Michigan Department of Treasury
Office of Revenue and Tax Analysis
PO Box 30722
Lansing MI 48909

RE: Compliance Form 5074 - Category 3 Unfunded Accrued Liability Plan for City of Clawson

The City of Clawson is pleased to submit form 5074 with the required documents per Public Act 59 Economic Vitality Incentive Program (EVIP) for category 3.

The City of Clawson has chosen to track and display this data using Munetrix to make the information readily available to the public and other local units of government.

All documentation necessary to comply with the EVIP requirements are included with this letter, and we look forward to continue receiving these important funds from the State of Michigan.

Please contact me if you need any further information or clarification.

Sincerely,

Mark Pollock
City Manager/Finance Director

Michigan Department of Treasury
(Recreated) 5074 (Rev 09-13)

Economic Vitality Incentive Program/County Incentive Program
Certification of Unfunded Accrued Liability Plan

Issued under authority of 2013 Public Act 59. Filing is mandatory to qualify for payments.

Each city/village/township/county applying for Unfunded Accrued Liability Plan payments must:

1. Certify to the Michigan Department of Treasury (Treasury) that the local unit listed below has produced and made readily available to the public Unfunded Accrued Liability Plan. The plan shall be made available for public viewing in the clerk's office or posted on a publicly accessible Internet site as required by 2013 Public Act 59.
2. Submit to Treasury Unfunded Accrued Liability Plan, if selecting Option 1 of part 2 below.

City/village/township: This certification, along with Unfunded Accrued Liability Plan, **must be received by June 1, 2014** to receive the June and August payments or on or before July 31, 2014 to receive the August payment. Post mark dates will not be considered. For questions, call (517) 373-2697.

County: This certification, along with Unfunded Accrued Liability Plan, **must be received by June 1, 2014** (or the first day of a payment month) in order to qualify for that month's payment. Post mark dates will not be considered. For questions, call (517) 373-2697.

PART 1: LOCAL UNIT INFORMATION	
Local Unit Name **City of Clawson**	Local Unit County Name **Oakland County**
Local Unit Code **632040**	Contact E-Mail Address **mpollock@cityofclawson.com**

Contact Name	Contact Title	Contact Phone Number	Extension
Mark Pollock	**City Manager/Finance Director**	**2484354500**	

Website Address, if reports are available online **http://munetrix.com/sections/data/municipal.php?MuniID=332&Type=City**	Date of Last Audited Financial Report 2013-06-30

PART 2: STATEMENT OF UNFUNDED ACCRUED LIABILITIES

Indicate the option that pertains to your local unit:

- [x] **1. Unfunded Accrued Liabilities Exist**
  A local unit who has unfunded accrued liabilities pertaining to pensions or other post-employment benefits must attach a plan as required by 2013 Public Act 59.
- [ ] **No Unfunded Accrued Liabilities Exisit**
  A local unit who does not have any unfunded accrued liabilities pertaining to pensions or other post-employment benefits must provide, in the box below, an explanation of why the local unit does not have any unfunded accrued liabilities.

See notes on Page 3

PART 3: CERTIFICATION

In accordance with 2013 Public Act 59, the undersigned hereby certifies to Treasury that the above mentioned local unit has produced an Unfunded Accrued Liability Plan and has made them available for public viewing in the city, village, township, or county clerk's office or has posted them on a publicly accessible Internet site. The Unfunded Accrued Liability Plan, if required is attached to this signed certification.

Chief Administrative Officer Signature (as defined in MCL 141.422b)	Printed Name of Chief Administrative Officer (as defined in MCL 141.422b) **Mark Pollock**
Title **City Manager/Finance Director**	Date **May 27, 2014**

Completed and signed form (including required attachments) should be e-mailed to: **TreasRevenueSharing@michigan.gov**
If you are unable to submit via e-mail, fax to (517) 335-3298 or mail the completed form and required attachments to:

Michigan Department of Treasury
Office of Revenue and Tax Analysis
PO Box 30722
Lansing MI 48909

TREASURY USE ONLY		
EVIP/CIP Y N	Certification Received	EVIP/CIP Notes
Final Certification	Plan Received	

Unfunded Liability Notes

PREVIOUS ACTIONS TAKEN TO REDUCE UNFUNDED ACCRUED LIABILITIES

The City of Clawson has been addressing the issue of unfunded accrued liabilities and legacy costs for 15 years now. Although we still have large UAL balances for both our defined benefit pension plan and our OPEB health care liabilities, we have addressed our future UAL and legacy costs through new hire agreements.

UAL-Defined Benefit Pension Plan
Previous Action Taken

Beginning in 1999 the City of Clawson in order to address future legacy costs changed the new hire policy to provide only a Defined Contribution (DC) pension plan. The Non-Union employees and AFSCME employees hired after that 7/1/1999 have been placed in a DC retirement plan. The Police Unions agreed to the same new hire change in 2004. Currently there are only 14 active employees remaining who have a Defined Benefit (DB) pension plan for their retirement. In contrast, there are now 33 active full time employees who have the DC retirement plan. Since our DC plan only contributes while the employees are active, the contributions will end when the 33 employees retire. Our unfunded accrued pension liability is $12,222,906 as of 12/31/2012 and our plan was 47% funded. Although that looks bad and our annual contributions will continue to go up each year until about 2021, our contributions and our unfunded accrued liability will both begin to drop beginning in 2022. From that point forward, our contributions will drop significantly every year until all of the remaining retirees and beneficiaries have deceased, at which point there will be no more post-pension payments required. In annual contribution dollars, it is anticipated that our annual payment in the fiscal year 2014-2015 will be about $1,200,000. In 2032 our annual contribution will be about $350,000.

How We Will Continue To Implement Our Previous Actions

This change to the new hire policy has been our biggest and most important plan for future savings since we will gradually be losing all of our pension legacy costs. Although it will likely take about fifteen to twenty more years before we reach full funding of our defined benefit pension plan, the contributions on an annual basis will begin to drop in about 2022. Our savings by switching to the DC plan for all new hires will likely average about $250,000 per year from 2022-2025 and then amount to over $500,000 annually over a period of several years from 2025-2035. Then once the DB survivors and beneficiaries are no longer collecting pension dollars, the savings will exceed $1 million annually.

Additional Actions That Could Be Implemented

The only feasible options to lower our UAL is to reduce overtime calculations for FAC and to reduce the E-2 cost of living multiplier for our Police DB Pension. Currently there is either a 2% or 2.5% multiplier for annual cost of living adjustments. The difficulty with achieving this would be that a majority of our current retirees would need to agree to reduce the multiplier. We would have to offer an alternative to their benefit to achieve agreement. If we were able to achieve that reduction, that would result in current and long-term savings to the plan.

UAL-Retiree Health Care
Previous Action Taken

Our OPEB Liabilities are only for health care coverage. Much like the pension plan, we went to a Retirement Health Savings plan for new hires beginning in 1999 for the AFSCME Union and the Non-Union and Police Union employees were changed in 2004. No new employees hired after 2004 will be eligible for retiree health care coverage provided by the City. We are funding a Retiree Health Savings Account for active employees and no benefits will be paid for by the City for those employees for retiree health care after they retire. We currently have an actuarial UAL for health care estimated by our actuary at over $13,000,000. Retiree health care is currently being covered by a pay as you go plan and that UAL figure is very deceiving.

How We Will Continue To Implement Our Previous Actions

We continue each year to make changes to our health care plans to make the cost sustainable into the future. We currently have 56 retirees and spouses covered by retiree health care and 23 active employees who will qualify for City funded retiree health care when they retire.
Coincidentally, we currently have 23 active employees that are enrolled in our Retiree Health Savings Plan who will not receive any retiree health benefits. Our plan to reduce our OPEB UAL is to continue to analyze our coverage each year

and ask employees and retirees to pay more out of pocket costs each year. We switched on January 1, 2014 to a partially self-funded insurance plan that we expect will save us significant money in health care costs. We also placed our post-65 retirees on a Medicare Advantage Plan that provides significant savings annually. Our annual costs for retiree health care have dropped each year since 2008. Our cumulative savings exceed $2 million had we left coverage the same as we had in 2007 for retirees.

<u>Additional Actions That Could Be Implemented</u>

Analyzing our annual costs and making changes that reduce our costs is the best way to continue reducing our UAL. Wellness initiatives are one possible new option, especially in our pre-65 retiree group. We continue to add more out of pocket costs to our current employees and our retirees. Active employee changes also impact our retirees to some extent. We will continue to make changes that will keep our pay-as-you-go plan affordable for retiree health care.

