

**ALGER COUNTY BOARD OF COMMISSIONERS  
SPECIAL BOARD MEETING**

**February 25, 2013**

**Minutes are subject to corrections and approval**

Pursuant to recess, the Alger County Board of Commissioners convened in the conference room of the county building at 4:00 p.m. on the above date.

The meeting was called to order by Chairman Doucette with the following Commissioners present: Commissioners Mattson, Pullen, Rondeau, VanLandschoot, and Doucette. Absent ó none.

The Board of Commissioners said the Pledge of Allegiance.

Commissioner Doucette thanked everyone for coming. He went over some ground rules for everyone that wanted to speak and asked the commissionerø to refrain from speaking or addressing the public at that time and for the commissionerø to speak at board comments. Public comment session was open. There was no public comment from the floor; thus, the public comment session was closed.

It was moved by Commissioner VanLandschoot and seconded by Commissioner Mattson to approve the agenda as presented. Motion carried by the following vote: Ayes ó Commissioners Mattson, Pullen, Rondeau, VanLandschoot, and Doucette. Nays ó none. Absent ó none.

Commissioner Doucette said that the intent of the meeting today is that the county received an audit on OPEB (Other Post-Employment Benefits). He said that they brought in Attorney Terry Burkhart to work through these things and try to figure out where the county goes from here and what is next. He wants the public to get the same kind of information that the board is getting and that there are no secrets. He asked the public to please address any questions to Attorney Terry Burkhart. He said that if they do not have an answer, they will get the answer. Attorney Burkhart said that he was asked by the chair to consider the report. He said that the history is that the county has been audited for years. He said that starting in 2009 the county was supposed to be getting an OPEB audit. He said that MERS (Municipal Employeesø Retirement System of Michigan) is completely separate and is unrelated to this particular issue. He said that he read it and talked to the auditor, talked to the Michigan Department of Treasury and the Marquette County Treasurerø Office. Attorney Burkhart said that he looked at the Schoolcraft Countyø audit. He said that he has been investigating on what this means for Alger County. He said to look at page 40 and 41 and that it says in 2011 the county paid \$126,591, which represents the current benefits paid to active retirees and did not set aside any additional monies to prefund benefits. He said that it is a pay as you go retiree health plan. He said that the annual OPEB calculation is \$349,384. He said that if nothing changes from 2011, the county would have to put aside \$350,000 every year to fund its future liabilities for the next 30 years. He said that is \$200,000 more than was paid in 2011 and \$200,000 more than was paid in 2012. He explained how it worked and funding future benefits. He said that they assumed that it would earn interest at 7%, which is an ambitious interest rate. Attorney Burkhart said that the bottom line is with these OPEBs as best as the actuaries can compute them, the county is going to fall further and further behind. He said that he talked with the Michigan Department of Treasury about this. He said that there are communities which have way worse OPEBs than Alger County. He said that he investigated by contacting Schoolcraft County, Delta County, and Marquette County. He said that he compared all of the 2011 audit reports. He said that Schoolcraft has no OPEB liabilities. They never promised anybody any retiree health benefits. He said that Delta County has no OPEB liability and never promised anybody any retiree health benefits. He said Marquette Countyø figure is about \$1.7 million dollars. He said that he talked with Anne Giroux, the county treasurer, and said that they are hoping to begin putting an extra \$200,000 toward that liability. He said that there are differences between Marquette County and Alger County. They employ 10 times as many people and have a \$50 million dollar a year budget. He said that \$1.7 million short for Marquette is roughly 3% of their budget and that Alger Countyø is a significantly greater percent of their budget. Attorney Burkhart said that one of the questions that Jerry asked him to look at was the Emergency Financial Manager law. He talked about the vote and that there was a proposition to repeal Governor Snyderø Emergency Financial Manager law that was successful and that was repealed. He said there was a pre-existing Emergency Financial Manager Act from the 1960s and that it basically reverted back to the old act. Attorney Burkhart said that the Department of Treasury basically said that they would not take over a county for an underfunded OPEB liability. He said there is little risk for the foreseeable future that the State of Michigan would come in and take over the county. He said that however, the Treasury did indicate that this year we accrued \$200,000 of OPEB liability meaning Alger County really incurred \$350,000 of exposure and only paid \$126,591. That difference has to be reflected on the books. He said future doesnø have any impact on the budget, but the past does. He said that the net worth of Alger County went down \$600,000

in 2011. He said that was the \$300,000 payment that the county made on behalf of its employees to MERS and then this \$200,000 of OPEB liability and that will be reflected every year that you don't fund. To prefund any of the retiree health, and you only pay as you go, you will sink further and further into the hole. He said that this has significance for collective bargaining, it's not only limited to union, they have elected and appointed that are on the retiree health program. He said the county has elected, they have appointed, they have union, and retired elected officials who are drawing retiree health benefits right now. He said that the general rule is that if someone is already retired, they are fully vested. So they get their benefits, a substantially equivalent benefit. He said that doesn't mean they get exactly the same benefit, but it means that it has to be substantially equivalent. He said that there are a lot of insurance plans that were available 20 years ago that aren't available now. He said that this is a forward looking thing. Attorney Burkhardt said that if Alger County changes the plans or changes the rules, changes the collective bargaining agreements or the County Board changes the situation for elected and appointed, the actuarial will start reducing that future strain that is coming up because of the liability. He said for instance if you totally eliminated retiree health for future employees, your liability wouldn't go away, but it would be massively reduced. If you take off new hires and new hires don't get that benefit, it would reduce the future \$350,000 for over the next 30 years. If employees contribute more or if the insurance isn't provided, it changes all around. He said that the county had to pay \$12,000 to get an actuary to compute the OPEB and this is the first time Alger County has had one and will have to have one at least every three years and if there are changes to the plans then the county might have to have the actuary looked at more often. He said that if there are amendments to the plan, then those long term liability numbers should start working their way down. Attorney Burkhardt said that there is a huge deficiency in Alger and Marquette Counties and they would have to start putting away a ton of money if the program is to remain in place. He said that another problem for Alger County is that they do not have a controller. They don't have a Chief Executive Officer preferably with an accounting background. Things are literally being run by an elected board. He said that it is a real disadvantage not to have a numbers person that understands all of this. He said that since he began last fall, he has learned that there are special plans for certain retired deputies, special plans for certain retired public officials from 20 to 25 years ago. Things that he didn't have that information when they last did the retiree health insurance back in the fall. He said there is a history that could also be important. He said that when he talked with the guys at the Department of Treasury, they said that Alger County is not alone and that there are other communities that have this problem. He said it is a result of a couple things. One is obviously that the county is not getting as much money from the state. Secondly for the first time in history, property values are decreasing instead of increasing with inflation. They are starting to see some of U.P. counties where the population is getting smaller. The Department of Treasury basically said that what they are worried about is account deficits. If they start seeing deficits, where we don't have the money to pay for something, we go into the negative in an account, that's when their ears will perk up. He talked about a letter that the county received from the Department of Treasury that raises specific objections to the 2011 audit that they just got, but as far as he can tell none of them relate to this OPEB problem. He said that sooner or later as the annual deficiencies accrue, then it does appear that sooner or later, we will be having account deficits. Attorney Burkhardt said that there is another related problem there and that it is going to affect the credit rating. As we start carrying these OPEB liabilities, if we have to go to a bank to raise funds to do something, it is going to affect the credit situation. He said that any financial institution would like to see that there is something being done and that there is a plan. He said he talked with Mike Greutz, the former auditor, and said that he thinks that the actuaries that Alger County hired are good actuaries and has no reason to question what they did. He said that every county are all in different situations. Attorney Burkhardt talked about MERS funding and that some counties are ahead of us and some are behind us. He discussed what goes into the actuarial analysis. He said that this is a problem that affects everybody, even an active employee with 10 years of experience should be concerned that if they want to have a job or retirement, that there is enough money to give them raises and that it is not all given to fund retirees. He said that there are many, many issues and that this is really a community problem and everybody needs to have a handle on it. He discussed the 80/20, hard caps election reopener coming up that will be happening in the fall. He discussed health insurance is to be revisited at the end of the year. In addition to talking to people and reading these various reports, he did a web page research and has a syllabus of some things if people want to read up on how these problems came about. He has a handout on how governmental units like Alger County got into this situation, where we are so far behind on this kind of exposure. Attorney Burkhardt said that the reason is that people are living longer; insurance keeps increasing, people made these commitments at a time when health insurance was a small percentage of a person's salary and now it is 25-30% of a person's annual salary. It is a whole perfect storm of economic factors coming together. He discussed employees starting paying 3.75% into their pensions and contributing to employee health. He said that what Jerry wanted him to do was explain as best as he could what the report means and how it translates financially and then to discuss options and generally the lay of the land so to speak. He said with respect to elected and appointed non-union employees, the board can take

action. Unless there is a binding contract, they can actually say here is what we're going to do for elected and appointed. He said with respect to the unions, they have to negotiate and are currently negotiating two out of three contracts. He said that there are a lot of stakeholders in this. There is the public that gets services, there are union employees, non-union employees, elected and appointed, lots of moving parts. He said that when he talked with the Department of Treasury, what they basically said is that the ordinary options for dealing with this problem, number 1 like the MERS pensions, a lot of them got closed so that the new hires are on a defined contribution instead of a defined benefit. That is basically a pay as you go retiree pension. Retiree health could be closed to new hires. There is a post Medicare eligible benefit being the NEBS benefit. That could be amended or deleted or eliminate it entirely, but that everybody he talks to normally is a graduated process. He talked about how many employees can retire now. He said that Marquette has some serious deficiencies over \$1,000,000 per year. He said that the money of \$200,000 per year will go into a trust fund. Once it gets put in, it cannot come out for anything except retiree health. Attorney Burkhart said that is a possibility for Alger County too. The question is where you get the money. He said that there is a brand new statute that was passed at the end of last year and what it does is allow the County to bond the exposure, but the Governor put some hooks in it, one of which is that it has to be at least partially closed. He said that the obvious answer would be to close it to new hires. Once you close it to new hires that long term 30 year liability would eventually work the way to zero. The Governor also says that you have to have a AA credit rating before you can do that. He said that he does not know what Alger County's credit rating is. It also has to be approved by the Department of Treasury and that it would basically involve borrowing enough money to fund the future liability stream for future retirees of Alger County. This is the position which the county finds themselves. He said that eventually this will creep its way more and more into the balance sheet and it will become more and more difficult for Alger County to borrow money. Commissioner Doucette said that he wanted to stress that we certainly didn't get here yesterday and don't have to resolve this tomorrow. Attorney Burkhart said with Obamacare this will probably get worse. He said that if anybody wants to check on any of the statistics he talked about today, they can go to Michigan Department of Treasury Local Government Audit and can see Schoolcraft County, Delta County, Marquette County, you can see all of the numbers. It's got their OPEBs, it's got everything that they have talked about today. He said that the treasury does a rating from 1-10. He said that the last time Alger County was rated, he thought was in 2009 and it was 5, so Alger County is midway and that was before OPEB was even being reported to the state. He said that last year the state even held up a revenue payment for Alger County saying that they had to get the OPEB done. There were no questions from the commissioners or the public. Commissioner Doucette said to go ahead and take a step at a time and will need another audit for 2012, 2013, and 2014. He wanted the all of the commissioners and the public to hear this information. He welcomed any suggestions and to listen to any concerns and said we can do what we can. Dave Cromell thought it was a good idea that the retirees and your bargaining units and anyone involved have notice for upcoming meetings and be apprised as to what is going on and maybe contribute something. Commissioner Doucette said that he realized that this was short notice and worked really hard to get it in the paper so everybody could get here and wanted to get it out in the community and to have time to all think about it and to discuss it. He said that to him this is not a board concern, but a county concern. He said that he will make any effort to contact the retirees and get notice out. He said he does not have the answers. Attorney Burkhart said that this is not a one size fits all solution. Commissioner Doucette said to work together and come up with some solution and go forward. He said they are not here to criticize past boards on what they did. He said that he is not going to say that the current employees don't deserve the retirements and options they worked hard for. He said that in today's world they can no longer afford to go forward with the way things are in some of the retirement health care options. He said that they need to operate within our means and work with the means that we have. Dave Cromell discussed a history of the benefits that were given at the time and how it evolved, there were consolidations of jobs. He wanted it to be known that they worked on hiring only one when three retired and other departments did the same thing. He said that this wasn't given to the retirees with no forethought; there was a savings at the present time. Commissioner Doucette said he appreciates him bringing that forth. He wanted to make this initial step in bringing this forth and for all of the employees that are interested and the public. He said they are moving forward and are going to try and do something about this. He said that we do not know where we are going at this point. Attorney Burkhart said that the board has the authority to reduce benefits for elected and appointed and that the Attorney General has made that quite clear. You cannot reduce an elected official's salary during his term, but the Attorney General has made it clear it does not apply to fringe benefits. Attorney Burkhart asked what the board wants to do with the elected and appointed officials. Doug Miron, retired police chief and currently Chairman of the Board of the Alger County Road Commission, discussed talking in the past few days that over the years during negotiations a number of county employees went for benefits and not wages. He said that he would imagine that they could negotiate with the retirees but to take things away from the retirees now would be rather difficult and probably the best way to go with the insurance program would be with the new hires coming on. He said that

you can deal them a different plan than what you have going for retirees at this time. He said that he thinks that would be something fair that they could negotiate and look at. Attorney Burkhart said that so it is clear that the county can only deal with elected and appointed because that retiree health is a mandatory subject of collective bargaining and that they have to work that out with the unions, but with respect to elected and appointed where there is no union that's certainly an option available to the board. John Hermann, Alger County Road Commission, said that Alger County is a member of MAC (Michigan Association of Counties). He asked if they have addressed this and asked for some guidance through this difficult time. Commissioner Doucette said no they haven't. John said that they have people that are experts in helping them out. Commissioner Doucette discussed working with MAC and that they are in the process of having them do some investigating and having a team that will be independently working with Blue Cross to see if they can get some cheaper rates for all counties across the state. He said they are starting already with some webinars so things are starting to happen in the health care field. John said that they have professional people that have gone through these problems before in other counties and that they could send somebody here and help. Commissioner Doucette said that he is going to get ahold of Tim at MAC. There were no more questions or comments. Commissioner Doucette said that they will continue to work on this problem and take it a step at a time and find a solution that will work for all of us. He said that they will share information as it comes in with everyone.

New correspondence was read and will be placed in the file.

Board comments were next. Commissioner Pullen said that they need to discuss with Attorney Burkhart whether they can reopen negotiations with the sheriff's union. She said that they accepted a tentative agreement. She said that they need to come to a decision on the elected officials. She said that if they have to move forward she didn't believe that there were any elected official currently that has worked for them 10 years-12 years. The clerk said that she has been here 12 years. Commissioner Pullen said that is total and that includes time as a union employee. The clerk said that they have to count the total years. Commissioner Pullen said that as an elected official, she is still less than 20 years. She said that they need to look at the elected officials at the next meeting. She said that it isn't pleasant but it has to be done. Commissioner Rondeau said that he doesn't know how to see through this until they know what is going on with Obamacare. He discussed employees that work with Schoolcraft County and Alger County. Commissioner Mattson said that Schoolcraft County employees are under the Schoolcraft program and that Alger County pays a percentage. He said that you are talking circuit and that it is a four county circuit. Each county pays a percentage of the employee's wage. The post-retirement benefits were discussed and that Schoolcraft County doesn't have any so we are not incurring additional expenses with those shared employees. Commissioner Mattson said that they have a lot of information to go over and tough decisions that they need to do. He said that it will take some research and maybe a special meeting to deal with it. He said that maybe with the sensitivity of it that should be the only thing on the agenda. He said that they definitely have a lot of things to go over. Commissioner Pullen said that what they have to remember is that currently they may be changing the pensions, but this is only concerning other post retirement employee benefits. This is not pensions. Commissioner Mattson said this is health insurance and life insurance. Commissioner Pullen said that she didn't think that they continue elected officials after retirement for health insurance currently. She said they have some retired elected officials that they continue. She asked if they quit as far as or have they simply talked about it and haven't made a decision. Commissioner VanLandschoot thanked the public and past employees for coming and their thoughts. He said that this is something that they need to take a look at. He said this is not one of the more encouraging things that he has seen here, but that it is something that they have to do. Commissioner Doucette said that he believes that they have a fiduciary responsibility to the citizens of Alger County to work on this situation.

Staff comments were next. Sheriff Hughes said that they make it a community problem, which is a countywide problem, and asked about a millage. There was discussion on this. Commissioner Mattson discussed closing the doors on the new hires, where it doesn't hurt any of the immediate employees and that the employees have worked years to get where they are at. He said that it is a negotiated item. He discussed issues when the state comes in. He said that they will have to talk about it, negotiate, and be open to concessions. Undersheriff Brock asked about negotiating their contract in two or three years and if the board may be looking at reducing their benefits that were discussed today. Commissioner Mattson talked about the possibility of reopening the existing for the new hires. Negotiations were discussed. Commissioner Mattson said that this will show the state that the county is taking corrective action and that it has to be done.

Public comment session was open. There was no public comment from the floor; thus, the public comment session was closed.

It was moved by Commissioner Rondeau and seconded by Commissioner VanLandschoot to adjourn this meeting at 5:04 p.m. Motion carried by the following vote: Ayes ó Commissioners Mattson, Pullen, Rondeau, VanLandschoot, and Doucette. Nays ó none. Absent ó none.

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Jerry Doucette, Chairman  
Alger County Board of Commissioners

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Mary Ann Froberg  
Alger County Clerk