



**STAFF REPORT**  
**10/14/2019**

**TO:** Honorable Mayor and City Council Members

**FROM:** William Pattison, City Manager

**SUBJECT:** Adopt Resolution 2020-64 approving the form and authorizing the execution of an official statement and continuing disclosure agreement relating to the issuance of pension obligation bonds and approving additional actions related thereto

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**STAFF RECOMMENDATION:**

Staff recommends that the City Council take the following actions:

- 1) Adopt City Council Resolution entitled, “Resolution of the City Council of the City of Coachella Approving the Form and Authorizing the Execution of an Official Statement and Continuing Disclosure Agreement Relating to the Issuance of Pension Obligation Bonds and Approving Additional Actions Related Thereto”; and
- 2) Direct Staff to return to Council with a written policy relating to managing of future pension and OPEB liabilities.

**BACKGROUND:**

The City has taken many actions throughout the years to manage pension costs, including implementing the PEPRA benefit tiers (2013) and having the employees contribute more towards the benefit through negotiations. Since then, there have been many discussions on the challenges of managing pension costs, as the unfunded accrued liability (“UAL”) has increased through various circumstances primarily outside of the City’s control. Below is a summary of actions recently taken by City Council related to the issuance of Pension Obligation Bonds (the “POBs”):

On April 27, 2020, the City Manager authorized UFI to begin work on the pension model outlining the City’s options to fund its current and future pension liabilities.

On May 20, 2020, UFI’s pension model was presented to staff and direction was given to prepare POB validation documents for the City Council consideration.

On June 24, 2020, the City Council authorized the issuance of POBs in a not-to-exceed amount of \$18.2 million, approved documents in connection with issuing the POBs (Trust

Agreement, Bond Purchase Agreement and Good Faith Estimates), and authorized the commencement of judicial validation proceedings related to such issuance.

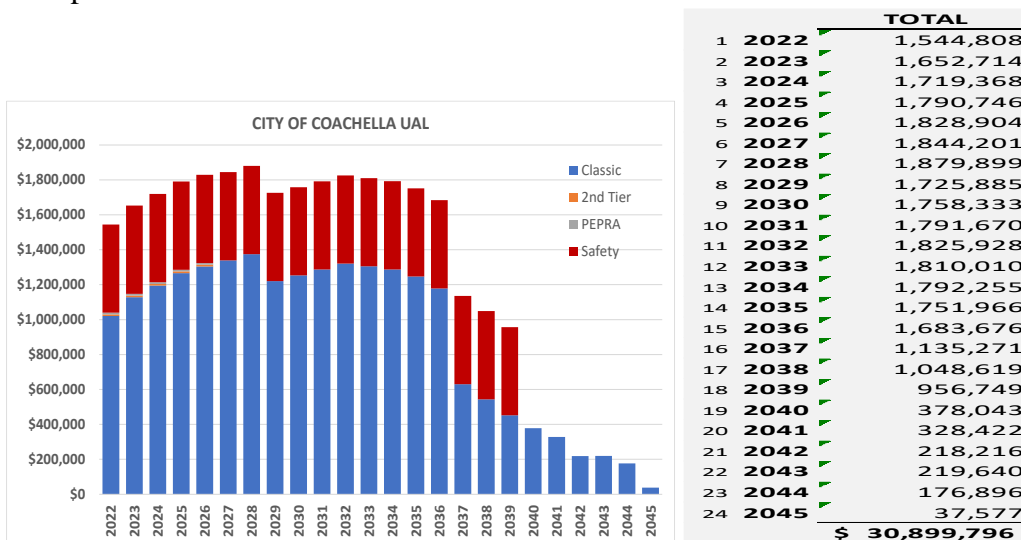
Shortly after City Council approved the resolution on June 24, 2020, the City filed a validation action with the Riverside County Superior Court. The action was not challenged, and a default judgment was entered on September 25, 2020. As a reminder, in California, POBs have generally been designed to be valid without voter approval, pursuant to a judicially created exception to the State Constitutional debt limitation. Unless challenged, the proceedings are largely an administrative matter.

Since completing the judicial validation process, staff and the financing team have been preparing the documents subject to approval this evening and have started dialogue with the rating agency Standard & Poor’s, who will ultimately assign a credit rating to the POBs. Assuming the City Council approves the attached resolution and Preliminary Official Statement this evening, the POBs are expected to be priced and sold to investors in mid-November 2020.

**DISCUSSION/ANALYSIS:**

**Bond Sizing**

As of June 30, 2019, the City’s UAL totaled approximately \$17.8 million and is comprised of approximately \$12.6 million for Miscellaneous Plan employees (including Miscellaneous, Miscellaneous 2<sup>nd</sup> Tier and PEPRA Miscellaneous) and approximately \$5.2 million for Safety Plan employees. Each of the two plans contains amortization bases (bases) shaped by investment performance during the prior fiscal year. The Miscellaneous Plans have 24 individual amortization bases amortized over a period of 24 years. The City’s Safety Plan, which is inactive, was subject to a “fresh start” and has 18 years remaining from its initial 25-year amortization. In aggregate, the plans are approximately 72% funded (ratio of plan assets divided by plan liabilities). Generally, a ratio between 80-90% is considered healthy. The charts below provide a graphic and annual breakdown of current and estimated UAL payments based on the City’s current funding status of both plans.

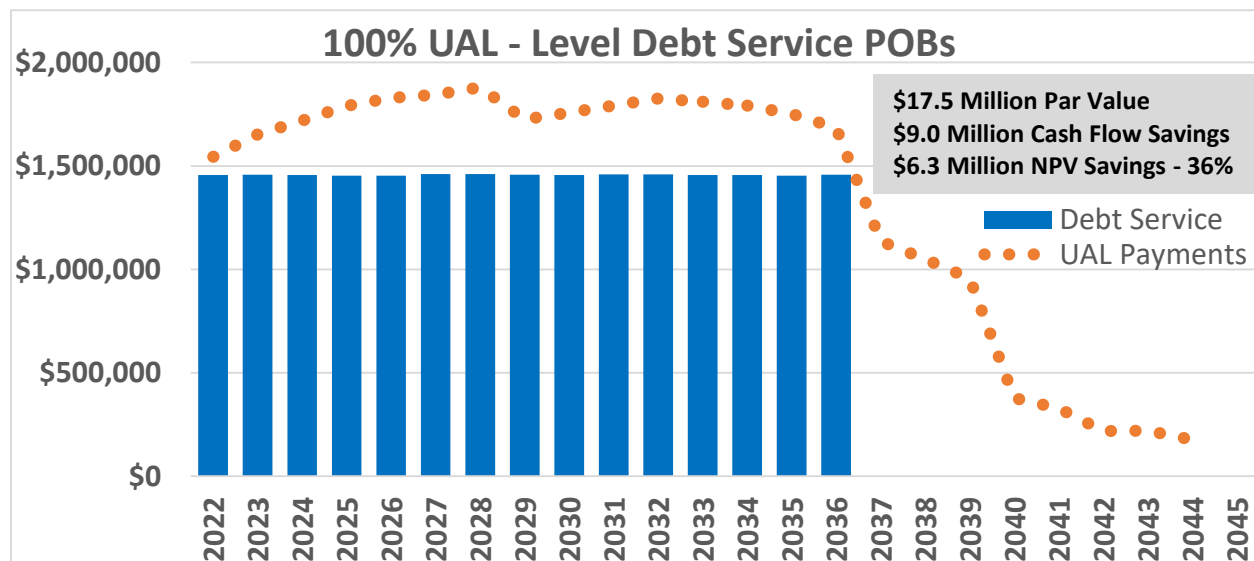


On June 24, 2020, City Council was presented with not-to-exceed amounts for the POBs. Since the City Council’s approval of the validation action, the City has made its Fiscal Year 2020-21 UAL payment at the end of July 2020 in the amount of \$1,261,358. The allocation to CalPERS was approved in the Fiscal Year 2020-21 Budget and the payment was made to ensure the City was able to secure the 3.5% discount on interest rate costs for the fiscal year’s UAL obligation.

As initially scheduled, the financing team anticipated bonds would be issued in October 2020. Unfortunately, case load impacts to the Riverside County Superior Court from COVID-19, extended the validation process by a few months thereby impacting our original financing schedule and funding plan. City staff and the financing team do not believe the delay will have an adverse impact of the savings objectives and funding directives of the Council.

With the objective of maximizing UAL savings, City staff and the financing team working together have evaluated and determined the most cost-effective funding strategy incorporating recent payments and the most up-to-date valuation analysis. Based on the City’s goal to maximize savings, the proposed bond structure is based on the following components:

- 100% UAL = \$17.8 million
  - All Plans: Misc., 2<sup>nd</sup> Tier, PEPRA & Safety
- Projected Pay-Off
  - November 30, 2020
  - \$ 17,128,208
- POB Assumptions
  - 10-Year Call
  - AA- S&P rating assumption
- POB Structuring Recommendation
  - 15-year Level Debt Service



The estimated savings based on the above recommended structure is \$8.6 million cash flow savings and \$5.7 million net present value savings; equal to 36% savings. The estimated interest rate is 3.2%. This represents an increase in cash flow savings of \$1 million over the estimate in June 2020.

### **Legal Documents**

The legal documents subject to approval this evening are as follows:

- **Preliminary Official Statement:** The Preliminary Official Statement (“POS”) is the offering document with respect to the POBs and contains all material to a prospective investors decision on whether to purchase the POBs. While the financing team has participated in preparing the POS, City Council and staff are ultimately responsible for ensuring the POS is accurate, contains no misleading information and does not omit any information necessary to make the POS not misleading to investors.
- **Continuing Disclosure Agreement:** Executed for the benefit of bondholders, the Continuing Disclosure Agreement obligates the City to file the most recent audited financial statements of the City. The City is also required to report certain events which are significant to bondholders if and when they occur.

After Council approves the resolution this evening, the POS will be made available to the rating agency and prospective investors and some time over the next week and the POBs will be sold to investors.

### **ALTERNATIVES:**

1. Approve resolution 2020-64 as recommended.
2. Refer the matter back to City staff for further analysis or the development of alternative funding strategies.
3. Retain the current funding arrangement with CalPERS.

### **FISCAL IMPACT:**

Despite the delays due to COVID-19 on the completion of the validation process and issuance of the bonds, the structure of financing remains unchanged. The not-to-exceed bond financing remains capped at \$18.2 million, which should be sufficient to refinance 100% of the City’s UAL.

Based on current market conditions, and assuming a bond issuance at the capped amount, total savings are estimated to be more than \$8.6 million over the term of the UAL payment schedule (15 years).

Costs associated with all the actions surrounding the issuance of POBs will be paid from bond proceeds. Not-to-exceed fees for the financing team have been previously approved by City

Council. All costs, except those of Standard & Poor's as the credit rating agency will be contingent upon the successful sale of the bonds.

On June 24, 2020, "Good Faith Estimates" (required by SB 450) were provided to City Council assuming the POBs will be issued in the \$18.2 million not-to-exceed amount. City staff and the financing team have reviewed the estimates and believe they remain valid. Note these amounts are still preliminary and are subject to prevailing market conditions at the time of pricing the POBs.

While the City expects to refinance 100% of the City's June 30, 2019 UAL, it is important to note this action addresses past UALs and does not eliminate future liabilities. UALs may result from changes in market conditions or changes in CalPERS assumptions. In fact, because CalPERS did not reach its 7% investment return for fiscal year 2019-20, and instead posted a 4.7% return, we are aware of an expected UAL of roughly \$1.155 million, which will be amortized over 20-years with the first payment due in fiscal year 22-23. As presented during the June 24<sup>th</sup> meeting to authorize validation, City staff will return to the City Council with a pension management policy to address and fund future liabilities.

Attachments:

1. Resolution 2020-64
2. Preliminary Official Statement
3. Continuing Disclosure Agreement