MEMORANDUM

TO: ATTACHED DISTRIBUTION LIST

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

RE: THREE-YEAR EXTENSION OF AUTHORIZATION FOR PENSION AND RETIREES HEALTH CARE BONDS CURRENTLY AUTHORIZED BY ACT 297 OF THE PUBLIC ACTS OF MICHIGAN OF 2014 (SUBSTITUTE SENATE BILL NO. 86)

DATE: APRIL 28, 2015

I. BACKGROUND

A. 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.

B. 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.

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.

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.

II. <u>PROVISIONS IN THE NEW LAW</u>

During the period, beginning in October 2012 and ending on December 31, 2015, a county, city, village or township (a "Municipality") may issue bonds to pay the costs of the unfunded accrued health care or pension liability of the Municipality. Before a Municipality issues such bonds, the Municipality 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 Municipality and which gives the Municipality's residents and tax payers the right to circulate referendum petitions.

2. The Municipality 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 Municipality with respect to each retirement program and each postemployment health care benefit program of the Municipality.

   (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 Municipality 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 Municipality then must apply to the Michigan Department of Treasury for permission to issue the bonds.

4. Once permission is received, the Municipality is authorized to issue the bonds.

III. BENEFITS OF THIS TYPE OF FINANCING

A. Opportunity for a Municipality to Reduce their Annual Payments for Health Care and/or Pensions

The main reason Municipalities are interested in this type of financing is the opportunity to reduce the annual amounts which the Municipality must pay for retirees health care and pension benefits. Ever since Oakland County issued its Certificates of Participation in 2007, this program reduced the County's annual costs for retiree health care benefits

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

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

C. Fully Funded VEBA Trusts and Pension Funds 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 $5,700,000,000) have had such a difficult time.

IV. BOND ISSUES SINCE THE ADOPTION OF PUBLIC ACT 329

A. Oakland County Retirees Health Care Refunding Bonds, Series 2013A & 2013B

On September 27, 2013, Oakland County issued $350,000,000 of Retirees Health Care Refunding Bonds for the purpose of refunding the balance of the 2007 Certificates of Participation which were evidence of the County's contract obligation of $556,985,000 entered into in July of 2007. As a result of this transaction, Oakland County saved in excess of $170,000,000 by issuing the refunding bonds.

B. Charter Township of Bloomfield General Obligation Limited Tax Pension Obligation Bonds, Series 2013

In November of 2013, the Charter Township of Bloomfield issued $80,780,000 of General Obligation Limited Tax Pension Obligation Bonds for the purpose of fully funding the Township's pension liability for the Township's defined benefit pension plan. These bonds are callable on May 1, 2023.

C. Charter Township of West Bloomfield General Obligation Limited Tax Pension Obligation Bonds, Series 2013

In December of 2013, the Charter Township of West Bloomfield issued $9,235,000 of General Obligation Limited Tax Pension Obligation Bonds for the purpose of fully funding the Township's pension liability for the Township's defined benefit pension plan. These bonds are callable on May 1, 2023.

D. The City of Farmington Limited Tax General Obligation Bonds, Series 2013

In December of 2013, the City of Farmington issued $7,910,000 of Limited Tax General Obligation Bonds for the purpose of fully funding the City's unfunded accrued health care liability. These bonds are callable on June 1, 2023.

E. County of Saginaw General Obligation Limited Tax Pension Obligation Bonds, Series 2013

In January of 2014, the County of Saginaw issued $52,005,000 of General Obligation Limited Tax Pension Obligation Bonds for the purpose of fully funding the County's defined benefit plan. These bonds are callable on November 1, 2023.

F. County of Allegan General Obligation Limited Tax Pension Obligation Bonds, Series 2014

In December of 2014, the County of Allegan issued $15,060,000 of General Obligation Limited Tax Pension Obligation Bonds for the purpose of fully funding the County's defined benefit plan. These bonds are callable on May 1, 2024.

G. County of Ottawa General Obligation Limited Tax Pension Obligation Bonds, Series 2014

In December of 2014, the County of Ottawa issued $29,285,000 of General Obligation Limited Tax Pension Obligation Bonds for the purpose of fully funding the County's defined benefit plan. These bonds are callable on November 1, 2024.

H. City of Bloomfield Hills General Obligation Limited Tax Pension Obligation Bonds, Series 2014

In December of 2014, the City of Bloomfield Hills issued $15,860,000 of General Obligation Limited Tax Pension Obligation Bonds for the purpose of fully funding the City's defined benefit plan. These bonds are callable on October 1, 2024.

I. Charter Township of Shelby Pension Obligation Bonds, Series 2014 (GOLT)

In December of 2014, the Charter Township of Shelby issued $9,300,000 of Pension Obligation Bonds (GOLT) for the purpose of fully funding the Township's defined benefit plan. These bonds are callable on October 1, 2022.

J. County of Macomb Retirees Health Care Bonds, Series 2015 (GOLT)

In March of 2015, the County of Macomb issued $263,555,000 of Retirees Health Care Bonds (GOLT) for the purpose of fully funding the County's retirees health care obligations. The bonds are callable on November 1, 2025.

V. REASONS FOR THE PROPOSED LEGISLATION

A. Current Law Expires on December 31, 2015

Because this law authorized a new and in some ways an experimental program, the legislature decided to only permit its use for a limited number of Municipalities and for a limited period of time. So far, ten Municipalities have taken advantage of the opportunity to issue such bonds out of the more than 170 Municipalities which are currently eligible to issue such bonds.

In addition to the above listed Municipalities, which have already issued, one in Macomb County (the City of Warren), one in Washtenaw County, one in Oakland County, one in Crawford County and one in Tuscola County are currently exploring the possibility of issuing such bonds. In addition, we are aware of at least ten other Municipalities, which are in some stage of reviewing the possibility or have started the process. One reason the process has not moved more quickly was the uncertainty as to the impact of the Detroit bankruptcy on interest rates for municipal bonds issued in the Michigan area, especially in eastern Michigan.

In order to issue such bonds, there is a fairly lengthy timetable (as outlined in Section II above) before the bonds can be issued. For that reason, it would be advisable to extend the current sunset provision of December 31, 2015 to December 31, 2018. This will give the Municipalities a chance to consider issuing such bonds and to actually complete the process.

VI. SUBSTITUTE SENATE BILL NO. 86

Substitute Senate Bill No. 86 will extend the current sunset date by three years to December 31, 2018.

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