To Bond or Not to Bond: Is That Your Question?

Moderator: Leon Hank, MERS Chief Financial Officer
Panelists

• Karen K. Ruddy, CPA
  Finance Director/Treasurer
  City of Bloomfield Hills

• Rob Sarro
  County Administrator
  Allegan County

• Harlan Goodrich
  Municipal Finance Manager
  Michigan Department of Treasury
Objective of Today’s Panel

• Case studies from two municipalities who have bonded
• Insight from Treasury on their process
• Other conference sessions
• Q&A
Background

- What is a pension obligation bond (POB)?
- Key considerations and outcomes
Karen K. Ruddy, CPA
Finance Director/Treasurer
City of Bloomfield Hills
City of Bloomfield Hills

Pension Bonding
Main Points

• Why bond
• How did the plan become underfunded
• Before bonding – reducing future liability
• Education
• First steps in the process
• Timeline for bonding
• Current status
Pension Bonding decision was based on:

• Promises made to employees in the defined benefit plans
• Projected possible cost savings
• Predictability of annual payments for budget purposes
• To move new employees into a defined contribution retirement plan
• OPEB bonding was considered, but decision was not to bond
When and How Did this Liability Accrue?

- 1993 plan was **overfunded**
- 1994 increased wage benefits
- None or little ARC payments made over the next three years (timing between actuarial results and ARC payments is 1.5 years)
- 1995 plan became **underfunded**
- 2000 plan multipliers increased
- 1999-2001 stock market affects investment return (dot-com collapse/911)
- 2008 housing market affects investment returns
Reducing Future Liability Before Bonding

- Reduced PSO multipliers
  - Hired before 7/1/2009: 3% to 2.8%
  - Hired after 7/1/2009: 2.5%
- Reduced DPW multipliers
  - Hired before 1/1/2004: 3% to 2.5%
  - Hired after 1/1/2004: 2.5%
Education

Presented power point at televised Commission Meeting in May of 2014 covering:

- The City’s ability to bond for pension plan liabilities under Public Act 329 of 2012
- Defined Benefit versus Defined Contribution
- Reason for the plan being underfunded
- What the City has already done to reduce pension liability
- Potential Savings by bonding
- Communicated that paying off the unfunded accrued liability would not assure the plan would not become underfunded in the future
First Steps in the Process

1. Contacted Bond Attorney and Bond Advisor
2. Held two work sessions with Commission, Department Heads, Bond Attorney and Bond Advisor to discuss:
   - Bonding for Pension, OPEB, both or neither
   - Cost Savings?
   - Buy in from Labor Unions to close plans and open defined contribution plans
3. Information Needed
   - Actuarial Reports
   - Amortization schedules
   - Comprehensive Report
4. Next Steps
The Bonding Process

- City publishes a notice of intent to issue bonds, which starts a 45 day referendum period
- 9/25/2014 - City Approves Bond Authorizing Resolution
- September – November
  - Prepare and make available to the public a Comprehensive Financial Plan
  - Prepare the Preliminary Official Statement
  - Apply to State Treasury Department for approval to issue bonds
  - Receive Bond Rating
  - Meet with Department of Treasury
- 11/26/2014 – State approves the City to issue bonds
- 12/3/2014 - Print and distribute Preliminary Official Statement
- 12/11/2014 - Pricing of the bonds
- 12/16/2014 – Print and distribute Official Statement
- 12/19/2014 – Closing on the Bonds
- Deadline to accomplish was December 31, 2014
Current Status of the Plan

- Since the City paid off its pension liability in December 2014 the following has happened:
  - MERS performed a 5 year study which:
    - Increased mortality
    - Decreased the interest rate
- As of the most current MERS actuarial report for the year ended 12/31/2015, the city has an unfunded liability of $2.7 million
- The City believes:
  - Future liabilities will be more manageable as the City will be more proactive in paying down liability
  - In the long run the savings from bonding will outweigh any additional new liability
City of Bloomfield Hills

Karen K. Ruddy, CPA
Finance Director/Treasurer
Email: kruddy@bloomfieldhillsmi.net
Rob Sarro
County Administrator
Allegan County
ALLEGAN COUNTY

PENSION BONDING

PART OF A BROADER STRATEGY

MERS CONFERENCE
SEPTEMBER 28, 2016
Discussion Points

• Overview of status pre-bonding
• What prompted Allegan County to explore bonding
  • County Strategy
• Education and outreach, including working with elected officials
• Overview of the analysis conducted
• Decision making process
  • Analysis conducted
  • Work with a consultant?
  • Work with elected officials
• Conclusion/Update
Background

• Other Post Employment Benefits (OPEB) - County has generally not offered OPEB and does not have a material OPEB liability
• 1998 - Began closing Defined Benefit (DB) plans and offering Defined Contribution plans
• Historically made Unfunded Actuarial Liability (UAL) payments based on MERS minimum funding requirements
• 2006 - County began strategic approach to planning
• Recognized UAL as true liability that needed to addressed
To achieve our vision and ensure Allegan County continues to progress and prosper, we MUST...

**Provide valuable and necessary quality services to our CUSTOMERS**
- Deliver affordable and accessible services
- Engage and educate our citizenry
- Collaborate locally and regionally

**Vision:**
Provide our citizens superior and innovative services, be judicious and efficient in the expenditure of resources and promote a safe, clean and healthy environment in which to live, work and play.

**Maintain our FINANCIAL STABILITY**
- Develop and maintain a balanced operational budget
- Maintain reserve funds
- Execute long-term financial planning

**Support a united and ENGAGED WORKFORCE**
- Foster a positive, team-based work environment
- Employ and retain high-performing, quality employees
- Promote safety and wellness

**Continuously improve our PROCESSES**
- Be efficient and cost effective
- Measure and learn from outcomes
- Seek and implement innovative solutions

**Respect**
**Integrity**
**Commitment**
**Honesty**

**Transparency**
**Accountability**
**Feedback**
**Communication**
Communication With Stakeholders (Education/Outreach)

• Pension issue/bonding was a key focus throughout process
• Teams are focused around organizational shared strategy:
  • Examples:
    – Executive Leadership Team
    – County Leadership Team
    – Employee Engagement Team
    – Joint Employee Group
    – Service Area Teams
    – Facilities Emergency Response Plan (FERP) Team

• Empowerment
  • Educate entire organization on key processes
    – i.e. Budget process
  • Daily resolution/escalation paths
Allegan County Strategy Map

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**TRANSPARENCY**
**ACCOUNTABILITY**
**FEEDBACK**
**COMMUNICATION**

**Continuously improve our PROCESSES**
- Be efficient and cost effective
- Measure and learn from outcomes
- Seek and implement innovative solutions
Measuring Performance

Key Focus Areas
- Reserves
- Operations
- Debt
- Projects and Capital

Key Performance Indicators

PLAN  DO  STUDY  ACT
## Reserves

<table>
<thead>
<tr>
<th>Fund Title</th>
<th>Fund #</th>
<th>Types of Uses</th>
<th>Minimum Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Operating Fund</td>
<td>1010</td>
<td>General County Operations</td>
<td>10% of G. F. expense budget including Fund Balance</td>
</tr>
<tr>
<td>Balance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget Stabilization</td>
<td>2570</td>
<td>Monies may be used to cover a general fund deficit, to prevent a reduction in services, to cover expenses of a natural disaster and more</td>
<td>Maximum allowed by statute</td>
</tr>
<tr>
<td>PTO</td>
<td>2580</td>
<td>To fund the year end liability of accrued PTO</td>
<td>Fully fund the PTO accrued liability</td>
</tr>
<tr>
<td>Delinquent Tax Revolving</td>
<td>6160</td>
<td>Monies are used for the settlement of delinquent taxes with the local taxing units. The county purchases the delinquents taxes from the local units. Currently this is about 8.3 million each year</td>
<td>150% of current year settlement</td>
</tr>
</tbody>
</table>
# Reserves - Surplus Allocation

## General Fund

| + Revenues | - Expenditures | = Surplus |

## Reserves & CIP

<table>
<thead>
<tr>
<th>CIP – Bldg &amp; Inf</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension Liability</td>
</tr>
<tr>
<td>$0M Bal</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PTO Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1M</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>15% Stabilization</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4.7M</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>10% Fund Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2.9M</td>
</tr>
</tbody>
</table>
Reserves - Surplus Allocation

**General Fund**

- Revenues

\[ \text{+ Revenues} \]

- Expenditures

\[ \text{- Expenditures} \]

\[ \text{= Surplus} \]

**Reserves & CIP**

<table>
<thead>
<tr>
<th>CIP – Bldg &amp; Inf</th>
<th>$3M $35M+ Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension Liability</td>
<td>$3M Bal $18.6M Debt</td>
</tr>
<tr>
<td>PTO Liability</td>
<td>$1M</td>
</tr>
<tr>
<td>15% Stabilization</td>
<td>$4.7M</td>
</tr>
<tr>
<td>10% Fund Balance</td>
<td>$2.9M</td>
</tr>
</tbody>
</table>
Bonding Analysis – Pre Bond Funding Level

<table>
<thead>
<tr>
<th>Division</th>
<th>Actuarial Accrued Liability</th>
<th>Valuation Assets</th>
<th>% Funded</th>
</tr>
</thead>
<tbody>
<tr>
<td>01 Tmstr Unit II</td>
<td>1,688,674</td>
<td>1,277,089</td>
<td>75.6%</td>
</tr>
<tr>
<td>02 POLC RdCommand</td>
<td>12,129,651</td>
<td>7,161,819</td>
<td>59.0%</td>
</tr>
<tr>
<td>04 Med Care Community</td>
<td>1,543,472</td>
<td>2,215,872</td>
<td>143.6%</td>
</tr>
<tr>
<td>06 Mtl Hlth Dept</td>
<td>2,866,013</td>
<td>4,404,324</td>
<td>153.7%</td>
</tr>
<tr>
<td>08 Court Salaried</td>
<td>2,183,499</td>
<td>1,558,149</td>
<td>71.4%</td>
</tr>
<tr>
<td>09 Asst Pros Atty</td>
<td>853,323</td>
<td>561,419</td>
<td>65.8%</td>
</tr>
<tr>
<td>10 Genl Non Union</td>
<td>8,296,536</td>
<td>5,738,504</td>
<td>69.2%</td>
</tr>
<tr>
<td>12 Court Hourly</td>
<td>5,386,821</td>
<td>3,412,736</td>
<td>63.4%</td>
</tr>
<tr>
<td>15 Tmstrs Unit I</td>
<td>2,313,738</td>
<td>1,505,506</td>
<td>65.1%</td>
</tr>
<tr>
<td>16 County Adminstr</td>
<td>580,818</td>
<td>554,030</td>
<td>95.4%</td>
</tr>
<tr>
<td>17 Tmstr Unit III</td>
<td>1,196,451</td>
<td>923,564</td>
<td>77.2%</td>
</tr>
<tr>
<td>20 Polc Deputies</td>
<td>16,464,372</td>
<td>10,112,223</td>
<td>61.4%</td>
</tr>
<tr>
<td>21 POLC Corr Comm</td>
<td>1,763,263</td>
<td>1,457,564</td>
<td>82.7%</td>
</tr>
<tr>
<td>40 Admnst of Med Care</td>
<td>617,501</td>
<td>176,979</td>
<td>28.7%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$ 57,884,132</strong></td>
<td><strong>$ 41,059,778</strong></td>
<td><strong>70.9%</strong></td>
</tr>
</tbody>
</table>
## Bonding Analysis – All DB Plans Closed, DC Plans for New Hires

<table>
<thead>
<tr>
<th>Employee Group</th>
<th>Members (#)</th>
<th>Date Plan Open to New Hires</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assistant Prosecutors</td>
<td>5</td>
<td>Nov 1999</td>
</tr>
<tr>
<td>Corrections Command</td>
<td>7</td>
<td>Dec 1998</td>
</tr>
<tr>
<td>Corrections Officers</td>
<td>30</td>
<td>Jun 2000</td>
</tr>
<tr>
<td>Court Hourly</td>
<td>86</td>
<td>Dec 1998</td>
</tr>
<tr>
<td>Court Salaried</td>
<td>12</td>
<td>May 1998</td>
</tr>
<tr>
<td>Deputies</td>
<td>41</td>
<td>Oct 2013</td>
</tr>
<tr>
<td>Family Court Supervisors</td>
<td>5</td>
<td>May 1998</td>
</tr>
<tr>
<td>General Unit (Teamster I)</td>
<td>43</td>
<td>May 1998</td>
</tr>
<tr>
<td>Non-Bargaining</td>
<td>84</td>
<td>May 1998</td>
</tr>
<tr>
<td>Road Command</td>
<td>11</td>
<td>Oct 2013</td>
</tr>
<tr>
<td>Teleco Sup (Teamster IV)</td>
<td>5</td>
<td>Mar 2000</td>
</tr>
<tr>
<td>Telecommunicators (Teamster III)</td>
<td>13</td>
<td>Mar 2000</td>
</tr>
<tr>
<td>Mtl Hlth Dept</td>
<td>111</td>
<td>Nov 1998</td>
</tr>
<tr>
<td>Med Care Community</td>
<td>Waiting for info</td>
<td>Oct 1998</td>
</tr>
<tr>
<td>Future State</td>
<td>Issues / Opportunities</td>
<td>Strategy</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| • To meet the threshold of our reserve accounts as outlined in the Allegan County Budget Policy | • Unfunded Actuarial Liability ("UAL") of Defined Benefit Retirement Plan exceeds reserve amount  
• Capital Improvement needs exceed reserve amount | • Structure reserve funds to ensure their long-term viability to meet but not exceed the future financial needs of the County  
• Determine an appropriate plan for all of the County’s operating funds  
• (See Capital and Debt plans) | |
<table>
<thead>
<tr>
<th>OPERATIONAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Future State</strong></td>
</tr>
</tbody>
</table>
| ● 5-yr Operating Plan that outlines Personnel, Operational, Debt and Capital & needs for the General Fund and Special Revenue Funds | ● Personnel costs – Employ and maintain high-performing, quality employees  
● Maintain services during down economy  
● Zero audit findings | ● Develop personnel compensation plan  
● Use Reserve Funds as necessary to maintain service levels  
● Continuous review of internal controls for:  
  - Accts Payable  
  - Cash Receipting  
  - Grant Compliance  
  - General Ledger Maintenance  
  - Payroll Activities | 🟢 |
## DEBT

<table>
<thead>
<tr>
<th>Future State</th>
<th>Issues / Opportunities</th>
<th>Strategy</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Zero direct debt</strong></td>
<td><strong>Allegan County Jail</strong> $13,500,000 (originally issued) Capital Improvement Bonds to finance Sheriff Administration Office and Correctional Facility Principal Outstanding: $13,150,000 Avg. Annual Debt Service: $919,444</td>
<td><strong>Allegan County Jail</strong> • Debt Service funded by Delinquent Tax Revolving Fund • Any collections &gt; than 150% of Settlement Amounts are transferred to sinking fund dedicated for debt retirement</td>
<td>![Green Light]</td>
</tr>
<tr>
<td><strong>Fully funded liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Pension</td>
<td><strong>UAL</strong> Defined Benefit UAL Current Amount: $18,860,000 (est.) Avg. Annual Debt Service: $1,771,872</td>
<td><strong>UAL</strong> • Pay down UAL with Liability Reserve Fund • Sell Taxable Pension Bonds to retire outstanding UAL obligation • Utilize existing budgeted funds to manage debt service • Utilize reserves to expedite payments</td>
<td>![Green Light]</td>
</tr>
<tr>
<td>• Paid Time Off</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## CAPITAL

<table>
<thead>
<tr>
<th>Future State</th>
<th>Issues / Opportunities</th>
<th>Strategy</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>- 15-yr Capital Improvement Plan (“CIP”)</td>
<td>- Need comprehensive 15yr plan</td>
<td>- Develop comprehensive plan and reporting model</td>
<td></td>
</tr>
<tr>
<td>- Ongoing funding source to support CIP</td>
<td>- Prioritization of projects</td>
<td>- Develop priority matrix decision tool</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Need on-going funding source</td>
<td>- Realign State Revenue Sharing to fund Projects and Capital Improvement Plan</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- On-time, On-budget, On-scope and On-value</td>
<td>- Dispatch - Adjust surcharge to include capital needs</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Apply project management principles</td>
<td></td>
</tr>
</tbody>
</table>
## Bonding Process – Service Providers/Partners

<table>
<thead>
<tr>
<th>Partner Role</th>
<th>Contact Information</th>
</tr>
</thead>
</table>
| **Financial Advisor** | Robert J. Bendzinski, CIPMA  
Bendzinski & Co.  
607 Shelby St,  
Detroit, MI 48226  
313-961-8222 x1 Office |
| **Bond Counsel**    | Bowden V. Brown  
39577 Woodward Avenue, Suite 300  
Bloomfield Hills, Michigan 48304  
248-203-0800 Direct  
248-203-0700 Main  
855-242-8120 Fax |
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<table>
<thead>
<tr>
<th>Partner Role</th>
<th>Contact Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriter</td>
<td><strong>Louis C. Orcutt</strong>&lt;br&gt;Managing Director&lt;br&gt;Fifth Third Securities, Inc.&lt;br&gt;Public Finance Investment Banking&lt;br&gt;1000 Town Center, Suite 1400&lt;br&gt;Southfield, MI 48075&lt;br&gt;(248) 603-0465 office&lt;br&gt;(248) 417-1021 cell</td>
</tr>
<tr>
<td>Pension Administrator</td>
<td><strong>Michael Overley</strong>&lt;br&gt;Regional Manager&lt;br&gt;Municipal Employees’ Retirement System of Michigan&lt;br&gt;1134 Municipal Way&lt;br&gt;Lansing, MI 48917&lt;br&gt;800.767.MERS (6377)&lt;br&gt;517.703.9030 Local</td>
</tr>
</tbody>
</table>
### Bonding Process - Legal Debt Capacity

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 State Equalized Value (SEV)</td>
<td>$5,136,966,563</td>
</tr>
<tr>
<td>Legal Debt Limit – 10% of SEV</td>
<td>513,696,656</td>
</tr>
<tr>
<td>Total Bonded Debt Outstanding 3/14/2014</td>
<td>$20,025,358</td>
</tr>
<tr>
<td>Less Exempt Debt: Bonds</td>
<td>-0-</td>
</tr>
<tr>
<td>Debt Subject to Legal Limit</td>
<td>$20,025,358</td>
</tr>
<tr>
<td>LEGAL DEBT MARGIN AVAILABLE</td>
<td>$493,671,298</td>
</tr>
</tbody>
</table>

- Allegan County Maintains a bond rating of **AA**
- This was reviewed just prior to the pension Bond issuance
## COUNTY OF ALLEGAN
### 2014 PENSION OBLIGATION BONDS
#### PROJECTED TIMETABLE

<table>
<thead>
<tr>
<th>DATE</th>
<th>ACTIVITY/EVENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 30</td>
<td>County begins preparing Comprehensive Financial Analysis required by the State of Michigan in accordance with Act 329.</td>
</tr>
<tr>
<td>June 3</td>
<td>Comprehensive Financial Analysis completed</td>
</tr>
<tr>
<td>June 19</td>
<td>Board of Commissioners approves Comprehensive Financial Analysis and selects underwriter for bond issue on advice of Bendzinski &amp; Co.</td>
</tr>
<tr>
<td>July 10</td>
<td>Board of Commissioners approves Bond Authorizing Resolution</td>
</tr>
<tr>
<td>July 17</td>
<td>Dykema and Bendzinski to file long form application and Comprehensive Financial Analysis with Michigan Department of Treasury.</td>
</tr>
<tr>
<td>w/o August 4</td>
<td>County Officials, Bendzinski &amp; Co. and Dykema meet with Treasury Officials and review information filed on April 17.</td>
</tr>
<tr>
<td>August 6</td>
<td>Bendzinski &amp; Co. sends draft Preliminary Official Statement to all</td>
</tr>
<tr>
<td>August 16</td>
<td>Comments due on draft POS</td>
</tr>
<tr>
<td>August 18</td>
<td>Submit information to Standard &amp; Poor's</td>
</tr>
<tr>
<td>August 26</td>
<td>Conference call with Standard &amp; Poor's</td>
</tr>
<tr>
<td>August 29</td>
<td>Receive Treasury approval</td>
</tr>
<tr>
<td>September 3</td>
<td>Receive rating</td>
</tr>
<tr>
<td>w/o September 22</td>
<td>Sell bonds</td>
</tr>
<tr>
<td>October 7</td>
<td>Bond delivery</td>
</tr>
</tbody>
</table>
$15,060,000
County of Allegan, State of Michigan
General Obligation Limited Tax Pension Obligation Bonds, Series 2014
Current Interest Rates
Cash Flow Comparison at 8.00%

<table>
<thead>
<tr>
<th>Date</th>
<th>Projected Debt Service Schedule</th>
<th>S% Ammortization Payment</th>
<th>PV Factor</th>
<th>Gross Savings</th>
<th>PV Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/01/2015</td>
<td>-</td>
<td>-</td>
<td>1.0000000x</td>
<td>(3,564,737.00)</td>
<td>(3,564,737.00)</td>
</tr>
<tr>
<td>01/01/2016</td>
<td>1,128,475.15</td>
<td>1,500,000.00</td>
<td>0.9334628x</td>
<td>371,524.85</td>
<td>346,804.64</td>
</tr>
<tr>
<td>01/01/2017</td>
<td>1,130,976.50</td>
<td>1,600,000.00</td>
<td>0.8630389x</td>
<td>469,023.50</td>
<td>404,785.50</td>
</tr>
<tr>
<td>01/01/2018</td>
<td>1,130,340.25</td>
<td>1,700,000.00</td>
<td>0.7979279x</td>
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<td>454,547.43</td>
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<td>1,128,725.00</td>
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<td>871,275.00</td>
<td>549,438.25</td>
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<td>969,720.00</td>
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<td>01/01/2023</td>
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<td>1,070,735.00</td>
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<td>1,169,505.00</td>
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<td>1,270,632.50</td>
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<tr>
<td>01/01/2026</td>
<td>1,131,100.00</td>
<td>1,600,000.00</td>
<td>0.4260202x</td>
<td>468,900.00</td>
<td>199,760.89</td>
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<td>238,851.91</td>
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<td>2,000,000.00</td>
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<td>867,500.00</td>
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<td>0.2558567x</td>
<td>1,067,800.00</td>
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</tbody>
</table>

Total $20,351,350.40 - $34,800,000.00 - $10,883,912.60 $3,574,982.35
Reserves - Surplus Allocation

### General Fund

\[ \text{= Surplus} = \text{+ Revenues} - \text{- Expenditures} \]

### Reserves & CIP

<table>
<thead>
<tr>
<th>CIP – Bldg &amp; Inf</th>
<th>$3M, $2.2/yr SRS 15yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension Liability</td>
<td>Pension Bond Plan</td>
</tr>
</tbody>
</table>

#### PTO Liability
- $1M

#### 15% Stabilization
- $4.7M

#### 10% Fund Balance
- $2.9M
Reserves - Surplus Allocation

General Fund

- Surplus
- Expenditures
+ Revenues

Reserves & CIP

- CIP – Bldg & Inf
  $3M, $2.2/yr SRS 15yr

- Pension Liability
  $5.7M ($11M Market)

- PTO Liability
  $1M

- 15% Stabilization
  $4.7M

- 10% Fund Balance
  $2.9M
## Update - Addressing Remaining UAL

### Reducing UAL

There are several ways a municipality can reduce unfunded liability, including:

<table>
<thead>
<tr>
<th><strong>INCREASE ASSETS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Paying more than the required minimum contributions through additional lump sum payments.</td>
</tr>
<tr>
<td>Bonding to fully fund the plan.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>REDUCE LIABILITY</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce liability for new hires by offering a lower tier of benefits (either in the Defined Benefit or Hybrid Plans).</td>
</tr>
<tr>
<td>Reduce the liability for new hires and existing employees by “bridging” their benefits to a lower tier and freezing final average compensation.</td>
</tr>
<tr>
<td>Eliminate future liability by closing the Defined Benefit Plan and offering a Defined Contribution Plan.</td>
</tr>
</tbody>
</table>

Source: MERS, Managing UAL Closing the Gap in Unfunded Accrued Liability

*Pursing a second bond issue*

*Exploring this concept in addition to a second bond issue*
Update - Addressing Remaining UAL

How Does It Work?

- The first part of the bridge is the current benefit structure already adopted.
- The second part of the bridge allows for the benefit multiplier to be changed on a going-forward basis, impacting only future service.
- At the employee's retirement, the two parts are combined to complete the retirement benefit.

Calculating the Final Average Compensation (FAC):

- You have the option to use a Frozen FAC. This “freezes” the FAC in the current (previously accrued) benefit structure and is used to calculate part 1 of the bridge. Choosing this option will provide the greatest cost impact.
- Termination (unfrozen) FAC calculates the FAC throughout the employee's employment. If you do not freeze the FAC, it will be calculated at retirement using the FAC provisions adopted by the plan.

<table>
<thead>
<tr>
<th>part 1</th>
<th>Final Average Compensation (May choose Frozen FAC)</th>
<th>Service Credit</th>
<th>X</th>
<th>Original Benefit Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>part 2</td>
<td>Final Average Compensation</td>
<td>Service Credit</td>
<td>X</td>
<td>New Benefit Multiplier</td>
</tr>
</tbody>
</table>

$ Original Benefit + $ New Benefit = $ Total Retirement Benefit

An actuarial report will provide estimated impacts to bridging, and will show both FAC options. See page 5-6 for an example of how a bridged benefit works. As you can see, selecting to freeze FAC provides the greatest impact in most cases.

Source: MERS, Managing UAL Closing the Gap in Unfunded Accrued Liability
Update - Addressing Remaining UAL

Source: MERS, Managing UAL Closing the Gap in Unfunded Accrued Liability

EMPLOYEE BENEFIT EXAMPLE

Bob worked for 15 years when his employer decides to bridge from a 2.5% benefit multiplier to 1.5%. For the first 15 years, Bob’s FAC is calculated at $40,000 with a 2.5% multiplier. Bob works another 10 years at the 1.5% benefit multiplier and when he retires his FAC is calculated at $50,000. Bob’s benefit will look like the following:

Calculated With Frozen FAC

- $40,000 X 15 years X 2.5% = $15,000
- $50,000 X 10 years X 1.5% = $7,500

Total: $22,500 Annually / $1,875 Monthly

If frozen FAC is not selected for part 1, Bob’s FAC at retirement will be used for both parts of the bridge and his total benefit would be $26,250 annually instead of $22,500. If Bridged Benefits would not have been adopted, Bob would have accrued all 25 years at 2.5% and his benefit at retirement would have been $31,250 annually.
Reserves - Surplus Allocation

General Fund

= Surplus

- Expenditures

+ Revenues

Reserves & CIP

<table>
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<td>$1M</td>
</tr>
<tr>
<td>15% Stabilization</td>
<td>$4.7M</td>
</tr>
<tr>
<td>10% Fund Balance</td>
<td>$2.9M</td>
</tr>
</tbody>
</table>
Update - Addressing Remaining UAL/Conclusion

- Issue second bond
- Bridge benefits (Change in multiplier)
- Reallocate $900K annually toward additional debt service from current Capital Improvement Plan
- Creation of a sinking fund for early payment of bonds

Conclusion/Suggestions
- Ensure bonding is the right tool for your organization and fits with your overall strategy and financial capacity
- Consider the Market Value as opposed to the Actuarial Value of assets.
- Look at Actuarial Value, consider more conservative earning rates.
Contact Information

Robert J. Sarro
County Administrator
Allegan County

rsarro@allegancounty.org

Please contact me if you would like additional information.

(269) 673-0239
Harlan Goodrich
Municipal Finance Manager
Michigan Department of Treasury
Pension/OPEB Bonds

- Harlan Goodrich
- Michigan Department of Treasury
- Pension and Other Post-Employment Benefit (OPEB) Bonds
- Treasury does not advocate for or against the issuance of pension/OPEB bonds – that is a local decision, with the risks/rewards being weighed by the local governing body.
Statutory Authority

- Revised Municipal Finance Act, Public Act 34 of 2001
- Section 518 added October 17, 2012 (PA 329 of 2012)
- Section 518 sunsets December 31, 2018
Statutory Requirements

• County, City, Village, or Township
• Close Defined Benefit Plan and open Defined Contribution Plan (not hybrid)
• Publish notice of intent in local newspaper, wait 45 days for possible petition for referendum
• Prepare Comprehensive Financial Plan (See Section 518(4) for details)
• Credit rating of AA- or higher
• Need approval from local governing body
• Need approval from Treasury
• Can’t change benefit structure or rescind closure of DB plan after bonding
Interested in Bonding?

• Call or email to discuss
• 517-373-3227
• Treas_MunicipalFinance@Michigan.gov
• We have a handout!
• Treasury has approved 13 pension applications and 5 OPEB applications
Applying to Treasury

• Application for State Treasurer’s Approval to Issue Pension or Other Post-Employment Benefits (OPEB) Long-Term Securities (Form 5366)

• Budget 60 days to receive Treasury approval (application in, approval letter out)

• Meeting between municipality and Treasury staff in Lansing to discuss the bond issuance and address any questions.
Items to Submit

• Qualifying Statement (deficiency letter if needed)
• Application
• Local Governing Body Resolution (certified by clerk)
• Proof of Notice of Intent and Certificate of No Referendum (45 days)
• Comprehensive Financial Plan (post on municipality website)
• Credit Rating (AA- or higher)
• Copy of Covenant to Bondholders
Other Things

- If bonding for pension or OPEB, but not both, the Comprehensive Financial Plan should include a detailed description of the plan not being funded.
- Bonds shall not capitalize interest
- Bonds shall not mature beyond date final pension/OPEB payment would have been made
- Can fund up to 100% of Unfunded Accrued Liability (UAL), may fund less than 100%
- Do not have to close all divisions to bond; however, may only bond for closed divisions
- Bonds count against the municipality’s legal debt margin (10% of SEV)
- Bonds are federally taxable and state tax exempt
Actuarial Value or Market Value?

- Actuarial Value determined from most recent actuarial report or within 150 days of issuance
- Market Value determined within 150 days of issuance
- If issuing on the higher of the two, provide an explanation in the Comprehensive Financial Plan
Debt Service Schedules

• Provide debt service schedules for:
  • Current Interest Rate
  • Current Interest Rate plus 50 basis points
  • Current Interest Rate minus 50 basis points
Net Present Value Savings Sensitivity Analysis

- Use debt service schedules and the following to calculate NPV savings:
  - Expected Plan Rate of Return
  - Expected Plan Rate of Return minus 100 basis points
  - Expected Plan Rate of Return minus 200 basis points

<table>
<thead>
<tr>
<th>NPV Savings</th>
<th>Current IR</th>
<th>Current IR+50 BPS</th>
<th>Current IR-50 BPS</th>
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<tbody>
<tr>
<td>Expected UAL ROR</td>
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<tr>
<td>Expected UAL ROR-100 BPS</td>
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<tr>
<td>Expected UAL ROR-200 BPS</td>
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</table>
Next Steps

• Consider attending Funding and Plan Design Strategies session
• Contact your Regional Manager to review options and next steps
Contacting MERS

MERS of Michigan
1134 Municipal Way
Lansing, MI  48917

Phone: 800.767.6377
www.mersofmich.com

LET’S GET SOCIAL!