

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL MEMBERS
FROM: ALAN ALTON, ACTING CHIEF FINANCIAL OFFICER
FINANCE DEPARTMENT
SUBJECT: AUTHORIZING PENSION OBLIGATION BONDS, APPROVAL OF
INDENTURE OF TRUST, AUTHORIZING FILING OF VALIDATION
ACTION FOR THE PENSION OBLIGATION BONDS AND
DIRECTING RELATED ACTIONS

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Finance Department that the Council, by resolution: 1) authorize the issuance of one or more series of City of Santa Rosa Pension Obligation Bonds; 2) approve and authorize execution and delivery of an Indenture of Trust (“Indenture”) relating thereto; 3) authorize a validation action related to the Pension Obligation Bonds; and 4) direct staff to return to the City Council for approval of documents related to the initial series of the Pension Obligation Bonds.

EXECUTIVE SUMMARY

At its September 14, 2021 Council Meeting, the City Council received information relative to the issuance of Pension Obligation Bonds (POBs). The Council directed staff to begin the legal validation process required before issuing POBs.

The proposed resolution would authorize the issuance of one or more series of POBs from time to time to refund the City’s outstanding CalPERS obligations to realize interest savings. The resolution also approves and authorizes the execution and delivery of the Indenture by an Authorized Officer of the City in substantially the form attached to this staff report. In addition, the resolution authorizes the filing of a validation action, sets forth certain limitations for the POBs, authorizes the appointment of the financing team for the initial series of POBs and directs staff to return to the City Council for approval of documents related to the initial series of the POBs, including a bond purchase agreement and the disclosure document (the “Preliminary Official Statement”).

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BACKGROUND

Staff is proposing that the City of Santa Rosa initiate the process to issue POBs to take advantage of current favorable borrowing rates and to refund all of a portion of its outstanding CalPERS Unfunded Accrued Liability (“UAL”). While staff has consistently presented the intent of executing a financing that is less than the UAL, for validation purposes only, the standard practice is to validate refinancing of the entire amount. As such the information in this report assumes a full funding scenario.

The current status of the City’s three CalPERS pension plans is summarized in the table below:

| Plan | 6/30/20 UAL | 6/30/21 Expected UAL | 6/30/22 Projected UAL |
|---------------|------------------------|---------------------------------|----------------------------------|
| Miscellaneous | 217,349,243 | 218,254,525 | 216,907,289 |
| Safety Police | 125,106,688 | 126,632,925 | 126,998,073 |
| Safety Fire | 83,154,915 | 83,655,804 | 83,583,434 |
| Total | \$425,610,846 | \$428,543,254 | \$427,488,796 |

¹Source: CalPERS Annual Valuation Reports as of June 30, 2020, dated July 2021.

As shown in the table above, the City’s total UAL is projected by CalPERS to be \$427,488,796 by 6/30/22. This UAL balance, if unpaid, is expected to grow at CalPERS’ investment return assumption (currently 7.0% annually), increasing the City’s annual UAL payment from approximately \$30 million in FY 2021-22 to over \$46 million in FY2030-31.¹

PRIOR CITY COUNCIL REVIEW

On July 20, 2021 and on September 14, 2021, staff provided study session presentations to the City Council regarding the potential issuance of POBs as part of a multi-pronged approach to addressing the City’s growing annual CalPERS unfunded actuarial liability payments. POBs are intended to be one of several approaches the City could take to address rising pension costs.

ANALYSIS

The resolution authorizes the City to issue POBs to fund up to 100% of the outstanding CalPERS UAL. As such, the maximum principal amount would not exceed the

¹ Due to strong CalPERS annual investment returns in Fiscal Year 2020-21 preliminarily estimated at 21.3%, it is expected that CalPERS may lower their investment return assumption by the end of calendar year 2021 as part of their Asset Liability Management process.

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aggregate amount of the UAL plus the total amount required to pay the costs of issuing the Bonds. The borrowing rate is estimated at approximately 3% (current market interest rates plus an interest rate cushion of 35 basis points). The current favorable taxable municipal interest rate market provides an opportunity for the City to achieve substantial savings over the term of the existing UAL payments (through Fiscal Year 2047-48) relative to the CalPERS discount rate, though the amount of savings will depend upon the CalPERS's performance over that period, along with the actual rate achieved on the POBs when issued.

FISCAL IMPACT

Based on the current interest rate environment and a potential borrowing rate of approximately 3%, compared with a CalPERS discount rate at more than 2x the projected borrowing rate, the City has the potential to achieve debt service levels significantly lower than the projected payments to CalPERS.

Based on the direction to staff at the September 14th Study session relative to strategies for reducing pension costs, savings resulting from the POB issuance could either be reinvested in CalPERS, or invested into the Section 115 Trust, to manage future pension volatility. Finance is currently analyzing those options.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project that has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guidelines Section 15378.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Resolution
 - Exhibit A - Government Code Section 5852.1 Disclosure
 - Exhibit B - Indenture of Trust

CONTACT

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