

Investigation Finds Problems With Corporate Debt Trust Investment, But Retiree Benefits And School District Budget Will Not Be Affected

Two years ago Whitefish Bay and four other Wisconsin school districts invested in double AA rated corporate debt as a means to generate funds to address our post retirement benefit liability. The liability resulted from promises made years ago for health insurance and other benefits following the retirement of employees. When the promises were made, the costs of the benefits were low. However, as costs of the benefits have increased, the challenge of keeping the promises has grown. The Whitefish Bay School District chose to address the challenge of the post retirement benefit liability. This investment represents one of a number of strategies the school district has employed to reduce, plan for and fund post retirement benefits.

Over the past several months, the erratic behavior of the investment and other information that came to light have raised several concerns. Specifically, the concerns have centered around whether the investment is consistent with how it was described when sold to us. The Whitefish Bay School District joined four other districts that participated in the corporate debt investment to commission an investigation of the investment to determine if the investment is consistent with what had been promised at the time of purchase. The investigation is now complete and evidence discovered points to several inconsistencies between how the investment had been described, what was promised and what the investment ultimately came to be. Consequently, the school districts involved are planning to initiate legal action against those responsible for actions related to the investment.

It is important to clarify that the investment is in a segregated trust developed to fund post retirement benefits and is not part of the school district's General Fund budget. The Trust was created to fund future retirement benefits and is not relied upon to fund the benefits of current retirees.

Following are a number of key points regarding the post retirement benefit trust investment and related implications as the school district moves forward.

1. The Whitefish Bay School District complied with all state requirements for investments by public institutions.

Discussion: When the corporate debt investment was made legal counsel reviewed all documents and the school district was assured that it complied with relevant provisions of state statutes. Further, the school district was assured that risk associated with the investment was small and well secured.

2. The corporate debt transaction will not have an impact on the school district's current budget.

Discussion: Several years ago the school district established a segregated trust to fund post retirement benefits for staff members and minimize any impact of the liability on the General Fund budget and local taxpayers. The Post Retirement Benefit Trust has been in place for more than four years and has current assets of over \$5 million. In addition, the Trust holds paid up life insurance policies on 77 people with the Trust as the beneficiary. Over the next 20-30 years the life insurance policies, annual contributions to the Trust and investments of the Trust will generate more than \$21 million, an amount generally equal to the post retirement liability faced by the school district.

3. Benefits for current and future staff retirees will remain safe.

The Post Retirement Benefit Trust was established to provide future funding for post retirement benefits. Meanwhile, the school district has funded retirement benefits out of current year budgets and will continue to do so in the near term. Further, when the decision is made to begin drawing from the Post Retirement Benefit Trust to provide retiring staff members with the benefits they have been promised, adequate funds will be available for this purpose regardless of the outcome of the corporate debt transaction litigation. Current assets of more than \$5 million and future assets totaling approximately \$21 million will satisfy future obligations, particularly with continuance of the school district's practice of making annual contributions to the Trust.

4. The school district has been working diligently to reduce the amount of post retirement benefit liability it faces in the future.

Discussion: Over the past several years employee contracts have been modified to increase the number of years of experience staff members must have to qualify for post retirement benefits. Further, the qualifying age to access post retirement benefits has been increased. Modifications have been made in post retirement health insurance provisions to limit the school district's exposure in this area. These efforts, combined with growth in the funds placed in the Post Retirement Benefit Trust, lessen the school district's future funding obligations while providing funds to meet obligations that remain.

5. The school district intends to use every legal means available to secure any funds lost as a result of the corporate debt transaction.

Discussion: The Whitefish Bay School District is joining with other school districts involved in the corporate debt transaction to pursue all legal options to recover any investment losses suffered as a result of misrepresentation of the investment vehicle and its financial stability. Evidence identified by our legal counsel presents a compelling case that information was withheld from school districts and information presented regarding the nature of the investment was inaccurate. We are very optimistic that the school districts will prevail in their action.

6. The school district issued a statement on April 8, 2008 regarding what was known about the corporate debt investment at the time. Subsequent investigation has uncovered facts that are not consistent with what was known in April.

Discussion: Since the April 8, 2008 statement was issued we have learned that the Trust does not own an AA rated, collateralized corporate debt portfolio. Our funds were used to

insure collateralized debt owned by one of the investment companies involved. While the description of the investment portfolio contained in the April 8 statement is accurate, the school districts have recently learned that they do not own the corporate debt described. Second, a portion of the funds were placed in a collateral investment account that included higher risk investments. Among the higher risk investments were some sub-prime mortgages. We were assured that we were not being sold any sub-prime debt. Third, the April 8 statement indicated that the investments would pay the total amount promised if the corporate debt obligations were held to maturity in five years. Unfortunately, since the school district does not own the corporate debt obligations described, there is no guarantee that the full amount promised in the investment will be recovered. These and other discoveries have led the school district to join in legal proceedings against those who made the investments on behalf of the school districts involved.

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