



Police Pension Millage Executive Summary

Why Is the City Asking For This Millage?

The City's police pension fund is 48% funded, with an unfunded liability of \$1.7 million. Today's problem started 35 years ago when benefit increases were granted in the early 1980s through the mid-1990s. Those benefit increases increased our pension liabilities, but contributions were not increased to pay for the future cost of the higher benefits. As a result, the City has had a growing unfunded pension liability over the past decade.

In 2015 the Municipal Employees' Retirement System (MERS) finally started to require municipalities to eliminate unfunded liabilities over a period of up to 25 years. While this decision by MERS was necessary, it has also caused Pleasant Ridge's pension payments to drastically increase, from about \$180,000 annually in 2014 to over \$425,000 by the early 2020s. This increase of about \$250,000 per year is nearly equal to the total payroll cost of our active police patrol officers, and the City cannot absorb these cost increases without having to make service cuts or raising new revenue.

Millage Overview

The City Commission has placed a request on the November 2017 ballot for a 1.4 mill increase in the City's general operating millage for a period of 15 years. This increase will cost the average resident about \$160 per year.¹

- The millage will phase in over a period of four years, increasing by not more than 0.35 mills per year until it is fully phased in. The millage will last for 15 years. We expect the City's pension to be fully funded when the police pension millage expires.²
- The City's millage rate has been reduced about 0.5 mills each of the past two years by the Headlee Amendment. This means that if you are a resident who has lived in Pleasant Ridge for over 2 years you pay less in City property taxes now than you did two years ago. The average reduction in taxes paid to the City for a resident who has lived here since before 2015 is about \$120 per year. Even though property values have increased by 6-10% annually, City tax revenue growth is limited by the combination of Headlee and Prop A, and as such has only increased by 0.3% to 0.9% per year.³
- The City will see another millage rate reduction next year based on the trend of this years' home sales. The expected rollback of 0.5 mills is greater than the phased-in 0.35 mill tax increase, so if approved we expect residents to still see lower City tax bills next year compared to this year.

What Has the City Done to Address Pension Liabilities?

The police and other City employees have agreed to a series of concessions from 2011 through 2017 that will create a sustainable long-term fiscal position for the City once the current unfunded liability in the pension fund is eliminated. These City actions and employee concessions include:

- Closing defined benefit pension police group 02 and administrative group 10 to new hires in 2011 and replacing them with new groups that have lower benefit levels. The new groups are fully or nearly fully funded.

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¹ The full ballot language is available online at www.cityofpleasantridge.org

² An full overview of the City's pension fund, how it has become unfunded, and what the City has done to address the issue is available online at www.cityofpleasantridge.org

³ An overview of Michigan's municipal finance system and how it causes long-time residents to pay less in taxes is available online at: www.cityofpleasantridge.org

- Police employee pension contribution increased from 0% to 2.5% in 2011. Administrative employee contribution increased from 0% to 3% in 2011.
- New police hires receive a hybrid plan that has a small pension component combined with a 401k-style defined contribution plan.
- City Manager pension group is closed. The current City Manager does not receive a defined benefit pension, but participates in a 401k style program.
- Retirement health care is no longer offered for any administrative employee hired after 2011 or police officer hired after 2017. Instead, employees have access to a Health Care Savings Plan that allows them to save for retirement health care costs with a small City contribution.
- The City has already made about \$80,000 of annual cost reductions to absorb the increasing pension costs to date.

What Happens If the Millage Is Not Approved?

The City cannot continue to provide the same level of services with the pension cost increases we are facing. The Police and Recreation departments account for over 55% of the City's total budget, and will be the most impacted by further cuts.

We currently have one full-time police officer position open. If the pension millage does not pass, that position may not be filled. It is possible that we may have to contract with a nearby police department to provide police coverage for a portion of the day. Cuts in recreation programs and city staff would be the next consideration to fill any remaining gaps.