local government's compliance with the Act.
- **Compliant with Conditions:** If a local government is unable to certify sustainability or determined to be unsustainable, but all other criteria and reporting requirements are met:
 - Board certifies the local government's compliance with conditions.
 - Affordability concerns must be addressed prior to the subsequent monitoring period, to the Board's satisfaction.
- **Noncompliant:** If local government does not meet CAP monitoring criteria or did not satisfy annual reporting requirements:
 - The Board may determine the local government noncompliant
 - The local government will have 60 days to address the reasons for noncompliance.