BONDING FOR OPEB LIABILITIES: OAKLAND COUNTY'S EXPERIENCE

RESPONSIBLE RETIREMENT REFORM FOR LOCAL GOVERNMENT TASK FORCE

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OUTLINE - BUSINESS ISSUES AND PROPOSED RESOLUTIONS

- Unfunded pension and retirees' healthcare (OPEB) liabilities are substantial and growing in many local units and a commitment many local units of government may not be able to fulfill in the coming years.

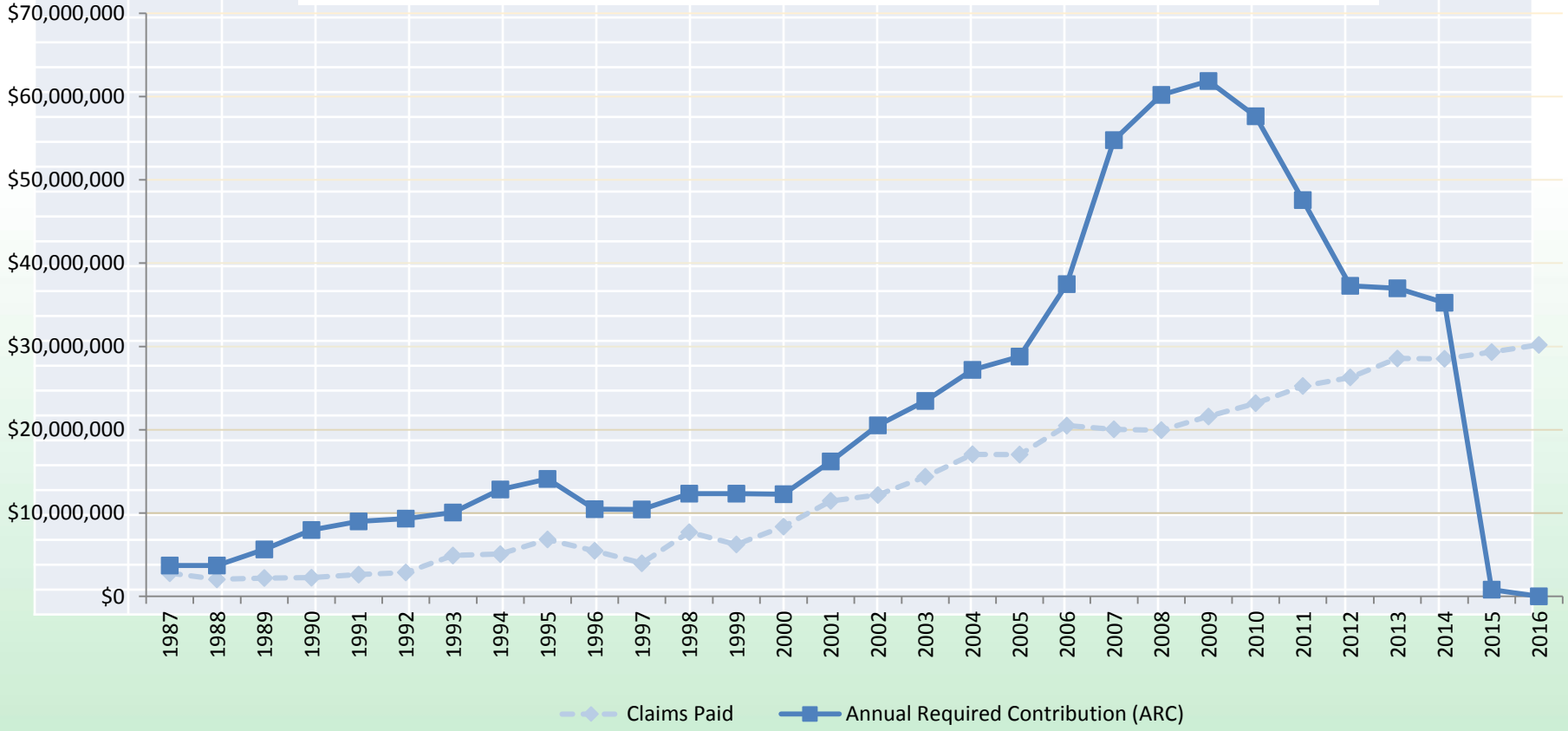
- For some local units bonding could be an exceptional alternative for the financing of net pension and OPEB liabilities (formerly unfunded actuarial accrued liabilities).

- Oakland County's experience with debt issues to cover unfunded liabilities for OPEB liabilities.

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Retiree Health Care History
ARC Payment Compared to PAYGO Amount



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OAKLAND COUNTY OPEB FINANCING

- Issued certificates of participation (COPS) on **July 31, 2007**.

- Sizing of the trust certificates (in millions):

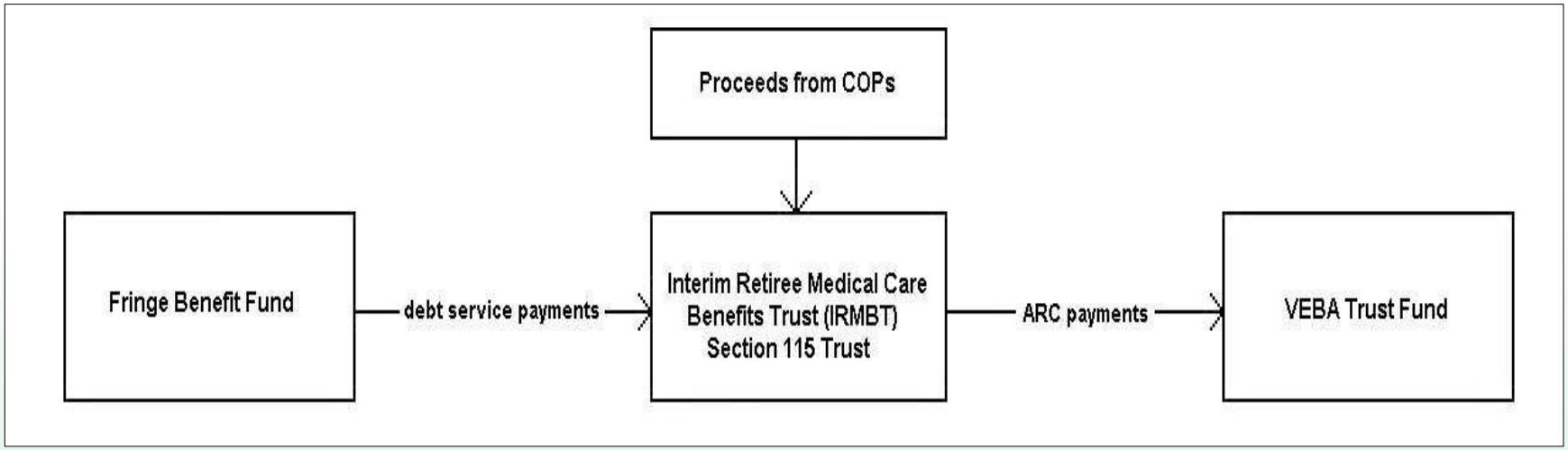
– Actuarial accrued liabilities	$ 829.7	
– Actuarial assets	(303.1)	
Unfunded actuarial accrued liabilities	526.6	
– 2007 and 2008 ARC short-fall	25.9	(1)
– Issuance costs / prepaid interest	4.5	
Total amount borrowed	**$557.0**	

(1) Net financial impact of actuarial assumptions over budget arising from the closing of the OPEB plan to new hires effective Jan. 1, 2006.

(2) At the time of the trust certificate borrowing the County's OPEB plan was 100% funded between two trust funds.

(3) OPEB ordinance issued to confirm bonding and OPEB benefits.

TRUST CERTIFICATES OF PARTICIPATION



- Irrevocable IRMBT serves as an 'interim trust' fund used only to make payments to VEBA **or** to liquidate outstanding COPs

- Interim trust served as a hedge against potential over-funding of VEBA **if** the national health care system and/or benefit limitations are ultimately imposed on employees/retirees

ORIGINAL OPEB SAVINGS (IN 2007)

- In 2007, $557 million of taxable Certificates of Participation (COPS) issued to be repaid over ***20 years***:
  - Annual debt service of approximately $48.5 million vs. $60.2 million ARC payment for 2008. ARC payment was increasing at that time.
  - Interest rate of 6.23% on COPS; ten-year historical return: 7.8%.
  - Callable after 7 years (April 1, 2014).
- Reduced funding period by 10 years (30-year amortization period to 20 years of debt service).
- **Net present value savings conservatively estimated to be no less than $100 million due, in part, to the shortening of funding period and the investment income earned between the interest paid and the long-term investment performance of the two OPEB funds.**

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2013 REFUNDING: DEBT SIZING

- Estimated available assets used for (in millions):

– **Projected** AAL at September 30, 2013	$ 940.2
– Portion of available assets used to ensure full funding	75.2
Targeted assets in VEBA – 108%	**$1,015.5**
– Debt to be called at April 1, 2014	$ 422.1
– Available assets used to reduce borrowing	(73.3)
Amount borrowed, net of $1.2M in issuance costs	**$ 348.8**
– Recap of available assets above AAL	$ 156.4
– Used for VEBA	(75.2)
– Used for reduction in borrowing	(73.3)
Initial funding in prepayment of future normal costs	**$ 7.9**

OPEB ACTUARIAL REPORT – SEPT. 30, 2013 and 2015

	Sept. 30, 2013	Sept. 30, 2015
Total assets	$1,023.1 (1)	$1,118.3 (2)
Actuarial accrued liabilities	(869.2)	(898.3)
Overfunded	**$153.6**	**$ 220.0**

(1) *Market value* of assets as of September 30, 2013.
(2) Actuarial (smoothed) assets at September 30, 2015.
(3) At September 30, 2013 and 2015, 117.7% overfunded and 124% respectively.
(4) In millions.

FY-2013 DEBT REFINANCING - RECAP

- COPS callable on April 1, 2014 - $422.1 million.
- Have issued taxable bonds ($350M) under new Michigan legislation (PA 329). COPS were called on April 1, 2014.
- With available assets of over $10.0M (originally projected at $7.9M), the overfunded position of OPEB VEBA, and several years of debt service savings potentially devoted to a new 'superseding' trust, Oakland County should have its normal costs PRE-funded for many decades to come, if not permanently.
- Essentially, other than debt service, Oakland should be able to avoid any OPEB payments and has substantially and permanently lowered its fringe benefit costs.

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DEBT REFINANCING (Cont.)

- **Immediate budgetary savings of approximately $13M annually** (COPS debt service: $48.0; refunding bonds debt service: $35.0M) over the COPS debt service using a 13-year term for bonds starting April 1, 2014 – end in FY-2027:
  - Interest rates have fallen since the COPS were issued – 3.62% for 12 years with 13th year set at 4.62%.
  - Bonds are better understood in the market than COPS. P.A. 329 legislation passed in October 2012 facilitated this debt issue.
  - **In FY-2028 and beyond**, the additional savings of $35 million will inure to the County in the avoidance of debt service payments when the OPEB bonds are paid off – forever.

ISSUES TO CONSIDER

- Minimum bond debt rating: AA.
- Need to close off defined benefit plan. Employees trade for security.
- **No changes to the OPEB benefits while bonds outstanding.**
- Taxable debt – IRS regulations (avoids arbitrage issues).
- A plan will need to be prepared, submitted to State Treasury and accepted as part of the approval process.

QUESTIONS / ANSWERS

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