



CITY OF POMONA

COUNCIL REPORT

January 6, 2020

To: Honorable Mayor and Members of the City Council

From: Linda Lowry, City Manager

Submitted By: Andrew Mowbray, Finance Director/City Treasurer

SUBJECT: Authorization of Issuance of Pension Obligation Bonds and Authorization to File Validation Action

RECOMMENDATION:

It is recommended that the City Council adopt:

RESOLUTION NO. 2020-06 – A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF POMONA, CALIFORNIA AUTHORIZING THE ISSUANCE OF BONDS NOT TO EXCEED \$220 MILLION TO REFUND CERTAIN PENSION OBLIGATIONS OF THE CITY, APPROVING THE FORM AND AUTHORIZING THE EXECUTION OF A TRUST AGREEMENT AND PURCHASE CONTRACT, AUTHORIZING JUDICIAL VALIDATION PROCEEDINGS RELATING TO THE ISSUANCE OF SUCH BONDS AND APPROVING ADDITIONAL ACTIONS RELATED THERETO

EXECUTIVE SUMMARY:

The City's financial consultant, UFI Financial Solutions, and City staff have recommended that the City issue Pension Obligation Bonds (POBs) in order to cost effectively manage the City's \$212M pension obligation, PERS unfunded liability. The Council, having authorized the POB financing team at a previous Council meeting, is now asked to approve the above stated resolution which authorizes the sale POBs in order to refinance the PERS unfunded liability, authorizes execution of a trust agreement and purchase contract, and authorizes commencement of the judicial validation required to refinance the City's PERS debt as currently estimated.

FISCAL IMPACT:

Stradling Yocca Carlson & Rauth will be paid \$25,000 to handle the validation proceedings, plus \$5,000 for filing fees and out-of-pocket costs. The lead underwriter, financial advisor, and bond and disclosure counsel are paid from the proceeds of the POBs which are estimated at \$1.24M; the financing team is not paid unless the POBs are sold, except for the costs of the judicial validation proceedings.

The issuance of POBs essentially refinances 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 to the City.

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.

PUBLIC NOTICING REQUIREMENTS: None Required

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(Redevlopment/Successor Agency).

On November 18, 2019, the City Council authorized the City Manager to commence Judicial Validation Proceedings related to the Sale of Pension Obligation Bonds; Confirmed 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 and Ramirez & Co., as the underwriters; and authorized the City Manager to execute sole source contracts to complete the intent of the Finance Team.

On December 16, 2019, the City Council continued consideration of this item to January 6, 2019, so that concerns about the financing process and its comparability to actions taken by other cities could be reviewed. Research was completed and City staff still supports the recommendation to proceed.

DISCUSSION:

In order to authorize the sale of the bonds, staff must provide a not-to-exceed amount for the bonds. As of the June 30, 2018 actuarial valuation, the City had a total UAL of \$212 million, comprised of approximately \$80.4 million for Miscellaneous employees and approximately \$131.5 million for Safety employees. UFI and City staff will continue to work together to evaluate the most efficient and beneficial approach to refunding all or a portion of the City's UAL through issuance of the POBs.

On November 18, 2019 the City Council retained UFI Financial Solutions as municipal advisor, Stradling Yocca Carlson & Rauth to serve as bond counsel, disclosure counsel and litigation counsel, and RBC Capital Markets and Ramirez & Co. as underwriters in connection with the proposed issuance of Pension Obligation Bonds (the "POBs"). The City Council has determined

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to issue POBs as a measure to address the City's \$212 million unfunded accrued liability ("UAL") for employee pensions provided through the California Public Employees' Pension System ("CalPERS").

In California, POBs have generally been designed to be valid without voter approval, under a judicially created exception to the State Constitutional debt limitation. In order to obtain authorization to issue POBs, the City is required to file a validation action with the Los Angeles County Superior Court. Unless challenged, the judicial validation proceedings are largely an administrative matter, which will be handled by the City's Bond Counsel firm, Stradling, Yocca, Carlson & Rauth.

Before the validation action is filed, the City must first 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.

The second step required in the issuance of POBs is to obtain a judicial validation. California public entities do not have specific authority to issue POBs. The California Constitution requires municipalities to obtain a two-third approval of the electorate in order to issue debt obligations payable from the general fund of the entity. However, the local agency refunding law authorizes all local public entities in California to refund prior bonds or "other evidence of indebtedness."

Obligations to the CalPERS pension system are treated as a "debenture"; and therefore, can be refunded by Pension Obligation Bonds under the local agency refunding law.

Validation Proceedings

The validation proceedings require a 7-step sequential process, which can takes 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 pension obligation bonds**.
2. File Validation Action with LA County Superior Court
3. Receive Order for Publication of Summons from the Court – 1-2 weeks
4. Publication in the Inland Valley Daily Bulletin for 21 consecutive days
5. Waiting period to file petition – minimum of 10 days, typically 2-3 weeks for LA County
6. Clerk enters hearing for a default judgement, schedules a hearing 15 days
7. Hearing for default judgement
8. 30-day Appeal Period

**Legal documents must be in substantially final form and the City must determine a not-to-exceed par value (\$220 million).

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

Approval of Legal Documents—Trust Agreement and Bond Purchase Agreement

The POBs will be sold by the City to RBC Capital Markets and Ramirez & Co., as Underwriters of the POBs, pursuant to a Bond Purchase Agreement in substantially the form submitted to the City Council herewith. Upon the pricing of the POBs, the Bond Purchase Agreement will be finalized to reflect the terms and conditions upon which the POBs will be sold. The POBs will be issued pursuant to a Trust Agreement to be entered into between the City and Zions Bancorporation, National Association, as Trustee, in substantially the form submitted to the City Council herewith. The Trust Agreement will be finalized following the pricing of the POBs and execution of the Bond Purchase Agreement, to reflect the final terms of the POBs.

SB 450 Good Faith Estimates

In accordance with California Government Code Section 5852.1, good faith estimates with respect to the POBs are set forth in an attachment to this Staff Report.

Preliminary Official Statement

Assuming the City Council authorizes issuance of the POBs, the financing team and City staff will work together concurrently with the prosecution of the validation proceeding to prepare a Preliminary Official Statement (“POS”) for the POBs. The POS is the offering document with respect to the POBs and, if the POBs will be sold by public offering, the POS must contain all material information to enable investors to determine whether to purchase POBs. If the POBs will be sold by public offering, the POS will likely be presented for approval by the City Council sometime in February or March, 2020. If City Council approval is given at that time, the POBs could be issued a few weeks afterwards.

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

ATTACHMENT(S):

Attachment No. 1 – Resolution No. 2020-06

Attachment No. 2 – Good Faith Estimates

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Attachment No. 3 – Form of Trust Agreement

Attachment No. 4 – Form of the Bond Purchase Agreement

Attachment No. 5 – Bond Counsel Agreement