

CITY OF SAN LEANDRO
MEMORANDUM

DATE: October 21, 2011

TO: Finance Committee

FROM: Lianne Marshall, Interim City Manager

BY: Jim O'Leary, Interim Finance Director

SUBJECT: Continued Discussion Regarding Plan for Refinancing CalPERS Public Safety Retirement Plan Side Fund

RECOMMENDATION

Staff recommends that the Finance Committee continue discussion on refinancing the CalPERS Public Safety Retirement Plan Side Fund and review and approve directing the financing team to proceed with factoring in that the Side Fund will be paid-down with a loan from the City Water Pollution Control Plant.

BACKGROUND

Effective June 30, 2004, CalPERS created risk pools by pooling assets and liabilities across groups of employers to produce large risk sharing pools intended to dramatically reduce or eliminate large fluctuations in employers' contribution rates caused by unexpected demographic events. CalPERS combined the retirement plans for all public agencies with less than 100 active members to reduce the volatility of employer contribution rates. CalPERS also created for each member a side fund to amortize each agency's June 30, 2003 unfunded liability over a fixed term at a fixed interest rate. A negative side fund, like the San Leandro's Safety Plan causes the required employer contribution rate to be increased by the amortization of the side fund.

Side funds are retired over a fixed term with a fixed amortization schedule based on CalPERS actuarial earnings assumption rate (7.75%). The City's plan has the side fund scheduled to be fully amortized by June 30, 2024. The City's actuary has estimated the outstanding side fund balance at \$24.4 million as of June 30, 2011.

For pension obligation bonds to provide the City cost savings, the interest rate, including the cost of issuance, must be significantly less than the interest rate the CalPERS charges to amortize the side fund. These bonds are not tax exempt under Federal regulations. Therefore, the taxable bonds must be placed at a rate significantly less than the 7.75% charged by CalPERS to realize savings.

The 13-year amortization period for the City's side fund frames the savings opportunity being considered. U.S. Treasury yields have been recently volatile, yet continue to be low because of

the ongoing national and global economic turmoil and uncertainty. In just the past six weeks, rates have risen about 0.50%. The City's underwriter estimates that the City's pension obligation bonds could be sold at an all-in interest rate, including the cost of issuance, of around 5.17%. This results in a potential reduction of over 2.6% in the interest rate paid by the City, a potential General Fund savings of approximately \$285,000 annually through 2024.

DISCUSSION

The following information is provided to the Finance Committee for continuation of discussion on the refinancing the Side Fund using Pension Obligation Bonds:

- October 4, 2011 Court Order to Publish Summons. The City received Judge Keller's order to publish the Summons Citation Judicial on October 4, 2011. The order is published in the Hayward Daily Review beginning on October 7, 2011 and is posted at City Hall for three successive weeks. (*Attachment 1*)
- Updated Financing Schedule. The original Financing Schedule called for this to occur between October 7 and November 7. This action permits revision of the schedule to eliminate date ranges for actions to occur. For example, the end of the 30-day Validation appeal period is anticipated on January 11 (the original schedule showed between January 12 and February 9). (*Attachment 2*)
- Reaffirmation of the City Moody's Credit Rating. The rating committee for Moody's reaffirmed the City's current rating on September 9, 2011 (the same day as the last Finance Committee meeting). The attached, from the Moody's website, confirms the action by Moody's to maintain the existing A1 rating for the City. Moody's rating scale is also attached. (*Attachment 3*)
- Provide Direction on the Safety Fund Pay-Down by Lending Wastewater Fund Reserves. In addition to issuing the pension obligation bonds, Finance and Public Works staff has analyzed utilizing a loan from the Wastewater Pollution Control Plant Fund reserves to partially cover the side fund refinancing. The amount of the bond financing could be reduced by up to \$6,000,000. A loan in this amount from the Wastewater Fund potentially could be made at a lower rate than dictated by the bond market and yet higher than the rate reflected by the City's current investment portfolio return. Utilizing Wastewater Funds to pay down the side fund obligation will increase savings to the cities general fund by approximately \$50,000. Ultimately, the Wastewater rate payers also would benefit from this approach. (*Attachment 4*)

Staff recommends that the pension obligation bond amount to \$19,000,000, with the remainder of the obligation pay-down come from the Water Pollution Plant Fund reserves. The Fund reserve currently is at \$17,500,000. The \$6,000,000 loan from the Fund does not adversely impact either the Water Pollution Control Plant Rehabilitation Project or the on-going demand for pay-as-you go capital improvement projects. Long term rate projections reflect future rate adjustment to be 4% or less annually during the amortization term of the loan.

A combination of refunding the pension side fund through the pension obligation bond and a loan from the Wastewater Fund may result in the overall greatest benefit and savings to the General Fund.

CONCLUSION

Staff recommends that the Finance Committee continue discussion on refinancing the CalPERS Public Safety Retirement Plan Side Fund and review and approve directing the financing team to proceed with factoring in a CalPERS Side Fund paid-down using a loan from the City's Water Pollution Control Plant.

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ENDORSED
 FILED
 ALAMEDA COUNTY

SEP 26 2011

CLERK OF THE SUPERIOR COURT
 By DEBRA FURTADO
 Deputy

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18 Attorneys for Plaintiff

19 IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA
 20 IN AND FOR THE COUNTY OF ALAMEDA
 21 UNLIMITED CIVIL JURISDICTION

HC11597018

22 CITY OF SAN LEANDRO,

) Case No. ~~HC11506018~~ D

23 Plaintiff,

) Assigned for all

24 vs.

) Purposes to:

) Judge _____

) Department _____

25 ALL PERSONS INTERESTED IN THE)
 26 MATTER OF THE ISSUANCE AND SALE OF)
 27 BONDS FOR THE PURPOSE OF REFUNDING)
 28 CERTAIN OBLIGATIONS OWED BY THE)
 CITY OF SAN LEANDRO TO THE)
 CALIFORNIA PUBLIC EMPLOYEES')
 RETIREMENT SYSTEM UNDER THE PUBLIC)
 EMPLOYEES' RETIREMENT LAW, AND ALL)
 PROCEEDINGS LEADING THERETO,)
 INCLUDING THE ADOPTION OF A)
 RESOLUTION AUTHORIZING THE)
 ISSUANCE AND SALE OF SUCH BONDS,)

SUMMONS

CITATION JUDICIAL

(§860 et seq. of the
 Code of Civil
 Procedure)

[Fee Exemption:
 Govt. Code § 6103]

Defendants.

1 NOTICE! YOU HAVE BEEN SUED. THE COURT MAY DECIDE AGAINST
2 YOU WITHOUT YOUR BEING HEARD UNLESS YOU RESPOND NOT LATER THAN
3 THE 9th DAY OF NOVEMBER, 2011, WHICH IS AT LEAST TEN (10) DAYS
4 AFTER COMPLETION OF PUBLICATION OF THIS SUMMONS. READ THE
5 INFORMATION BELOW.

6 AVISO! USTED HA SIDO DEMANDADO. EL TRIBUNAL PUEDE DECIDIR
7 CONTRA UD. SIN AUDIENCIA A MENOS QUE UD. RESPONDA NO MAS TARDE
8 DE EL 9 DE NOVIEMBRE, 2011, QUE ES DIEZ (10) DIAS DESPUES DE
9 TERMINACION DE PUBLICACION DE ESTA CITACION. LEA LA INFORMACION
10 QUE SIGUE.

11 TO ALL PERSONS INTERESTED IN THE MATTER OF THE ISSUANCE AND
12 SALE OF BONDS FOR THE PURPOSE OF REFUNDING CERTAIN OBLIGATIONS
13 OWED BY THE CITY OF SAN LEANDRO TO THE CALIFORNIA PUBLIC
14 EMPLOYEES' RETIREMENT SYSTEM UNDER THE PUBLIC EMPLOYEES'
15 RETIREMENT LAW, AND ALL PROCEEDINGS LEADING THERETO, INCLUDING
16 THE ADOPTION OF A RESOLUTION AUTHORIZING THE ISSUANCE AND SALE
17 OF SUCH BONDS.

18 PLEASE TAKE NOTICE that a complaint has been filed by
19 plaintiff against you pursuant to §860 *et seq.* of the California
20 Code of Civil Procedure and §53589.5 and §53511 of the California
21 Government Code for the purpose of validating the proposed
22 issuance of Bonds and related contracts, the proceeds of which
23 will be used for the purpose of refunding and discharging the
24 City's unfunded accrued actuarial liability to the California
25 Public Employees' Retirement System, and to validate other
26 related matters. If you wish to contest the legality or validity
27 of this lawsuit you must appear and answer said complaint by
28

1 filing a written pleading in response to said complaint not later
2 than the 9th day of November, 2011, which date is at least 10
3 days after completion of publication of this summons. Your
4 pleading must be in the form required by the California Rules of
5 Court. Your original pleading must be filed in this Court with
6 proper filing fees and proof that a copy thereof was served on
7 Plaintiff's attorneys.
8

9 Unless you do so, your default will be entered upon
10 application by the plaintiff, the plaintiff may apply to the
11 court for the relief demanded in the complaint.

12 PERSONS WHO CONTEST THE LEGALITY OR VALIDITY OF THE MATTER
13 WILL NOT BE SUBJECT TO PUNITIVE ACTION, SUCH AS WAGE GARNISHMENT
14 OR SEIZURE OF THEIR REAL OR PERSONAL PROPERTY.

15 YOU MAY SEEK THE ADVICE OF AN ATTORNEY IN ANY MATTER
16 CONNECTED WITH THE COMPLAINT OR THIS SUMMONS. SUCH ATTORNEY
17 SHOULD BE CONSULTED PROMPTLY SO THAT YOUR PLEADING MAY BE FILED
18 OR ENTERED WITHIN THE TIME REQUIRED BY THIS SUMMONS.
19

20 SI USTED DESEA SOLICITAR EL CONSEJO DE UN ABOGADO EN ESTE
21 ASUNTO, DEBERIA HACERLO IMEDIATAMENTE, DE ESTA MANERA, SU
22 REPUESTA ESCRITA, SI HAY ALGUNA, PUEDE SER REGISTRADA A TIEMPO.

23 The name and address of the Court is (El nombre y direccion
24 del Superior Tribunal es):
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Superior Court of the State of California
In and for the County of Alameda
Hayward Hall of Justice
24405 Amador Street
Hayward, California 94544

The names and addresses of Plaintiffs' attorneys are (Los nombres y direcciones del abogado del demandante son):

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DATED SEP 26 2011

By DEBRA FURTADO
Clerk
(Actuario)



CITY OF SAN LEANDRO
Pension Obligation Bonds, Series 2012
(Safety Plan Side Fund Refinancing)

August 2011							September 2011							October 2011							November 2011							
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	
	1	2	3	4	5	6						1	2	3							1							1
7	8	9	10	11	12	13	4	5	6	7	8	9	10	2	3	4	5	6	7	8	6	7	8	9	10	11	12	
14	15	16	17	18	19	20	11	12	13	14	15	16	17	9	10	11	12	13	14	15	13	14	15	16	17	18	19	
21	22	23	24	25	26	27	18	19	20	21	22	23	24	16	17	18	19	20	21	22	20	21	22	23	24	25	26	
28	29	30	31	25	26	27	28	29	30	23	24	25	26	27	28	29	27	28	29	30								
														30	31													

December 2011							January 2012							February 2012							March 2012									
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S			
				1	2	3	1	2	3	4	5	6	7					1	2	3	4							1	2	3
4	5	6	7	8	9	10	8	9	10	11	12	13	14	5	6	7	8	9	10	11	4	5	6	7	8	9	10			
11	12	13	14	15	16	17	15	16	17	18	19	20	21	12	13	14	15	16	17	18	11	12	13	14	15	16	17			
18	19	20	21	22	23	24	22	23	24	25	26	27	28	19	20	21	22	23	24	25	18	19	20	21	22	23	24			
25	26	27	28	29	30	31	29	30	31	26	27	28	29	25	26	27	28	29	30	31										

Holiday - Most Markets Closed

FINANCING SCHEDULE
as of 10/6/11

Date	Event	Responsible Party
Thurs., Aug. 11	<ul style="list-style-type: none"> Circulate first draft of bond Indenture and Resolution authorizing filing of validation action 	BC
Thurs., Sept. 1	<ul style="list-style-type: none"> Working group meeting to review Indenture and Resolution 	All
Tues., Sept. 6	<ul style="list-style-type: none"> Revised draft of Indenture and Resolution circulated Agenda deadline for September 9th Finance Committee meeting – Resolution and Indenture delivered to City 	BC
Mon., Sept. 5	<i>LABOR DAY HOLIDAY</i>	
Fri., Sept. 9	<ul style="list-style-type: none"> Finance Committee approval of Indenture and Resolution authorizing filing of validation action 8:15 a.m., Sister Cities Gallery, City Hall 	City, FA
Mon., Sept. 12	<ul style="list-style-type: none"> Agenda deadline for September 19th City Council meeting 	
Mon., Sept. 19	<ul style="list-style-type: none"> City Council approval of Indenture and Resolution authorizing filing of validation action 7:00 p.m., City Council Chambers 	City, FA
Fri., Sept. 23	<ul style="list-style-type: none"> File Validation Complaint 	BC
Tues., Oct. 4	<ul style="list-style-type: none"> Receive Order to Publish from court 	BC
Fri., Oct. 7	<ul style="list-style-type: none"> Distribute first draft of Preliminary Official Statement (“POS”) 	BC



Attachment 2
CITY OF SAN LEANDRO
 Pension Obligation Bonds, Series 2012
 (Safety Plan Side Fund Refinancing)

Date	Event	Responsible Party
Fri., Oct. 7	<ul style="list-style-type: none"> Begin 21-day publication period 	
Week of Oct. 10	<ul style="list-style-type: none"> Circulate first draft of credit presentation 	FA
Week of Oct. 17	<ul style="list-style-type: none"> Conference call to discuss bond documents, POS, and credit presentation Issue Printer RFP 	All FA
Week of Oct. 24	<ul style="list-style-type: none"> Distribute revised bond documents and POS 	BC, UC
Fri., Oct. 28	<ul style="list-style-type: none"> End of 21-day Publication Period 	
Week of Oct. 31	<ul style="list-style-type: none"> Circulate revised draft of credit presentation Conference call to review credit presentation and documents 	FA, UW All
Week of Nov. 7	<ul style="list-style-type: none"> Distribute revised drafts of bond documents and POS Finalize credit presentation Submit credit packages to Rating Agencies (and Bond Insurer, as needed) 	BC, UC FA FA
Weds., Nov. 9	<ul style="list-style-type: none"> End of 10-day Answer Period 	
Thurs., Nov. 10	<ul style="list-style-type: none"> File Request for Judgment 	BC
Week of Nov. 14	<ul style="list-style-type: none"> Rating Agency meetings/conference calls Select Printer 	City, FA, UW, BC City, FA
Weds., Nov. 16	<ul style="list-style-type: none"> Submit bond documents and POS to City Clerk for December 5th City Council meeting 	BC, UC
Fri., Dec. 2	<ul style="list-style-type: none"> Receive Ratings and Bond Insurance proposal, if any 	FA
Mon., Dec. 5	<ul style="list-style-type: none"> City Council approval of bond documents and POS <i>7:00 p.m., City Council Chambers</i> 	All
Mon., Dec. 12	<ul style="list-style-type: none"> Receive Judgment of Validation 	BC
Weds., Jan. 11	<ul style="list-style-type: none"> End of 30-day Validation appeal period 	
Thurs., Jan. 12	<ul style="list-style-type: none"> Print and mail/post POS 	BC, PR



Attachment 2
CITY OF SAN LEANDRO
 Pension Obligation Bonds, Series 2012
 (Safety Plan Side Fund Refinancing)

Date	Event	Responsible Party
Week of Jan. 23	• Pre-pricing	City, FA, UW
	• Pricing	City, FA, UW
Week of Feb. 6	• Preclosing	All
	• Close bonds – delivery of funds	All

Party	Working Group Participant	Abbreviation
Issuer	City of San Leandro	City
City Attorney	Meyers Nave	CA
Financial Advisor	Public Financial Management	FA
Bond Counsel	Jones Hall	BC
Underwriter	Wedbush	UW
Underwriter's Counsel	Lofton & Jennings	UC
Trustee	US Bank	T
Printer		P

San Leandro (City of) CA

Moody's Org ID: 600028666 Digit Cusip: 798424, 798432, 798446, 798448, 79845H

Senior-most Tax Backed Rating: Aa2 Market Segment: U.S. Public Finance
 Senior-most Revenue Backed Rating: Aa2 Sector: HOUSING, MUNICIPALITY
 Long Term Issuer Rating: Aa2 State: California
 Outlook: No Outlook County: Alameda County, CA

Research | Ratings | Related Organizations | View MFRA Data
 Safe Data | Additional Issuance Export Results: 7

Sale Description	Sale Date	Sale Amount (\$US Mil)	Underlying		Enhanced		Insured	
			Rating	Watch Status	Rating	Watch Status	Rating	Watch Status
2007 Certificates of Participation (Library and Fire Stations Refunding Project)	02 May 2007	23.43	A1	Not on Watch			A1	Not on Watch
2003 Certificates Of Participation (City Hall Refunding Project)	07 May 2003	12.55					WR	Not on Watch
2001 Certificates of Participation (Joint Project Area Financing)	29 Nov 2001	5.02					Baa1	Not on Watch
Certificates of Participation (Library & Fire Stations Financing)	10 Nov 1999	26.00	WR	Not on Watch			WR	Not on Watch

Sale-level Detail: 2007 Certificates of Participation (Library and Fire Stations Refunding Project) Export

Sale ID: 620183900	Issuer: San Leandro Public Financing Authority, CA
Security: Certificates of Participation	Obligor: San Leandro (City of) CA
Primary Purpose: RECREATION	Analyst: Darl Barzel
Support: Yes	Releasing Office: New York - (Moody's Investors Service, Inc.)
Sale Type: PF BOND	

Sale-Level History Rating Detail

Rating date	Rating	Rating Type	Action
09 Sep 2011	A1	Underlying	RATING AFFIRMATION
16 Apr 2010	A1	Underlying	Change In Scale
16 Apr 2010	A1	Insured	Change In Scale
25 Jun 2009	A2	Insured	RATING AFFIRMATION
18 Feb 2009	A2	Insured	RATING AFFIRMATION
07 Nov 2008	A2	Insured	RATING AFFIRMATION
18 Sep 2008	A2	Insured	RATING AFFIRMATION
19 Jun 2008	A2	Insured	DOWNGRADED
04 Jun 2008	Aaa	Insured	Possible Downgrade
28 Feb 2008	Aaa	Insured	CONFIRMED
17 Jan 2008	Aaa	Insured	Possible Downgrade
14 May 2007	Aaa	Insured	NEW
16 Apr 2007	A2	Underlying	NEW

Maturity Detail

CUSIP	Maturity Date	Underlying		Enhanced		Insured		Enhancement/Insurance Provider
		Rating	Rating Date	Rating	Rating Date	Rating	Rating Date	
798432DD9	01 Nov 2007	WR	09 Sep 2011			WR	01 Nov 2007	Natl Pub Fin Guar Corp(Reinsuring)-MBIA Corp
798432DE7	01 Nov 2008	WR	09 Sep 2011			WR	01 Nov 2008	Natl Pub Fin Guar Corp(Reinsuring)-MBIA Corp
798432DF4	01 Nov 2009	WR	09 Sep 2011			WR	01 Nov 2009	Natl Pub Fin Guar Corp(Reinsuring)-MBIA Corp
798432DG2	01 Nov 2010	WR	09 Sep 2011			WR	01 Nov 2010	Natl Pub Fin Guar Corp(Reinsuring)-MBIA Corp
798432DH0	01 Nov 2011	A1	09 Sep 2011			A1	16 Apr 2010	Natl Pub Fin Guar Corp(Reinsuring)-MBIA Corp
798432DJ6	01 Nov 2012	A1	09 Sep 2011			A1	16 Apr 2010	Natl Pub Fin Guar Corp(Reinsuring)-MBIA Corp
798432DK3	01 Nov 2013	A1	09 Sep 2011			A1	16 Apr 2010	Natl Pub Fin Guar Corp(Reinsuring)-MBIA Corp
798432DL1	01 Nov 2014	A1	09 Sep 2011			A1	16 Apr 2010	Natl Pub Fin Guar Corp(Reinsuring)-MBIA Corp
798432DM9	01 Nov 2016	A1	09 Sep 2011			A1	16 Apr 2010	Natl Pub Fin Guar Corp(Reinsuring)-MBIA Corp
798432DN7	01 Nov 2018	A1	09 Sep 2011			A1	16 Apr 2010	Natl Pub Fin Guar Corp(Reinsuring)-MBIA Corp
798432DP2	01 Nov 2017	A1	09 Sep 2011			A1	16 Apr 2010	Natl Pub Fin Guar Corp(Reinsuring)-MBIA Corp
798432DQ0	01 Nov 2018	A1	09 Sep 2011			A1	16 Apr 2010	Natl Pub Fin Guar Corp(Reinsuring)-MBIA Corp
798432DR6	01 Nov 2019	A1	09 Sep 2011			A1	16 Apr 2010	Natl Pub Fin Guar Corp(Reinsuring)-MBIA Corp
798432DS6	01 Nov 2020	A1	09 Sep 2011			A1	16 Apr 2010	Natl Pub Fin Guar Corp(Reinsuring)-MBIA Corp
798432DT4	01 Nov 2021	A1	09 Sep 2011			A1	16 Apr 2010	Natl Pub Fin Guar Corp(Reinsuring)-MBIA Corp
798432DU1	01 Nov 2022	A1	09 Sep 2011			A1	16 Apr 2010	Natl Pub Fin Guar Corp(Reinsuring)-MBIA Corp

General Credit Rating Services

Long-Term Obligation Ratings

Moody's long-term ratings are opinions of the relative credit risk of financial obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. Such ratings use Moody's Global Scale and reflect both the likelihood of default and any financial loss suffered in the event of default.

Aaa	Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.
Aa	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
A	Obligations rated A are considered upper-medium grade and are subject to low credit risk.
Baa	Obligations rated Baa are subject to moderate credit risk. They are considered medium grade and as such may possess certain speculative characteristics.
Ba	Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.
B	Obligations rated B are considered speculative and are subject to high credit risk.
Caa	Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.
Ca	Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
C	Obligations rated C are the lowest rated class and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.