MEMORANDUM

TO: VERNA J. MCDANIEL, WASHTENAW COUNTY ADMINISTRATOR
KELLY BELKNAP, WASHTENAW COUNTY FINANCE DIRECTOR

FROM: JOHN R. AXE, PRESIDENT
AXE & ECKLUND, P.C.

RE: COUNTY OF WASHTENAW RETIREES HEALTH CARE AND PENSION BONDS, SERIES 2013 (TAXABLE OBLIGATIONS)

DATE: APRIL 30, 2013

I. BACKGROUND

In February, our firm prepared a preliminary discussion regarding the County's consideration of issuing bonds for the purpose of fully funding the County's VEBA Trust Fund, a copy of which is attached hereto as Appendix A. At that time, the County was not certain that it would be eligible to issue similar bonds for the purpose of fully funding its WCERS Pension Trust because to do so would require amendments to existing County employment contracts.

Since that time, the County has completed and entered into new contracts with its employees to satisfy the conditions which will permit it to issue bonds for the purpose of fully funding the County's VEBA Trust Fund and the County's WCERS Pension Fund.

As was pointed out at that time, there are a number of steps which must be followed under the provisions of Public Act No. 34 of the Public Acts of Michigan, as amended ("Act 34") before the County may issue such bonds. A summary of those steps is attached hereto as Appendix B.

II. DISCUSSION OF EACH OF THE NECESSARY STEPS WHICH MUST BE TAKEN BEFORE THE COUNTY MAY ISSUE BONDS

A. Approval of Notice of Intent to Issue Bonds

The first step which must be taken is the approval by the Board of Commissioners of the insertion of a Notice of Intent to issue bonds which must be published in a newspaper of general circulation within the County and which will notify the County's residents and taxpayers of their right to circulate referendum petitions which, if done, will require a vote before the bonds are issued. In order to publish such a notice, the Board of Commissioners must establish a maximum amount for the proposed bond issue, a maximum interest rate on the bonds which will not be exceeded and a maximum term for such bonds.

Before those decisions can be arrived at, the Board of Commissioners must have established the maximum amount which will be necessary to fully fund both the VEBA Trust Fund and the WCERS Pension Fund together with an estimate of the cost of issuance thereof.

Beginning in January and continuing through the month of April, the County Administration has been reviewing the various component parts which are necessary to determine a **maximum amount** which would be necessary **in the worst case** to achieve that funding. Recognizing that the actuaries who must advise both the VEBA Board and the WCERS Pension Board as to the amount of the County's Actuarial Accrued Liability ("AAL") and the Unfunded Actuarial Accrued Liability ("UAAL") as of December 31, 2012 will not have this information ready until June, the County requested MFCI and our firm to proceed with estimated information assuming a "worst case" amount so that the County could approve the Notice of Intent by June 5, 2013, which would permit the Notice of Intent to be inserted in the newspaper at the end of the week so that the 45 day referendum period would begin to run.

B. Approval of the Bond Resolution

While the final amount of borrowing cannot be determined until after the actuaries make their reports, the County Board of Commissioners can approve a bond resolution with a maximum borrowing amount which is not in excess of the number which is included in the Notice of Intent. This borrowing resolution will permit a reduction in the amount of bonds as necessary depending on what the final numbers are from the actuaries. So long as the maximum borrowing amount is based on a "worst case" basis, it is relatively simple for the Administration to reduce the actual amount of the bond issue after the administration MFCI and our firm determine how much money will be needed, after the referendum period has expired and the County is ready to file the application with the Michigan Department of Treasury for approval of the bonds. This bond resolution, even though it has been approved, will contain a delayed effective date which will provide that it will not take effect until and unless the County Board of Commissioners has approved a Comprehensive Financial Plan as required by Act 34.

C. Receipt of the Actuarial Reports by the VEBA and WCERS Boards and Approval Thereof by both Boards

As noted on the timetable (Appendix B), the actuaries are scheduled to have their reports presented to the VEBA and WCERS Boards on June 25, 2013. It is expected that one or perhaps both of the boards will either meet that day or very shortly thereafter to approve the recommendations of the actuaries.

D. Final Sizing of the Bond Issue Based upon the Approved Determination by the VEBA and WCERS Boards of the Amount of UAAL for Each of the Two Funds

Once the County Administration receives the approved numbers of the Unfunded Actuarial Accrued Liability for each of the two funds, MFCI will be asked to produce the final bond schedule together with estimated interest rates for the bonds in an amount which will cover the UAAL for both the VEBA and WCERS Pension Fund together with the cost of issuance.

This will be done as soon as possible but, in any case (based on the timetable), sufficiently before the County Board Ways and Means Meeting on July 10, 2013, to permit the Board of Commissioners to consider the approval of the Comprehensive Financial Plan which must be approved by the County Board of Commissioners in accordance with the requirements of Section 518(3) of Act 34.

E. Approval of the Comprehensive Financial Plan

As required by Section 518(3) of Act 34, the County Board of Commissioners must approve a Comprehensive Financial Plan, the component parts of which are set forth in Appendix C, which is attached hereto. Once this is approved, it must be made available to the County's residents and taxpayers.

Until this action occurs, the County may not apply for the approval of any bonds because the bond resolution will not have taken effect until the plan is approved.

F. Receipt of the County's Credit Rating of AA or Better

As a condition of issuing the captioned bonds under Act 34, the County must have received advice from at least one rating agency that its bonds are in the double A category or better. For that reason, it will be necessary to have made a presentation to the rating agency sometime in the month of June so that the County can have received that rating on the bonds to be issued in the future. The exact amount of the borrowing will have to have been determined before the rating will be issued. Once the rating is received and it is at the required level, the County may then apply to the Michigan Department of Treasury for the sale of the bonds.

G. Application to the Michigan Department of Treasury for Approval to Issue the Bonds

Because of the special nature of the bonds being issued under Section 518 of Act 34, the County must submit a long form application to the Michigan Department of Treasury which must review the application and grant authority to the County to issue the bonds by issuing their approval. The application must include:

1. A certified copy of the notice of intent resolution approved by the Board of Commissioner s;

2. A certified copy of the bond resolution approved by the Board of Commissioners;

3. A certified copy of the continuing disclosure resolution approved by the Board of Commissioners;

4. A copy of the published notice of the notice of intent to issue the bonds;

5. An affidavit from the County Clerk that the 45-day referendum period has expired and no petition has been filed with sufficient signatures to require a referendum on the issuance of the bonds;

6. A certified copy of the resolution adopted by the Board of Commissioners approving the Comprehensive Financial Plan required by Section 518(3) of Act 34;

7. A letter from Moody's or Standard & Poor's granting a AA rating or better to the bonds when they are issued;

H. Receipt of Approval from the Michigan Department of Treasury to Issue the Bonds

Once the application for approval has been filed, the Michigan Department of Treasury will probably take approximately two months before the application is approved. The department may also request additional information or have questions regarding the transaction which must be satisfactorily answered before the Department of Treasury approval will be issued.