REPORT

TO

THE COUNTY OF WASHTENAW

REGARDING THE PROPOSED

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

PREPARED BY
MUNICIPAL FINANCIAL CONSULTANTS INCORPORATED

DATED AS OF APRIL 30, 2013

I. BACKGROUND

The County of Washtenaw has been proactive since 2006 with respect to taking steps which would permit it to fully fund the VEBA Trust which had been established many years earlier to pay for medical care benefits for retirees from the County.

In 2007 and 2008, MFCI worked with the County in connection with a proposed issuance of certificates of participation by a trust created for the purpose of issuing obligations which would have provided such full funding. Because of the financial meltdown in the fall of 2008 the County was forced to postpone the issuance of these obligations since there were no buyers available.

Prior to 2007, there had been a considerable effort to obtain legislation which would have permitted a direct borrowing by the county for the same purpose and such legislation was actually passed by the legislature in 2007 but was vetoed by the Governor.

In October 2012 the Michigan Legislature adopted legislation which was signed into law by the Governor as Public Act No. 329 of the Public Acts of Michigan, 2012 ("Act 329"), which permitted direct borrowing by the County for such purpose and also permitted the County to borrow to fully fund any pension benefit for County retirees so long as the County had approved a plan under which new employees covered by such pension would be governed by a defined contribution plan as opposed to a defined benefit plan.

Beginning in November of 2012 and continuing on into this year, MFCI has been working with the County Administration, the County's Bond counsel, and outside consultants retained by the County to prepare for a proposed bond issue for both purposes as authorized by Act 329.

As a part of this work, we prepared numerous schedules for possible bond issues based upon estimates of how much money would be necessary to fully fund both the VEBA and the WCERS Pension Fund.

At the same time the County was in contract negotiations with various unions.

In March of 2013 the County entered into revised labor agreements with its labor unions which provided for closure of the defined benefit pension plan (WCERS) and the retiree medical plan (VEBA).

In order to fully fund both the VEBA Fund and the WCERS Pension Fund it is necessary to calculate the unfunded actuarial liability (the "UAAL") as of December 31, 2012. This calculation is initially done by the actuaries who are hired by the VEBA Board and the WCERS Pension Board. They are currently working on their annual report which will contain these figures which will be available in mid-June.

Once the reports are received by the two Boards they must be approved and then transmitted to the County Administration. Until that time we will not know exactly how much money would have to be borrowed in order to fully fund the VEBA Fund and WCERS Pension Fund.

II. PROPOSED WORST CASE BORROWING IN THE AMOUNT OF NOT TO EXCEED $345,000,000

In order to start the process leading issuance of bonds, it is necessary to estimate the **maximum amount** of bonds which would have to be issued to accomplish full funding.

The County Administration, as well as outside consultants, have reviewed the past assumptions which were made by the County's former actuaries as to earnings estimates in both the VEBA Fund and the WCERS Pension Fund. Since these are not fully funded, the earnings estimates are only calculated on the amounts on deposit in each fund which thereby leaves a future ARC contribution to be made for UAAL.

The current estimate of earnings in the two funds combined is approximately 7.69%. One fund has an estimated earnings rate of 7.5% and the other has an estimated earnings rate of 7.75%.

The higher the earnings estimate the lower the ARC payment required.

After considerable discussion, and recognizing that the final earnings number has not yet been established, our firm, together with the outside consultants to the County, and the County Administration concluded that whatever the final earnings estimate was it would not be lower than 6.5%.

In order to get started on the bonding, we thereafter utilized this worst case earnings number, which gave us a **maximum estimated amount** to fully fund both the VEBA Fund and the WCERS Pension Fund as follows:

FUND	**MAXIMUM ESTIMATED AMOUNT**
VEBA Fund	$210,500,000
WCERS Pension Fund	$130,300,000
TOTAL	$330,800,000

Using those numbers as a basis, we calculated that the maximum amount of County of Washtenaw Retirees Health Care and Pension Bonds would be slightly less than $345,000,000.

This "worst case assumption" was used because it is necessary to publish a notice of intent to issue the bonds and thereafter, the County must wait for the referendum period of 45 days to expire before it can apply for the necessary approval from the Michigan Department of Treasury to issue the bonds.

After consultation with the County Administration and Bond Counsel, a decision was made to have MFCI prepare an estimated debt retirement schedule for a combined bond issue in the amount of $344,190,000 a copy of which is attached hereto as Appendix A-1.

The amount of the borrowing that would be allocated to the VEBA and to the WCERS Pension Fund respectively and the accompanying debt service schedules for each of those parts of the borrowing are attached hereto as Appendix A-2 and Appendix A-3.

This will be the basis for the preliminary action by the Board of Commissioners to start the process which will result in the County's being able to issue a bond issue in an amount not to exceed $345,000,000.

III. EVALUATION OF A PROPOSED BORROWING IN THE AMOUNT OF NOT TO EXCEED $345,000,000

A. Estimated annual contributions which the County will have to make to the VEBA Fund and the WCERS Pension Fund if there is no borrowing

In order to evaluate whether it is in the County's best interest to issue bonds to fully fund the VEBA Fund and the WCERS Pension Fund, MFCI has prepared preliminary estimates of the amounts which we believe the County may have to contribute in future years over a 25 year period.

Currently, the actuarial estimates for contributions to the two funds on a combined basis are done over approximately 27 years. A 25 year bond issue shortens the life of the estimated payments as compared to the County's current debt retirement schedule (without bonding) over 27 years.

Attached hereto as Appendix B-1 is a preliminary schedule showing the County's combined estimated contributions without the issuance of any bonds.

In order to be conservative (since we are more confident about projections in the first ten years than in the out years after 2023), we have prepared a second preliminary schedule which is attached hereto as Appendix B-2 which assumes that all of the required contributions from the years 2024 through 2038 will be at the approximate level of the contributions in 2024.

B. Estimated Debt Service for a 25 year bond issue in the amount of $344,190,000

As indicated above, we have prepared and have attached hereto as Appendix A-1 the annual payments which we estimate the County will have to make on such a bond issue.

C. Comparison of the County's Estimated Contributions if there is no borrowing to the County's Estimated Debt Service Payments if there is a borrowing

Attached hereto as Appendix B-3 is an annual comparison of the estimated combined amount the County will have to contribute the VEBA Fund and the WCERS Pension Fund compared to the estimated annual payment the County would be required to make on a bond issue each year from 2014 through 2038.

As you can see from the schedule the annual savings to the County are greatest in the first five years and overall result in an estimated savings to the County are in excess of $101,000,000 over the life of the issue.

IV. EVALUATION OF A PROPOSED BORROWING IN THE AMOUNT OF NOT TO EXCEED $321,660,000

A. Estimated annual contributions which the County will have to make to the VEBA Fund and the WCERS Pension Fund if there is no borrowing and the average of the earnings on the VEBA Fund and the WCERS Pension Fund

If the average earnings are increased to 7%, the total annual needed to be borrowed to achieve full funding decreases to $321,660,000.

Assuming total earnings were at least at that level, attached hereto as Appendix C-1 is a preliminary schedule showing the County's combined estimated contributions without the issuance of any bonds.

In order to be conservative since we are more confident about projections in the first ten years than in the out years after 2023, we have prepared a second preliminary schedule which is attached hereto as Appendix C-2 which assumes that all of the required contributions from the years 2024 through 2038 will be at the approximate level of the contributions in 2024.

B. Estimated Debt Service for a
25 year bond issue in the amount of $321,660,000

We have prepared and have attached hereto as Appendix D-1 the annual payments which we estimate the County will have to make on such a bond issue.

C. Comparison of the County's Estimated Contributions if there is no borrowing to the County's Estimated Debt Service Payments if there is a borrowing

Attached hereto as Appendix D-2 is an annual comparison of the estimated combined amount the County will have to contribute the VEBA Fund and the WCERS Pension Fund compared to the estimated annual payment the County would be required to make on a bond issue each year from 2014 through 2038.

As you can see from the schedule the annual savings to the County are greatest in the first seven years and overall result in an estimated savings to the County in excess of $112,500,000 over the life of the issue.

V. SUMMARY

All of the schedules contained in the various Appendices attached to this report are preliminary estimates. Until the final numbers are received from the County's actuaries in June no final estimates can be prepared.

However, based upon the information we have reviewed so far, it is clearly in the County's best interest to fully fund the VEBA Fund and the WCERS Pension Fund by a borrowing.

The estimated rates on a bond issue will be substantially less than the estimated earning rates on investments in the two funds resulting in a benefit to the County of over $100,000,000 in the worst case and more than $112,000,000 if investment rates for the two funds are increased by ½ of 1% to 7%.

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