

**Presentation - Bond Buyer OPEB Conference  
March 17, 2008**

# **COMMUNICATING WITH RATING AGENCIES**

L. Brooks Patterson, Oakland County Executive

Laurie Van Pelt, Management and Budget Director





L. Brooks Patterson  
Oakland County Executive

*Oakland County*

# Profile of Oakland County



910 square miles

Population of 1.2 million

\$35 billion payroll – 720,201 employees

AAA rated

4<sup>th</sup> wealthiest county - USA

International commerce leader in MI

15 higher learning institutions

32 downtown areas

89,000 acres of recreation area

1,400 lakes & 72 golf courses

Detroit Pistons

Woodward Dream Cruise

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# Government Structure

- Executive form of county government (approved by the electorate in 1974)
  - Less than 60 exist across the nation
- Operates similar to a large city, strong mayor form of government
- Current County Executive is second to serve in this position
  - Elected in 1992
  - Currently serving fourth 4-year term

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# Goal Set: AAA Rating

- Prior to the current County Executive's administration, the County's bond rating was AA- (Standard and Poor's) and A (Moody's)
- The County Executive pursued and by 1998 attained the AAA rating from both agencies, within five years of taking office

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# "AAA" Strategy

- Wall Street reviews four major areas to determine a rating:
  - Administration
    - Financial planning, conservative and accurate budgeting, a strong interactive team
  - Debt
    - Easily managed debt ratios, debt policies
  - Strong Economy
  - Healthy Finances

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# “AAA” Strategy

To achieve the AAA rating:

- We reduced expenditures significantly over the past 15 years
  - Reorganizations
  - Privatizations
  - Investment in technology
  - Multi-year budget with continuous monitoring
  - Pension and benefit reforms

# "AAA" Strategy

- We increased fund balances
- We use excess fund balances rather than debt for many capital projects
- We reduced our level of debt
- We invest heavily in economic development to diversify our economy
- We meet as a team with Wall Street

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# Oakland County Elected Officials



L. Brooks Patterson  
County Executive



David Gorcyca  
Prosecutor



Michael Bouchard  
Sheriff



Ruth Johnson  
Clerk/Register of Deeds



Patrick Dohany  
Treasurer



John McCulloch  
Drain Commissioner



25 Commissioners



19 Circuit Judges, 4 Probate Judges, 11 District Judges in the 52<sup>nd</sup> District

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# Funding OPEB

- Oakland County began funding the OPEB annual required contribution (ARC) in 1987
  - We have continued to fund the ARC each and every year thereafter
  - We were well ahead of standard practice not only in the government sector but the private sector as well
- Oakland County's OPEB liability is now fully funded

# Funding OPEB

- The total unfunded OPEB liability across the USA is staggering
- The OPEB liability will require decades to resolve
- What are rating agencies looking for?
  - How do you fund OPEB now?
  - How will you comply with GASB 45?
  - What have you already done to control OPEB costs?
  - What is your plan to control future OPEB costs?
  - What is your long-term OPEB funding strategy?



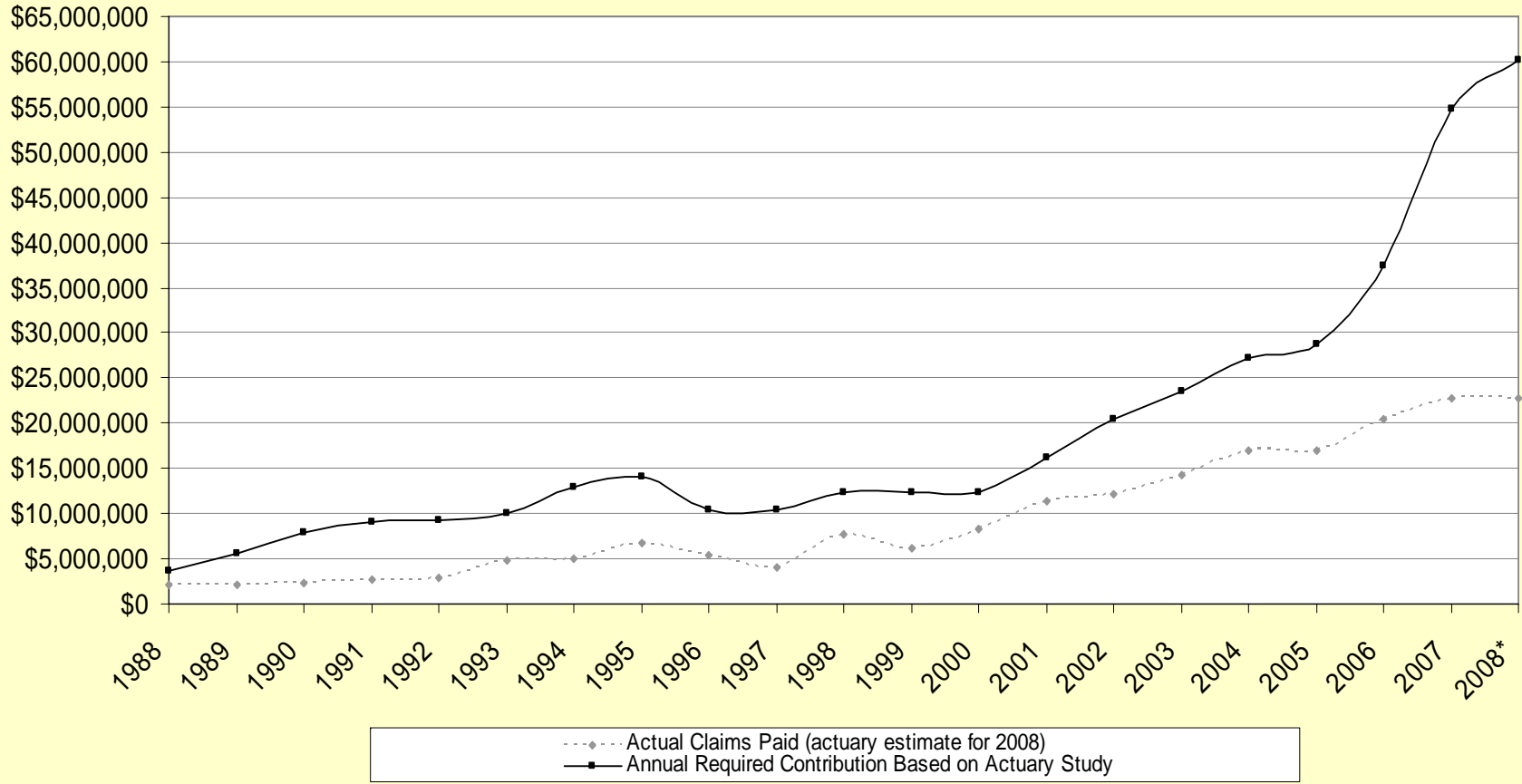
Laurie Van Pelt  
Management & Budget Director

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# OPEB Strategies

- Two sides of the financial management equation to consider
  - Cost
  - Funding
- GASB 45 compliance requires an actuary study
  - The true cost of OPEB will become known
  - Actuarial cost as opposed to PAYGO

# Oakland County, MI Retiree Health Care Funding History



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# OPEB Strategies

- Have you hired an actuary?
  - If not, you should begin the process to select and hire an actuary
  - Need to allow time to collect the data required by the actuary
- Once you obtain the actuary study, develop a communication plan
  - For your legislative body
  - For the public (news media, citizens, rating agencies)

# OPEB Strategies

- Develop cost control strategies
- When considering benefit changes, have your actuary estimate how it will impact your liability and ARC
- Different approaches to benefit changes
  - Impact current retirees?
  - Impact current employees' retiree benefits?
  - Impact future employees only (not yet hired)?

# OPEB Strategies

Over time, Oakland County has made various OPEB changes to control costs

- Impacting current retirees/employees
  - Buy out offered to deferred retirees
  - Increased co-pays/deductibles for health services
  - Implemented tiered pharmaceutical co-pays
  - Issued competitive bid for pharmaceutical management services

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# OPEB Strategies

- Impacting new, not yet hired employees
  - Increased vesting period for employee benefit
  - Increased vesting period for spouse and dependent benefit
  - Closed traditional defined benefit OPEB plan and replaced with fixed retirement health savings plan

# OPEB Strategies

- Keep in mind that OPEB plan changes can take some time to implement
  - Do your union agreements have “me too” clauses for benefit changes?
  - Allow time to communicate with the employees
  - Allow time for deliberation with your policy makers

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# OPEB Strategies

- If you fund OPEB on a PAYGO basis, you need to develop a strategy for pre-funding
- First step to consider – create an irrevocable trust fund such as a VEBA
- Identify a source of funding
  - Are new revenues available?
  - Consider a policy of targeting a dedicated percentage of unspent surplus each year
  - Dedicate unanticipated one-time revenue streams
  - Reduce expenditures to fund ARC payments
  - Include in fringe benefit rate which for recovery from reimbursement agreements

# OPEB Strategies

From Oakland County's most recent actuary study, as of 9/30/2006

Total accrued liability	\$829.7 million
Assets	<u>303.1 million</u>
Unfunded accrued liability	\$526.6 million

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# OPEB Strategies

- Oakland County issued \$557 million in trust certificates of participation (COPs) in July 2007 to fund the remaining OPEB liability
- The annual debt service over a 20 year period is approximately \$48.5 million
- The debt service amount is considerably less than the ARC of \$60.2 million over a 30 year amortization period
- Estimated to save the county approximately \$150 million in net present value

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# OPEB Strategies

## Issues to Consider Regarding Use of Debt

- May not be a good solution for some entities
- Prerequisite considerations
  - Significant prior progress in pre-funding
  - A source of funds to pay the debt service
  - A favorable bond rating
  - Actions have been taken to limit future growth of benefit costs
  - Market conditions are favorable (i.e., debt rate is significantly less than expected return on long-term investments in retiree health care trust fund)

# OPEB Strategies

- Assemble your team
  - Do you have the required expertise already available?
  - Are your experts working together: financial, human resources, legal counsel, investment officers?
- Do you have time to implement OPEB plan changes incrementally or will you have to make more drastic and immediate changes?

# OPEB Strategies

- Assess where you might encounter resistance and plan accordingly
- Continually monitor and adjust your plan if needed
- When communicating with the rating agencies
  - Have a long-term plan
  - Be realistic
  - Document your progress over time
  - Share the positive results as well as the disappointments

# Resource Information

- Oakland County Insight Article, "Financing Health Care for Retirees," July 2006

[http://www.oakgov.com/exec/assets/docs/insight/retiree\\_health\\_07\\_2006.pdf](http://www.oakgov.com/exec/assets/docs/insight/retiree_health_07_2006.pdf)

- Answers to FAQ's regarding Oakland County's planned use of debt:

[http://www.oakgov.com/exec/insight/retiree\\_072406.html](http://www.oakgov.com/exec/insight/retiree_072406.html)

- Suggested reading: "The Implementation of GASB 45, Case Studies of 15 Counties," Dr. Paula Stanford, National Center for the Study of Counties, Carl Vinson Institute of Government, University of Georgia, December 2007, Prepared in cooperation with the National Association of Counties

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