



**STAFF REPORT**  
**6/24/2020**

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

**FROM:** William B. Pattison, Jr., City Manager

**SUBJECT:** Resolution No. 2020-41, Authorization to file Validation Action and Authorization of Issuance of Pension Obligation Bonds

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**STAFF RECOMMENDATION:**

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

- 1) Authorize the City to issue Pension Obligation Bonds to refund its CalPERS Unfunded Accrued Liability in an amount not to exceed \$18.095 million;
- 2) Engage Urban Futures as Municipal Advisor, Stradling Yocca Carlson and Rauth as Validation and Bond Counsel, Nixon Peabody as Disclosure Counsel and Samuel A. Ramirez & Co., Inc. as underwriter;
- 3) Resolution No. 2020-41 – a Resolution of the City Council of the City of Coachella, California Authorizing the Issuance of Bonds 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:**

In May 2020, the City engaged UFI Financial Solutions as municipal advisor to study options for funding the City's CalPERS unfunded actuarial liability (UAL). Based on the study results, the City has limited options to effectively fund its pension liability without the allocation of additional funds from the City deposited into the City's CalPERS. Because the City is not in a position to fund the \$17.4 million UAL with reserves, a financing option was further studied. Based on current taxable municipal bond rates, City staff and its financing team believe the City could fund its UAL through the issuance of Pension Obligation Bonds (POBs) for a substantial savings.

The first 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.

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 Riverside County Superior Court. Unless challenged, the judicial validation proceedings are largely an administrative matter managed by Bond Counsel.

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 validation process and requirements for issuing the POBs are discussed further herein.

### **BACKGROUND:**

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 \$17.4 million, comprised of approximately \$12.08 million for Miscellaneous employees and approximately \$5.3 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.

### **Approval of Legal Documents—Trust Agreement and Bond Purchase Agreement**

The POBs will be sold by the City to Ramirez & Company, as Underwriter 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 Wilmington Trust 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.

### **Validation Proceedings**

The validation proceedings require a 7-step sequential process, which can take approximately 90 days or more in Riverside 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 Riverside Superior Court
3. Receive Order for Publication of Summons from the Court – 1-2 weeks

4. Publication in the Desert Sun for 21 consecutive days
5. Waiting period to file petition – minimum of 10 days, typically 2-3 weeks for Riverside 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 (\$18.095 million). Bonds can be sold after the 30-day Appeal Period has ended and the City Council approves the Official Statement for the Bonds and the final structure.

### **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 October or November 2020. If City Council approval is given at that time, the POBs could be issued a few weeks afterwards.

### **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 \$325,000; 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 (\$18.095 million) at a lower interest rate – approximately 3.46%, under current market conditions. As a result, the potential net present value savings are more than 33% and can provide significant cash flow relief to the City.

Based on financing that covers 100% of the \$17.4 million unfunded liability, the City would issue \$18.095 million in POBs, which would result in \$7.6 million in total cash flow savings (UAL payments) over the next 20 years. The POBs would carry an average rate of 3.46%, based on current interest rates as of June 16, 2020.

### **ATTACHMENTS:**

- Attachment No. 1 – Resolution No. 2020-41
- Attachment No. 2 – Form of Trust Agreement
- Attachment No. 3 – Form of the Bond Purchase Agreement