



500 West Big Beaver
Troy, MI 48084
troymi.gov

Date: April 5, 2023

To: Honorable Mayor and City Council Members

From: Mark F. Miller, City Manager
Lori Grigg Bluhm, City Attorney

Subject: Volunteer Firefighter Incentive Plan (VFIP) Replacement Plan Recommendation

Background

In late 2022, the Internal Revenue Service (“IRS”) determined the City of Troy Incentive Plan for Volunteer Firefighters (“Current VFIP”) is not a length of service award plan (“LOSAP”) as intended because it provides benefits in amounts that are greater than those allowed by the Internal Revenue Code (“Code”). This means the Current VFIP has undesirable tax consequences for both the volunteer firefighters and the City. The City made extensive efforts to challenge the IRS determination, but was unsuccessful in changing the IRS’s characterization of the Current VFIP.

Accordingly, the City plans to close the Current VFIP and establish a replacement incentive plan (“Replacement Plan”) in order continue retaining and rewarding volunteer firefighters for performing an essential governmental function while mitigating undesirable tax consequences. The IRS has indicated that closure of the Current VFIP must be completed as soon as possible to minimize the adverse tax consequences. However, the Current VFIP requires the City to provide the Voluntary Incentive Committee with at least ninety (90) days advance notification that the closure of the Current VFIP will be submitted to the City Council for consideration. On January 11, 2023, the City provided official notice to the Voluntary Incentive Committee of its intent to recommend a resolution close the Current VFIP and associated trust and establish a Replacement Plan and trust on for the April 17, 2023 regular City Council meeting.

On January 11, 2023, the City also provided the Voluntary Incentive Committee with a draft Replacement Plan to demonstrate the City’s desire to retain current volunteer firefighters and continue rewarding them for performing an essential governmental function. However, the draft Replacement Plan prompted dissatisfaction from many volunteer firefighters. The City and the Volunteer Incentive Committee met again on January 26, 2023 to discuss the closure of the Current VFIP and associated trust and establishment of a Replacement Plan and trust.

The City created its first volunteer firefighter incentive plan in 1979 and has a long history of cooperation with the volunteer firefighters to ensure the incentive plan remains mutually beneficial. Unfortunately, the confidential nature of the IRS audits limited the City’s disclosure options before January 11, 2023. However, the City and the Volunteer Incentive Committee have met five times (January 26, February 9, March 2, March 16 and March 23, 2023) since then to discuss the closure of the Current VFIP and associated trust and establishment of a Replacement Plan and trust.

Based on input from the Volunteer Incentive Committee, City Administration is preparing an updated Replacement Plan recommendation for City Council consideration on April 17, 2023. City staff is working with outside legal counsel to ensure implementation of the Replacement Plan meets the City’s retention goals on a tax advantageous basis. The following terms will be a part of City Administration’s recommended replacement plan and trust for the April 17, 2023 City Council meeting.



500 West Big Beaver
Troy, MI 48084
troymi.gov

Replacement Plan Parameters

- Compensation must retain volunteers to maintain the Troy Fire Department’s unique combination of full-time staff and volunteer members.
- 30% Station officer premium recommended.

Replacement Plan Recommendation as of April 5, 2023

- Effective May 1, 2023 through June 30, 2024.
- Annual cost of living adjustments beginning July 1, 2024 to be determined.

Firefighter			
Tier	Years	Compensation	\$/year
1	10	\$75,000	\$7,500
2	5	\$75,000	\$15,000
3	5	\$75,000	\$15,000
4	5	\$75,000	\$15,000
5	5	\$75,000	\$15,000
Total	30	\$375,000	\$12,500

Officer			
Tier	Years	Compensation	\$/year
1	10	\$97,500	\$9,750
2	5	\$97,500	\$19,500
3	5	\$97,500	\$19,500
4	5	\$97,500	\$19,500
5	5	\$97,500	\$19,500
Total	30	\$487,500	\$16,250

Estimated Annual Cost

The annual cost to the City will depend on the number of volunteers and their years of accrued service. Age is a factor in the Current VFIP but is not a factor in the Replacement Plan. Each fire station is authorized for 30 volunteers including six officers (180 total potential Participants). Actual volunteers and years of accrued service for the last five years was as follows:

Year Ended	0-9 Years	10-30 Years	Active Participants
December 31, 2018	97	55	152
December 31, 2019	100	55	155
December 31, 2020	78	58	136
December 31, 2021	78	62	140
December 31, 2022	79	60	139
Average	86	58	144

The annual cost will also depend on the number of station officers. Each fire station is authorized for six (6) station officers (36 total potential station officers). There are currently eight (8) station officers with 0-9 years and 23 station officers with 10-30 years.



500 West Big Beaver
Troy, MI 48084
troymi.gov

The following table calculates the estimated annual cost of the Replacement Plan based on 144 volunteers (30 station officers and 114 other firefighters) with 80 volunteers (56%) in Tier 1 and 64 volunteers (44%) in Tiers 2-5. This is consistent with the recent averages, but more than the current number of participants (31 station officers and 104 other firefighters).

Tier	Firefighter		Officer		Subtotal	FICA (7.65%)	Grand Total
	\$/Year	Firefighters	\$/Year	Officers			
Tier 1	\$7,500	72	\$9,750	8	\$618,000	\$47,277	\$665,277
Tiers 2-5	\$15,000	42	\$19,500	22	\$1,059,000	\$81,014	\$1,140,014
		114		30			\$1,805,291

Estimated Annual Cost Comparison

This estimated annual cost of the Replacement Plan is approximately \$1.1 million greater than the normal cost of the Current VFIP (approximately \$700,000; see table below). However, the City’s Actuarially Determined Contribution (ADC) has been approximately \$1.7 million in recent years because of the Current VFIP’s Unfunded Actuarial Accrued Liability (UAAL). The City has been spending approximately \$1 million annually to fully fund the UAAL over a 25-year closed amortization period. Instead, the UAAL will be fully funded in the current fiscal year when the Current VFIP is closed and corresponding lump sum payments are made. The City’s total annual cost would have significantly decreased after the UAAL was fully funded in 23 years. Instead, the cost of the Replacement Plan will continue in perpetuity.

Actuarial Valuation Date	Normal Cost	Unfunded Actuarial Accrued Liability (UAAL) ¹	Actuarially Determined Contribution (ADC)	Fiscal Year Ending
December 31, 2018 &	\$549,733	\$769,539	\$1,319,272	June 30, 2021
December 31, 2019 *	\$738,080	\$1,021,628	\$1,759,708	June 30, 2022
December 31, 2020 &	\$666,454	\$986,259	\$1,652,713	June 30, 2023
December 31, 2021	\$705,555	\$984,429	\$1,689,984	June 30, 2024
December 31, 2022	\$742,381	\$922,404	\$1,664,785	June 30, 2025

1 Amortized over a 25-year closed period (23 years remaining as of December 31, 2022)

& After changes in actuarial assumptions

* After changes in benefit provisions