



## Legislation Details (With Text)

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## Report to Mayor and City Council

Tuesday, November 26, 2019

Workshop

### SUBJECT:

### PENSION OBLIGATION BONDS (CITY COUNCIL)

#### I. SUMMARY

At the November 5, 2019 Council Meeting, the City Council created an Ad Hoc Committee to review cost effective pension liability funding opportunities. A presentation regarding pension liability funding was made at the November 19, 2019 City Council meeting. At that time, the City Council gave direction to conduct a public workshop on Pension Obligation Bonds (POBs). At the workshop, information will be presented regarding POB issuance and potential financial benefits to the City from the issuance of POB.

#### II. RECOMMENDATION

1. Facilitate a discussion.
2. Direct staff to prepare documents necessary to approve the issuance of Pension Obligation Bonds to pay down the full amount of the UAL as of June 30, 2020, with expected reduction in the PERS payments of an estimated \$45 million over 24 years and
3. Authorize staff to use the same financing team that which was assembled for

Measure M & R Bonds.

### **III. ALTERNATIVES**

TAKE another action deemed appropriate by City Council.

### **IV. BACKGROUND**

The City has a PERS plan for its general employees, the “Miscellaneous Plan,” that includes all full-time employees and some part-time staff. As of June 30, 2018, the most recent PERS valuation date, the plan was 64.8% funded, with a net liability of approximately \$107 million expected as of June 30, 2020.

The PERS required payment schedule to fund the liability creates a significant payment obligation in the next 10 years before payments start to decline. POBs are a debt management tool that will enable the financial impact of funding the \$107 million to be minimized over the next 11 years.

If the City were to issue POBs, based on current market conditions and estimated interest rates, debt service on the new POB would be approximately \$6.9 million declining in 2038 to match the existing UAL payments in later years. Based on the analysis, the cost to fund the existing UAL is estimated to be reduced by approximately \$45 million over 24 years, with \$31 million of that budget savings realized in the first 11 years.

### **V. FISCAL IMPACT**

The expected bond issue is approximately \$108 million to pay both the UAL and expected costs of issuance. This structure has potential savings to the City of an estimated \$45 million dollars compared to the PERS payment schedule. This amount may change based on the discount rate (e.g., the implicit interest rate) used by PERS to value retirement benefits and the investment rate that PERS achieves in future years.

### **VI. EXHIBITS**

None.

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