Bond Case Briefs

Municipal Finance Law Since 1971

Municipal Bonding to Fund Retiree Health Care 'Not a Silver Bullet,' Says Kalamazoo's Financial Officer.

KALAMAZOO, MI – Kalamazoo's Legacy Cost Task Force is expected to recommend city commissioners utilize municipal bonds to fund the city's retiree health care liability, but the city's chief financial officer has stressed bonding is not going to eliminate the problem altogether.

"Bonding is not a silver bullet," said Tom Skrobola, director of management services for the city of Kalamazoo. "It is part of a solution. It has risks associated, but we believe the risks are manageable."

Despite failing to reach a consensus Monday, the 21-member task force is expected to finalize a recommendation at its Aug. 11 meeting that would direct commissioners to issue up to $100 million in municipal bonds to place a fixed cost on Kalamazoo's estimated $190 million unfunded retiree health care liability.

The total liability, a figure calculated by the city's actuary, Gabriel; Roder; Smith, represents a "soft debt" since the actuary had to estimate for future health care cost increases, among other factors. By selling municipal bonds, Kalamazoo converts a portion of the liability to a "hard debt" that will remain stagnant as the city makes payments on the bonds.

City officials plan to set aside $8.2 million for retiree health care this year — including $6 million from the general fund. The city's health care liability is expected to reach $14 million out of the general fund by 2028 a figure Kalamazoo City Manager Jim Ritsema has called "unsustainable."

Kalamazoo Deputy City Manager Jeff Chamberlain says bonding does two things: Fixes part of the city's retiree health care costs and creates an opportunity for gains to be realized upon the initial investment.

"Even conservative scenarios show that the city could actually make money by investing the bond proceeds," Chamberlain said.

Skrobola explained that the city is hoping proceeds could be invested to create additional dollars for funding retiree health care for roughly 809 retirees and spouses in addition to active employees.

If it produces an average rate of return of around 7.5 to 8 percent — what Skrobola describes as "a normal assumed rate of growth" — the retiree health care liability could become sustainable within 10 to 20 years, he said.

However, the financial officer was quick to point out there are risks associated with bonding, similar to any investment.

"Anybody and everybody that's associated with investments will tell you that you do everything you can to manage risks, but there's always risks when you're talking about investments," Skrobola said. "We all feel very confident that over the long term we're going to garner historical rates that we've seen over recent years."

While most of the legacy cost task force is on board with municipal bonding, two members are not. Rob Keller and Stephanie Losey, representatives of the community and current city employees, respectively, are expected to provide a dissenting minority opinion to accompany the recommendation, stating they are uncomfortable with risks associated with bonding.

For years, the city has used a "pay as you go" system where it did not set aside additional money to cover future retiree health-care costs. Essentially, city residents now and in the future will pay for retiree health care — benefits that retirees earned in the past.

Skrobola has estimated bonding could fix retiree health care costs at around $8 million to $10 million a year — similar costs to what the city pays now.

City officials have made changes to retirement benefits to contain costs since 2005. For example, in 2011 the city "closed" its retiree health care system and instead of a promised benefit, new hires receive $75 per paycheck into a Retiree Health Care Savings Account. Employees who retire after 2006 see the same changes in health care plan designs as active employees.

And a city policy to establish a 20 percent share of total health care costs for employees has saved the city more than $11 million since 2005, Skrobola said, adding that the city was paying close to 95 percent of retirees' health care costs prior to the change.

Active employees and most post-2006 retirees will soon pay roughly a third of their health care costs since Public Act 152, passed in 2011, states municipalities can pay no more than 80 percent of an employee's health care costs. Out-of-pocket contributions are not included in the 20 percent portion that employees must pay, Skrobola said.

"That's a huge, huge move," he said. "In 12 years we are projected to go from paying 96 percent of health care costs to something less than 70 percent."

In order to issue the bonds, City commissioners will have to pass a notice of intent resolution and a second resolution that authorizes the bonds. The city will have to submit a comprehensive plan to the state treasury department, which would decide whether or not to approve the plan in about 45 to 60 days. Bonds have to be issued by Dec. 31, and city commissioners would have to approve the resolutions by July.

The task force will not recommend the city bond for the entire unfunded liability since it gives incentive for both city administration and unions and work groups representing retirees to continue to negotiate for better health care plans, Skrobola said.

"This helps to reinforce the point we're not trying to solve the entire problem right now with a (municipal) bond," Skrobola said. "It's just one tool in a larger effort to manage retiree health care."

Chamberlain agreed and said the city will continue to do its due diligence by exploring ways for additional savings.

"We're going to continue to explore what kind of flexibility is in those contracts that can help everybody save money, but at the same time help deliver health care to retirees that have earned it," Chamberlain said of the ongoing negotiations.

Alex Mitchell |
July 30, 2014

Alex Mitchell covers county government and taxes for the Kalamazoo Gazette. Email him at

amitche5@mlive.com or follow him on Twitter.