



CITY OF POMONA

COUNCIL REPORT

November 18, 2019

To: Honorable Mayor and Members of the City Council

From: Linda Lowry, City Manager

Submitted By: Andrew Mowbray, Finance Director/City Treasurer

SUBJECT: AUTHORIZE THE CITY MANAGER TO COMMENCE VALIDATION PROCEEDINGS RELATED TO THE ISSUANCE OF PENSION OBLIGATION BONDS AND CONFIRM THE SELECTION OF FINANCING TEAM

RECOMMENDATION: It is recommended that the City Council take the following actions:

- 1) Authorize the City Manager to commence Judicial Validation Proceedings related to the Sale of Pension Obligation Bonds;
- 2) Confirm the selected financing team composed of Urban Futures, Inc. to serve as financial advisor to the City; Stradling, Yocca, Carlson & Rauth to serve as Bond & Disclosure Counsel to the City and to manage the validation proceedings; and RBC Capital Markets to serve as the lead underwriter for the Bonds.
- 3) Authorize the City Manager to execute sole source contracts to complete the intent of the Finance Team.

EXECUTIVE SUMMARY: The City Council labor subcommittee met on October 16, 2019 and November 6, 2019. At the meetings the group analyzed and evaluated funding options to address the City's rising retirement costs. Issuing pension obligation bonds (POBs) provide the greatest financial impact to the City and should be considered by the Mayor and City Council. The City must file a judicial validation with the Los Angeles County Superior Court in order to obtain legal authority to issue POBs, which is expected to take 90-120 days to approve. During that time the City Council can fully evaluate all options to address rising retirement costs.

FISCAL IMPACT: Stradling, Yocca, Carlson & Rauth will charge \$25,000 to handle the validation proceedings, plus up to \$5,000 for court filing fees and out-of-pocket expenses. The lead underwriter, financial advisor, and bond counsel are paid from the proceeds of the POBs; the financing team is not paid unless the POBs are sold, except for the costs of the judicial validation proceedings. Funds are available in the Fiscal Year 2019-20 General Fund, Water Fund, Sewer Fund, and Refuse Fund for these services.

AUTHORIZATION: Sec. 2-977.(e)(5) of the City of Pomona Purchase Code states that sole source procurements for specialty services related to fiscal and/or personnel related matters over \$15,000, but less than \$50,000, shall be approved by the City Manager.

PUBLIC NOTICING REQUIREMENTS: N/A

PREVIOUS RELATED ACTION: On February 17, 2017, the City Council approved hiring a Financing Team composed of Urban Futures (Financial Advisor), Zeigler Investment Banking (Underwriter) and Stradling, Yocca, Carlson & Rauth (Bond and Disclosure Counsel) and scheduled Refinancing of Current Bond Series AU/AV (City), AR (Pension), BA (Sewer), AY/AZ (Water) and /X/Y/AD/AH/AQ/AS/AT/AW/AX(Redevelopment/Successor Agency).

DISCUSSION:

The City's rising pension and Other Post Employee Benefits (OPEB) costs are expected to have a significant impact on the City's operating flexibility and financial position in the near future. The City is projecting an increase in salary and pension costs; consequently, the City is properly advised to take action to address its growing retirement costs.

CalPERS Annual Costs

The City's Annual pension payments are comprised of two components:

1. **Normal Costs**, which are equal to the pension benefits earned by employees in the current year. These payments are based on a percentage of payroll.
2. **Unfunded Accrued Liability (UAL)** represents payments for past due amount for the funding shortfall of benefits earned by current employees and retirees. UAL payments are fixed dollar payments not driven by current payroll function, and are actuarially calculated based on previous year actual investment earnings earned by PERS and other demographics, eg., life expectancy.

Although pension reform was passed in 2013, introducing reduced benefit formulas "PEPRA" for all new CalPERS employees (2.0% @ 62 Miscellaneous and 2.7% @ 57 Safety), cities must still address the UAL (funding shortfall) due to current "classic" employees and retirees.

As of the most recent California Public Employees' Pension System (CalPERS) actuarial valuation, June 30, 2018, the City's UAL is equal to \$211.9 million. This report will focus on measures needed to address the City's UAL.

Unfunded Accrued Liability and Amortization Bases

The City's unfunded accrued liability (UAL), is comprised a series of Amortization Bases, each base has its own repayment term or amortization schedule.

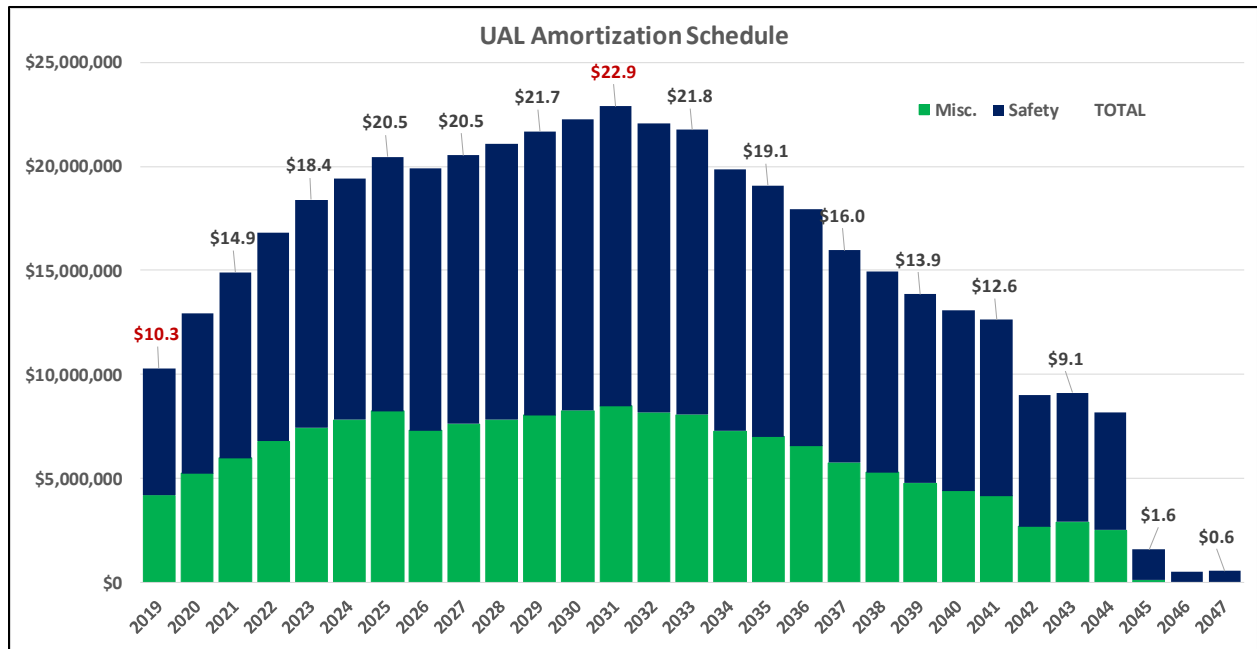
MISCELLANEOUS					SAFETY				
Year	Term	Balance 6/30/2018	Payment FY 18-19			Term	Balance 6/30/2018	Payment FY 18-19	
1	2008	5	5,724,159	957,877	1	2008	20	(298,671)	(21,058)
2	2009	6	(560,212)	(83,660)	2	2009	11	6,144,775	621,862
3	2009	11	3,890,157	393,691	3	2009	21	10,580,054	726,193
4	2010	21	6,295,803	432,131	4	2010	22	(684,738)	(45,834)
5	2011	22	(2,431,566)	(162,761)	5	2011	13	5,217,619	475,152
6	2011	13	4,816,284	438,603	6	2011	23	(804,733)	(52,615)
7	2011	23	(139,983)	(9,152)	7	2011	13	1,171,202	106,658
8	2012	24	1,177,948	75,339	8	2012	24	(30,009,216)	(1,919,313)
9	2012	24	7,810,786	499,558	9	2012	24	54,274,122	3,471,235
10	2013	25	32,025,900	1,698,125	10	2013	25	43,666,016	2,315,325
11	2014	16	12,579,683	692,063	11	2014	16	23,195,632	1,276,093
12	2014	26	(25,841,467)	(1,030,131)	12	2014	26	(28,994,508)	(1,155,823)
13	2015	27	13,060,166	352,411	13	2015	27	17,200,930	464,145
14	2016	18	4,711,787	88,913	14	2016	18	6,047,950	114,127
15	2016	28	12,966,647	179,934	15	2016	28	13,513,676	187,525
16	2017	19	4,223,477	(182,238)	16	2017	19	5,961,335	(213,117)
17	2017	29	(7,854,173)	-	17	2017	29	(8,341,225)	-
18	2018	20	1,947,419	7,059	18	2018	20	2,262,395	(2,558)
19	2018	20	7,818,516	(158,132)	19	2018	20	10,173,896	(239,850)
20	2018	30	(1,776,406)	-	20	2018	30	1,269,498	-
TOTAL			\$ 80,444,925	\$4,189,630	TOTAL			\$ 131,546,009	\$ 6,108,147
June 30, 2018 Actuarial Values					\$ 211,990,934 \$10,297,777				

The City's \$212 million UAL is comprised of 40 amortization bases:

- \$80.4 million for Miscellaneous Plan - 20 Amortization Bases
- \$131.5 million for Safety Plan - 20 Amortization Bases.

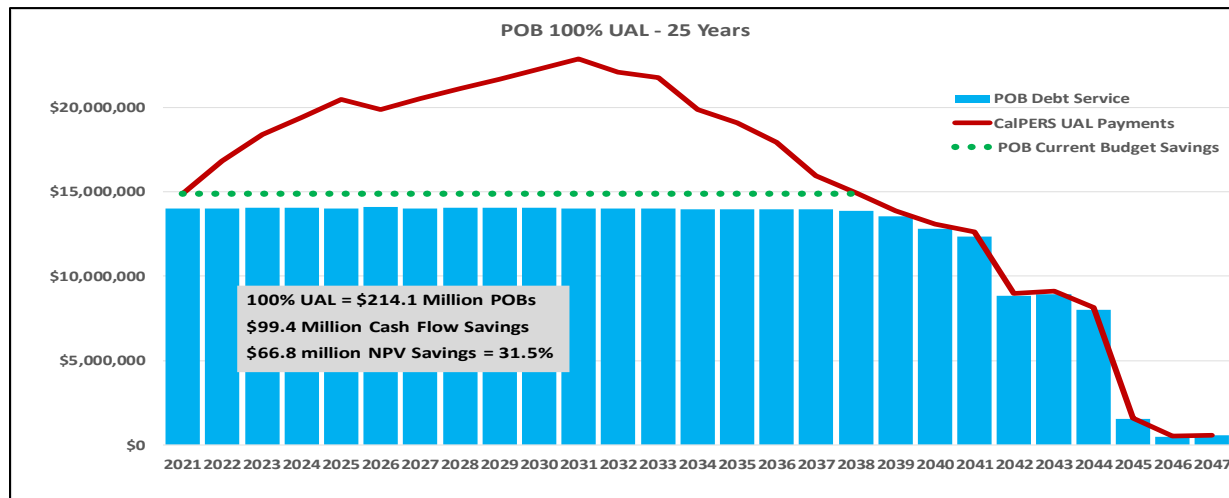
The City is required to repay its UAL via a series of fixed dollar payments. These payment schedules could be viewed effectively as "loan" payments at 7.0% interest rate with various repayment terms.

The scheduled UAL payments are growing each year and are projected to increase from \$10.3 million in FY 2018-19 to a peak of \$22.9 million in 2030-31. It is important to note that each year CalPERS adds new amortization bases, and it is possible if not likely that the City may experience a significant increase in the UAL in the event of a recession/economic downturn. The table below graphs the UAL payment schedule based on current staffing levels.



Pension Obligation Bonds (POBs)

POBs essentially refinance existing CalPERS UAL payments, which have a fixed dollar repayment schedule and operate basically like a series of loans with a 7.00% interest rate. POBs are taxable bonds that refinance the City's UAL (\$212 million) at a lower interest rate – approximately 3.50% to 4.00%, under current market conditions. As a result, the potential savings is more than 30% and can provide significant cash flow relief.



Based on financing that covers 100% of the \$212 million unfunded liability, the City would issue \$214 million in POBs, which would result in \$117 million in total cash flow savings (UAL payments) over the next 25 years. The POBs would carry an average rate of 3.75%, based on current interest rates as of November 5, 2019.

Validation Proceedings

In California, POBs do not require voter approval due to a judicially created exception to the State Constitutional debt limitation. However, in order to obtain authorization to issue POBs, the City is required to file a validation action with the Los Angeles County Superior Court. The judicial proceedings are largely an administrative matter, which will be handled by the City's Bond Counsel firm, Stradling, Yocca, Carlson & Rauth.

The validation proceedings require a 7-step sequential process, which can take approximately 90 days or more in Los Angeles County. The process and estimated timeline are outlined below:

1. City Council passes a resolution authorizing the sale of POBs
2. File Validation Action with Los Angeles County Superior Court
3. Receive Order for Publication of Summons from the Court – 1-2 weeks
4. Publication in San Gabriel Valley Examiner for 21 consecutive days
5. Waiting period to file petition – minimum of 10 days, typically 2-3 weeks
6. Clerk enters hearing for a default judgement, schedules a hearing 15 days
7. Hearing for default judgement
8. 30-day Appeal Period

Bonds can be sold after the 30-day Appeal Period has ended and the City Council approves the final issuance of bonds.

Hiring the financing team and drafting is the first step in the process, once the bond counsel has drafted a set of legal documents, then City staff will return to the City Council in coming months to adopt a resolution: 1) authorizing the City to issue Pension Obligation Bonds (POBs) to refund its CalPERS Unfunded Accrued Liability (UAL); and 2) authorizing judicial validation proceedings related the issuance of such POBs.

FINDINGS AND ALTERNATIVES

The City Manager hired Urban Futures to develop a pension model and evaluate different funding solutions to address unfunded pension and OPEB liabilities. City Staff met with the City Council labor subcommittee and conducted two workshops with to evaluate potential funding solutions to address the City's \$212 million UAL as well as its \$91 million unfunded liability for retiree medical or OPEB. Staff and Council reviewed a number of different funding solutions, including:

- Allocation Among Funds
- Use of Reserves & 1-Time Monies
- Tax-Exempt Exchange
- Synthetic Fresh Start
- Pension Obligation Bonds (POBs)

Although the other solutions provide viable alternatives, they are limited in scale and scope. POBs are the only financial solution that provides sufficient cash flow savings to significantly

reduce the impact of rising annual pension costs; and, thus provide an ability to maintain the City's financial position.

CONCLUSION

Staff recommends that the City Council confirm appointment of the financing team which has been selected per Section 2-977 of the City Code for exploration of refinancing opportunities of Pomona Bonds with the understanding that no bonds will be issued without additional City Council review and explicit approval and that bonds will not be refinanced that increase the maturity date or do not result in significant reduction in annual debt service. If the City Council approves the recommended action, staff will bring this matter back at a future date for adoption of a Resolution for the sale of the POBs.

COUNCIL PRIORITIES & GOALS: This item supports the Fiscal Year 2019-20 City Council Priorities and Goals - Priority 1 (GOAL A): Continue to insure that the City has sufficient financial reserves in accordance with the City Fund Balance Policy, including at least 17% of General Fund operational budget for General Fund Reserves.

Prepared by:

Andrew Mowbray
Finance Director/City Treasurer