

## **FARMINGTON CITY COUNCIL SPECIAL MEETING**

A special meeting of the Farmington City Council was held on Monday, August 17, 2009, in Council Chambers, 23600 Liberty Street, Farmington, Michigan. Notice of the meeting was posted in compliance with Public Act 267-1976.

The meeting was called to order at 6:30 p.m. by Mayor Knol.

### **ROLL CALL**

**COUNCIL MEMBERS PRESENT:** Buck, Knol, McShane, Wiggins, Wright.

**COUNCIL MEMBERS ABSENT:** None.

**CITY ADMINISTRATION:** City Clerk Halberstadt, City Manager Pastue (arrived 7:15 p.m.), City Treasurer/Finance Director Weber (arrived 7:15 p.m.).

### **APPROVAL OF AGENDA**

**08-09-163** MOTION by Buck, seconded by McShane, to approve the agenda as submitted. MOTION CARRIED UNANIMOUSLY.

### **BOARD AND COMMISSION INTERVIEWS**

- a. **Walt Gajewski – Downtown Development Authority**
- b. **Pamela Alexander – Farmington Arts Commission**

Council interviewed Walt Gajewski for the Downtown Development Authority and Pamela Alexander for the Farmington Arts Commission.

### **DISCUSSION OF 457 LOAN PROGRAM**

City Manager Pastue reviewed a request from employees regarding taking loans from their 457 Plan. He advised the 457 Plan is a pre-tax program in which employees voluntarily contribute a percent or a fixed dollar amount through payroll deductions to supplement their City pension. He further advised the Plan is administered by ICMA.

Weber noted there are certain parameters that need to be followed in setting up a loan program: charge interest on the loan of prime plus 5 percent; limit the loan to lesser of \$50,000 or half the value of the account; loan cannot exceed 5 years unless using the loan to purchase a primary residence which then could go up to 30 years; City has discretion on why they will allow employees to take a loan against their ICMA; and the application process can be made through the City or directly with ICMA.

Weber noted a loan provision has not been provided in the past in order to protect employees. However, Administration is requesting Council's consideration to add this

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loan provision due to the state of the economy; plan participants are not solely reliant on their 457 plan for retirement; and there is no cost to the City.

Pastue stated Administration could draft a resolution, which stated the parameters to be followed.

Mayor Knol questioned how the interest rate is set and the amount of work involved by staff. Weber replied the interest rate would be calculated at the current rate on the day the loan is requested and it would be for the length of the loan. Weber commented the time involved would be based on how the loan program is structured.

In response to a question by Buck, Pastue stated the loan payments would go back into the applicant's account. Buck asked what would happen if the loan were not paid back. Weber commented it would become a taxable distribution.

Wiggins asked if this could become a liability for others. Weber responded if the loans were not repaid and the distributions were not recorded and the proper tax forms not filled out correctly it could become a liability. Weber explained part of that still lies with the City with ramifications. Discussion followed regarding the City's involvement and the only one affected would be the person who applied for the loan and not other participants in the Plan.

McShane questioned if other Cities allowed this type of loan program. Weber responded a lot of 401 plans allow for loans for purchasing a new home, an automobile, college tuition, etc. at a lower percentage rate.

Weber stated if a loan is not paid back it would affect money reserved for an employee's pension, but the City has the Defined Benefit System as the primary retirement source, which would not be affected by the ICMA program. He noted the 457 Plan is an elective by the employee. Buck suggested the loan program include a warning to the employee regarding the risks. Weber replied forms could be modified accordingly.

Buck concurred with McShane to have comparative data when looking at situations such as this.

Wright commented if Council were parental they would not allow employees to be able to obtain a loan since it is not in the best interest financially for the applicant. He asked if all of the money could be withdrawn and the account would be closed. Weber replied there would be penalties. Discussion followed regarding payment liabilities, defined benefit and defined contribution plans. Pastue noted they would keep it at a bare minimum by resolution and he noted they don't have the time to spend on it.

Council requested further information from other cities regarding issues such as these to be used as a comparison.

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**MERS PARTICIPATION**

Pastue discussed investing in the MERS System which could reduce the City's pension contribution while maintaining current benefits. He pointed out MERS has a lower management fee with a history of better returns.

Pastue noted City voters approved a charter amendment allowing the City to participate in a consortium to administer pension system. He commented staff had been meeting with MERS in the last couple of years to discuss all facets of their pension system administration.

Pastue advised provisions for new participant entry have been modified, noting previously first year participation in MERS could have been costly due to the market decline last fall. He stated it would be a smooth transition.

Pastue reviewed the positives and negatives involved with transferring to this plan and advised administration is comfortable with the transfer. He stated more information could be provided to Council at a later study session including a presentation by a MERS representative. Pastue noted the transfer could take six months.

Wright suggested obtaining opinions from existing stakeholders who have something to lose by this change. Pastue noted staff has discussed this issue with the labor attorney and he raised some concerns regarding MERS. Pastue noted MERS has made changes regarding employee type to eliminate surprises to new participants. Pastue stated POAM is supportive of MERS.

McShane asked if there were other pension plan organizations. Pastue noted Pension Plan Administrator Cantrell had checked participation with Oakland County, but there was a lack of interest.

In response to a question by Buck, Pastue stated MERS was established by the State of Michigan and managed by the Department of Management and Budget. He noted in 1996 they broke away from the State and they are a separate non-profit authority.

Council members voiced their approval to continue looking into the option of changing to the MERS system.

Pastue stated he would prepare further information regarding transferring to this plan at a later study session and possibly include a representative from MERS.

**SMART BUS ROUTE IN FALL**

Council concurred to delay discussion of the SMART Bus Route until a September Council meeting.

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**OTHER BUSINESS**

No other business was heard.

**PUBLIC COMMENT**

No public comment was heard.

**COUNCIL COMMENT**

No Council comments were heard.

**ADJOURNMENT**

**08-09-164** MOTION by McShane, seconded by Wiggins, to adjourn the meeting.  
MOTION CARRIED UNANIMOUSLY.

The meeting adjourned at 8:00 p.m.

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Valerie S. Knol, Mayor

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Susan K. Halberstadt, City Clerk

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Janice Schmidt, Recording Secretary

APPROVED: September 21, 2009