



COUNTY ADMINISTRATOR
220 NORTH MAIN STREET, P.O. BOX 8645
ANN ARBOR, MICHIGAN 48107-8645
(734)222-6850
FAX (734)222-6715

TO: Barbara Levin Bergman, Chair
Ways and Means Committee

THROUGH: Robert E. Guenzel
County Administrator

FROM: Curt Hedger, Corporation Counsel
Peter Ballios, Finance Director
Diane Heidt, Human Resources/Labor Relations Director
Monica L. Boote, Human Resources Operational Director

DATE: June 4, 2008

SUBJECT: Voluntary Employees' Beneficiary Association (VEBA) Funding through
the issuance of health care certificates of participation

BOARD ACTION REQUESTED:

To authorize the County of Washtenaw to commence preliminary actions allowing for the issuance of Health Care Certificates of Participation to fully fund the Voluntary Employees' Beneficiary Association (VEBA)

BACKGROUND:

The County provides medical benefits to County retirees, their spouses and dependents pursuant to the terms of collective bargaining agreements, policies for non union former employees, and the Washtenaw County Retiree Health Care Plan. On December 27, 1996 the County established a trust exempt from tax under Section 501(c)(9) of the Internal Revenue Code of 1986, as amended, to take the following actions: (1) accumulate during the employees' working years the funds needed to pay for retiree health benefits after retirement; (2) pay retiree medical benefits under the Plan; (3) receive contributions from the County and employees required by the terms of collective bargaining agreements or County policies for non-union employees to fund VEBA's purpose.

Presently the County funds its retiree health benefits from all operating funds as well as earnings from the VEBA Trust. According to the Annual Actuarial Valuation dated December 31, 2006 the current actuarial value of the assets in the VEBA trust were \$37,653,565 and the Actuarial Accrued Liability (AAL) was \$183,743,134 leaving an Unfunded AAL (UAAL) of \$146,089,569, representing a 20.5% funded ratio. As of December 31, 2007 the County is now required to recognize the difference between what the actuary determines is the amount under GASB-- 45 that the County should pay into VEBA with what the County actually contributes to VEBA. (That amount for 2007 was \$2,311,907).

DISCUSSION:

Under the proposed Resolution, the County Board of Commissioners would authorize the County to begin the process to create a Trust that would issue taxable Certificates of Participation (COPS) to raise enough funds to fully fund the UAAL, which would then be deposited in the VEBA. By acknowledging the GASB – 45 UAAL and creating a plan to fully fund that liability, the County would be taking steps to protect the current bond ratings from Moody's (Aa2) and from Standard & Poor's (AA). This same approach has been used successfully by Oakland County Michigan in the summer of 2007. Moreover, other governmental entities, including Jackson County, are now beginning the process of selling Certificates of Participation to fully fund their own VEBA responsibility.

Selling Certificates of Participation to fully fund its VEBA obligation provides a number of important financial benefits to the County. First, as noted above, fully funding the VEBA obligation will protect and perhaps even improve, the County's bond rating. A favorable bond rating will lower County payments for any future bond issues. In addition, by fully funding the VEBA, and issuing the COPS, the County will be able to accurately predict its VEBA budget for the next 20 years as the semi-annual, predetermined contract payments to the issuing Trust to pay off the COPS will be established at the time the Certificates are approved. It is estimated that this payment will be approximately \$13.8 million dollars per year for the twenty year repayment period. In contrast, if the County takes no action to fully fund its VEBA obligation and simply continues to make annual payments to the VEBA trust on a "pay as you go" basis, it is estimated that such annual payment will continue to increase by millions of dollars over the constant \$13.8 million dollar repayment required to pay off the COPS. Using current actuarial estimates, the County would save approximately \$155 million dollars over the next twenty years by prefunding VEBA through Certificates of Participation and then repaying those certificates off at the stable annual rate of approximately \$13.8 million dollars as opposed to taking no action and simply making an annual actuarially determined payment into the VEBA trust.

Another benefit of fully funding the VEBA liability is that the VEBA Trust will most likely be able to invest its assets at a higher rate of interest than the interest rate the County will be required to pay as part of the repayment of the COPS. Currently, the interest rate the County would pay on the COPS varies between 4% and 6%. In contrast, the interest rate of return the VEBA has received in investing its assets over the past five years is 10.93%. If the Board of Commissioners approves the sale of the COPS, those funds would be invested. As the historical rate of interest the VEBA has received in its investments is higher than the interest rate that would be incurred in the repayment of the COPS, those investments should result in additional income for the VEBA trust. Any such investment income will be dedicated exclusively to the VEBA trust for the purpose of paying employee retiree health care costs. It is projected that the growth of the \$160 million deposited in the VEBA trust once the COPS are sold will have grown substantially enough over the 20 year COPS repayment period that the full funding status would still be in place at the end of 20 years, thereby requiring minimal if any general fund contribution to the VEBA.

In order to take full advantage of the current interest rates in the market, and the expertise of John R. Axe, President (Axe & Ecklund, P.C.), and the possibility of some general relief on the 2008 budget, the County has the following preliminary timetable:

Board of Commissioner review of Draft Ordinances June 18, 2008
(One Ordinance will restate what the County has already historically done with health care, including, but not limited to, VEBA, while one Ordinance will require the County to make contract payments to the VEBA trust to repay the COPS over a twenty-year period.)

Final Ordinances Received by County	June 25, 2008
Ordinances Presented for Approval by Ways & Means and Full Board	July 2, 2008
Ordinances Published	July 5, 2008
Notice of Sale Published	August 13, 2008
Receipt of Bids	August 27, 2008
Delivery of Certificates	September 17, 2008

IMPACT ON HUMAN RESOURCES:

None.

IMPACT ON THE BUDGET:

Approval of the proposed Resolution will result in bond counsel and financial consultant fees being paid for the preparation of the COPS materials. In addition, as a prerequisite to the COPS sale, it is necessary to obtain a tax opinion from a law firm which specializes in these issues. The County's bond counsel will arrange for this opinion to be researched and written. All costs incurred by the County in preparing the COPS materials will be paid for by the Washtenaw County Health Fund (Fund #7571). This fund will be fully reimbursed once the Certificates are sold. As such, there will no direct impact on the County's general fund budget.

IMPACT ON OTHER COUNTY DEPARTMENTS OR OUTSIDE AGENCIES:

None.

CONFORMITY TO COUNTY POLICIES:

This request conforms to County policy.