



## Legislation Details (With Text)

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<b>File created:</b>	2/22/2021	<b>In control:</b>	City Council/Public Financing Authority
<b>On agenda:</b>	3/1/2021	<b>Final action:</b>	3/1/2021
<b>Title:</b>	Adopt Resolution No. 2021-12 authorizing the refinance of the City's Unfunded Accrued Liability Account Balance through the Sale of Taxable Pension Obligation Bonds to Refund All or a Portion of the City's Obligation to the California Public Employees' Retirement System, and authorizing the Execution and Delivery of a Bond Purchase Contract and a Continuing Disclosure Certificate and the Preparation of an Official Statement and Other Matters Related Thereto; and, authorize and approve Certain Actions with Respect Thereto; and, Adopt Resolution No. 2021-19 Adopting the City's Unfunded Accrued Pension Liability Policy		
<b>Attachments:</b>	1. Att#1 Resolution 2021-12, 2. Att#2 Preliminary Official Statement, 3. Att#3 Bond Purchase Agreement, 4. Att#4 Continuing Disclosure Certificate, 5. Att#5 Resolution 2021-19 Unfunded Accrued Pension Liability Policy, 6. 3/1/21 Sup Comm - PP Presentation, 7. 3/1/21 Sup Comm - Memo, 8. 3/1/21 Sup Comm - 1 email		

Date	Ver.	Action By	Action	Result
3/1/2021	2	City Council/Public Financing Authority	approved as amended	Pass

## REQUEST FOR CITY COUNCIL ACTION

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

**SUBMITTED BY:** Oliver Chi, City Manager

**PREPARED BY:** Dahle Bulosan, Chief Financial Officer

### Subject:

**Adopt Resolution No. 2021-12 authorizing the refinance of the City's Unfunded Accrued Liability Account Balance through the Sale of Taxable Pension Obligation Bonds to Refund All or a Portion of the City's Obligation to the California Public Employees' Retirement System, and authorizing the Execution and Delivery of a Bond Purchase Contract and a Continuing Disclosure Certificate and the Preparation of an Official Statement and Other Matters Related Thereto; and, authorize and approve Certain Actions with Respect Thereto; and, Adopt Resolution No. 2021-19 Adopting the City's Unfunded Accrued Pension Liability Policy**

### Statement of Issue:

City Council authorization is requested to approve the issuance and sale of Huntington Beach Taxable Pension Obligation Bonds to refund all or a portion of its California Public Employees' Retirement System (CalPERS) Unfunded Accrued Liability (UAL), and approve a formal policy relating to the management of future pension liabilities ("UAL Policy").

### Financial Impact:

The issuance of pension obligation bonds for the refinancing of certain pension obligations of the City

of Huntington Beach will likely reduce the annual costs related to the UAL that the City is currently obligated to pay CalPERS. As of June 30, 2019, the most current actuarial valuation available from CalPERS, the City's UAL for all citywide employees and retirees is approximately \$436 million. Approximately 63% of the UAL is related to public safety (police and fire) employees, and 37% is related to non-safety employees.

Currently, total annual City UAL payments to CalPERS will range from \$28.9 million for Fiscal Year (FY) 2019-20, increasing to approximately \$45.5 million in the peak year of FY 2030-31. The scale of the UAL cost increase will impact the ability of the City Council to adopt future balanced budgets. It may also impact the high level of services currently provided to Huntington Beach's residents and businesses.

The issuance of pension obligation bonds will allow the City of Huntington Beach to prepay up to 100% of the projected UAL, based on the most recent valuation report recently released by CalPERS. By issuing pension obligation bonds, the City will be contractually obligated to make annual debt service payments to the bondholders. One option would be to structure the annual debt service payments to be level dollar amount payments over the course of the life of the bonds. Should the City prepay 100% of its current projected UAL with an estimated 23 year bond repayment schedule, the City could achieve budgetary savings of at least \$170.1 million over the life of the bond financing.

**Recommended Action:**

A) Adopt Resolution No. 2021-12, "A Resolution of the City Council of the City of Huntington Beach Authorizing the Sale of Taxable Pension Obligation Bonds to Refund All or a Portion of the City's Obligation to the California Public Employees' Retirement System, and Authorizing the Execution and Delivery of a Bond Purchase Contract and a Continuing Disclosure Certificate and the Preparation of an Official Statement and Other Matters Related Thereto; and,

B) Authorize the City Manager and City Clerk to take all administrative and budgetary actions necessary to perform the bond issuance; and,

C) Adopt Resolution No. 2021-19, "A Resolution of the City Council of the City of Huntington Beach Adopting the City's Unfunded Accrued Pension Liability Policy."

**Alternative Action(s):**

Do not approve the recommended actions and direct staff accordingly.

**Analysis:**

Over the last several years, CalPERS has made significant changes to the assumptions used in the calculations of local agencies' pension liabilities. These changes have resulted in (1) an increased overall unfunded pension liability as the discount rate has been reduced from 7.5% to 7.0%, and (2) sharp increases in annual payments due to CalPERS in earlier years followed by declining payments in later years due to the method of amortizing the UAL payments.

The City has two CalPERS plans - a Public Safety plan and a Miscellaneous Employees plan. Each plan's UAL is comprised of multiple "amortization bases," which are positive and negative amounts generated each year based on the performance of the CalPERS Investment Fund and changes in the actuarial assumptions. Each amortization base has a separate payment schedule over a fixed period of years. Because of the CalPERS methodology, some of the payments continue to increase each year while others will drop off. This creates a significant increase in UAL payments in the next

10 year period, from \$28.9 to \$45.5 million.

The difficulty that lies with the City of Huntington Beach, as well as many other local agencies, is the ability to pay these large payments to CalPERS over the next 10 to 15 years, while still trying to maintain a balanced budget. While the City successfully adopted a balanced FY 2020-21 budget without the use of reserves, the long-term impact of the COVID-19 pandemic on the City's revenues remains uncertain. The City of Huntington Beach is focused on trying to minimize the annual increases in the payments to CalPERS, so that balanced budgets can be maintained, and there are manageable impacts to services offered to the residents and businesses of Huntington Beach.

Staff has identified that refinancing our existing UAL payments through the use of a Pension Obligation Bond ("POB") would help provide budgetary relief and control as debt service on the bonds will be approximately level each year, without the fluctuations in the current CalPERS amortization schedules. Along with the anticipated overall budgetary savings of \$170.1 million from issuing a POB, the City can also better plan its pension expense for budgeting purposes with a stable fixed payment amount. Below is a summary of actions recently taken related to the POBs:

On October 21, 2019, a Study Session entitled, *"An Existential Threat- Pension Cost Increases,"* was presented to City Council, which discussed options for addressing the City's growing UAL payments. This presentation was also given during the October 30, 2019 Finance Commission meeting. Both City Council and the Finance Commission unanimously provided staff with direction to begin the process to refinance the City's current UAL through a Pension Obligation Bond.

On November 18, 2019, the City Council authorized Resolution 2018-89 providing for the issuance of one or more series of Taxable Pension Obligation Bonds, and authorized a Trust Agreement and the commencement of judicial validation proceedings related to the issuance of POBs.

Shortly after City Council approved the resolution on November 18, 2019, the City filed a validation action with the Orange County Superior Court. The action was not challenged, and a default judgment was entered on May 18, 2020.

Staff and KNN Public Finance, as municipal advisor, have analyzed numerous financing scenarios, including 80%, 90%, and 100% funding options, in conjunction with different repayment terms and budgetary saving structures.

With the goal of providing level debt service payments without extending the current UAL amortization schedule, the proposed POBs have been structured with average annual debt service payments of \$27.9M. With the lower interest rates paid on the POBs as compared to the current 7% interest rate charged by CalPERS, the City could potentially achieve total budgetary savings of \$170.1 million (based on an estimated conservative interest rate of 3.48%) over the life of the bond financing with a 100% prepayment scenario.

A cost comparison is summarized below (assuming a conservative interest rate of 3.48%):

<b>CalPERS UAL Payment Costs vs. POB Refinancing Debt Service</b> <b>(in Thousands)</b>			
	<b>CalPERS UAL Payment</b>	<b>POB Refinancing</b>	<b>Refinancing Savings</b>
Annual Payment (average)	\$ 36,462	\$ 27,890	\$ 8,572
Total Payments	790,433	620,358	170,075
Total Interest	356,877	199,958	156,919

All estimated cost savings are subject to market conditions at the time of actual bond issuance. While the City expects to refinance 100% of its current 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 order to improve the management of future pension liabilities, a formal UAL Policy has been prepared to provide guidelines for managing future pension liabilities for City Council approval and includes the following key provisions:

**1. Increased savings level to ensure that the City has enhanced funding for any future UAL costs that may arise.**

- A mandated minimum \$1 million annual contribution to the City's Section 115 Pension Trust.
- In addition, a requirement that the City perpetually set-aside 50% of the pension refinance savings in amount equal to the difference between the City's audited FY 2019/20 UAL costs versus the year one POB debt service payments. Preliminarily, that amount is estimated to be 50% of \$978,000, which is subject to change based on actual market conditions at the time of the bond issuance. Further, that savings amount must be contributed to the City's Section 115 Trust on an annual basis, and increased for CPI moving forward perpetually.
- Finally, at the end of each fiscal year, 50% of any unassigned General Fund surplus would be dedicated to a new restricted General Fund Pension Rate Stabilization Reserve.

**2. Establishment of an accelerated UAL repayment schedule to address any future UAL growth.**

- Accelerated repayment of any new UAL would be repaid from the Section 115 Trust or General Fund Pension Stabilization Reserve based on the payoff time below:

<b>New Unfunded Accrued Liability (Any new liability incurred after the June 30, 2019 valuation report )</b>	<b>Payoff Time Period</b>
\$0 to \$5,000,000	Within 1 to 5 years
\$5,000,001 to \$10,000,000	Within 5 to 7 years
\$10,000,001 to \$15,000,000	Within 7 to 9 years
\$15,000,001 to \$20,000,000	Within 9 to 10 years
\$20,000,001 or more	Within 10 to 15 years

**3. Codifying this enhanced savings amounts and accelerated UAL prepayment schedule, such that any reductions can only be achieved via a 6/7 vote of the City Council.**

**Environmental Status:** Not applicable.

**Strategic Plan Goal:** Non Applicable - Administrative Item

**Attachment(s):**

1. Resolution No. 2021-12, "A Resolution of the City Council of the City of Huntington Beach Authorizing the Sale of Taxable Pension Obligation Bonds to Refund All or a Portion of the City's Obligation to the California Public Employees' Retirement System, and Authorizing the Execution and Delivery of a Bond Purchase Contract and a Continuing Disclosure Certificate and the Preparation of an Official Statement and Other Matters Related Thereto."
2. Preliminary Official Statement
3. Bond Purchase Agreement
4. Continuing Disclosure Certificate
5. Resolution No. 2021-19, "A Resolution of the City Council of the City of Huntington Beach Adopting the City's Unfunded Accrued Pension Liability Policy."