

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: JAN MAZYCK, CHIEF FINANCIAL OFFICER, FINANCE
DEPARTMENT
SUBJECT: POTENTIAL FINANCING OF THE CITY'S UNFUNDED
ACTUARIAL LIABILITY WITH ISSUANCE OF PENSION
OBLIGATION BONDS

AGENDA ACTION: NO ACTION REQUIRED

RECOMMENDATION

The City Manager and Finance Department recommend that the City Council hold a Study Session to provide City Council the opportunity to receive information and ask questions related to the potential issuance of Pension Obligation Bonds. No action is required.

EXECUTIVE SUMMARY

The City is considering a multi-pronged approach to solving its structural deficit including pursuing enhanced revenue options, cost reduction strategies, and financing strategies. One of the key drivers of the City's deficit is CalPERS' unfunded actuarial liability (UAL). Like most California agencies, the City is required to make annual fixed dollar payments to pay off its UAL, which is effectively a "past due amount". These annual payments to CalPERS are scheduled to rise from \$30 million to \$42 million over the next 10 years and will cost the City an **additional** \$110 million (i.e., above the \$30 million due this year) over the next 15 years.

While the City's CalPERS UAL is a dynamic liability that is adjusted each year, staff is looking at scenarios that would lessen its burden on the City's budget. This study session will look at possible funding solutions, focusing on the benefits and risks of issuing Pension Obligation Bonds (POB) to refinance the City's UAL.

This is a significant financial challenge that we seek to resolve by evaluating multiple strategies. POBs provide the most compelling option because they take advantage of favorable interest rates (borrowing cost for POBs is estimated at 3.25% versus CalPERS' Discount Rate of 7%), effectively restructuring the required UAL payments.

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Instead of making payments to CalPERS at 7.0%, the City would make debt service payments to investors (of the bonds) @ 3.25%.

All POBs proceeds would be delivered to CalPERS, who will invest the monies. Any difference between payment streams (new bond debt service less than CalPERS current payments) would provide budgetary savings to the City, which can be considerable over time. The City has a \$400 million unfunded liability therefore, any solution will require considerable scale (transaction size).

BACKGROUND

Financing options to address the City's pension UAL is one of many options City staff is evaluating to address the budget deficit. This study session is intended as an opportunity for staff to provide an overview of the City's UAL and potential financing alternatives. The primary focus will be on utilizing a POB refinancing, the potential benefits and risks to the City, and potential timelines to move forward.

Staff presented this information to the Long-Term Financial Policy and Audit Subcommittee on June 10, 2021, which requested staff give the presentation to the City Council at study session.

PRIOR CITY COUNCIL REVIEW

None.

ANALYSIS

None.

FISCAL IMPACT

The study session, itself, does not create a fiscal impact for the organization.

ENVIRONMENTAL IMPACT

The proposed action is exempt from the provisions of the California Environmental Quality Act (CEQA) under CEQA Guidelines Section 15061(b)(3) and 15378 in that there is no possibility that the implementation of this action may have significant effects on the environment. No further environmental review is required.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

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NOTIFICATION

Not applicable.

ATTACHMENTS

None.

CONTACT

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