APPENDIX A

WASHTENAW COUNTY HEALTH CARE

BACKGROUND ON COUNTY RETIREES HEALTH CARE

The County of Washtenaw has, beginning in 1948, obligated itself to in some way provide health care benefits for retired county employees. In order to provide funds for this liability which stretches out for twenty or more years in the future the County established a Voluntary Employee Beneficiary Association ("VEBA") and a Washtenaw County Retiree Medical Benefit Trust (the "VEBA Trust").

Presently the County is funding its retired employee health benefits from payments from the general fund and non-general fund operations as well as the earnings from the VEBA Trust.

According to the most recent actuarial valuation (as of December 31, 2011) the actuarial value of the assets in the VEBA Trust were $65,592,609 and the Actuarial Accrued Liability ("AAL") was $214,054,100 leaving an unfunded AAL ("UAAL") of $148,461,491.

The amount of the unfunded liability (which on December 31, 2011 was $148,461,491) is a debt of the County.

The County is now required by GASB-45 to recognize this debt on its balance sheet, which was not the case before December 31, 2007. Because of this requirement when the County seeks to maintain its current credit ratings from Moody's (of Aa1) and from Standard & Poor's (of AA+) the County would like to fully fund this debt by issuing Retirees Health Care Bonds.

The County will use the money from the bond proceeds which would be deposited in the VEBA Trust so that it is fully funded. By doing this, the debt (which is currently owed to County Retirees) is converted into a bonded debt. The rating agencies are particularly concerned that municipalities may in fact ignore such debts as unfunded retirees health care liability while

the agencies are quite comfortable that municipalities do not ignore the payments which they have to make on their bonded debt.

GENERAL BACKGROUND ON THIS TYPE OF FINANCING

In 2005, Oakland County began exploring the possibility of a borrowing to completely fund its unfunded retirees health care liability. As a result, our firm prepared legislation, which was introduced in 2006, which authorized municipalities, including Counties to issue bonds for the purpose of funding its unfunded retirees health care liability. After a long and convoluted legislative fight, the legislation was adopted by the Legislature in late 2006 and then, despite broad support from many Counties and Cities, vetoed by the Governor.

ISSUANCE OF CERTIFICATES OF PARTICIPATION

As a result, Oakland County was left no alternative but to issue Certificates of Participation by a retiree medical benefits funding trust, which was created by the County in 2007. These certificates of Participation, which originally totaled $556,985,000, were taxable obligations with interest rates varying between 6% and 6.25% per annum.

Subsequently, in the summer of 2008 we were working with Washtenaw County which authorized a Trust created by the County to issue approximately $162,000,000 in Certificates of Participation for the same purpose.

Before the Certificates could be offered for sale in 2008, the financial collapse in September of that year occurred. This made it impossible to sell such Certificates of Participation.

In the next three years a renewed effort was made to obtain legislation authorizing what was proposed by Oakland County in 2005. None of those efforts were successful.

During this period, it was not possible because of the uncertain financial situation to attempt to issue the Certificate of Participation for Washtenaw County which were ready to be sold in 2008.

Finally, in the summer of 2012 the new Governor prepared legislation that permitted such borrowings for the purpose of providing funds for unfunded pension liabilities. Our firm on behalf of Oakland County and other municipalities prepared amendments to this legislation to allow borrowings for both unfunded amounts owned by municipalities either for retiree health care or pensions. That legislation was passed by the Michigan Legislature in October of 2012 and signed into law effective October 9, 2012.

PROVISIONS IN THE NEW LAW

During the period, beginning in October 2012 and ending on December 31, 2014, a County may issue bonds to pay the costs of the unfunded accrued health care liability of the County. Before a County issues such bonds, the County must do the following:

1. It must publish a Notice of Intent to issue the bonds which must be published in a newspaper of general circulation within the County and which gives the County residents and tax payers the right to circulate referendum petitions.

2. The County must also prepare and make available to the public a comprehensive financial plan that includes all of the following:
   (a) An analysis of the current and future obligations of the county, city, village, or township with respect to each retirement program and each postemployment health care benefit program of the county, city, village, or township.

   (b) Evidence that the issuance of the municipal security together with other funds lawfully available will be sufficient to eliminate the unfunded pension liability or the unfunded accrued health care liability.

(c) A debt service amortization schedule and a description of actions required to satisfy the debt service amortization schedule.

(d) A certification by the person preparing the plan that the comprehensive financial plan is complete and accurate.

(e) If the proceeds of the borrowing are to be deposited in a health care trust fund, a plan in place from the county, city, village, or township to mitigate the increase in health care costs and may include a wellness program that promotes the maintenance or improvement of healthy behaviors.

3. Once the 45-day referendum period expires, the County then must apply to the Michigan Department of Treasury for permission to issue the bonds.

4. Once permission is received the County is authorized to issue the bonds.

BENEFITS OF THIS TYPE OF FINANCING

A. Opportunity for the County to Reduce their Annual Payments for Health Care

The main reason Counties and other municipalities are interested in this type of financing is the opportunity to reduce the annual amounts which the County must pay for retirees health care benefits. Based upon the experience of Oakland County, this type of program has reduced annual retiree health care benefit payments ever since Oakland County issued its Certificates of Participation in 2007.

B. Certainty as to the Amount which Must be Paid for Retirees Health Care Each Year

Once the bonds are issued, the County knows that it must make specified annual payments of principal and interest to retire the bonds. As long as the VEBA Trust remains fully funded, no additional amounts will have to be added from annual appropriations. The certainty of payments is a real advantage for County budgeting in future years.

C. Fully Funded VEBA Trusts are Especially Popular with the Rating Agencies

One reason Oakland County issued Certificates of Participation to fully fund their VEBA Trust was the knowledge that if they failed to do so, there was a potential that the unfunded liability shown on the County's balance sheet might result in the County's receiving a lower credit rating from either Moody's or Standard & Poor's. It was well known that both rating agencies regarded unfunded liabilities as a potential problem in future years where budgets might be tight and the municipality might be tempted not to fund the liability at all thereby failing to deal with the problem. This of course, is why certain municipalities (Detroit's Unfunded Retiree Health Care Liability exceeds **FIVE BILLION DOLLARS**) have had such a difficult time.

RISKS

The principal risk in fully funding the VEBA is the very fact that the more money which is invested the larger the opportunity for a mistake in investments to cause a larger loss. If the VEBA is entirely unfunded, there is no risk of loss in investments since there are no investments.

Common sense indicates that the County always must be concerned that its investments in the VEBA (or the Pension Fund for that matter) are intelligently managed to avoid risky or imprudent investments. Whatever the amount which is invested, the County has a major stake in monitoring the investment professionals who handle the investments. If there is a reluctance to increase the amount of money in the VEBA for fear that the investment managers might lose more money, the solution is not to fail to fully fund the VEBA but make sure the investment managers are good.

DIFFERENCE BETWEEN THIS FINANCING AND THE ISSUANCE OF CERTIFICATES OF PARTICIPATION (COPs)

Oakland County created a Trust to issue Certificates of Participation ("COPs") in 2007 because the County was unable to get an amendment to Act 34 of the Public Acts of 2001 ("Act 34") enacted into law. The only way the County could obtain the financing was by having the

trust issue these COPs, which have been repaid by contract payments made by the County to the Trust.

The new legislation amends Act 34 to specifically permit Counties to directly issue bonds for the same purpose.

The only difference between the two types of financing is that "Bonds" are much more commonly sold than "COPs" and therefore will sell at a somewhat lower interest rate.

HOW IS THIS FINANCING DIFFERENT THAN THE BONDS WHICH WERE ISSUED BY THE COUNTY FOR SYLVAN TOWNSHIP

The bonds issued by Washtenaw County for Sylvan Township were issued under Act 185 of the Public Acts of 1957, as amended ("Act 185"). Bonds issued under Act 185 are not a "direct" obligation of the County but are repaid by contract payments made to the County by the local unit (in this case Sylvan Township). The County's obligation is like a "guarantee" of payment and only comes into play if the local unit cannot make their contract payments to the County.

Under Act 185, the County is merely helping the local unit do a financing because the County is bigger and has a much better credit rating.

The bonds to be issued for fully funding VEBA are solely for the County's benefit. No payments from any other unit of government will be used to pay these bonds. Instead of making cash contributions to the VEBA and for other retirees health care purposes, the County will be making the bond payment.

REASONS FOR CHANGING BENEFITS PLAN

The only way the County can protect itself from the crushing increases in health care costs for retirees (and even current employees) is to take appropriate actions to mitigate future

increases in these costs by implementing programs which encourage healthy behavior by employees and retirees and prevent wasteful duplication in reimbursement programs. These costs cannot be overcome just by fully funding the VEBA. Only a concerted and steady effort by the County to continually monitor and implement programs to keep these costs under control will result in a good outcome to the County.

UPDATED ACTUARIAL REPORT

Because the last actuarial report available only covers the period which ended December 31, 2011, the County is in the process of obtaining an updated actuarial report which will be used for determining the final amount to be borrowed and placed in the VEBA Trust. This updated information is important since each actuarial report may be different depending on what happened in the intervening year. The County wants to be sure to have the proper amount of money from the bond issue to deposit in the VEBA Trust.

This information should be available in early May.