



## Legislation Details (With Text)

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**Title:** Staff Report for Resolution Authorizing the Sale of Pension Obligation Bonds to Refinance Outstanding Side Fund Obligations of the City to the California Public Employees' Retirement System (CalPERS), Approving the Final Form of Related Financing Documents, and Approving Official Actions (authorizes the sale of bonds to pay off the side fund debt to CalPERS and create new debt at a lower interest rate)

**Sponsors:** James O'Leary

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**Attachments:** 1. Bond Purchase Agreement, 2. Indenture of Trust, 3. San Leandro POB POS (Fin Comm 11 29 11)

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Staff Report for Resolution Authorizing the Sale of Pension Obligation Bonds to Refinance Outstanding Side Fund Obligations of the City to the California Public Employees' Retirement System (CalPERS), Approving the Final Form of Related Financing Documents, and Approving Official Actions (authorizes the sale of bonds to pay off the side fund debt to CalPERS and create new debt at a lower interest rate)

### RECOMMENDATION

Staff recommends City Council approval of the resolution authorizing issuance of pension obligation bonds, approving the final form of the related financing documents, and approving official actions to refinance the outstanding Public Safety side fund obligation of the City. The bond transaction would refinance the existing CalPERS side fund obligation over the same term in the same total amount, plus issuance costs (less \$6,000,000 to be borrowed from the Water Pollution Plant Fund for the initial pay-down of the side fund obligation) and take advantage of lower bond interest rates. Financing documents include the Indenture of Trust between the City and U.S. Bank National Association, Bond Purchase Agreement, and the Official Statement and Continuing Disclosure Certificate.

### BACKGROUND

The City's Safety Plan in the CalPERS retirement system is a cost-sharing multiple-employer plan with pooling (cost-sharing) arrangements for participating employers. All risks, rewards, and costs, including benefit costs, are shared and are not attributable to the individual employers. A single valuation covers plan members and the same contribution rate applies to all employers. A menu of benefit provisions and other requirements are established by state statute within the Public Employees' Retirement Law. The City has contractually selected optional benefit provisions from the benefit menu and adopted these benefits by City Council resolution.

At the time the City was required to join the Safety Risk Pool in 2004, a side fund was created to account for the difference between the funded status of the pool and the funded status of the previous City Plan. Today, the City's total outstanding CalPERS pension obligation and the required annual employer contribution is determined by the City's share of the Safety Risk Pool and separate amortization of the City's side fund. The proposed transaction would refinance the existing side fund obligation to take advantage of low bond market rates. It would not change benefits owed to existing or prior employees.

## **DISCUSSION**

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 eliminate or at least reduce 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 San Leandro's Public Safety's, causes the required employer contribution rate to be increased by the amortization of the side fund.

The safety side fund is distinct from the City's other CalPERS plans and liabilities. 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, not to exceed the amount of \$19,000,000, 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 yield continues to fluctuate weekly because of the ongoing national and global economic turmoil and uncertainty. In just the past three months, rates have moved from 4.6% to 5.5% to 5.1%. The City's actuary and underwriter have estimated that the City's pension obligation bonds, together with the Water Pollution Control Plant Fund loan, will save the General Fund between \$250,000 and \$500,000 annually.

The resolution approves the financing documents, including the Indenture of Trust between the City and U.S. Bank National Association, Bond Purchase Agreement, and the Official Statement and Continuing Disclosure Certificate. These documents are presented in draft form as reviews and updating continue by the Financing Team, which include the City Attorney, Bond Counsel, Financial Advisor, Underwriter, Actuary, and Finance staff.

### **Indenture of Trust**

The bonds will be issued under an indenture of trust between the City and the trustee, U.S. Bank. The final form of the indenture of trust will be approved by the City Council following the conclusion of the validation proceedings. The indenture of trust provides for the authorization and terms of the bonds, the deposit and application of the bond proceeds, the security of the bonds and investment of the proceeds, the role of the trustee, and other provisions.

### **Bond Purchase Agreement**

Under the terms and conditions and upon the basis of the representations set forth in the Purchase Agreement, the Underwriter agrees to purchase from the City all of the principal amount of the City of San Leandro 2012 Taxable Pension Obligation Bonds. The bonds shall be dated the date of delivery and shall have the maturities, bear interest at the rates per annum, have the yields, and be subject to mandatory sinking fund redemption, all as set forth in the agreement. The purchase price for the bonds shall be calculated as the principal amount of the bonds, less an underwriters' discount plus (or minus) and a net original issue premium (or discount). The bonds shall be as described in, secured under and issued pursuant to the Indenture and Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code.

### **Official Statement and Continuing Disclosure Certificate**

The purpose of the Official Statement is to provide information concerning the issuance of the City of San Leandro 2012

Taxable Pension Obligation Bonds. The Official Statement has been prepared in connection with the sales of the bonds but does not constitute an offer to sell or the solicitation of an offer to buy. The Official Statement fully describes the pension obligation bonds including the purpose, authority for issuance, security, plan for financing, and the financial condition of the City. Statements from the City's CAFR are significant in the disclosure.

## **CONCLUSION**

Staff and the Finance Committee recommend City Council approval of the resolution authorizing issuance of pension obligation bonds, approving the final form of the related financing documents, and approving official actions to refinance the outstanding Public Safety side fund obligations of the City. The bond transaction would refund the existing CalPERS side fund obligation, not to exceed \$20,000,000, over the same term in the same amount plus issuance costs and take advantage of lower bond interest rates.

### **Committee Review and Actions**

- The September 9, 2011 Finance Committee Meeting highlights were submitted and approved on September 19, 2011 by City Council authorizing Issuance of Pension Obligation Bonds and Filing the Required Validation Actions to Refund the Outstanding Side Fund Obligations of the City to the California Public Employees Retirement System.
- The October 21, 2011 Finance Committee highlights were submitted and approved on November 7, 2011 by City Council directing an inter-fund loan and authorized staff the expenditure of \$6,000,000 to pay-down the CalPERS Public Safety Side Fund obligation.
- On December 2, 2011 Finance Committee recommended that staff take report to City Council for approval.

### **Fiscal Impacts**

The City's actuary and underwriter have estimated that the City's pension obligation bonds, together with the Water Pollution Control Plant Fund loan, will save the General Fund between \$250,000 and \$500,000 annually.

### **Budget Authority**

The bond principal and interest will be paid from the General Fund debt service account. A budget will be established in 2012-13 for the initial debt service payment.

## **ATTACHMENTS**

- Indenture of Trust
- Bond Purchase Agreement
- City of San Leandro 2012 Taxable Pension Obligation Bonds

**PREPARED BY:** James H. O'Leary, Interim Finance Director, Finance Department