VILLAGE OF BARRINGTON HILLS

Finance Committee

NOTICE OF SPECIAL MEETING

Thursday, August 14, 2014 ~ 2:00 pm
112 Algonquin Road

AGENDA

1. Organizational
   1.1 Call to Order
   1.2 Roll Call

2. Approval of Minutes

3. 2nd Quarter Review [Information Only]

4. Request for Proposal for Auditing Services [Recommendation]

5. Vehicle Sticker Program Survey Results [Information Only]

6. Investment Policy [Recommendation]

7. Police Pension
   7.1 Funding Policy [Recommendation]
   7.2 Pension Obligation Bonds [Discussion]

8. Vendor Information [Discussion]

9. Public Comments

10. Adjournment

Chairman: Karen Selman

NOTICE AS POSTED

Village of Barrington Hills
Minutes of Finance Committee meeting of April 17, 2014

Chair Selman called the meeting to order at 3:02 p.m. Roll Call.

Members Present

Karen Selman

DRAFT

Patty Meroni
Fritz Gohl
President McLaughlin (ex-officio) (arrived at 3:07 p.m.)

Other Attendees
Robert Kosin, Director of Administration
Michael Murphy, Chief of Police
Richard Semelsberger, Deputy Chief of Police
Rosemary Ryba, Village Treasurer
James White, Baker Tilly Virchow Krause, LLP
Jason Coyle, Baker Tilly Virchow Krause, LLP

MINUTES

Reviewed minutes from October 24, 2013 Finance Committee Meeting. Trustee Gohl motioned and moved for approval, seconded by Trustee Meroni. All said aye. Minutes approved.

FIRST QUARTER REVIEW

Treasurer Ryba reviewed the report provided through March 31, 2014. There was a YTD variance vs. YTD budget surplus in the General fund totaling $96,570.75. The combined Funds had shown a YTD surplus of $228,976.72. This was mainly attributable to road maintenance projects not yet bid and the status of controlling expenses in the legal services department.

VEHICLE STICKER PROGRAM REVIEW

The revenues support the public safety department within the general fund. Chair Selman stated that Trustee Konicek previously asked about the program and learned from her that there are residents who do not favor it. Chief Murphy stated it is labor intensive for the dispatchers and data collection is the purpose of the program. He then stated that over the years residents have not been updating their information through the program. Director Kosin stated the Village's vehicle stickers give a basic data line for newsletter mailings or other communications. The net revenues produced not taking into account the labor costs as they are not tracked for those purposes, offset non-levied expenses for the Village. Trustee Meroni added that the four counties use different methods of database building. Trustee Gohl also added that some homes cannot get mail delivery.

Residents can possibly do a survey on the vehicle sticker program annually. The last survey that was done there was low feedback. A tally can be taken going forward through dispatch if the residents like or dislike it. Other suggestions were to either shift to animal registration or eliminating the $10 sticker fee and informing the residents that if they do not display vehicle stickers an increase from a $25 fine to $100 could be imposed. The Committee will suggest to the Board the options discussed and a decision will be acted upon.

INVESTMENT POLICY REVIEW

President McLaughlin would like to define who reviews the performance of investments and establish a credit worthiness listing. Maximum maturities and the possibility of laddering investments was an issue he would like the Board to discuss. Suggested was a quarterly report for performance standards benchmarking. The Committee will review proposed changes to the Investment Policy at the next Finance Committee Meeting.

FY '13 AUDIT DRAFT

James White reviewed the audit draft and independent auditors report which gave the highest opinion available. The management discussion and analysis section summarized the results at year end with highlights and an overview. The Net Assets on the Statement of Net Position has been renamed to Net Position which presents all funds together. The Increase of Net Position on the Statement of Activities showed an increase of $632,411 at December 31, 2013.

Mr. White commented that due to the size of the Village, there are inherent weaknesses that most municipalities would accept the risk on Page two (2) of the management letter due to financial and staff size limitations. GASB 67 & 68 will change the way pension plan(s) are reported. Actuaries will need to use updated formulations for upcoming audits and a formalized Police Pension Funding Policy by 12/31/14 needs to be adopted.

Chair Selman added that this is the last year of the contract with BTVK. The discussion of re-signing or going to request for proposals for audit services for FY '14 and beyond will occur at the next Finance Committee Meeting.

ROADS AND BRIDGES TRANSFER

Motioned by Trustee Meroni and seconded by Trustee Gohl to recommend Roads and Bridges Transfer Ordinance to the BOT at the April 30, 2014 meeting. All said aye.

POLICE PENSION FUNDING POLICY/GASB 67 & 68

A funding policy for the police pension fund is to be addressed by the Committee and brought to the Board of Trustees for adoption prior to year end. A recommendation will be made at the next Finance Committee Meeting. Discussion on what level of funding other municipalities take resulted in at least the actuarial required amount. President McLaughlin suggested the possibility of issuing a bond to fund the Plan while rates are low. Jason Coyle stated it was a feasible idea and Chief Murphy stated he was in support of the idea as well.

GASB 67 – standards for pension plan reports will be in effect for year end 12/31/14. GASB 68 will be in effect for year end 12/31/15 after implementation of GASB 67 and will show Net Pension Liability overall with the updates to actuarial valuation formulations.

LEGISLATION

HB 5503-Audit Report Disclosure reviewed that within 60 days of the close of an audit a copy of any management letter and audited financial statements is to be distributed to each member of the municipality's corporate authority. The information shall also be posted on the municipality's website.

SB 3106- Local Records Act Internet Posting Requirements reviewed that email addresses for elected officials are to be posed on website.

PUBLIC COMMENTS

Colleen Konicek, 803 Dormy Lane, Barrington Hills, IL 60010. Ms. Konicek stated she dislikes the vehicle sticker program, it is inconvenient and the Village would get a better response if they were given out free.

Michael Harrington, 89 Hills & Dales Rd., Barrington Hills, IL 60010. Mr. Harrington thanked the Committee for volunteering their time and good work. He would like to see a procedure to measure and adequately collateralize as well as the quality of collateralization for the Investment Policy. He then stated the use of an actuary is good for the pension plan/policy, adding the bond issue idea proposed by President McLaughlin was good but could turn out not to be depending on future rates.

Trustee Meroni asked for suggestions and recommendations for work/assistance from President McLaughlin and Mr. Harrington on the Investment Policy matters and they both agreed to gather data on feasibility of bonding out the funding of the Police Pension Fund as well.

There being no further comment, Trustee Gohl motioned Trustee Meroni seconded to adjourn at 4:59 p.m. upon the consent of those present.

Adjournment.

Rosemary Ryba
Recording Secretary

VILLAGE OF BARRINGTON HILLS
FY 2014
2ND QUARTER REVIEW-REVENUE

	Y-T-D PERCENTAGE COLLECTED
Property Taxes	50%
State Sales & Use	51%
State Income Tax	45%
Personal Prop Replacement Tax	55%
Utility Taxes	63%
Franchise Fees	76%
Traffic Fines	29%
Building Permit Fees	37%
Overweight Permit Fees	76%

VILLAGE OF BARRINGTON HILLS
FY 2014
2nd QUARTER REVIEW-EXPENDITURES
THROUGH JUNE 30, 2014

	GENERAL FUND	FISCAL YEAR BUDGET	Y-T-D ACTUAL	Y-T-D BUDGET	Y-T-D VARIANCE	EXPLANATION OF VARIANCE
ACCT#	Administration Department					
100150203	Office/Comp/Software Supplies	$ 4,500.00	$ 1,494.28	$ 2,250.00	$ 755.72	As needed basis
100150204	Computer Equipment	4,000.00	1,275.49	2,000.00	724.51	Hardware add-on to be expended by year end
100150207	Telephone Lease/Purchase	3,000.00	38.42	1,500.00	1,461.58	As needed basis
100150211	Meetings Expenses	4,000.00	2,542.17	2,000.00	(542.17)	Do not anticipate to go over budgeted for FY 14
100150212	Dues and Subscriptions	11,500.00	1,653.73	5,750.00	4,096.27	As needed basis-differing due dates throughout year
100150213	Tuition/Travel Expense	11,000.00	2,164.25	5,500.00	3,335.75	As needed basis
100150215	Computer Accessories	250.00	-	125.00	125.00	As needed basis
100150216	Administrative Vehicle	3,500.00	789.38	1,750.00	960.62	Minimal admin vehicle charges in 2nd qtr-car was totalled
100150218	Postage Expense	3,500.00	1,051.93	1,750.00	698.07	As needed basis
100150219	Messenger Service	700.00	118.82	350.00	231.18	As needed basis
100150221	Broadband Data Service	17,000.00	5,774.66	8,500.00	2,725.34	Cancelled data service on an account
100150223	Transfer to E911 Fund	15,000.00	-	7,500.00	7,500.00	As needed basis-if E911 Fund doesn't have enough funds to cover expenses
100150224	Web Services	6,000.00	583.15	3,000.00	2,416.85	Overbudgeted-A Paul took over responsibilities
100150240	Communications Committee	500.00	-	250.00	250.00	As needed basis
100150400	Special Events	5,000.00	-	2,500.00	2,500.00	For Fall Festival
100150401	Merchant Fees-Credit Card Fees	25.00	-	12.50	12.50	Finance charges not incurred
				Total	**$ 27,251.22**	
	Building Department					
100250304	Field/Office Equipment	$ 700.00	$ -	$ 350.00	$ 350.00	As needed basis
100250305	Vehicle Expenses	100.00	-	50.00	50.00	As needed basis
100250306	Office Expenses	1,000.00	863.19	500.00	(363.19)	Will not exceed budgeted-materials to last through year end
100250310	Surveying Services	3,000.00	776.50	1,500.00	723.50	As needed basis
100250311	Overtime	500.00	-	250.00	250.00	Mgr. of Municipal Svcs. payable overtime not incurred to date
				Total	**$ 1,010.31**	
	Health Services					
100350403	Board of Health	$ 3,500.00	$ -	$ 1,750.00	$ 1,750.00	As needed basis
100350405	Potable Water	2,500.00	-	1,250.00	1,250.00	As needed basis
				Total	**$ 3,000.00**	
	Legal Services					
100450501	Village Attorney (Burke)	$ 221,750.32	$ 33,745.00	$ 110,875.16	$ 77,130.16	Minimal activity to date
100450504	Other Legal Fees	25,000.00	5,299.48	12,500.00	7,200.52	As needed basis
100450505	Publication of Notices	2,000.00	1,358.00	1,000.00	(358.00)	As needed basis
100450506	Expert Witnesses	8,500.00	727.00	4,250.00	3,523.00	As needed basis
100450508	Litigation Expenses	100,000.00	70,080.25	50,000.00	(20,080.25)	Sears
100450509	Labor Relations	60,000.00	17,295.82	30,000.00	12,704.18	MAP negotiations to commence in Aug/Sept
100450510	Planning/Zoning	5,000.00	1,584.00	2,500.00	916.00	Acquired new atty for ZBA - will likely increase
				Total	**$ 81,035.61**	

VILLAGE OF BARRINGTON HILLS
FY 2014
2nd QUARTER REVIEW-EXPENDITURES
THROUGH JUNE 30, 2014

		FISCAL YEAR BUDGET	**Y-T-D ACTUAL**	**Y-T-D BUDGET**	**Y-T-D VARIANCE**	EXPLANATION OF VARIANCE
	GENERAL FUND					
ACCT#	Public Safety					
100550215	Restit. Exhange & Bond Transf	$ 1,000.00	$ -	$ 500.00	$ 500.00	New account-if situation arises to be expended
100550602	Petroleum Supplies	108,000.00	34,973.09	54,000.00	19,026.91	Fluctuation of gas prices
100550604	Tires	3,000.00	-	1,500.00	1,500.00	To be expended by year end
100550614	Reinstallation of Radios	4,200.00	3,866.45	2,100.00	(1,766.45)	New car set up of purchased squads
100550616	Radar Repairs	500.00	-	250.00	250.00	As needed basis
100550617	Security Maintenance	9,000.00	900.00	4,500.00	3,600.00	plan to purchase replacement video logger
100550618	Jail Services Contract	750.00	200.00	375.00	175.00	As needed basis
100550621	Uniforms	13,500.00	3,895.41	6,750.00	2,854.59	To be expended by year end
100550625	IT Consultant	39,000.00	12,776.50	19,500.00	6,723.50	New vendor providing services at lower rate
100550630	Marking Vehicles	1,200.00	1,190.00	600.00	(590.00)	If vehicular damage occurs will expend, if not no further activity
100550642	Shooting Program/Armory	7,000.00	6,768.95	3,500.00	(3,268.95)	No damages to existing vehicles to date/waiting for squads
100550651	Vehicular Expenses	5,200.00	1,144.23	2,600.00	1,455.77	As needed basis
100550655	Office Supplies	6,000.00	684.78	3,000.00	2,315.22	As needed basis
100550661	Other Expenses	25,000.00	8,483.96	12,500.00	4,016.04	Feasability study included in line item - to be expended by Sept.
100550662	Towing Expenses	750.00	170.00	375.00	205.00	As needed basis
100550663	Recruitment/Promotional	2,500.00	-	1,250.00	1,250.00	As needed basis
100550665	Professional Services Counseling	5,000.00	-	2,500.00	2,500.00	As needed basis
100550667	Drug/Public Education Expenses	1,000.00	-	500.00	500.00	To be expended by year end
100550668	Computer Software/Equipment	28,500.00	8,252.26	14,250.00	5,997.74	To be expended by year end for upgrades
100550670	Furniture & Equipment	3,000.00	-	1,500.00	1,500.00	Anticipate purchase of desks/chairs
100550672	Public Safety Equipment	7,826.00	-	3,913.00	3,913.00	Thermal printers ordered
100550673	Lease Computer Aided Dispatch	23,000.00	-	11,500.00	11,500.00	To be expended by year end
100550677	Live-Scan Monthly Fees	4,900.00	-	2,450.00	2,450.00	Annual invoice due in October/November
				Total	**$ 66,607.37**	
	Insurance					
100650902	Wellness Reimbursements	$ 2,400.00	$ 1,680.00	$ 1,200.00	$ (480.00)	Less than anticpated requests-paid out in January
100650911	Asset Inventory	11,770.00	2,326.00	5,885.00	3,559.00	Bulk of expense to be paid in 4th quarter
				Total	**$ 3,079.00**	
	Buildings and Grounds					
100751002	Furniture and Equipment	$ 5,000.00	$ 138.60	$ 2,500.00	$ 2,361.40	Expect to replace furnace in MacArthur Room
100751003	Interior Bldg Maintenance	36,500.00	11,032.87	18,250.00	7,217.13	Seasonal/mowing/blockhouse gravel
100751006	Contractual Services	5,000.00	1,164.93	2,500.00	1,335.07	As needed basis
100751007	Parking Lot Maintenance	4,000.00	762.50	2,000.00	1,237.50	To be expended by year end-lights and sweeping
100751008	Property Taxes	5,000.00	1,415.35	2,500.00	1,084.65	To be expended in July
100751009	Landscape Restoration	22,000.00	7,047.50	11,000.00	3,952.50	Planting beds and tree care/spring and fall cleanup
100751010	Landscape Irrigation	1,500.00	-	750.00	750.00	Plan to turn off sprinkler system within next quarter
100751012	Safety/Security Equipment	9,000.00	10,142.44	4,500.00	(5,642.44)	Unanticipated block house fiber cable repair totalling $3879
100751098	Fire Station Maintenance	2,500.00	3,009.50	1,250.00	(1,759.50)	Unanticipated electrical work/outlet installation
				Total	**$ 10,536.31**	

VILLAGE OF BARRINGTON HILLS
FY 2014
2nd QUARTER REVIEW-EXPENDITURES
THROUGH JUNE 30, 2014

	GENERAL FUND	FISCAL YEAR BUDGET	Y-T-D ACTUAL	Y-T-D BUDGET	Y-T-D VARIANCE	EXPLANATION OF VARIANCE
ACCT#	Zoning and Planning					
100850801	Minutes-Planning & ZBA	$ 8,000.00	$ 884.82	$ 4,000.00	$ 3,115.18	Audio recordings replace transcripts
100850803	Engineering Services	5,000.00	520.00	2,500.00	1,980.00	As needed basis
100850804	Subdivision Review/Recording	5,000.00	-	2,500.00	2,500.00	No activity to date
100850808	Professional Consultants	5,000.00	-	2,500.00	2,500.00	As needed basis
100850813	Overtime	1,000.00	-	500.00	500.00	As needed basis
100850840	Equestrian Commission	100.00	-	50.00	50.00	As needed basis
100850845	Development Commission	100.00	-	50.00	50.00	As needed basis
				Total	**$ 10,695.18**	
			GENERAL FUND TOTAL		**$ 203,215.00**	
	POLICE PROTECTION FUND					
200051111	Vacation Compensation	$ 10,000.00	$ -	$ 5,000.00	$ 5,000.00	MAP #576 Contract provision
200051112	Longevity Awards	29,750.00	19,750.00	14,875.00	(4,875.00)	Anniversary dates differ-to be expended by year end without going over budget
				Total	**$ 125.00**	
	AUDIT FUND					
400051303	Finance Consulting	$ 300.00	$ -	$ 150.00	$ 150.00	As needed basis
				Total	**$ 150.00**	
	ROADS AND BRIDGES FUND					
900050701	Road Maintenance Contracts	$ 560,000.00	$ 35,543.24	$ 280,000.00	$ 244,456.76	Just approved in July, construction anticipated in Sept/Oct
900050702	Snowplowing Contracts	200,000.00	152,622.25	100,000.00	(52,622.25)	High snow totals
900050703	Mowing/Cleanup Contracts	40,000.00	12,467.00	20,000.00	7,533.00	As needed basis
900050705	Drain Management	200,000.00	626.00	100,000.00	99,374.00	Oak Lake Drainage project-waiting for easement from resident prior to bid
900050707	Road Striping	30,000.00	-	15,000.00	15,000.00	Project recently awarded to begin in October
900050708	Equipment Maintenance	4,000.00	907.00	2,000.00	1,093.00	If equipment vandalized/destroyed funds for repair/replacement
900050709	Road Patching Contracts	20,000.00	2,590.75	10,000.00	7,409.25	As needed basis-weather dependent
900050710	Equipment Purchases	2,000.00	-	1,000.00	1,000.00	As needed basis
900050711	Bridge Inspections	12,000.00	8,934.00	6,000.00	(2,934.00)	Mis-allocated to bridge inspections-will be reallocated to engineering exp
900050713	Cuba Road Bridge Expenses	75,000.00	-	37,500.00	37,500.00	Subject to IDOT approval to begin project
				Total	**$ 357,809.76**	
	E 911 FUND					
920050015	Purchase New Equipment	$ 5,000.00	$ -	$ 2,500.00	$ 2,500.00	To be expended by year end
920050019	Maintain Equipment	14,000.00	-	7,000.00	7,000.00	To be expended by year end
920050020	Other Expenses	7,500.00	6,925.00	3,750.00	(3,175.00)	Paid back to General Fund for 2013 expense (reallocation)
				Total	**$ 6,325.00**	
	MOTOR FUEL TAX FUND					
950050100	Motor Fuel Tax Expenses	$ 250,000.00	$ -	$ 125,000.00	$ 125,000.00	Just approved in July, construction anticipated in Sept/Oct
				Total	**$ 125,000.00**	
	DRUG/GANG/DUI FUND					
980050000	Drug/Gang/DUI Expenses	$ 12,000.00	$ -	$ 6,000.00	$ 6,000.00	Thermal printers 1st payment up for approval at 7/28/14 BOT Meeting
				Total	**$ 6,000.00**	
			TOTAL YTD BUDGET SURPLU		**$ 698,624.76**	

VILLAGE OF BARRINGTON HILLS, ILLINOIS

Request for Proposal For Auditing Services

For the Fiscal Years 2014 to 2016

This public request shall serve as the sole document soliciting proposals. No other Request for Proposal form in relation to the terms set forth herein has been issued nor need be obtained. The headings of the sections of this Request are intended as mere catchwords to indicate the content of the section and shall not be deemed or taken to be nor be deemed to govern, limit, modify or in any manner affect the scope, meaning or intent of the provisions of any section or division hereof, nor unless expressly so provided, shall they be so deemed when any of such sections, including the headings, are restated or printed in font or style different from the general text.

VILLAGE OF BARRINGTON HILLS
REQUEST FOR PROPOSAL

INTRODUCTION

General Information

The Village of Barrington Hills is requesting proposals from qualified firms of Certified Public Accountants to audit its financial statements for the fiscal year ending December 31, 2014. There will be an option to extend this contract for auditing the Village's financial statements for each of the subsequent fiscal years through the fiscal year ending December 31, 2016. The continuation of the contract after each year is solely at the discretion of the Village of Barrington Hills.

There is no expressed or implied obligation for the Village of Barrington Hills to reimburse responding firms for any expenses incurred in preparing proposals in response to this request.

During the evaluation process, the Village reserves the right to retain all proposals submitted and to use any ideas in the proposals regardless of whether the proposal is selected. The Village also reserves the right to request additional information or clarification from firms submitting proposals, or to allow corrections or errors or omissions. Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposal, unless clearly and specifically noted in the proposal submitted and confirmed in the letter of engagement between the Village and the selected firm.

It is anticipated the selection of a firm will be completed and a contract awarded by **[TBD).**

Village Treasurer
Village of Barrington Hills
112 Algonquin Road
Barrington Hills, IL 60010-5199
847-551-3002 (direct)
847-551-3050 (fax)
treasurer@barringtonhills-il.gov

Term of Engagement

A one-year contract with an option for two additional terms of two years each is contemplated, subject to (1) an annual review by the Finance Committee of the Board of Trustees and the Director of Administration, (2) the satisfactory negotiation of terms (including a price acceptable to both the Village of Barrington Hills and the selected firms and (3) the concurrence of the Board of Trustees.

In the event of a merger of the audit firm with another firm of certified public accountants or the change of partners to the audit firm, this contractual obligation will be transferred to the successor firm with the approval of the Board of Trustees.

The contract shall not be assigned or transferred without the written approval of the Village of Barrington Hills.

Termination rights are defined within the subsequent contract.

Scope of Work to be Performed

To meet the requirements of this request for proposal, the audit shall be performed in accordance with generally accepted auditing standards as set forth by the American Institute of Certified Public Accountants. These audits are to be performed in accordance with the provisions included in this request for proposal. The Village of Barrington Hills desires the auditor to express an opinion on the fair presentation of its general-purpose financial statements in conformity with generally accepted accounting principles.
The auditors shall also be responsible for preparing the supplementary information required by the Government Accountant Standards Board as mandated by generally accepted auditing standards. This requirement shall include, at a minimum, schedules of funding progress and employer contributions to the Illinois Municipal Retirement Fund and the Police Pension Fund. Additionally, the auditor will be responsible for preparing several schedules required for the statistical section as assigned by the Finance Committee of the Village of Barrington Hills.

The auditors shall provide to the Village all audit adjustments including appropriate backup documents and will meet with the Finance Committee of the Board of Trustees, if requested, to discuss these final adjustments.

The Auditor shall be available not only during the examination, but also on an as needed basis to answer any questions or provide expertise on accounting or compliance issues which may arise throughout the contract period. We would not expect this type of service to be very time consuming and as such we would expect this to be built into the fixed audit fee.

Either party may terminate continuation of the contract by giving notice not less than 180 days prior to the beginning of the audit cycle in writing to the other party.

Irregularities and Illegal Acts

Auditors shall be required to make an immediate, written report of all irregularities and if illegal acts or indications of illegal acts of which they become aware to the Village President, the Chairman of the Finance Committee, and Director of Administration.

Reports to be Issued

Following the completion of the audit of the fiscal year's financial statements, the auditor shall issue a report on the fair presentation of the general-purpose financial statements in conformity with generally accepted accounting principals.

The auditor shall prepare the following reports at the completion of the audits:

1. Preparation of the electronic filing of the Annual Financial Report to the Illinois State Comptroller's Office. The auditor will prepare the statistical section of the AFR and will prepare appropriate schedules, as may be required.

2. A report on the financial statements, internal control and compliance in accordance with the audit guide and standards for compliance with the Signal Audit Act, as may be required.

3. Annual supplement reports required by the Office of the Comptroller of the State of Illinois.

4. A management report containing comments and recommendations regarding a municipality system of internal controls: that is, its methods of safeguarding its assets, insuring the accuracy of its financial information, promoting efficiency and adhering to municipal policies. This letter should contain comments and recommendations for controlling any internal weaknesses discovered and shall be reviewed by the Finance Committee of the Board of Trustees before finalizing

5. While the transactual accounting activities of the Police Pension Fund are included with this RFP, the auditing services for the Police Pension Fund day-to-day accounting activities is contracted to a third party. Firms interested in providing annual reports for forwarding to the Illinois Department of Insurance via electronic filing requirements may quote a separate price.

Working Paper Retention and Access to Working Papers

All working papers and reports must be retained, at the auditor's expense, for a minimum of [3-5] years, unless the firm is notified in writing by the Village of Barrington Hills of the need to extend the retention period. The auditor will be required to make any and all working papers available, upon request, to the Village of Barrington Hills.

In addition, the firm shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review working papers relating to matters of continuing accounting significance.

DESCIPTION OF THE GOVERNMENT

Principal Contact

The auditor's principal contact that will coordinate the assistance to be provided by the Village of Barrington Hills to the auditor will be Rosemary N. Ryba, Village Treasurer (847) 551-3002.

Background Information

The Village of Barrington Hills is a home-rule municipality with a population of approximately 4200 located in Cook, Lake, Kane and McHenry counties. It was incorporated in 1957.

The Village operates under a President-Trustees form of government. The Board of Trustees consists of six members elected at large for staggered four-year terms. The Village Clerk and Treasurer are appointed. The Village has 33 full-time employees of which 28 are within the Police Department. Its fiscal year begins on January 1 and ends on December 31. The Village's 2013 Appropriation, adopted by the Board of Trustees was $11.4 million and included in that amount was $265,000 for Debt Service.

The Village uses an independent actuary to determine the Village's required contribution to its Police Pension Fund. The day-to-day accounting for the Police Pension Fund is contracted to a third party. This firm currently completes the annual IDOl report for the pension fund.

The Office of the Village Treasurer located within the Village Hall provides the budgetary, accounting, auditing, information system, purchasing, payroll, and collections and accounts payable functions. The Village Treasurer is a full-time employee of the Village and is sole supporting in duties. Payroll processing is contracted to ADP, Elk Grove, Illinois.

The Village prepares its budget on a basis consistent with generally accepted accounting principles.

Fund Structure

The Village's accounts are organized based on funds and account groups in accordance with generally accepted governmental standards. The day-to-day transactions are conducted with the aid of a computerized governmental accounting system. The financial accounting software is supported by Municipal Software, Inc., Libertyville, Illinois. In recent reporting years approximately 6,000 checks are issued in any one fiscal year from the various funds.

The current funds of the Village as annually reported on December 31, 2013 include:

- Governmental Funds
- General
- Public Safety
- Roads and Bridges
- Health Services
- Debt Service
- Fiduciary Fund
- Police Pension Plan
- IMRF

The Village of Barrington Hills uses the following fund types and account groups in its monthly financial reporting:

FUND TYPE	NUMBER OF FUNDS	NUMBER OF BUDGET ITEMS
General	1	8
Special Revenue	3	3
Debt Service	1	1
Capital Projects	NA	NA
Enterprise	NA	NA
Internal Service	NA	NA
Pension Trust	2	2
Agency	NA	NA
Account Groups	21	21
Component Unit	NA	NA

A copy of the Village's Annual Financial Report for the year ended December 31, 2013 is available for review at the Village Hall. A copy of the Village's financial statements can be viewed online at www.barringtonhills-il.gov/treasurer.

ASSISTANCE TO BE PROVIDED TO THE AUDITOR

Finance Department and Clerical Assistance

The Village Treasurer and responsible management personnel will be available during the audit to assist the firm by providing information, documentation and explanations. The preparation of confirmations at the request of the auditor will be the responsibility of the Village of Barrington Hills.

In an effort to contain audit costs, the Village has historically prepared as many audit worksheets and schedules as practical to reduce the clerical work to be performed by the independent auditor. The Village will also prepare trial balances, reports, and other documents necessary for performance of the audit, based on direction of the auditor. Confirmation letters will be the responsibility of the auditor but can be separately identified in the proposal.

Workspace will be provided for the auditor within the Village Hall; however, calculators and other office machines are to be furnished by the independent auditor. The firm shall not be allowed to utilize Village Hall space to do work for other clients.

TIME AND REPORT REQUIREMENT

Audit Calendar

The firm must be able to meet the following essential dates for the fiscal year audit:

Preliminary work to begin by January 15, 2015.
Draft reports completed by April 15, 2015.
Final printed and bound reports by May 15, 2015.

If the proposing firm sees any problem with meeting this schedule, it should be noted in the proposal with an alternate schedule.

Report Requirements

The auditor shall type, reproduce and assemble the following reports:

Two (2) copies of the Annual Financial Report and Municipal Annual Supplemental Report prepared for the Office of the State Comptroller (in addition to the disk).
Ten (10) copies of the Single Audit Report.
Ten (10) copies of the Management Letter.

The auditor will provide covers, binders and dividers for the annual report and all copies of the report and as well as punch, collate and bind the documents for delivery to the Village Hall.

The Village will receive all copies of the Municipal Annual Supplemental Reports before the filing deadline established by the Comptroller of the State of Illinois. The Village will receive a sufficient number of Single Audit Reports before the filing deadline established by the United States Office of Management and Budget. Failure to deliver these reports by these dates may result in a 10% reduction of the audit fee and termination of future audit engagements.

PROPOSAL REQUIREMENTS

Deadlines to Submit Proposal

RESPONDENTS MUST SUBMIT THREE (3) COPIES OF THEIR COMPLETED PROPOSAL TO THE VILLAGE HALL, ATTENTION: MS. KAREN SELMAN, CHAIRMAN, FINANCE COMMITTEE, FOR RECEIPT NO LATER THAN 3:00 P.M. CST, SEPTEMBER 30, 2014.

PROPOSALS SUBMITIED BY FACSIMILE WILL NOT BE ACCEPTED OR REVIEWED. All proposals should be clearly marked "Auditing Services Proposal".

Respondents should allow sufficient delivery time to ensure receipt on or before September 30, 2014**.** Respondents assume the risk of the method of delivery chosen. The Village assumes no responsibility for delays caused by any delivery service. All proposals and any accompanying documentation become upon receipt, the property of the Village as public information and will not be returned. Late submissions will not be accepted.

No additions or changes to the original proposal will be allowed after submittal. While changes are not permitted, clarification of proposals may be required by the Village at the respondent's sole cost and expense.

Inquiries

Inquiries concerning the request for proposal and the subject of the request for proposal must be made to the Village Treasurer, Rosemary N. Ryba, (847) 551-3002.

Unless authorized by the Director of Administration, no other Village official or employee can be expected to speak for the Village regarding this Request. The Village is not bound by information, clarification, or interpretation from other Village officials or employees. Audit firms should not contact Village officials or employees other than the Village Treasurer or designee. Failure to observe this requirement may be grounds for rejection of the firm's submittal.

Independence

The firm should provide an affirmative statement that it is independent of the Village of Barrington Hills as defined by generally accepted auditing standards.

Firm Qualifications and Experience

The proposal should state the size of the firm, the size of the firm's governmental audit staff, the location of the office from which the work on this engagement is to be preformed and the number and nature of the professional staff to be employed in this engagement on a full-time and a part-time basis.

1. The firm should identify the principal supervisory and management staff including engagement partners, managers, other supervisors and staff, who would be assigned to public accountant in Illinois. The firm should also provide information on the government auditing experience of each person.

2. Qualifications of personnel to be assigned to the engagement including membership in professional organizations.

3. List of current municipal clients in northeastern Illinois noting length of service and including a contact person and telephone number.

4. Experience and expertise in presenting reports to governing bodies and citizens.

5. List of references who can attest to the firm's professionalism and reputation.

6. List of items the Village is to provide which are necessary for the audit engagement.

Audit personnel may be changed at the discretion of the firm if replacements have substantially the same or better qualifications or experience. The Village of Barrington Hills retains the right to approve or reject replacements. At its discretion, the Village may require the removal and replacement of any of the firm's personnel who do not perform adequately, regardless of whether they were previously approved by the Village.

Similar Engagements with Other Government Entities

The proposal should list the most significant engagements performed in the past three years that are similar to the engagement described in this request for proposal. Specifically identify other engagement(s) at which the managers and supervisors who will be assigned to the Village of Barrington Hills engagement have worked, the scope of work, dates, engagement partner, total hours, and the name and telephone number of the principal client contact. Also, it should indicate those municipalities that achieved the Certificate of Achievement for Excellence in Financial Reporting award while the firm was engaged as their auditors.

Identification of Anticipated Potential Audit Problems

The proposal should identify and describe any anticipated audit problems, the firm's approach to resolving these problems and any special assistance that will be requested from the Village.

EVALUATION CRITERIA

Mandatory Elements

1. The audit firm is independent and licensed to practice in the States of Illinois.
2. The audit firm's professional personnel have received adequate continuing professional education within the preceding three years.
3. The firm has no conflicts of interest with regard to any other work performed by the firm for the Village of Barrington Hills.
4. The firm submits a copy of its most recent external quality control review report and the firm has a record of quality audit work.
5. The firm adheres to the instructions in this request for proposal on preparing and submitting the proposal.
6. The firm has an understanding of the specific needs of the Village of Barrington Hills as it relates to the audit engagement.
7. Willingness to meet or exceed performance specifications.
8. Estimated cost of audit report as compared to other proposals.

Technical Qualifications

1. The firm exhibit expertise based on past experience and performance on comparable government engagements.
2. The quality of the firm's professional personnel to be assigned to the engagement will also be considered.

Price Consideration

Cost will not be the primary factor in the selection of an audit firm. Nevertheless, proposals shall include a not-to-exceed fee for the fiscal year ending December 31, 2014, including a separate breakdown for estimated hours by partners, audit managers, and audit staff.

Right to Reject Proposals

Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposal unless clearly and specifically noted in the proposal submitted and confirmed in the contract between the Village of Barrington Hills and the firm selected.

The Village of Barrington Hills reserves the right to waive informalities in any proposal, to reject any or all of the firms in whole or in part, with or without cause or for any reason, or for no reason, and to waive strict compliance with specifications, or to accept the firm that, in its best judgment, will be in the best interest of the Village.

Final Selection

The Village of Barrington Hills will select a firm based upon the evaluation criteria. The contract will be awarded by **November 1, 2014**.

Authorization for the firm to commence the audit work shall be required in the form of an engagement letter signed by the Village President upon concurrence of the Board of Trustees.

DOLLAR COST

Total All-Inclusive Maximum Price

Attachment A must be completed and signed. Attachment A's price should specify all pricing information relative to performing the audit engagement as described in this request for proposal. The total all-inclusive maximum price is to include all direct and indirect costs including all out of-pocket expenses.

Any additional expenses that will be anticipated for implementing GASB 67 & 68 must be included in the all-inclusive maximum price, unless specifically noted herein this proposal.

Out-of-Pocket Expenses

The total all-inclusive maximum price is to include all anticipated out-of-pocket expenses.

Rates by Partner; Supervisory and Staff Level Times Hours Anticipated for Each

The cost schedule of Attachment B should include a schedule of professional fees and expenses broken into the above categories, if appropriate with a separate breakdown for estimated hours provided by partners, audit managers, and audit staff. It should also include a breakdown of the hourly rate of each staff level.

The firm selected may, from time to time, be asked to perform specialized services or extra audit work not now identifiable, and the cost of such additional work shall be computed and billed in accordance with the rates established in the proposal by the firm.

Manner of Payment

Progress payments cover a period of not less than one calendar month will be made on the basis of hours of work completed during the course of the engagement in accordance with the firm's proposal. An itemized billing statement shall be required which provides a detailed description of the work performed during the month, the number of hours spent performing such work and the staffing persons responsible for such work. Inquires regarding payment should be made to the Village Treasurer.

ATTACHMENT A
VILLAGE OF BARINGTON HILLS
REQUEST FOR PROPOSAL
AUDITING SERVICES

Firm Submitting Proposal: ____

Fee Structure: AFR, Municipal Annual Supplemental Report, Management Letter, and Single Audit Report

2014 $____________
2015 $____________
2016 $____________

Optional Two Years:

2015 $__________ 2016 $_________

Optional Police Pension Fund:

2014 $___________

Confirmation Letters $___________

____
Signature of Authorized Representative

____
Name of Authorized Representative

____
Title

____
Date

ATTACHMENT B
VILLAGE OF BARINGTON HILLS
REQUEST FOR PROPOSAL AUDITING SERVICES
SCHEDULE OF COSTS

Auditors in Similar Communities

Barrington South Barrington Kildeer Sleepy Hollow Lake Barrington	Lauterbach & Amen, LLP P.O. Box 4236 Wheaton, IL 60189	Inverness	McGladrey & Pullen 20 N Martingale Rd. Suite 500 Schaumburg, IL 60173
Barrington Township	Evans, Marshall & Pease, PC 1875 Hicks Road Rolling Meadows, IL 60008	Long Grove	Baker Tilly Virchow Krause 1301 W. 22nd Street, #400 Oak Brook, IL 60523
Deer Park Bannockburn	Sikich 1415 W. Diehl Road Suite 400 Naperville, IL 60563	North Barrington	Detterbeck, Johnson & Monsen 220 N. Smith Street Suite 414 Palatine, IL 60067
Mettawa	Wolf & Company 2100 Clearwater Drive Oak Brook, IL 60523	Bull Valley	Brown & Company 1700 S. Eastwood Drive Woodstock, IL 60098

BARRINGTON HILLS POLICE DEPARTMENT

OFFICE MEMORANDUM

To:	From:
Chief Murphy	Communications Supervisor Gumprecht

Subject:	Date:
Vehicle Sticker Survey and information update	August 5, 2014

While selling vehicle stickers at the window, residents were asked if they were for or against paying $10.00 per vehicle for vehicle stickers. The results were 41 for and 25 against.

Approximately 175 hours have been dedicated to vehicle sticker processing. We have issued 2890 stickers so far this year and in the year 2013 we issued approximately 3115 stickers.

RESOLUTION 99-19

RESOLUTION AUTHORIZING THE ADOPTION OF AN INVESTMENT POLICY IN ACCORDANCE WITH THE LOCAL GOVERNMENT INVESTMENT POLICY ACT

WHEREAS, pursuant to Public Act 90-688, all local governments are required to have a written investment policy by January 1, 2000; and

WHEREAS, the Board of Trustees of the Village of Barrington Hills (the "Village") desires to adopt such an investment policy in compliance with Public Act 90-688.

NOW, THEREFORE BE IT RESOLVED by the President and the Board of Trustees of the Village of Barrington Hills, Cook, Kane, Lake, and McHenry Counties, Illinois, as a home rule municipality, the following:

Section One The Village hereby adopts the following investment policy:

1.01 Policy. It is the policy of the Village to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statutes governing the investment of public funds.

1.02 Scope. This policy includes all funds governed by the Board of Trustees.

1.03 Prudence. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio.

1.04 Objective. The primary objective, in order of priority, shall be:

- Legality - conformance with federal, state and other legal requirements
- Safety - preservation of capital and protection of investment principal
- Liquidity - maintenance of sufficient liquidity to meet operating requirements
- Yield - attainment of market rates of return

The portfolio should be reviewed periodically as to its effectiveness in meeting the entity's needs for safety, liquidity, rate of return, diversification and its general performance.

1.05 Delegation of Authority. Management and administrative responsibility for the investment program is hereby delegated to the Treasurer who, under the delegation of the Board of Trustees, shall establish written procedures for the operation of the investment program.

1.06 Ethics and Conflicts of Interest. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.

1.07 Authorized Financial Dealers and Institutions. The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security brokers/dealers selected by credit worthiness.

1.08 Authorized and Suitable Investments. Investments may be made in any type of security allowed for in Illinois statutes regarding the investment of public funds. Investments shall be made that reflect the cash flow needs of the fund type being invested.

1.09 Collateralization. Funds on deposit (checking accounts, certificates of deposit, etc.) in excess of FDIC limits must be secured by some form of collateral, witnessed by a written agreement and held at an independent – third party institution in the name of the municipality.

1.10 Safekeeping and Custody. All security transactions, including collateral for repurchase agreements, entered into by the Village, shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by an independent third party custodian designated by the Treasurer and evidenced by safekeeping receipts and a written custodial agreement.

1.11 Diversification. The entity shall diversify its investments to the best of its ability based on the type of funds invested and the cash flow needs of those funds. Diversification can be by type of investment, number of institutions invested in, and length of maturity.

1.12 Maximum Maturities. To the extent possible, the Village shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Village will not directly invest in securities maturing more than one (1) years from the date of purchase.

Reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds.

1.13 Internal Control. The Treasurer is responsible for establishing and maintaining an internal control structure designed to insure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting
- Custodial safekeeping
- Written confirmation of telephone transactions for investments and wire transfers

1.14 Performance Standards. This investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a comparable rate of return during a market/economic environment of stable interest rates. Portfolio performance should be compared to benchmarks with similar maturity, liquidity and credit quality as the portfolio.

1.15 Reporting. The Treasurer shall prepare an investment report at least monthly. The report should be provided to the Board of Trustees and available on request. The report should be in a format suitable for review by the general public. An annual report should also be provided to the Board of Trustees.

1.16 Marking to Market. A statement of the market value of the portfolio shall be issued to the Board of Trustees quarterly.

1.17 Investment Policy Adoption. The investment policy shall be adopted by the Board of Trustees. The policy shall be reviewed on an annual basis by the Treasurer and any modifications made thereto must be approved by the Board of Trustees.

Section Two If any part or provision of this Resolution shall be held or deemed to be invalid, such invalidity shall not have the affect of rendering another part or provision of this Resolution invalid.

Section Three This Resolution shall be in full force and affect from and after its passage and approval as provided by law.

APPROVED THIS 15th day of December, 1999.
AYES: 7 ; NAYS: 0 ; ABSENT: 0 .

James A Kempe
Village President

ATTEST:
Grace Wytman
Village Clerk

If language updates are acceptable

to the Finance Committee,

the revised Investment Policy Res. 14-__

will be reviewed by Village Attorney

prior to submittal for Board approval.

RESOLUTION 14-

RESOLUTION AUTHORIZING THE ADOPTION OF AN INVESTMENT POLICY IN ACCORDANCE WITH THE LOCAL GOVERNMENT INVESTMENT POLICY ACT

WHEREAS, pursuant to Public Act 90-688, all local governments are required to have a written investment policy by January 1st 2000; and

WHEREAS, the Board of Trustees of the Village of Barrington Hills (the "Village") desires to adopt such an investment policy in compliance with Public Act 90-688.

NOW, THEREFORE BE IT RESOLVED by the President and the Board of Trustees of the Village of Barrington Hills, Cook, Kane, Lake, and McHenry Counties, Illinois, as a home rule municipality, the following:

Section One The Village hereby adopts the following investment policy:

1.01 Policy. It is the policy of the Village to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statutes governing the investment of public funds.

1.02 Scope. This policy includes all funds governed by the Board of Trustees.

1.03 Prudence. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio.

1.04 Objective. The primary objective, in order of priority, shall be:

- Legality -conformance with federal, state and other legal requirements
- Safety -preservation of capital and protection of investment principal
- Liquidity -maintenance of sufficient liquidity to meet operating requirements
- Yield -attainment of market rates of return

The portfolio should be reviewed periodically as to its effectiveness in meeting the entity's needs for safety, liquidity, rate of return, diversification and its general performance.

1.05 Procedures for Short Term Investing.

- Cash held in various accounts to be used within twelve (12) months are to be held in sweep/checking/savings accounts
- Review offerings from authorized institutions for comparison of yield and credit worthiness to comply with minimum standards set forth in this document
- Compare yield to maturity of individual offerings to maximum allowable maturity to determine the cash flow needs and liquidity risk
- Upon fund transfer initiation a second Village representative reconcile transaction, verify pre and post transfer balances and any accrued interest applicable

1.06 Delegation of Authority. Management and administrative responsibility for the investment program is hereby delegated to the Treasurer who, under the delegation of the Board of Trustees, shall establish written procedures for the operation of the investment program.

1.07 Ethics and Conflicts of Interest. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.

1.08 Authorized Financial Dealers and Institutions. The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security brokers/dealers selected by credit worthiness with a minimum rating would be A1, A+ or better.

Moody's		S&P		Fitch		rating description
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime
Aa1		AA+		AA+		High grade
Aa2		AA		AA		
Aa3		AA-		AA-		
A1		A+	A-1	A+	F1	Upper medium grade
A2		A		A		
A3	P-2	A-	A-2	A-	F2	
Baa1		BBB+		BBB+		

1.09 Authorized and Suitable Investments. Investments may be made in any type of security allowed for in Illinois statutes regarding the investment of public funds. Investments shall be made that reflect the cash flow needs of the fund type being invested.

1.10 Collatera1ization. Funds on deposit (checking accounts, certificates of deposit, etc.) in excess of FDIC limits must be secured by some form of collateral, witnessed by a written agreement and held at an independent -third party institution in the name of the municipality.

1.11 **<u>Safekeeping and Custody</u>**. All security transactions, including collateral for repurchase agreements entered into by the Village, shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by an independent third party custodian designated by the Treasurer and evidenced by safekeeping receipts and a written custodial agreement.

1.12 **<u>Diversification</u>**. The entity shall diversify its investments to the best of its ability based on the type of funds invested and the cash flow needs of those funds. Diversification can be by type of investment, number of institutions invested in, and length of maturity.

1.13 **<u>Maximum Maturities</u>**. To the extent possible, the Village shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Village will not directly invest in securities maturing more than one (l) year from the date of purchase.

Reserve funds may be invested in securities exceeding one (1) year but not to exceed five (5) years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds.

1.14 **<u>Internal Control</u>**. The Treasurer is responsible for establishing and maintaining an internal control structure designed to insure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting
- Custodial safekeeping
- Written confirmation of telephone transactions for investments and wire transfers

1.15 **<u>Perfomance Standards</u>**. This investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a comparable rate of return during a market/economic environment of stable interest rates. Portfolio performance should be compared to benchmarks with similar maturity, liquidity and credit quality as the portfolio.

1.16 **<u>Reporting</u>**. The Treasurer shall prepare an investment report at least monthly. The report should be provided to the Board of Trustees and available on request. The report should be in a format suitable for review by the general public. An annual report should also be provided to the Board of Trustees.

1.17 **<u>Marking to Market</u>**. A statement of the market value of the portfolio shall be issued to the Board of Trustees quarterly.

1.18 **<u>Investment Policy Adoption</u>**. The investment policy shall be adopted by the Board of Trustees. The policy shall be reviewed on an annual basis by the Treasurer and any modifications made thereto must be approved by the Board of Trustees.

Section Two If any part or provision of this Resolution shall be held or deemed to be invalid, such invalidity shall not have the affect of rendering another part or provision of this Resolution invalid.

Section Three This Resolution shall be in full force and affect from and after its passage and approval as provided by law.

APPROVED THIS __________ day of __________________, 2014.

AYES: ___________; NAYS: _____________; ABSENT: _____________

____
Village President

ATTEST:

____
Village Clerk

MBS MULTI-BANK SECURITIES, INC.®

1000 Town Center - Suite 2300
Southfield, Michigan 48075
PHONES: (800) 967-9045
(248) 291-1100
FAX: (248) 291-1101

2400 E. Commercial Blvd. - Suite 812
Ft. Lauderdale, Florida 33308
PHONES: (800) 967-9045
(954) 351-6930
FAX: (954) 351-9197

Current CD Offerings

(Effective 8/11/2014)

Issuer	Rate	Price	Term	Maximum Purchase Amount *	Settle Date	Maturity Date	Callable by Issuer	Coupon Structure
Synchrony Bank (FKA: GE Capital Retail Bank) Salt Lake City, UT (New Issue) Restricted in :TX FDIC# :27314 IDC Rank : 300.00** IDC Date : 2014Q1 CUSIP:87165FCP7	**2.05%**	100.00	5 year	250.00K	8/15/2014	8/15/2019	No	Semi Annual
Celtic Bank Salt Lake City, UT (New Issue) Restricted in :AL,OH,TX,GU FDIC# :57056 IDC Rank : 300.00** IDC Date : 2014Q1 CUSIP:15118RJW8	**1.90%**	100.00	5 year	250.00K	8/20/2014	8/20/2019	No	Monthly
Webster Bank Waterbury, CT (New Issue) Restricted in :CT,MA,RI FDIC# :18221 IDC Rank : 238.00** IDC Date : 2014Q1 CUSIP:94768NJX3	**1.90%**	100.00	5 year	250.00K	8/20/2014	8/20/2019	No	Semi Annual
GE Capital Bank Salt Lake City, UT (New Issue) Restricted in :OH,TX FDIC# :33778 IDC Rank : 281.00** IDC Date : 2014Q1 Not yet assigned	**1.85%**	100.00	5 year	150.00K *	8/15/2014	8/15/2019	No	Semi Annual
GE Capital Bank Salt Lake City, UT (New Issue) Restricted in :OH,TX FDIC# :33778 IDC Rank : 281.00** IDC Date : 2014Q1 CUSIP:36160J4R6	**1.75%**	100.00	4 year	150.00K *	8/15/2014	8/15/2018	No	Semi Annual
EnerBank USA Salt Lake City, UT (New Issue) Restricted in :TX,OH FDIC# :57293 IDC Rank : 300.00** IDC Date : 2014Q1 CUSIP:29266NB22	**1.60%**	100.00	4 year	250.00K	8/20/2014	8/20/2018	No	Monthly
First Merchants Bank, NA MUNCIE, IN (New Issue) Restricted in :IN FDIC# :4365 IDC Rank : 237.00** IDC Date : 2014Q1 CUSIP:32082BDM8	**1.55%**	100.00	4 year	250.00K	8/19/2014	8/20/2018	No	Semi Annual

*** Maximum Purchase Amounts are based on the current FDIC and NCUA rules that cover up to $250,000 in deposits at an institution. The Maximum Purchase Amount displayed is based on information that Multi-Bank maintains on your current deposits. Amounts less than $250,000 indicate that deposits are currently held at that institution. Multi-Bank assumes no responsibility as to the accuracy of this infomation or for your actual insured status at any deposit institution.**

Issuer			Rate	Price	Term	Maximum Purchase Amount *	Settle Date	Maturity Date	Callable by Issuer	Coupon Structure
EnerBank USA Salt Lake City, UT (New Issue)			**1.45%**	100.00	42 month	250.00K	8/20/2014	2/20/2018	No	Monthly
Restricted in :TX,OH		FDIC# :57293								
IDC Rank : 300.00**	IDC Date : 2014Q1	CUSIP:29266NA98								
Third Federal Savings and Loan Association of Cleveland, OH (New Issue)			**1.35%**	100.00	42 month	250.00K	8/22/2014	2/22/2018	No	Semi Annual
Restricted in :FL,OH,TX		FDIC# :30012								
IDC Rank : 224.00**	IDC Date : 2014Q1	CUSIP:88413QAT5								
GE Capital Bank Salt Lake City, UT (New Issue)			**1.30%**	100.00	3 year	150.00K *	8/15/2014	8/15/2017	No	Semi Annual
Restricted in :OH,TX		FDIC# :33778								
IDC Rank : 281.00**	IDC Date : 2014Q1	Not yet assigned								
Ally Bank (FKA GMAC Bank) Midvale, UT (New Issue)			**1.15%**	100.00	3 year	150.00K *	8/14/2014	8/14/2017	No	Semi Annual
Restricted in :NONE		FDIC# :57803								
IDC Rank : 265.00**	IDC Date : 2014Q1	CUSIP:02006LGM9								
Capital Bank, NA Miami, FL (New Issue)			**1.10%**	100.00	3 year	250.00K	8/15/2014	8/15/2017	No	Semi Annual
Restricted in :NONE		FDIC# :59049								
IDC Rank : 199.00**	IDC Date : 2014Q1	CUSIP:139800BH8								
FirstBank of Puerto Rico Santurce, PR (New Issue)			**1.10%**	100.00	3 year	250.00K	8/15/2014	8/15/2017	No	Monthly
Restricted in :PR		FDIC# :30387								
IDC Rank : 136.00**	IDC Date : 2014Q1	CUSIP:33767ACN9								
Ally Bank (FKA GMAC Bank) Midvale, UT (New Issue)			**1.05%**	100.00	30 month	150.00K *	8/14/2014	2/14/2017	No	Semi Annual
Restricted in :NONE		FDIC# :57803								
IDC Rank : 265.00**	IDC Date : 2014Q1	Not yet assigned								
Flushing Bank New Hyde Park, NY (New Issue)			**0.90%**	100.00	30 month	250.00K	8/15/2014	2/15/2017	No	Monthly
Restricted in :NONE		FDIC# :58564								
IDC Rank : 216.00**	IDC Date : 2014Q1	CUSIP:34387AAK5								
Ally Bank (FKA GMAC Bank) Midvale, UT (New Issue)			**0.90%**	100.00	2 year	150.00K *	8/14/2014	8/15/2016	No	Semi Annual
Restricted in :NONE		FDIC# :57803								
IDC Rank : 265.00**	IDC Date : 2014Q1	CUSIP:02006LGL1								
Synovus Bank Columbus, GA (New Issue)			**0.80%**	100.00	2 year	250.00K	8/15/2014	8/15/2016	No	Semi Annual
Restricted in :none		FDIC# :873								
IDC Rank : 223.00**	IDC Date : 2014Q1	CUSIP:87164DFF2								

Issuer			Rate	Price	Term	Maximum Purchase Amount *	Settle Date	Maturity Date	Callable by Issuer	Coupon Structure
Comenity Capital Bank Salt Lake City, UT (New Issue)			**0.80%**	100.00	2 year	250.00K	8/18/2014	8/18/2016	No	Monthly
Restricted in :OH,TX		FDIC# :57570								
IDC Rank : 300.00**	IDC Date : 2014Q1	CUSIP:20033AGB6								
GE Capital Bank Salt Lake City, UT (New Issue)			**0.75%**	100.00	2 year	150.00K *	8/15/2014	8/15/2016	No	Semi Annual
Restricted in :FA,OH,TX		FDIC# :33778								
IDC Rank : 281.00**	IDC Date : 2014Q1	Not yet assigned								
Oriental Bank Hato Rey, PR (New Issue)			**0.45%**	100.00	1 year	250.00K	8/15/2014	8/17/2015	No	Monthly
Restricted in :PR		FDIC# :31469								
IDC Rank : 249.00**	IDC Date : 2014Q1	CUSIP:686184UW0								
Investors Bank Short Hills, NJ (New Issue)			**0.45%**	100.00	1 year	250.00K	8/25/2014	8/25/2015	No	At Maturity
Restricted in :TX, NJ		FDIC# :28892								
IDC Rank : 242.00**	IDC Date : 2014Q1	CUSIP:46176PDC6								

VILLAGE OF BARRINGTON HILLS
POLICE PENSION FUNDING POLICY

Res. 14-

1.0 Applicability

This policy applies to the calculation of the Village of Barrington Hills' "annual required contribution" (ARC) to the Barrington Hills Police Pension Fund, a police pension trust fund organized under Article III of the Illinois Pension Code.

2.0 Background

The financial objective of a defined benefit pension plan is to fund the long-term cost of benefits provided to the plan participants. In order to assure that the plan is financially sustainable, the plan should accumulate adequate resources in a systematic and disciplined manner over the active service life of benefiting employees. This funding policy outlines the method the Village will utilize to determine its actuarially determined contribution to the Barrington Hills Police Pension Fund to fund the long-term cost of benefits to the plan participants and annuitants.

The Village believes that this funding policy meets the guidelines for state and local governments set by the Pension Funding Task Force convened by the Center for State and Local Government Excellence. The guidelines set by this task force outline the following objectives for pension funding policy:

1. **Actuarially Determined Contributions.** A pension funding plan should be based upon an actuarially determined annual required contribution (ARC) that incorporates both the cost of benefits in the current year and the amortization of the plan's unfunded actuarial accrued liability.

2. **Funding Discipline.** A commitment to make timely, actuarially determined contributions to the retirement system is needed to ensure that sufficient assets are available for all current and future retirees.

3. **Intergenerational Equity.** Annual contributions should be reasonably related to the expected and actual cost of each year of service so that the cost of employee benefits is paid by the generation of taxpayers who receives services from those employees.

4. **Contributions as a Stable Percentage of Payroll.** Contributions should be managed so that employer costs remain consistent as a percentage of payroll over time.

5. **Accountability and Transparency.** Clear reporting of pension funding should include an assessment of whether, how, and when the plan sponsor will ensure sufficient assets are available for all current and future retirees.

3.0 Policy

3.1 Village Annual Required Contribution (ARC)

The Village will determine its ARC to the Barrington Hills Police Pension Fund using the following principles:

a. The ARC will be calculated by an enrolled actuary.

b. The ARC will include the normal cost for current service and amortization to collect or refund any under-or over-funded amount.

c. The normal cost will be calculated using the entry age normal level of percentage of payroll actuarial cost method using the following assumptions:

i. The investment rate of return assumption will be 6.5% per year
ii. The salary increase assumption will be 5% per year
iii. Non-economic assumptions, such as rates of separation, disability, retirement, mortality, etc. shall be determined by Village management in consultation with the actuary to reflect current experience.

d. The difference between the accrued liability and actuarial value of assets will be amortized to achieve 100% funding in 2040 (a 30 year closed period that began in 2011) based upon a level percentage of payroll.

e. Actuarial assets will be determined using market valuation.

The Village will make its actuarially determined contribution to the Barrington Hills Police Pension Fund in monthly installments each year, based on amount received per levy each month.

3.2 Transparency and Reporting

Funding of the Barrington Hills Police Pension Fund should be transparent to vested parties including plan participants, annuitants, the Barrington Hills Police Pension Fund Board of Trustees, the Village Board, and Barrington Hills' residents. In order to achieve this transparency, the following information shall be distributed:

- A copy of the annual actuarial valuation for the Barrington Hills Police Pension Fund shall be made available to the Village Board and the Barrington Hills Police Pension Fund Board of Trustees.

- The Village's Annual Financial Report shall be published on its website. This report includes information on the Village's annual contribution to the Barrington Hills Police Pension Fund, and funded status of the Barrington Hills Police Pension Fund.

3.2 Transparency and Reporting (Continued)

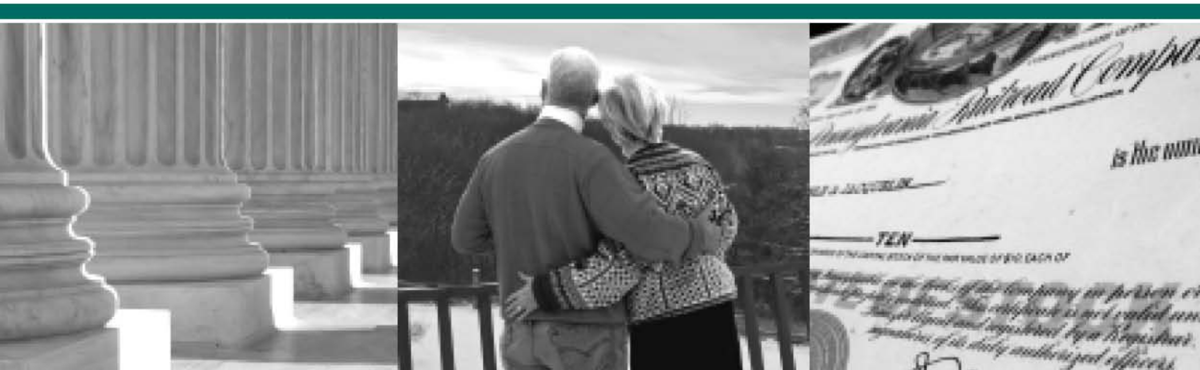
- Each year, the Village Board shall approve the Village's annual contribution to the Barrington Hills Police Pension Fund.

- The Village's annual budget document shall include the Village's contribution to the Barrington Hills Police Pension Fund. The budget for the Barrington Hills Police Pension Fund is controlled by the Barrington Hills Police Pension Fund Board of Trustees, in accordance with state law. The annually approved budget document shall be published on the Village's website and made available for public inspection at the Village of Barrington Hills Village Hall.

3.3 Review of Funding Policy

Funding a defined benefit pension plan requires a long-term horizon. Assumptions and inputs into the policy should focus on long-term trends, not year-to-year shifts in the economic or non-economic environments. Generally, assumptions or inputs should be evaluated and changed if long-term economic or non-economic inputs have fundamentally changed or are no longer reasonable. As such, the Village will review this policy at least every five years to determine if changes to this policy are needed to ensure adequate resources are being accumulated in the Barrington Hills Police Pension Fund. The Village reserves the right to make changes to this policy at any time if it is deemed appropriate.

An Introduction to



Pension Obligation Bonds and Other Post-Employment Benefits

Third Edition

ROGER L. DAVIS

ORRICK

An Introduction to

Pension Obligation Bonds and Other Post-Employment Benefits

Third Edition

ROGER L. DAVIS

ABOUT THE AUTHOR

Roger L. Davis is chair of the Public Finance Department at Orrick, Herrington & Sutcliffe LLP, the premier bond counsel firm in the country. Mr. Davis is also head of Orrick's Pension Obligation/OPEB Bond Group and has worked on more than 30 such issues in various states.

Members of Orrick's **Pension Obligation/OPEB Bond Group** are shown on the contact list at the end of this booklet.

DISCLAIMER: Nothing in this booklet should be construed or relied upon as legal advice. Instead, this booklet is intended to serve as an introduction to the general subject of the use of pension obligation bonds and other post-employment benefit bonds, from which better informed requests for advice, legal and financial, can be formulated.

Published by
Orrick, Herrington & Sutcliffe LLP

3rd Edition

TABLE OF CONTENTS

CHAPTER ONE

Introduction

Pension obligation bonds ("POBs") are bonds issued by a state or local government to pay its obligation to the pension fund or system in which its employees (or others for whose pension benefits it is responsible) are members.

POBs have been an increasingly popular and successful way for state or local governments to accomplish a variety of financial and other (including political) objectives. According to Thomson Financial, during the past decade there have been 340 POB issues by state and local government issuers in at least 26 states.

The purpose of this pamphlet is to introduce interested parties to the reasons why POBs are issued, advantages/disadvantages, structure alternatives, federal tax issues, and representative programs in three states where POBs are particularly popular.

Since the first edition of this pamphlet in 2003, new accounting rule GASB 45 has been promulgated, requiring that other (nonpension) post employment benefits ("OPEB") be accounted for much like pension obligations. This has given rise to intense interest in defining OPEB, calculating the unfunded accrued actuarial OPEB liability, developing a strategy for handling this liability, establishing OPEB trusts in which to make deposits against such liability and the possible use of bonds to fund such deposits. Therefore, the purpose and coverage of this pamphlet has been expanded to provide an introduction to these topics.

The author is chair of the Public Finance Department at Orrick, Herrington & Sutcliffe LLP and has been bond counsel on several dozen POBs in various states.

He has also been in the forefront of establishing OPEB trust and OPEB bond strategies. He is one of the few recognized authorities in these aspects of OPEB. Orrick is the nation's premier public finance/bond counsel firm, ranked number one for more than a decade,[1] with extensive experience in all types of POB and similar financings.[2]

1 Rankings for securities transactions of various types are performed annually by Thomson Financial, which has ranked Orrick number one in the country as bond counsel since prior to 1990. In an average year, Orrick handles more than 500 bond issues, aggregating more than $20 billion.

2 Orrick is ranked by Thomson Financial as the number one bond counsel in the country for POBs over the last decade, with many more such issues than even the second ranked firm.

CHAPTER TWO

Pension Obligations

Pension obligations generally fall into two categories:

A. Unfunded Accrued Actuarial Liability (UAAL)

The unfunded accrued actuarial liability ("UAAL") is determined by the actuary for the pension fund to be the amount by which the pension fund is short of the amount that will be necessary, without further payments from the state or local government, to pay benefits already earned by current and former employees covered by the pension system. The UAAL is based on assumptions (in some cases established by the actuary and in some cases by the pension system or by the state or local government) as to retirement age, mortality, projected salary increases attributed to inflation, across-the-board raises and merit raises, increases in retirement benefits, cost-of-living adjustments, valuation of current assets, investment return and other matters. In order to avoid volatility in the UAAL based on swings in market valuation, the investment gains and losses on assets in the pension fund are often recognized (sometimes referred to as "smoothed") over a 3 to 5 year (or longer) period.[3] The state or local government is obligated to amortize the UAAL over a period established by law or agreement with the pension system, typically at an assigned interest rate established by the pension system, which assigned interest rate is usually the same as the actuary's assumed rate of investment return on pension fund assets (sometimes referred to as the "Actuarial Rate").

3 Note that the smoothing methodology referred to may result in "unrealized" or "lagging" unfunded liability. See discussion of POB possibilities in footnote 4. Note also that, in April 2005, CalPERS adopted a new policy that will result in smoothing over 15 years (instead of 3).

B. Normal annual contribution

In addition to making payments toward any UAAL, the state or local government is required to make payments to the pension fund each year in respect of the present value of the benefits being earned by the current employees covered by the pension fund (that is, the amount being earned by those employees with each paycheck necessary to pay future retirement benefits, based on assumptions of mortality rates, salary increases, assumed rate of investment income and the other assumptions referred to in the preceding paragraph), generally referred to as the "normal annual contribution."

CHAPTER THREE

Reasons For Issuing POBs

The reasons why state or local governments issue POBs vary from issuer to issuer and from time to time with economic conditions and other circumstances. However, these reasons generally fall into one or more of the following categories:

A. Interest Rate Savings

As described in Chapter 2, most pension systems assign an interest component to the payments the state or local government is required to make in respect of its UAAL. Assigned interest rates currently generally range from 7% to 8% depending on the particular pension system. When taxable bond rates are low, and as of beginning of 2006 they are roughly 5.45% or less for 30 year debt, then POBs can function like a classic interest rate savings refunding. For example, if the assigned rate is 7.5% on a UAAL of $100,000,000, the annual all in cost would be roughly $8,500,000 assuming a 30 year amortization, compared to an all in cost of $6,900,000 on POBs amortized over the same period assuming a 5.45% interest rate and costs of issuance of 1%. These savings to a degree can be front loaded or otherwise structured to occur when most needed (see Section C of Chapter 5).

On the other hand, because the factors on which the UAAL is based are constantly changing (such as mortality and investment return), the final amount of interest rate savings cannot be determined with certainty. Also, the assigned interest rate may change from time to time during the life of the bond issue, and, at least theoretically, the amount of interest rate savings could become negative (even if all the other factors remain the same) if the assigned interest rate were to drop and remain below the bond interest rate for a substantial period. So far this has not occurred, even though the assigned interest rate in some cases has dropped by more than one percentage point since the mid-1990s. This possibility is furthermore generally considered to be unlikely, because the assigned interest rate is based on an assumed investment rate of return which reflects investments with a higher risk profile and, therefore, higher projected return than the POBs.

B. Discounts

In some cases, it may also be possible to negotiate discounts with the pension system for early payment of the normal annual contribution or even the UAAL (which may reflect the pension fund's assumed rate of investment return or even its then current investment opportunity). It may also be an opportunity to renegotiate other terms of the pension obligation.

C. Arbitrage

Generally, pension funds may invest in a much broader range of investments than the state or local governments, and the size and diversity of the pension fund's portfolio allows for a higher risk profile than the state or local government could prudently sustain with its own investments. As mentioned above, this is why the assumed rate of investment return is generally materially higher than the bond rate. The actual investment performance of most pension systems (at least in most years) has substantially exceeded the assumed interest rate. Therefore, there is the possibility that proceeds of the POBs will be invested by the pension fund at significantly higher return than the interest cost on the POBs (even if interest on the POBs is taxable).

In almost all cases, the benefit of earnings on investment of bond proceeds in the pension fund will be credited to the state or local government issuer either in reduced UAAL or reduced normal annual contribution or both. In some cases, the allocation of this benefit is subject to negotiation between the state or local government and the pension system and may even be decided by the state or local government each year. This benefit from earnings is why interest on POBs is generally not exempt from federal income tax (see Chapter 6). So this arbitrage is not the typical municipal bond arbitrage derived from borrowing at tax-exempt rates and investing at taxable rates, but rather what might be called risk arbitrage derived from borrowing against the credit of the state or local government and participating through the pension fund in a portfolio of investments that is designed to produce a higher yield and manage the higher risk through diversification. Of course, there is no guaranty that such arbitrage will be positive.

One study of POBs in 2004 concluded that 84% were profitable to their issuers. Another 7% were at breakeven, leaving only 9% that have lost money. Even measured as of the least favorable time in the stock market, late 2002, only 34% were money losers, most of which were less than four years old and most of which are now at breakeven or profitable. Virtually all POBs are expected to be profitable over their term.

D. Budget Relief

During periods of substantial budget deficits, POBs are frequently used for budget relief. This may be accomplished by:

(1) reamortizing the UAAL by replacing the obligation to the pension fund with POBs having a longer term and/or lower payments in the early years (or even no debt service in the early years if capital appreciation bonds (CABs) or capitalized interest is used); and/or

(2) funding the normal annual contribution for the current (and maybe the next) fiscal year (to the extent permitted by applicable state law).

E. Labor Relations Benefits

Some state or local governments have used POBs, at least in part, to improve relations (or negotiations) with its employees and their unions by funding unfunded pension liability to those employees.

F. Better than the Alternatives

In some cases, POBs are simply better than the alternatives: (i) paying more into the pension fund; (ii) asking employees to pay more into the pension fund; (iii) reducing benefits; or (iv) hoping that gains on pension fund investments will substantially exceed the assumed rate of investment return.

CHAPTER FOUR

Possible Disadvantages of POBs

Despite the foregoing benefits of POBs, there are a few possible disadvantages:

A. In some jurisdictions, a state or local government may negotiate or even unilaterally make changes in its pension obligation, perhaps by postponing payments or changing assumptions. POBs replace this potentially flexible pension obligation with a more immutable bond obligation.

B. As explained in Chapter 3, while unlikely, it is possible that the assigned interest rate will drop below the bond interest rate or that the pension fund will have negative earnings, in each case for a sustained period.

C. If the pension fund enjoys higher than expected earnings, the pension fund may become overfunded and result in temporary contribution holidays, but also can lead to increases in retirement benefits that may be costly to sustain at some point in the future.

D. POBs result in payment to and investment by the pension fund of a lump sum amount that otherwise would have been paid and invested in increments over a period of years, concentrating rather than spreading market timing risks.

E. Almost all POBs are taxable and most taxable bonds with fixed interest rates are sold as noncallable bonds. Adding a redemption feature will ordinarily result in a materially higher interest rate cost than the same redemption feature in tax-exempt bonds. Therefore, taxable noncallable bonds may be expensive to refund or defease, although there have been a number of successful tender offer refundings of taxable POBs (that is, a tender offer was made for the prior bonds and the tender price was paid with proceeds of new refunding bonds).

Another way to address this concern is by using variable rate bonds, which may contain redemption provisions without additional interest rate cost, and may be accompanied by a floating-to-fixed interest rate swap if a fixed rate obligation is desired.

Note that many of these issues can be addressed in whole or in part by using POBs to fund less than all of the UAAL.

CHAPTER FIVE

Types of POBs

A. Security

Most POBs are payable from the general fund of the issuing state or local government. As such, they must either satisfy or be exempt from the debt limitation provisions typically found in the applicable state constitution and, accordingly, generally fall into one of the following three categories:

1. General obligation bonds, which term generally refers to bonds that satisfy any constitutional debt limitation and are backed by the full faith and credit and taxing power of the issuing state or local government. An example is the $10,000,000,000 State of Illinois General Obligation Bonds Pension Funding Series of June 2003 (Taxable), the largest POB issue to date. A variation is full faith and credit limited tax bonds payable from available general funds but without any obligation to levy additional taxes. See, for example, discussion in Appendix C.

2. Obligations imposed by law, which term refers to an exception recognized in a few states from the otherwise applicable debt limitation contained in the state constitution. It applies to obligations imposed on the state or local government by the constitution or by statute or, in some cases, by court judgment as distinguished from a voluntary exercise of the borrowing power by the state or local government. Most pension obligations would qualify and, in states in which the obligations imposed by law concept applies, bonds issued to fund those pension obligations (POBs) are considered to have the same legal character as the pension obligations themselves. POBs issued in California during the past decade have all been obligations imposed by law. See discussion in Appendix B.

POBs issued as obligations imposed by law generally cannot include reserves or capitalized interest because those components of the obligation are not considered to be imposed by law, even on the theory they are essential to marketing the bonds (because so many obligations imposed by law POBs have been issued without them). On the other hand, costs of issuance may be included. The inability to include capitalized interest means that it may be difficult to achieve complete budget relief in the early period following issuance of the bonds without resort to capital appreciation bonds (CABs).

3. Annual appropriation bonds, which term refers to bonds that are not considered debt subject to a constitutional debt limitation because the state or local government issuer has no legal obligation to pay them and payment is therefore subject to annual (or other periodic) appropriation of funds for that purpose at the discretion of the legislature or governing body of the state or local government issuer. Examples include the $773.5 million POBs issued in 1996 for the State of New York and the $2.8 billion POBs issued in 1997 for the State of New Jersey.

4. Other. In the mid-1980s and occasionally since, some cities and counties in California issued POBs as so called asset-strip lease revenue bonds or certificates of participation (COPs). The city or county leased existing facilities (with a value at least equivalent to the amount of bonds/COPs to be issued) to a joint powers authority or other governmental entity or to a nonprofit corporation, simultaneously leasing them back; the leaseback was assigned to a trustee and bonds/COPs were issued secured by the leaseback payable from the city or county's general fund, and the proceeds of the bonds/COPs were paid to the pension fund net of costs of issuance and reserves and capitalized interest retained by the trustee.

In certain circumstances, it may also make sense to use revenue bonds as POBs (for example, if the issuer is a revenue producing enterprise, authority or district). (See also Appendix C.)

B. Credit Ratings/Borrowing Capacity

Because POBs replace existing pension obligations, they are not generally viewed as adding to the debt burden of the state or local government issuer (much like a conventional refunding).[4] To quote the rating agencies:

> "Moody's believes the issuance of pension obligation bonds (POBs) is one effective way of addressing an unfunded liability. Since POBs reduce the cost of funding an unfunded liability, their issuance is not by itself a credit weakness. However, the planning and analysis conducted by a local government as part of the decision to grant expanded benefits, the government's plan for funding any unfunded pension liability, and its ability and willingness to budget appropriately for any attendant higher costs, are reflective of the quality of the government's overall financial management. These factors, therefore, will be considered in our assessment of a government's general credit quality."

> "Standard & Poor's factors the effects of a pension obligation bond strategy into the long-term rating of the sponsor. Standard & Poor's has viewed POBs as a strategy for savings on carrying charges as long as the transaction was structured conservatively and the assumptions were reasonable and attainable. This requires a clear financing plan including reasonable assumptions and manageable leverage. Prudent expectations for investment returns and the cautious use of resultant savings help insure a POB's success. Another positive factor for a POB is, of course, to be fortunate enough to sell the bonds in a low interest rate environment, thereby increasing the spread between interest costs and investment return expectations and lowering the risk of underperformance."

> "Fitch believes that POBs, if used moderately and in conjunction with a prudent approach to investing the proceeds and other pension assets, can be a useful tool in asset-liability management. However, a failure to follow

4 Note that to the extent the POBs fund the normal annual contribution, new long-term debt is created which could have an affect on credit ratings not present if the POBs fund only the UAAL.

balanced and prudent investment practices with respect to POB proceeds could expose the sponsor to market losses.

Because a sponsor's unfunded pension liability is already factored into the rating, the issuance of POBs simply moves the obligation from one part of the balance sheet to another. However, Fitch notes that POBs create a true debt, one which must be paid on time and in full, rather than a softer pension liability that can be deferred or rescheduled from time to time during periods of fiscal stress. Consequently, POBs can have a significant effect on financial flexibility over time."

The actual ratings on the POBs will depend primarily on legal structure. General obligation bonds and annual appropriation POBs should be rated the same as the issuer's other general obligation or annual appropriation debt. Obligations imposed by law POBs are generally rated in between: a notch below the issuer's general obligation bond rating and a notch above its lease or other annual appropriation debt.

C. Structures

Because POBs are typically payable directly from the general fund of the state or local governmental issuer, the structure of the bond issue is usually simple and straightforward, varying primarily in interest rate mode, using one or a combination of the following:

1. Fixed rate bonds. Because most POBs are issued, at least in part, to achieve interest rate savings, most POBs are issued as fixed rate bonds. The advantages are the same as fixed rate bonds generally; namely, they lock in interest cost, and with interest rates at historic lows, this is a very attractive prospect in itself. The disadvantages are: (i) the assigned interest rate on the pension obligations funded with POBs is not fixed, so interest savings cannot be fixed with certainty (see Section A of Chapter 3); and (ii) fixed rate taxable bonds are usually sold as noncallable, so they cannot be easily refunded or defeased if rates drop or circumstances change (see discussion Section E of Chapter 4).

2. Variable rate demand bonds. Variable rate demand bonds are bonds the holders of which may tender them back to the issuer or its agent upon short notice (usually 7 days, but may be 1 day, 1 month or other periods), for a purchase price equal to par plus accrued interest. As a result, they bear interest at rates like, and have some other characteristics of, short term obligations. Variable rate demand bonds generally require a bank letter of credit, standby purchase agreement or other facility to assure liquidity in the event bonds are tendered and cannot be remarketed. Unless the issuer is highly rated, variable rate demand bonds are typically also credit enhanced with either bond insurance or bank letter of credit or other credit facility. The advantages of variable rate demand POBs are that (i) their interest rates are generally lower than fixed rate bonds, and (ii) they are usually subject to redemption at any time without premium and at no extra interest rate cost for the right to redeem. However, while the interest rate usually starts out lower than fixed rate bonds, the rate is variable and subjects the issuer to interest rate exposure and risk to the interest rate savings objective and to the risk arbitrage pension fund investment objective for issuing the POBs (see discussion in Sections A and C of Chapter 3). Interest rates may be affected not only by market conditions but also by the financial condition of the issuer or the credit provider or liquidity provider. In addition, there are risk, costs and aggravation associated with renewal of any bank liquidity or credit facilities, which usually have a term of one to five years, compared to the POBs which typically have a term of more than 20 years.

3. Auction rate bonds. Auction rate bonds appear to be the most popular current variable rate mode at this time because they do not require a bank letter of credit, standby purchase agreement or similar liquidity facility required for variable rate demand bonds or commercial paper. This is because auction rate bonds are not puttable back to the issuer, but instead are subject to periodic auction (typically every 7, 28 or 35 days) if the holder would like to dispose of its bonds other than by direct sale. The interest rate is reset by the auction price and tends to be materially less than the then current fixed rates (for example, in the fall of 2005, 28-day insured auction rate taxable POBs bore rates of roughly 3.80%–4.09% compared to 30 year taxable fixed rates of approximately 5.45%). However, there is no assurance that auction rates will not increase to exceed the fixed rate at which the POBs could have been originally issued. If there is an auction with no buyers (*i.e.,* a failed auction), the interest rate usually goes to the maximum rate (typically 12 to 15%). Failed auctions are rare. The primary reason they may occur is (i) a cloud of some kind on the tax-exemption of the bonds (for example, an IRS audit or challenge to the tax-exemption of similar bonds), which is not a risk for most POBs because they are taxable; or (ii) a shock to the security for the bonds (for example, bankruptcy of an important source of revenue) which is improbable with general fund obligations like POBs unless the issuer goes bankrupt (which states cannot do under U.S. bankruptcy law, and cities and counties do very rarely).

4. Indexed bonds. Indexed bonds are variable rate bonds that are not subject to tender back to the issuer and, therefore, do not require a bank liquidity facility, and bear interest at a fixed spread over a market index (typically either three or six month LIBOR) reset at the end of each accrual period (typically quarterly if three month LIBOR is used or semiannually if six month LIBOR is used). LIBOR refers to the London Interbank Offered Rate and is published daily by various news and information services. Indexed bonds of this type are used primarily to facilitate marketing of POBs outside of the U.S. where investors are more accustomed to LIBOR based investments, but are also attractive to many U.S. investors as well. Like auction rate bonds, index bonds may be subject to redemption without penalty. However, also like auction rate bonds there is no assurance that LIBOR indexed rates will not increase to exceed the fixed rate at which the POBs could have been originally issued. However, unlike auction rates, the LIBOR index is not affected by events affecting the POBs issuer or the POBs. Index bonds may also be swapped to fixed more efficiently and with little or no basis risk compared to auction or other variable rate bonds because the global swap market is primarily LIBOR based.

5. Capital appreciation bonds. Capital appreciation bonds (CABs) are bonds that bear no current interest, which instead is accrued, compounded (usually semiannually) and paid at the maturity of the bonds. They are used primarily to reduce debt service in the early years. A variation is convertible CABs, that function as CABs for several years and then convert on a certain date to current interest bonds (with interest paid on the then accrued value of the bonds, being the original principal amount plus the amount of accrued, compounded interest up to the conversion date). The disadvantage of CABs is that higher rates of interest are required in order to market them.

6. Swaps. If variable rate bonds are used, the resulting interest rate exposure may be swapped to a fixed rate, in whole or in part, using a floating-to-fixed interest rate swap. While swaps may often make a great deal of sense in this context, they are complex financial investments and beyond the scope of this pamphlet. Please refer to another of our pamphlets, entitled Interest Rate Swaps: Application to Tax-Exempt Financing (much of which is applicable even though POBs are taxable). It is important to make sure that if a swap is to be used, it is consistent with the issuer's objectives and does not itself expose the issuer to risks or consequences the issuer does not fully understand or are inconsistent with its objectives. For example, if the purpose of using variable rate POBs is to allow for refunding or early redemption if rates drop or other circumstances change, the termination payment that may be due on early termination of the swap may offset the benefit of and effectively prevent refunding or redemption. There are also other circumstances in which a substantial termination payment may be due from the state or local government, such as default of the swap provider or downrating of either party, as well as other terms that can be modified to suit the state or local government's objectives. Expert advice should be sought before entering into any swap.

D. Payments to the Pension Fund: Whole or Part

POBs may be issued to pay all or any part of the UAAL or (depending on applicable state law) the normal annual contribution.[5] Frequently, issuers choose to use POBs to fund only a portion of the UAAL, generally to avoid or reduce the concerns described in Chapter 4. The portion of the UAAL funded may be (1) a percentage of the total UAAL as of the date of issuance of the POBs, or (2) all or part of certain years contributions to the UAAL. If agreed to by the pension system, the second approach can result in suspension of UAAL contributions during those years (for example, the next succeeding 10 years). At the end of the period, the UAAL will be

5 Depending on state law and financing structure, it may also be possible to finance future year's normal annual contribution and/or unfunded liability created by investment losses not yet realized due to actuarial smoothing methodologies (which phase in investment gains and losses over a period of, usually 3 to 5, years).

recalculated and amortized over the remaining original term of the UAAL. The risk of this second approach to partial payment of the UAAL, which is much less common than the first approach, is that if investment performance of the pension fund is substantially below the assumed rate of return, there could be a significant increase in the amount of UAAL to be amortized over the remaining term. To a degree, that risk can be addressed by subsequent issues of POBs (before or after the date of recalculation).

CHAPTER SIX

Tax Issues

A. Taxable Bonds

Most POBs are taxable. That is, interest on the bonds is included in gross income for federal tax purposes, although they are usually exempt from income taxes of the state in which the issuer is located. This affects not only the interest rate at which the POBs are sold but also the types of investors to which they are marketed (for example, corporate pension funds, charitable endowments and others not subject to federal income tax and, for some of the larger issues, non-U.S. investors). There are, however, a few circumstances in which POBs may be tax-exempt.

Why most POBs are taxable, with these few exceptions, is explained below.

B. Tax-Exempt POBs Prior to 1986 Tax Act

Prior to the enactment of the Tax Reform Act of 1986 (the "1986 Tax Act"), POBs that were properly structured could bear interest that was excluded from gross income for federal tax purposes. However, to get tax-exempt treatment, investment of bond proceeds for the benefit of the covered employees and former employees had to be designed so that the issuer/employer did not benefit from the investment in any way other than relieving the issuer of the responsibility of paying its retirees.

If proceeds deposited in the pension fund were expected to be invested in securities or obligations with a yield higher than the yield on the POBs, the issuer's obligation to make additional contributions into the fund would be reduced in the future, a prohibited anticipated direct benefit from the investment of the bond proceeds by the pension fund.

However, the situation was different where the issuer contracted with someone else to take over the responsibility of making payment to the retirees and paid for that transfer of risk with proceeds of POBs – for example, by purchasing an insurance company annuity whereby the insurance company took over all liability for the payment of the pension benefits. In that case, the insurance company bore the risks and benefits of investment return – the issuer got no benefit from investments made by the insurance company even if the expected investment return was reflected in the price paid by the issuer for the annuity policy. In addition, the purchase of an annuity was not treated as the purchase of a "security" or "obligation" under the tax law. A number of tax-exempt POB transactions were consummated in the early 1980's in which the proceeds were deposited into a pension fund and were used to acquire insurance company annuity contracts.

C. Tax Reform Act of 1986; Transition Rules

1. Stopping New Issues of Tax-Exempt Pension Bonds. As a result of the threat of a proliferation of tax-exempt POB issues, Congress decided to amend the tax law to prevent the investment of tax-exempt bond proceeds in annuity contracts. New rules were adopted in the 1986 Tax Act. "Investment type property," including annuity contracts, was added to "securities" and "obligations" as potential arbitrage investments. In addition, because of the urgency with which it viewed the matter, Congress included a special effective date rule in the 1986 Tax Act relating to annuity contracts which applied to all bonds issued after September 25, 1985. The 1986 Tax Act essentially ended the issuance of tax-exempt POBs for the purpose of depositing the proceeds into a pension fund or for the purpose of purchasing annuities to replace the issuer's responsibilities to its retirees, except as described below.

2. Transition Rules for Refundings of POBs. The status of refundings of pre-1986 Tax Act POBs was not specifically addressed in the 1986 Tax Act. In connection with two later tax acts, the Technical Corrections Bill of 1988 and Technical and Miscellaneous Revenue Act of 1988, Congress attempted to clarify its position on refundings. While the statutory language and legislative history are a bit confused, the related House, Senate, and Conference Committee Reports indicate that

Congress intended generally to permit one advance refunding of pre-September 25, 1985 POBs (at least where the amount of the refunding is not greater than the amount of prior bonds). Additionally, the legislative history indicates that Congress intended to permit any number of current refundings of pre-September 25, 1985 POBs where the refunding bonds do not additionally burden the tax-exempt market, but merely replace existing tax-exempt debt.

D. Columbus Case

The State of Ohio created a state fund into which municipal corporations in the State were required to transfer, on January 1, 1967, all existing assets and liabilities of their local pension funds for police and firefighters. Under the State law, all pension liabilities accruing after the transfer would be supported by current employer and employee contributions. However, while the State fund completely assumed the assets and liabilities of a city's retirement fund, the law mandated the city pay to the fund, either immediately or over time, an amount equal to the present value of the accrued but unfunded liability determined at the time of the transfer. The City of Columbus opted to satisfy its obligation over time together with the required interest.

In 1993, the State modified the law to allow any city still owing money to the fund to extinguish its remaining UAAL in return for a single payment equal to 65% of the then unpaid principal balance. The City decided to prepay its obligation. However, upon hearing that the City was going to issue tax-exempt bonds to fund its prepayment, representatives of the Internal Revenue Service notified the City that they would assert that interest on these bonds would be taxable. The City sought a private letter ruling from the Internal Revenue Service and received an adverse ruling which it appealed to the Tax Court.

In the court proceedings the Service argued, among other things, that the discount the City received on the prepayment of its obligation to the fund was a form of investment return and thus created impermissible arbitrage profit. The Service reasoned that the pricing of the prepayment reflected the expectation of the State fund that it would be able to invest the amount of the prepayment at a yield materially higher than the yield on the City's bonds. As a result, the Service believed that both the City and State fund would benefit form the earnings on the investments. In addition, the Service argued that the prepayment constituted the use of bond proceeds to acquire "investment-type property" at a yield higher than that on the bonds (after taking into account the discount received on the prepayment) in that absent the discount pricing of the prepayment there would be no economic savings for the City.

Ultimately, the City prevailed on appeal as the Court of Appeals concluded that there was an existing obligation of the City to the State fund, the City would not benefit from the investment of amounts by the State fund and the prepayment of the City's own debt obligation to the State fund did not constitute the acquisition of investment type property by the City. The City was then able to refund its obligation to the State fund by issuing tax exempt POBs.

While the unusual facts in this case have application beyond the City of Columbus, such application is likely to be fairly limited and to attract unfavorable attention from the Internal Revenue Service.

E. Tax-Exempt Working Capital Bonds

While directly issuing bonds to deposit the proceeds into a pension fund does not appear to be permitted under current tax law governing tax-exempt bonds, in certain cases it may be possible for a state or local government to indirectly fund the current year's pension deposit. For example, a state or local government may issue short term tax or revenue anticipation notes or long term working capital bonds to finance a cash flow budget deficit or a so-called structural budget deficit. The deficit analysis would include any cash flow deficit relating to the state or local government's obligation to deposit amounts into its pension fund.

It may be that this type of financing is best done so that the bond proceeds are not required to be deposited in the pension fund, but rather, are used to fund deficits created by working capital expenditures including the deposit of amounts into the pension fund. In other words, it is important that the bond proceeds not be "traced" into the pension fund or required to be deposited there and the bonds should not be called Pension Obligation Bonds.

Among other things, long term bonds of this type would bring into play the application of some complex federal tax rules relating to when proceeds can be treated as spent, allocation of the deficit in sizing the issue, permitted amortization structure, the application of so-called "other replacement proceeds" rules, applicable yield and other investment restrictions, post-issuance compliance matters, plus the intersection in sizing and in post-issuance compliance with the issuance of normal tax or revenue anticipation notes and any other short term or long term working capital obligations.

F. Investment of POB Proceeds in Municipal Obligations

The primary tax problem in the use of tax-exempt POBs to make a deposit to a pension fund is that the proceeds are not treated as spent, but rather are treated as invested. Moreover, under the so-called "proceeds spent last" rule applicable to working capital financings, these proceeds cannot be treated as paid out to pension recipients until all other available amounts are first expended, which as a practical matter, means that the proceeds will never be deemed expended. Unless the investment yield on the investments in the pension fund is not more than the yield on the bonds, the bonds will become taxable arbitrage bonds. In addition, the "hedge bond" rules would result in the bonds being treated as taxable hedge bonds unless the issuer actually expected to spend the proceeds within a three- or five-year time frame, taking into account the "proceeds spent last" rule.

However, under both the arbitrage rules and the hedge bond rules, interest on the bonds used to fund the pension fund could be tax exempt if the issuer invested the proceeds of the bonds in municipal obligations the interest on which is not subject to the alternative minimum tax (so-called "non-AMT" municipal bonds). Under these provisions as long as the amount of non-AMT municipal bond investments in the pension fund is at least equal to 95% of the amount of POBs outstanding at any time, interest on the POBs will be tax exempt. As the POBs are amortized, there is a similar reduction in the amount required to be invested only in non-AMT municipal bonds in the pension fund.

While this structure allows for POBs to be issued as tax exempt, the benefit of the tax exemption on the bonds may be outweighed by the limitation on the type of investments allowed with the proceeds.

G. Other Considerations: Effect on TRANs

Tax and revenue anticipation notes (TRANs), are typically issued by state and governmental units of all sizes to fund the annual cash flow deficit which arises due to the timing mismatch between annual revenues and annual expenses. TRANs are almost always issued as short term notes with maturities of 13 months or less and are repaid at or shortly after the end of the fiscal year by which time it is expected that revenues will have "caught up" with expenses. To the extent the POB proceeds are used to fund a deposit to the pension fund that otherwise would have been made out of current year's revenues, the deficit will be likely be reduced by the same amount, impacting the sizing of any TRANs issued for that year. The one circumstance where this would not happen is if the calculation of the maximum cash flow deficit used in sizing the TRANs shows that it is incurred prior to the time of the pension deposit. In that case, the use of proceeds to make that deposit would not have any impact on the size of the TRAN issue.

CHAPTER SEVEN

Federal Reimbursement Issues

Certain costs of state and local government in administering programs under grants from or contracts with the federal government are eligible for reimbursement from the federal government. Such costs include compensation and benefits, including pension benefits, of state or local government employees for the time devoted to the administration of such programs. Such allocable pension benefit costs even include the interest assigned to the state or local government's unfunded liability. The principles governing such reimbursement are set out in Office of Management and Budget Circular A-87. Some states have similar programs for reimbursement of local governments for costs related to the administration of state programs.

POBs replace the state or local government's payment of some or all of these pension costs with payment of the principal of and interest on the POBs. Issuers will want to be comfortable that the federal government will treat debt service on the POBs as the surrogate for the pension obligations funded or refunded with the POBs and will continue to reimburse its allocable share. Statements have been issued by the Office of Management and Budget and the Department of Health and Human Services to the effect that the POBs, including principal (representing amounts paid to the pension fund), interest and costs of issuance, will be allowable as the pension costs funded or refunded thereby, so long as the POBs are not more costly to the federal government than the regular pension costs funded or refunded over the remaining life of the unfunded liability. The same principles should apply to refunding POBs. Further details of federal and state reimbursement programs are beyond the scope of this pamphlet.

CHAPTER EIGHT

Other Post Employment Benefits (OPEB)

There are some other state and local government non-bond obligations, which are like pension obligations and which it may be possible to fund in a manner similar to POBs. The first edition of this pamphlet in 2003 covered primarily POBs, the most frequently used and highly developed of this category. It noted, at least briefly, that there may be other applications of the same concepts. Several examples (not an exhaustive list) include such other actuarially based insurance or benefit obligations as workers compensation, health benefits and unemployment insurance, and such non-actuarial obligations imposed by law as court rendered judgments for damages against state or local governments and, in California, county obligations under the Teeter delinquent property tax program.

In June 2004, the Governmental Accounting Standards Board issued GASB 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," ushering in intense interest in funding options for OPEB, and the logical extension of this pamphlet to cover this emerging topic.

CHAPTER NINE

GASB 45

A. Accounting Change.

OPEB refers to "other post-employment benefits," meaning other than pension benefits. OPEB consist primarily of health care benefits, and may include other benefits such as life insurance, long term care and similar benefits. Until now, these benefits have generally been administered on a pay-as-you-go basis and have not been reported as a liability on municipal financial statements.

GASB 45 will require municipalities to account for OPEB liabilities much like they already account for pension liabilities, generally adopting the actuarial methodologies used for pensions, with adjustments for the different characteristics of OPEB and the fact that most municipalities have not set aside any funds against this liability. Unlike GASB 27, which covers accounting for pensions, GASB 45 does not require municipalities to report a net OPEB obligation at the start.

B. Annual Required Contribution (ARC) and Net OPEB Obligation (NOO).

Under GASB 45, based on an actuarial valuation, an annual required contribution (ARC) is determined for each municipality. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded actuarial accrued liability (benefits already earned by current and former employees but not yet provided for) (UAAL), using an amortization period of not more than 30 years. If a municipality contributes an amount less than the ARC, a net OPEB obligation (NOO) will result, which is required to be recorded as a liability on its financial statements.

Note that the UAAL will be much greater than the NOO. Although not required to be treated as a liability on financial statements, the UAAL will likely appear in a related footnote and be disclosured in connection with the municipality's bond or note offerings.

Some actuaries have estimated that for many municipalities the ARC may be 5 to 10 times higher than current pay-as-you-go expenses. However, after a period of years, because of factors such as increasing number of retirees and inflation in health care costs, pay-as-you-go costs are expected to far exceed the ARC. GASB 45 does not require that the unfunded liability actually be amortized, only that the municipality account for its unfunded accrued liability and compliance in meeting its ARC.

GASB 45 does not specify the actuarial assumptions to be used in calculating an OPEB liability. Most likely, assumptions will be based on methodology that has developed in connection with FAS 106 (the private sector counterpart to GASB 45 implemented in the early-1990s).

An actuarial valuation is required every 2 years for OPEB plans with more than 200 members, or every 3 years if there are less than 200 members.

C. Effective Date.

Although GASB 45 encourages earlier adoption, implementation is required by the following dates, based on the size of government measured by annual revenue:

Annual Revenue	**Effective for Fiscal Year Beginning After:**
Greater than $100 million	December 15, 2006
Between $10 million and $100 million	December 15, 2007
Less than $10 million	December 15, 2008

CHAPTER TEN

OPEB OPTIONS

Municipalities have a number of options to consider in developing an OPEB strategy or otherwise addressing their OPEB liability, such as:

A. Reduce OPEB Obligation

Unlike pensions, which municipalities are required to provide to their employees as a matter of law in most states, state law generally does not impose on municipalities the obligation to provide OPEB. Instead, the OPEB obligation usually arises purely by action of the municipality, whether by collective bargaining agreement, MOU, other employee contract, ordinance, resolution, board policy or even just past practices. Many of these are subject to renewal, renegotiation, change or termination. In some cases, municipalities have been careful to describe all of its OPEB obligations as discretionary and/or subject to change or discontinuation. However, while the ability to change or discontinue OPEB for future employees should be an option in most cases, the ability to change or discontinue OPEB with respect to retired or current employees may vary from state to state, depending on the degree to which the courts in a particular state treat OPEB, even if not contractually vested by express contractual terms, as not subject to unilateral change by the municipality on the theory that they are "fundamental benefits", "inducement to remain employed," "elements of compensation contractually vested in accordance with their terms upon acceptance," "earned by remaining employed" or similar theory and on the particular facts pertaining to the municipality, its employees and its OPEB. This is an evolving area of the law, and while it evolves, most municipalities are expected to assume OPEB are discretionary and try to preserve the option to reduce them.

Other approaches to reducing the municipality's OPEB liability include charging or increasing premiums charged to employees and retirees, charging higher premiums to retirees than current employees (eliminating or reducing an implicit subsidy that GASB 45 requires being included in OPEB liability), increasing the length of time employees must work to be eligible, capping employer's total exposure, treating new employees less favorably than existing and prior employees, and/or shifting in whole or part to a defined contribution instead of defined benefit plan.

B. Continue pay-as-you-go.

In the short run this is the simplest and cheapest option. However, at some point in the future pay-as-you-go will become much more expensive than the ARC or fixed bond payments. Pay-as-you-go will result in an annually increasing NOO for GASB 45 purposes, and higher OPEB UAAL and ARC amounts due to an ability to apply a higher investment return assumption to the calculation of these amounts; and may become a ratings factor (for example, Fitch Ratings has commented that "an absence of action taken to fund OPEB liabilities or otherwise manage them will be received as a negative rating factor").

C. Undertake a funding program, using either:

1. Special reserve or other dedicated fund within the treasury of the municipality. However, contributions to such an internal fund will generally not qualify as contributions toward the ARC nor as plan assets for GASB 45 purposes, which require an irrevocable contribution to a trust or equivalent arrangement protected from creditors and dedicated solely to providing benefits to retirees and beneficiaries in accordance with the terms of the OPEB plan. Therefore, an internal special reserve or similar fund will still be considered pay-as-you-go for GASB 45 purposes, and, in calculating the OPEB UAAL and related ARC, the investment return assumption applicable to deposits in such fund will likely be based on the municipality's return on its general (largely short-term) investments (roughly $2^1/_2$ – 3% today) compared to the much higher investment return assumption (7% to 8%) used by pension funds, especially if large and diversified. The investment return assumption is the equivalent of a discount rate used in present valuing future OPEB payments, and the foregoing difference in investment return assumptions will make a very significant difference in

OPEB UAAL and ARC amounts (in some cases cutting them in half). Therefore, most municipalities choosing to undertake an OPEB funding program will use an OPEB trust of some kind. Some may use the special reserve fund option temporarily until a suitable OPEB trust is available.

2. OPEB Trust. Funding may consist of just the ARC or a larger portion of the UAAL, for which purpose the municipality may choose to use OPEB Bonds. See Chapter 11 for a discussion of OPEB trusts and Chapter 12 for a discussion of OPEB bonds.

3. Insurance. Note that most of the same objectives could be achieved by purchasing insurance for future OPEB obligations, but such long-term insurance is not currently available and cost and availability are likely to continue to foreclose or severely limit this option.

CHAPTER ELEVEN

OPEB TRUSTS

GASB 45 does not require OPEB liabilities to be funded or, if funded, by funding an irrevocable trust of some kind. However, as explained in of Chapter 10C, the existence of GASB 45 creates strong incentives to establish such a trust.

A. Types of OPEB Trusts.

The following types of OPEB trusts are each named for the section of the Internal Revenue Code from which they derive their exemption from federal income tax.

1. 401(h) account. This is a separate account in a tax-qualified pension fund for health benefits of retirees, their spouses and dependents. The aggregate actual contributions to this account cannot exceed 25% of the total actual contributions to the pension fund (other than contributions to fund past service credits) after the date on which the account is established. This limitation could present a problem for some municipalities' OPEB funding strategies, unless either the 401(h) account has been a component of the pension fund for a substantial period or the municipality is going to fund the pension benefits component of the fund at three or more times the amount at which it is going to fund the 401(h) account component. Amounts in a 401(h) account may not be used for or diverted to any other purpose, including pension income benefits.

2. 115 trust. This type of trust is considered exempt from federal income tax either because it is an "integral part" of a single governmental entity or because it serves an "essential governmental function" of one or more governmental entities. This is the type of trust most municipalities are likely to use, whether alone or in combination with other municipalities – at least until adoption of 401(h) accounts by a majority of pension funds and quite possibly notwithstanding such a development.

3. 501(c)(9) trust. Also known as a "voluntary employees' beneficiary association" ("VEBA") trust, this is the primary vehicle used by the private sector for funding health benefits. Among the requirements are that membership be voluntary (which is deemed satisfied if mandated by collective bargaining agreement or if membership imposes no detriment and is required of all employees), and that the trust be controlled by its membership (which can be satisfied if the membership, directly or through representatives, designates the trustee or trustees who control(s) the trust, or if the trustee(s) are designated pursuant to a collective bargaining agreement). Because the form and operation of VEBA trusts are so well developed in the private sector, some municipalities may elect to adopt this model (or borrow from it in establishing a 115 trust.)

B. Characteristics of OPEB Trusts.

To accomplish the goals for which OPEB trusts are created (see Chapter 10) , they generally must satisfy at least the following three requirements:

1. Exemption from federal income tax. In addition to income on investment of trust assets being exempt from income tax (as described in A above), contributions to the trust must not be treated as income to the employee or retiree (in each case under federal and state income tax laws).

2. Qualified trust for GASB 45 purposes. For contributions and deposits to count for GASB 45 purposes, they must be irrevocable, protected from creditors of the municipal employer and dedicated solely to providing benefits to retirees and beneficiaries in accordance with the OPEB plan (see discussion in Chapter 10C).

3. Broad investment powers, including equities. In order to be entitled to use the higher investment return assumption (see discussion in Chapter 10C above) and perhaps actually to earn a higher rate of return, the trust must be able to invest in a broader range of investments than those to which municipal funds are generally restricted, including the ability to invest in equities. In the absence of specific legislation governing investment by OPEB trusts in most states (and perhaps even if there is such legislation, if the investment restriction is contained in the state constitution), it will generally be necessary to conclude that the OPEB trust is a pension or retirement fund within the meaning of any applicable exception to the restrictions otherwise applicable to the investment of municipal funds or that the OPEB trust is sufficiently separate from the municipality to not be included among the types of entities covered by state statutory (or, in some cases, constitutional) investment restrictions.

4. Single or multiple employer trusts. An OPEB trust may be a single employer trust established by and for a single municipality or a multiple employer trust established by an association or other collection of municipalities for membership by any interested municipality or by specific categories (such as, cities, counties, school districts, etc.)

CHAPTER TWELVE

OPEB BONDS

A. Advantages/Disadvantages.

The benefits of OPEB bonds are essentially the same as for pension obligation bonds (POBs) and are listed in Chapter 3 above, including interest rate savings (comparing bond interest costs against the investment return assumption/discount rate used in calculating the UAAL and ARC), arbitrage (see below), budget relief (compared to the ARC alternative), labor relations, and better than alternative strategies. Additional benefits pertaining to or receiving more emphasis as applied to OPEB bonds include the following:

1. Reducing the OPEB UAAL and ARC by funding a qualified trust entitled to use a higher investment return assumption (discount rate on future OPEB payments) than pay-as-you-go or funded internal reserve fund plans. This, in turn, also reduces the political burden of reporting a higher UAAL and the political and financial burden of budgeting for a higher ARC.

2. Lowering long-term cost of OPEB. While debt service on OPEB bonds (like the ARC) will generally be higher than pay-as-you-go costs for the first few years, pay-as-you-go costs (and resulting ARC costs and NOO) are likely to increase sharply, and after a few years exceed the cost of debt service and continue to grow thereafter.

3. Potential arbitrage opportunity, if not only the investment return assumption but also the actual investment return earned by the OPEB trust exceeds the yield on the bonds. As noted in Chapter 3, a 2004 study found 84% of POBs were in a positive arbitrage position and another 7% were at breakeven, notwithstanding substantial decline in stock market values in 2000-2002.

4. ***Reducing public pressure*** to reduce or discontinue OPEB benefits, which may result from publication of this substantial "new" unfunded liability, particularly in context of the growing debate over pension reform occurring in some states.

5. ***Credit rating protection.*** As noted above, rating agencies will be evaluating a municipality's strategy for managing its OPEB liability. A couple of rating agencies have indicated that OPEB bonds, properly used, will be considered a positive favor in a municipality's general credit evaluation.

The possible disadvantages of OPEB Bonds are the same as for POBs in Chapter 4 above, including replacing negotiable or even discretionary OPEB obligations with immutable bond obligations, the concentration of investment risk through lump sum deposit compared to spreading market timing risks by making ARC deposits annually, and possible negative arbitrage.

B. Types and Legal Authority.

Legal authority for OPEB bonds will vary from state to state and, within states, by type of entity. For some entities, the legal authority and structure will be essentially the same as for POBs:

1. General obligation bonds
2. Obligations imposed by law (OPEB variation, see discussion below)
3. Annual appropriation bonds
4. Asset-strip lease bonds
5. Revenue bonds (enterprise special districts and authorities)

See more complete discussion in Chapter 5A above. However, for the reasons discussed in Chapter 10A above, the "obligations imposed by law" theory used in California and some other states to support POBs may not be so easily applied to OPEB and, even if it could be applied, municipalities may not want to lose the option of treating OPEB as discretionary or negotiable by declaring them in court to be "obligations imposed by law." For those situations, we have developed a slightly different legal theory, which avoids that trap, but which for all other purposes would function (and be structured) exactly like "obligations imposed by law" bonds. See discussion in Appendix B.

C. Taxable.

Just like POBs, interest on OPEB bonds will be included in gross income for federal income tax purposes, although they will usually be exempt from income taxes of the state in which the issuer is located. See more complete discussion at Chapter 6 above.

D. Federal Reimbursement Issuers.

Certain costs (including OPEB) of state and local governments in administrating programs under grants from or contracts with the federal government are eligible for reimbursement from the federal government pursuant to Office of Management and Budget Circular A-87. See discussion of effects of replacing direct costs with bond debt service at Chapter 7 above.

APPENDIX A

New York

A greater number of POBs (roughly 95) have been issued by the state and local governments in New York over the past decade than from any other state.

The issuance of POBs by local governments in New York was first authorized in 1989. The State and Local Employees Retirement System of the State of New York ("ERS"), the New York State Police and Fire Retirement System ("PFRS") and the New York State Teachers Retirement System ("TRS"; in the aggregate referred to as the "NYS Retirement System") were all modified in 1989 with respect to the method by which the annual contribution amounts were to be calculated in the future. As a result, each system was significantly underfunded, requiring a "catch-up" payment to return to actuarial full funding. Participating local governmental units were offered the option of (1) amortizing the UAAL amount due by a date certain through a direct loan from the State which carried an 8% (for TRS) or 81/4% (for ERS and PFRS) rate of interest until the liability was fully met, or (2) financing the UAAL through the issuance of general obligation bonds over a statutory period (applicable to the particular retirement system), or (3) paying cash by the date certain. Few local governments, except small jurisdictions with few employees, took the third option.

During the period 1989 through 1993, counties, cities and larger school districts, in particular, issued general obligation bonds to pay off their then current balance of unamortized UAAL whenever interest rates dipped sufficiently to permit a lower net interest cost on their own bonds than the 8% or 81/4% rate being charged by the State. During this period, local governments could issue ten year general obligation bonds with net interest costs in the range of 6% to 7.375% depending on their credit rating. The 1989 legislation further provided that at such time as the remaining amortization period was less than five years, local governments could no longer issue pension obligation bonds their own debt to pay off the outstanding balances. Thus, with a permitted maximum statutory amortization period of seventeen years for most UAALs, the possibility of financing of the 1989 UAALs ended in the 2001-2002 fiscal year of most local governments.

Beginning in 1995, the State adopted legislation almost every year creating new retirement incentive programs for various categories of State and local government employees, largely to support a goal of efficient downsizing of government. Generally, the legislation establishing these programs did not at the time include provisions for financing of the resulting unfunded liabilities. Such costs, which added to any existing UAAL, were paid either by amortization through the NYS Retirement System or by cash.

Concurrently in this time period, another type of pension-related program was developed by the State legislature which authorized local governments to create service award and defined benefit programs for volunteer ambulance and fire-fighting personnel. The legislation permitted the financing of contributions to certain of such programs attributable to years of volunteer service rendered during the five years prior to adoption of such programs. Such financing cannot be amortized over a period exceeding five years.

In 2003, new legislation was adopted for the purpose of structural reform in the method and manner of employer contributions to the NYS Retirement System, which legislation also included two provisions for the issuance of POBs:

1 Local governments are now permitted to issue POBs for any outstanding obligations to the State for any existing retirement incentive program (i.e., the retirement incentive programs established annually in the years from 1995 through 2002). (This provision was drafted by Orrick attorneys on behalf of the New York State Association of Counties.) The amortization period is limited to five years.

2 Similar to the 1989 legislation, a local government (and the State itself with regard to its own employees) is permitted to amortize a portion of its normal annual contribution for one fiscal year – that is, local governments are permitted

to amortize the amount due on December 15, 2004 to the ERS or PFRS component of the NYS Retirement System (except deficiency payments, adjustments relating to prior year payments, obligations for retirement incentives or other similar amounts) to the extent that such amount exceeds 7% of the estimated "pensionable salary" base for the then current fiscal year (2004–2005). This "amount eligible for amortization" may be amortized over a five year period at 8% with the State, or local governments are authorized to issue their own debt obligations to pay such amount, with maximum maturity not to exceed five years. On or about October 15, 2003, the State Comptroller is to determine the "amounts eligible for amortization."

The only type of financing specifically authorized for POBs in New York State are general obligation bonds (which obligations include a pledge of the full faith and credit and taxing power of the local government). These bonds must be issued in the same manner, under the same procedural requirements and subject to the same debt limits and other constraints as for any capital project of the local government. Mandatory or permissive referendum requirements applicable to general obligation bonds of the particular type of local government apply to bond resolutions authorizing POBs. For example, school districts must receive voter approval before issuing debt for any purpose authorized by the 2003 legislation. (Note that the legislation in 1989 exempted such school district POBs from the voter approval requirement; this omission in the 2003 legislation may be corrected during a future legislative session.) Likewise, fire districts would need prior voter approval. The bond resolutions of counties, towns and villages which authorize payment for five years or less are not subject to mandatory or permissive referendum. Similarly, city bond ordinances should not be subject to mandatory or permissive referendum unless specified by applicable special city charter provisions.

Once a bond resolution has been adopted by a local government authorizing the issuance of POBs, it is generally necessary to publish a legal notice of estoppel including a summary of the bond resolution and allow the 20-day estoppel period to elapse prior to the sale of the POBs. The purpose of the estoppel notice is to ensure that debt issued by the local government cannot be challenged on any basis, procedural or otherwise, except on constitutional grounds once the estoppel period elapsed.

The New York State Legislature has also authorized the State itself to borrow in order to fund its UAAL on at least two occasions. In 1996, the State through the Dormitory Authority of the State of New York issued $773,475,000 of POBs as annual appropriation debt . These bonds had a final maturity in 2003. The 2003 legislation described above also amended the State Retirement and Social Security Law to authorize the State to amortize a portion of the State's contribution bill for the fiscal year ending March 31, 2005. The amortizable portion is calculated in the same manner as that permitted local governments. Likewise, the State may either amortize that portion through the office of the State Comptroller for five years at 8% or issue POBs.

In New York State, most municipal issuers also provide post-employment healthcare benefits to their retirees. Indeed, school districts, by law, have been prohibited since 1994 from reducing retiree healthcare benefits to less than those offered to current employees. This protection from unilateral reduction of benefits has been extended annually and continues through May 15, 2006 pursuant to Chapter 16 of the Laws of 2005. While numerous attempts to mandate such protection have been made in the State Legislature for cities, towns, villages, fire districts and other units of local government, none has succeeded to date. Nevertheless, many such local governments do in fact contractually provide such protection.

Historically, the New York State Retirement System has not been involved in the administration of OPEB and legislation would likely be necessary to expand its responsibilities from pensions to OPEB. Currently, each local unit of government contracts individually to provide OPEB benefits as an annual budgeted expense. Several of the municipal trade associations for specific levels of government are presently looking at formation of multi-employer trusts for their memberships.

Advance funding of OPEB liabilities through debt issuance by municipalities and school districts in New York State would require special state legislation determining OPEB liabilities to be a valid public purpose (and providing some method of their calculation) in order to permit general obligation bonds to be issued. Like POBs, OPEB bonds would be subject to the same constitutional and statutory requirements applicable to any capital project financing of the local government. In addition, such legislation could give the Common Retirement Fund on behalf of State or State and local employers and those local governments which may not have the express or implied powers to do so, the authority to set up and/or participate in OPEB trusts as described earlier.

APPENDIX B

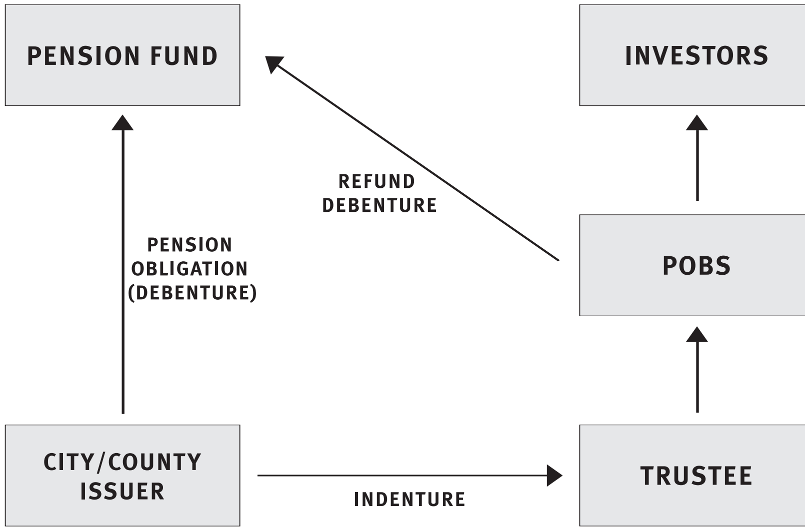
California

Pension obligation bonds had their start with the famous City of Oakland, California pension bond financing in 1985, the first POB in the country, which Orrick helped to invent and for which it served as bond counsel. That financing and a number of copy-cats that rapidly followed were tax-exempt and primarily driven by then legal arbitrage possibilities. As explained in Chapter 6, tax-exempt POBs largely came to an end with the introduction of tax legislation that became part of the Tax Reform Act of 1986.

A new taxable version of POBs surfaced in late 1993. During the last decade since, seventeen or so cities and twenty-one or so counties in California have issued 90 POBs (second only to New York) aggregating $11 billion (more than from any other state). The California Statewide Communities Development Authority has established a pool POB program to lower costs and interest rates through economies of scale by pooling POBs issued by cities, counties and special districts.

California public entities do not have specific authority to issue POBs.[6] With the exception of one tax-exempt transition rule (see Chapter 6C) POB transaction issued as lease revenue bonds, all of these POBs have been issued under the local agency refunding law (drafted by Orrick a few years before for other purposes). However, the local agency refunding law authorizes all local public entities in California to refund prior bonds or "other evidence of indebtedness." The pension obligation to the county pension system, the California Public Employees Retirement System or other retirement system is memorialized as a "debenture," thereby becoming an "evidence of indebtedness," which can be refunded by POBs under the local agency refunding law.

6 The State of California enacted specific authority for State POBs in 2003 and again in 2004.



The POBs are typically structured as obligations payable from the general fund of the issuer. They are not full faith and credit taxing power general obligation bonds backed by the issuer's taxing power, because the California Constitution's debt limitation requires such type of bonds issued by the state, cities, counties or school districts ("Debt Limit Entities") to be approved by two-thirds of the electorate. Instead, California POBs issued by Debt Limit Entities have generally been designed to be valid without voter approval under a judicially created exception to the State Constitutional debt limitation, which exception is generally referred to as "obligations imposed by law." See discussion in Section A2 of Chapter 5. Because this exception to the Constitutional debt limit was and is much less developed in the case law (few cases not directly on point) than the other two judicially created exceptions (for lease financing and revenue bonds) each POB issue by Debt Limit Entities in California has been validated pursuant to California's validation statute (Code of Civil Procedure §§860 *et seq.*). Entities other than Debt Limit Entities, meaning authorities, agencies and districts of various kinds (other than school districts and community college districts), because they are not subject to the Constitutional Debt Limit, need not rely on "obligations imposed by law theory" and can simply use the local agency refunding law as authority for this issuance of POBs, without a validation action.

While there have been many validation actions for POBs, they have no precedential value or application to any transaction other than the specific transaction(s) validated.

What is validated in such validation actions is not legal principles but the bonds and the other principal legal documents approved in a bond resolution. Before the validation action is filed, it is necessary for the state or local government issuer to first adopt the resolution and authorize the bonds, the documents and the validation action. The validation action is filed in the superior court of the county in which the issuer is located, and an order for publication of summons is received. Summons can then be published (usually in a newspaper of general circulation in the city or county in which the issuer is located), which takes a minimum of 21 days. If no one answers the complaint by the date specified in the summons, which must be at least 10 days after completion of publication, the clerk can enter a default, and schedule a hearing before the judge for the default judgment (the timing of which will depend on the jurisdiction, and may be a day or two or, in some jurisdictions, at least 15 days after the clerk enters the default).

So assuming the very best case, obtaining a validation judgment takes a minimum of 31 to 46 days (depending on the jurisdiction) after filing the validation complaint. Of course, issuers are at the mercy of the judge and the clerk, and it sometimes takes a week or more to get an order for publication of summons, or longer than 15 days after the clerk enters a default to schedule the hearing. In addition, the judge could take the matter under submission for an indefinite amount of time, or even disagree with the proposed default judgment, and decline to validate the transaction. Once granted, the default judgment may be appealed within 30 days, but only on jurisdictional grounds. Therefore, it is typically assumed that the validation action will take approximately 60 days (not including the appeal period). It is generally considered reasonable to sell the POBs without waiting for the 30 day appeal period to run, assuming no one has answered the complaint, because the grounds for appeal are so narrow, but usually the bond closing does not occur until after the appeal period has expired.

If someone does answer the complaint, then there is true two party litigation on the merits. While some expedited procedures are available, the timing for resolution of the litigation cannot be predicted, and may take many months unless settled or abandoned. So far, no one has answered the complaint and default judgments have been obtained for every city and county POB issuer. However, the same was not true of the State of California, whose validation complaint was answered by the Howard Jarvis Taxpayers Association, and resulted in a decision on September 23, 2003 by the Superior Court in Sacramento County declining to validate the State's proposed POBs. Similarly, a second validation brought by the State was answered by the Fullerton Association of Concerned Taxpayers and resulted in a decision on October 25, 2005 by a different judge of the Superior Court in Sacramento County to the effect that the State has imposed its pension obligations on itself, distinguishing those imposed on local government by the State, and therefore the State's pension obligations are not obligations imposed by law. The State, as of this writing, is appealing this decision.

The validation actions can and usually do validate not only the POBs to be issued but also any future POBs or refunding POBs. Not all validation actions are as inclusive or as flexible as they could be (some leaving out future new money or refunding POBs or costs of issuance or locking in semiannual interest payment dates, etc.), and must be carefully reviewed before relied on for future POBs or refunding POBs.

Note, as mentioned in Section A2 of Chapter 5, that the "obligations imposed by law" concept that is generally used to support POBs in California does not support reserves or capitalized interest because inclusion of such components in the bond issue are considered volitional not mandatory (as evidenced by the numerous California POBs issued without them) and therefore not "obligations imposed by law." Costs of issuance, on the other hand, can be included on the theory that they cannot be avoided. The inability to include capitalized interest makes achieving current budget relief more challenging (see discussion of structure options in Section C of Chapter 5). Alternatively, the POBs could be issued as annual appropriation bonds or asset-strip lease revenue bonds (see Section A3 and 4 of Chapter 5), which can include reserves and capitalized interest.

OPEB come in a variety of different forms: collective bargaining agreements, employment contracts, MOUs, ordinances, board policies, even historical practices not supported by formal action – many of which are short-term, subject to reauthorization, renegotiation or discretion. Therefore, the case for "obligations imposed by law" treatment may not work as well in each case for OPEB as it has for pension obligations. Even if "obligations imposed by law" theory could apply, based on the particular facts or legislation or validation action, most municipalities do not want to take a definitive legal position that its OPEB obligations are legally binding obligations imposed by law.

Therefore, the Orrick team has developed a separate legal theory which avoids these problems but otherwise functions exactly like "obligations imposed by law" so far as the financing structure described above for POBs is concerned. That is why we refer to it as a "first cousin" to obligations imposed by law. The main difference is some of the arguments made in the validation papers.

Even entities that are not Debt Limit Entities, and therefore do not need to rely on an "obligations imposed by law" theory or any variation and do not need a validation action, will encounter some of the same issues because, in relying on the local agency refunding law, they still must have some "evidence of indebtedness" to refund. However, a variation on the POB structure can address this problem as well.

Most OPEB bonds in California are likely to follow very closely the form and structure of POBs. The same alternative structures (annual appropriation bonds or asset-strip lease revenue bonds) would also be available.

APPENDIX C

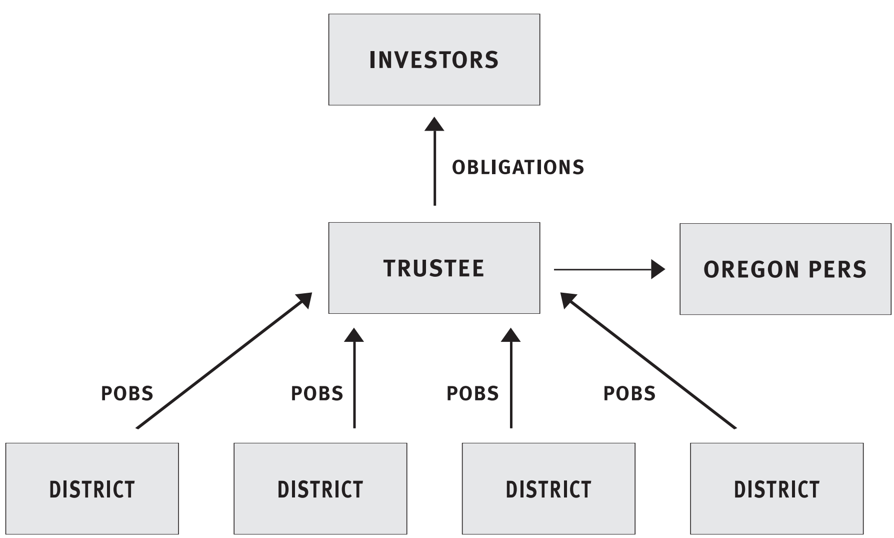
Oregon

State and local government issuers in Oregon have been among the most active users of POBs to finance their share of unfunded liability to the Oregon Public Employees Retirement System. POBs are issued in Oregon either as limited tax bonds or as revenue bonds.

Prior to the passage of the Pension Bonding Act in 2001, the City of Portland, Multnomah County and Josephine County issued significant sized POBs under Oregon's Uniform Revenue Bond Act. In 2001, the Oregon Legislative Assembly approved the Pension Bonding Act (which Orrick attorneys were involved in drafting). The Pension Bonding Act granted authority to "governmental units," including cities, counties, school districts, special districts, public corporations and intergovernmental corporations, to sell full faith and credit obligations for the purpose of refinancing pension obligations. POBs issued under the Pension Bonding Act are not subject to voter approval or annual appropriation and may be issued by local governments individually or jointly.

Significant pooled POB issues have been done by Oregon school districts, community college districts and local governments pursuant to the Pension Bonding Act. In these transactions, the participants pledged their full faith and credit within the limitations of the Oregon Constitution and issued limited tax bonds, payable from available general funds of the issuer. Available general funds include all ad valorem property tax revenues received from levies under each issuer's permanent rate limit and all other unrestricted taxes, fees, charges and revenues legally available to pay debt service on the POBs. The issuers are not authorized to levy additional taxes to pay the POBs.

In the pooled school district and community college district transactions, individual districts issued limited tax POBs in favor of a bond Trustee, which in turn issued obligations that represent a proportionate and undivided interest in and right to receive POB payments pursuant to a Trust Agreement. These POBs have been further secured by an Intercept Agreement between the State Department of Education and the school districts and community colleges under which the Trustee was authorized to intercept specific education revenues otherwise paid by the State to the school districts and community colleges in an amount equal to the debt service on each issuer's POBs. Since 2003, several pooled POB issues have been completed for Oregon school districts, education services districts, community colleges, counties, cities and special districts. Each of the pooled transactions to date have been enhanced by bond insurance. By pooling these transactions, the issuers were able to increase the amount of bonds sold, which increased access to investors, lowered interest rates and reduced costs of issuance.



Other jurisdictions, including the City of Portland, City of Corvallis, Multnomah County, Marion County, Josephine County, Eugene Water and Electric Board and Portland Community College District have sold POBs on a stand-alone basis.

As an alternative to issuing POBs as limited tax bonds pursuant to the Pension Bonding Act as described above, issuers have the option to issue POBs as revenue bonds pursuant to the Uniform Revenue Bond Act or the Pension Bonding Act. The Uniform Revenue Bond Act allows municipalities to issue revenue bonds for any public purpose secured by designated "revenues," which may include taxes and virtually all other general and special fund revenues and receipts of the municipalities. The financing authority provided by the Uniform Revenue Bond Act is broad enough to include legal authority for pubic bodies in Oregon to issue POBs. The Uniform Revenue Bond Act requires issuer approval pursuant to a nonemergency ordinance or, in the alternative, a resolution followed by notice and a 60-day referendum period, during such period the revenue bonds may be referred to a vote of the electorate if a referendum petition is signed by at least 5% of the issuer's electors in the case of a resolution or, in case of a nonemergency ordinance, as specified in the applicable charter or code provision. Revenue bonds issued pursuant to the Pension Bonding Act are exempt from this potential referendum requirement.

With respect to potential OPEB bond issues in Oregon, the financing authority provided by the Uniform Revenue Bond Act and the Pension Bonding Act is believed to be sufficiently broad to permit public bodies in Oregon to issue OPEB bonds. However, because of the unique issues associated with OPEB bonds and particularly OPEB trusts, it is anticipated that special OPEB bond legislation will be sought in the 2007 Legislative Session.

In a special election the fall of 2003, Oregon voters approved an amendment to the Oregon Constitution authorizing the State Treasurer to issue POBs as general obligation bonds of the State of Oregon for the purpose of paying substantially all of the State's UAAL. The amendment provided that the general obligation of the State must contain a direct promise on behalf of the State to pay the principal, premium, if any, and interest on that indebtedness. The State is also required to pledge its full faith and credit and taxing power to pay that indebtedness; however, the ad valorem taxing power of the State may not be pledged to pay that indebtedness. The amount of POB indebtedness authorized by the amendment that may be outstanding at any time cannot exceed 1% of the real market value of all property in the State. In

October 2003, the State issued approximately $2 billion in POBs. These POBs were listed on the Luxembourg Stock Exchange in order to facilitate sales to European investors.

In 2003, the Oregon Legislative Assembly made substantial changes to Oregon PERS. These PERS reforms resulted in extended litigation. This litigation included a number of challenges to the legislative reforms seeking to, among other things, have implementation of the reforms enjoined or declared an unconstitutional impairment of contract or unconstitutional taking of property. Although these cases are not directly related to any particular bond issues, and have resulted generally in the legislative reforms being upheld. Continuing litigation, as well as subsequent legislation or administrative action, could have significant implications with respect to PERS and the related liability of Oregon state and local government units.

Members of Orrick's Pension Obligation/OPEB Bond Group

CALIFORNIA & THE WEST	TELEPHONE	E-MAIL
Roger L. Davis (author)	415-773-5758	rogerdavis@orrick.com
Mary A. Collins	415-773-5998	marycollins@orrick.com
John H. Knox	415-773-5626	jknox@orrick.com
Virginia Magan	916-329-7980	vcmagan@orrick.com
Philip C. Morgan	415-773-5524	pmorgan@orrick.com
John Wang	415-773-5993	jwang@orrick.com
PACIFIC NORTHWEST		
Douglas Goe	503-943-4810	dgoe@orrick.com
Michael Schrader	503-943-4840	mschrader@orrick.com
Courtney Muraski	503-943-4860	cmuraski@orrick.com
NEW YORK & THE EAST		
Douglas Goodfriend	212-506-5211	dgoodfriend@orrick.com
Thomas E. Myers	212-506-5212	tmyers@orrick.com

ORRICK, HERRINGTON & SUTCLIFFE LLP publicfinance@orrick.com WWW.ORRICK.COM

HONG KONG LONDON LOS ANGELES MILAN MOSCOW NEW YORK ORANGE COUNTY PARIS PORTLAND ROME SACRAMENTO SAN FRANCISCO SEATTLE SILICON VALLEY TAIPEI TOKYO WASHINGTON DC

ORRICK

By way of explanation regarding agenda item 8 of the Finance Committee meeting for Thurs 8/14 the following describes the practice of providing vendor information in the Administrative Financial records pursuant to a FOIA request.

Pursuant to the current construct of the Act, existing now for some four years, requests for vendor information were limited to certain named vendor or involving specific services. Recently a FOIA request was received for a list of all vendors for the last five years.

Vendor as the term is used are persons who received payment from the Village authorized during BOT meeting as agenda item 2.4 Approval of Bills.

Records of this type can have information redacted if created from a prevailing wage report and HIPPA or contain SSN or information of particularly embarrassing nature.

The practice of redaction for Administrative Financial records will be extended to redact the

>addresses, telephones numbers and personal emails of Village employees, past and present;
>addresses, telephones numbers and personal emails of volunteers;
>telephone numbers of elected and appointed Village officials, past and present.

Also volunteers will be notified by the office of the Village Treasurer prior to accepting their submission of receipts for reimbursement that the information they provide to the Village may be subject to a FOIA request and provided to the extent required by the ACT.

Please be advised that this practice will continue by the Administrative Records FOIA Officer unless changed by the PAC or judicial opinion.