



# Washtenaw County: Proposed Bond Issuance

## Briefing Paper

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### Summary Statement

Washtenaw County is proposing to issue bonds for the purpose of funding current obligations to retirees, as well as existing plan participants, who receive pension payments and health care coverage under previous and existing employment agreements.

### Policy Rationale

The County wishes to issue bonds for these obligations for three primary reasons:

- 1. We are trying to close a 7 million dollar deficit.** Due to the complexity and multitude of variables involved in calculating retiree pension and health care costs, the County's required contribution to these costs can fluctuate widely from year to year. The inability to predict such a large proportion of the County's expenses makes long-term budgeting nearly impossible. To address this instability, the County is proposing to bond for the entire amount of its unfunded accrued pension and health care liability as determined by an actuary. By bonding for this existing debt, the County will create a situation where pension and health care costs are known and dependable because they are defined by the bond repayment rate (estimated at approximately 4%).
- 2. Achieving short-term cost savings.** The County recently settled labor agreements that provide for closing the existing defined benefit (pension) plan. As of January 1, 2014, all new employees will be enrolled in a 401(a) defined contribution plan. The new collective bargaining agreements also closed the County's Voluntary Employee Benefit Association ("VEBA") to new employees. VEBA is a trust that provides the vehicle for funding retiree health care costs. The closing of the defined benefit plan and the VEBA trust to new employees triggers a change in the method used to calculate the employer's annual contribution to the accounts that fund these obligations; this change is a significant factor in determining the annual required contribution. Issuing bonds effectively restructures this debt, helping to resolve the approximately \$7 million structural deficit projected for 2014-2017.
- 3. Honoring the promises that the County has made to current and future employees.** Washtenaw County government is constitutionally required to fund the pension of employees who retire from public service with these benefits intact as part of their employment agreements. Retiree Health Care is a contractual obligation of the County. Issuing a 25-year bond provides the means to balance the County's obligation to retired employees, and existing plan participants, with the need to sustain a healthy organization that can continue to provide needed services to the community.

### Why Now?

Several recent developments create a favorable window of opportunity for issuing bonds:

- 1. Interest rates are at historic lows.** Borrowing money has not been this inexpensive since the 1950s. The County anticipates the ability to sell bonds at a repayment interest rate of around 4%, which is significantly lower than the rate of funding increases required to meet the County's obligations to retiree pensions and health care. Further, the County plans to invest the proceeds from the bond issuance through an Intermediate Trust. The Intermediate Trust is



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protected, and the contents cannot be used for any other purpose than funding retirement pension and health care benefits. The magnitude of the bond is deliberately conservative: \$350 million is a high water mark sufficient to fulfill the current total unfunded liability created by the County's retiree pension and health care obligations as reported in the most recent valuations on file (December 31, 2011). With the closure of the pension and health care plans, these legacy costs have been contained. Therefore, the Intermediate Trust need only break even to remain solvent. In other words, the Trust must earn an average of approximately 4% – commensurate with the bond repayment interest rate – over the course of the 25-year term of the bond. Considering the long time horizon, this rate of return can fairly be described as modest.

- 2. New accounting regulations**, promulgated by the Governmental Accounting Standards Board (GASB 67 & 68), will require the recording of the unfunded pension liabilities to be shown as "debt" on an organization's balance sheet effective each year beginning December 31, 2015. It is anticipated that this same recording will be required for retiree medical benefits beginning with the year ending December 31, 2017. If this level of debt is not addressed in advance of the new rules' taking effect, the County's bond rating could be downgraded, which makes future borrowing more expensive and difficult. There are two options for addressing this deficit: (1) making structural/staffing reductions within the organization, which would result in the elimination of approximately 80-100 positions and associated County services, or (2) restructuring the existing pension/health care obligations through this proposed bond issuance.
- 3.** In October 2012, the Michigan legislature **authorized a law to allow counties to issue bonds** for retiree health care obligations. The law specifies that this opportunity will expire on December 31, 2014. The County needs to act in order to take advantage of this time-limited opportunity to use this tool to resolve the existing debt.

### Learn More

Washtenaw County has developed a website dedicated to sharing information about the bond issuance; please visit [Washtenaw County Bonding Website](#) for more information.

Verna McDaniel, Washtenaw County Administrator, may be reached via email at [WCAdministrator@ewashtenaw.org](mailto:WCAdministrator@ewashtenaw.org).

Residents of Washtenaw County are encouraged to contact their elected representative on the Board of Commissioners. Identify your Commissioner at [www.ewashtenaw.org/government/boc](http://www.ewashtenaw.org/government/boc), or simply call the Board of Commissioners' office at (734) 222-6850 to let your views be known.