



BUDGET ENGAGEMENT COMMISSION

CALPERS PENSION AND 2020 POB UPDATE



CITY OF RIVERSIDE



Financial & Policy Strategies.
Delivered.

May 12, 2022

1

Rewind to Spring 2020 – Pension Obligation Bond Recap

- ▶ In the Spring of 2020, the City issued \$432M of POBs to pay off approximately 67% of its then current UAL
 - ▶ \$230M of UAL remained outstanding with CalPERS
- ▶ City locked in a **3.69% interest rate** and achieved multiple objectives → → → → → → → → →
- ▶ While navigating the unknowns present during the height of COVID, the City undertook a robust and transparent stakeholder engagement process to craft a thoughtful POB strategy, while maintaining its strong “AA” credit rating during unprecedented economic times
 - ▶ Included a significant amount of stress testing to quantify risks and deliberate timing strategies on when to invest monies with CalPERS

Cash flow savings; \$175M+ projected overall

Equitable funding of both Miscellaneous and Safety Plans (targeted 92% funding ratio)

Smoothed out payments to enhance budget predictability/flexibility and fiscal sustainability/resiliency

No extension of payments to ensure savings in every single year

Maintained flexibility to pay off debt early (10-year call feature)



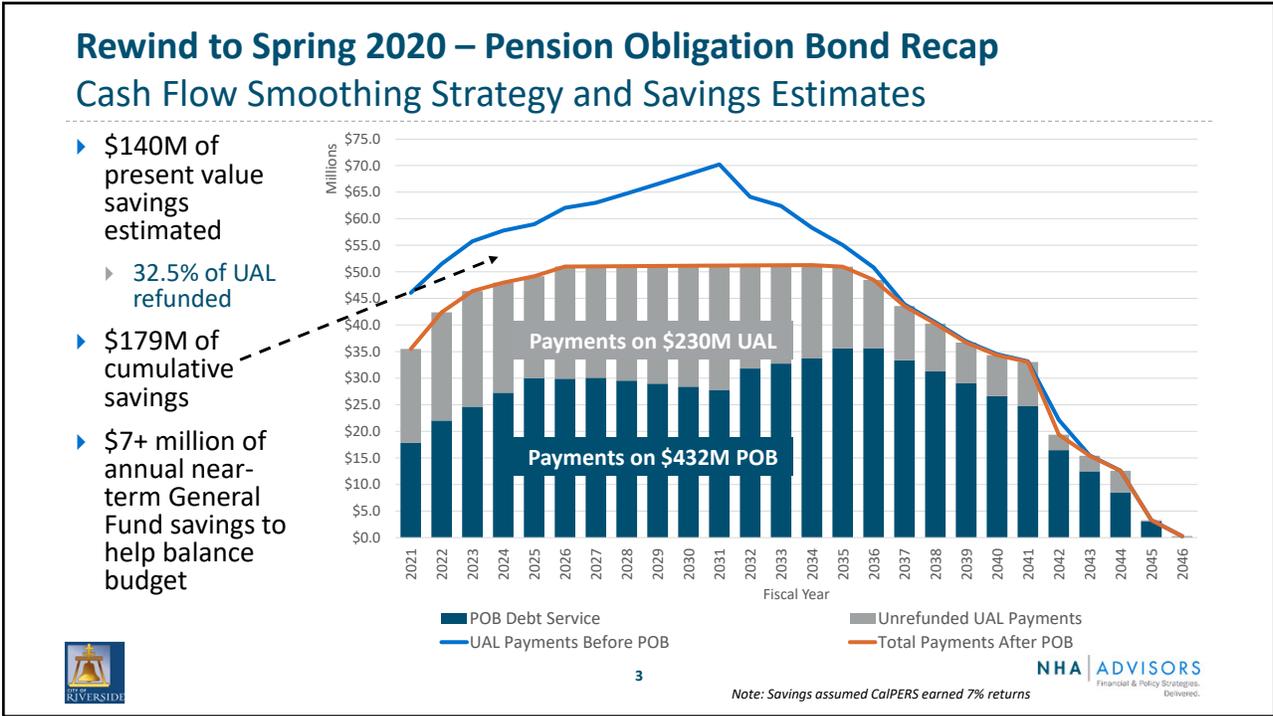
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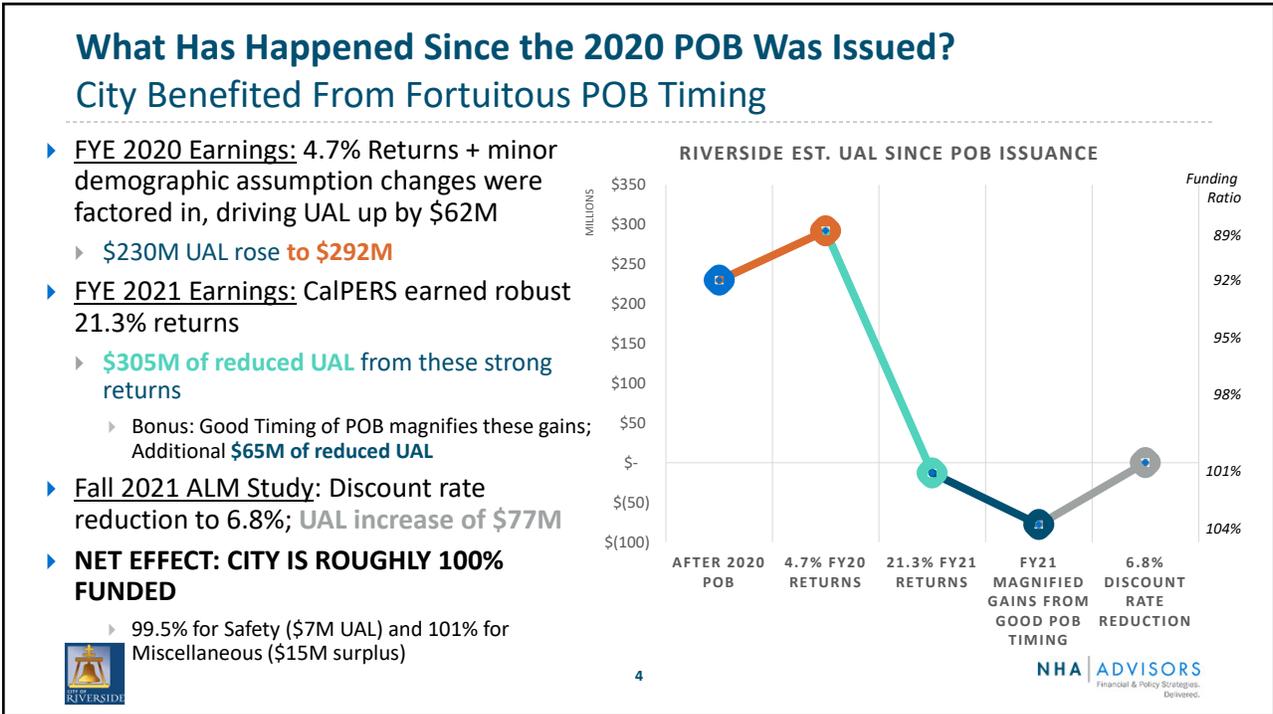
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Note: Savings assumed CalPERS earned 7% returns

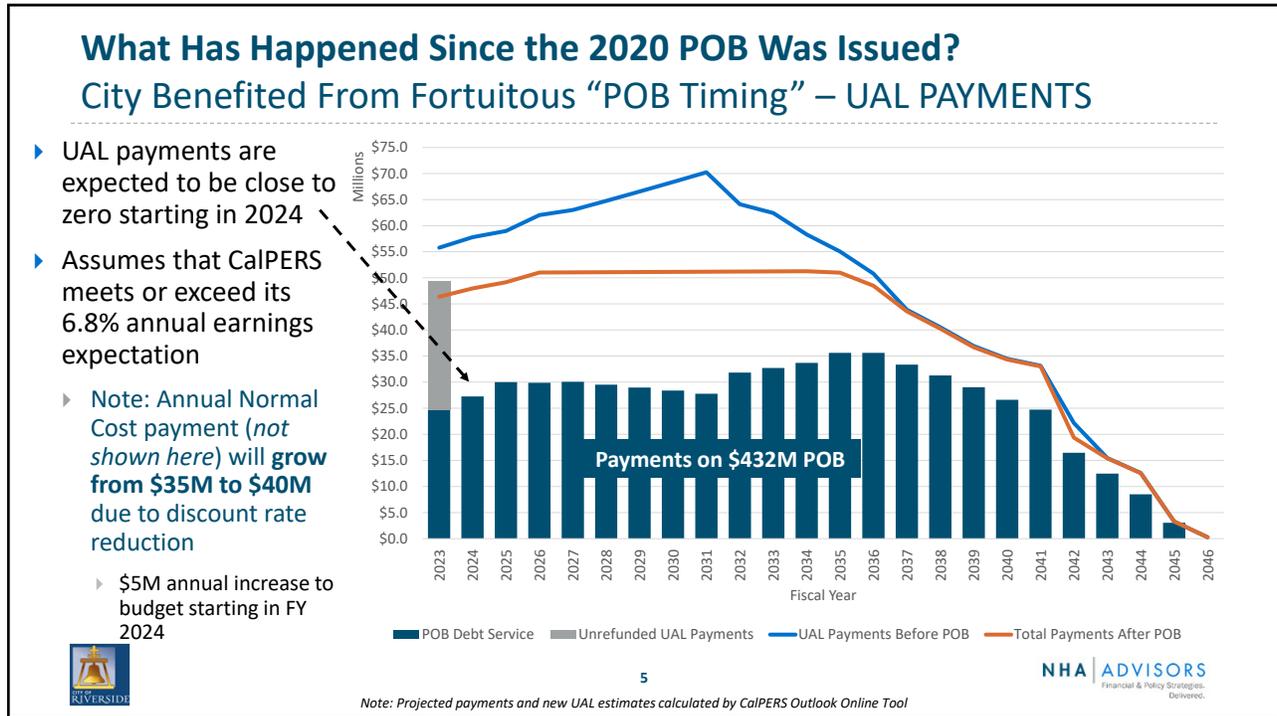
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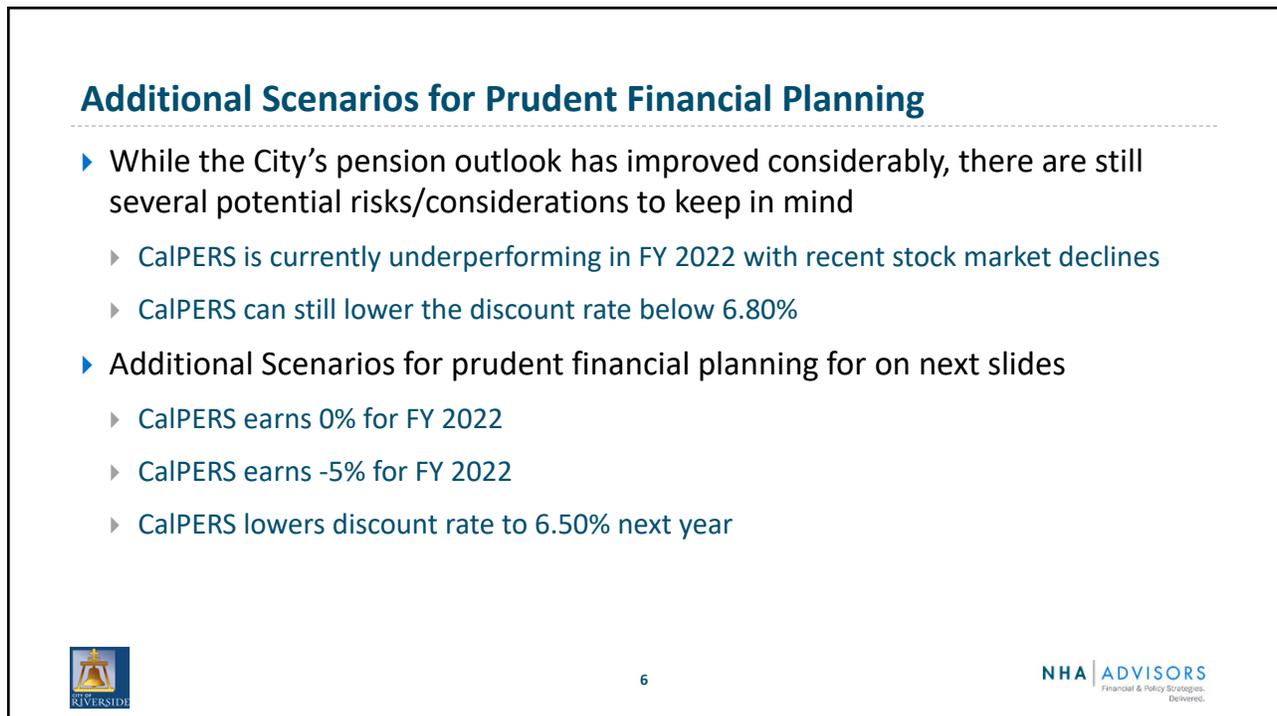
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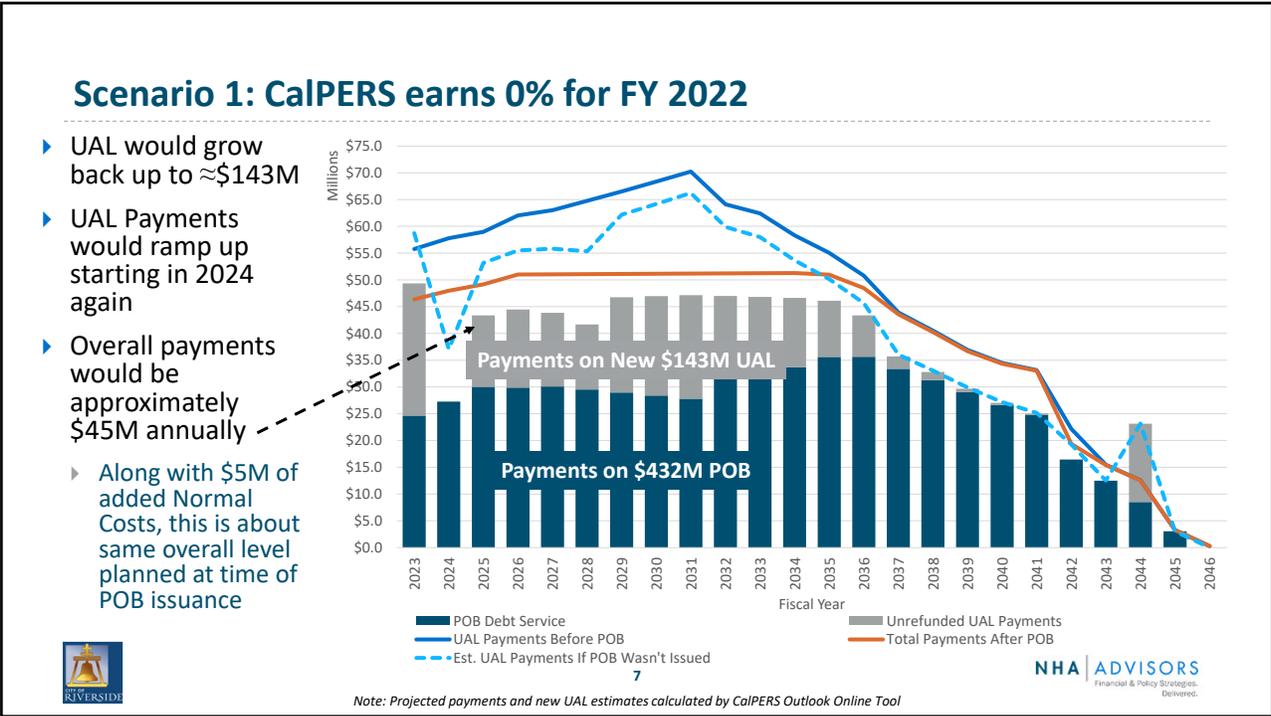
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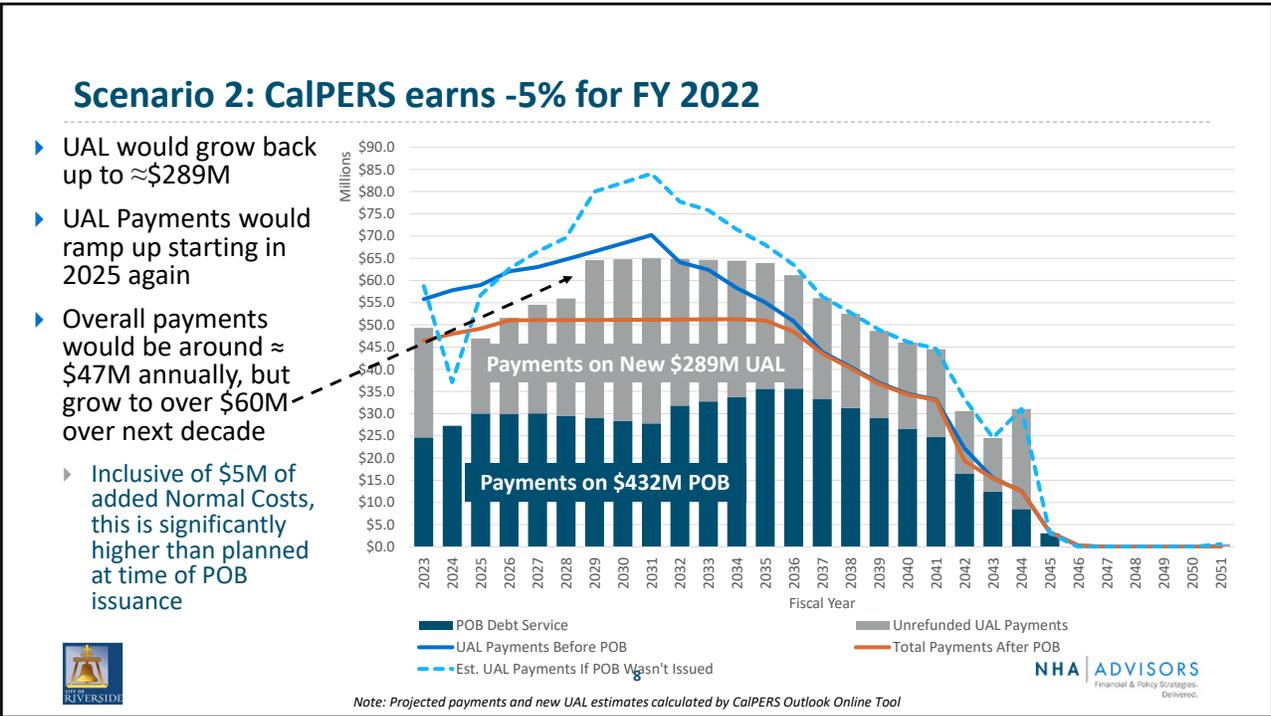
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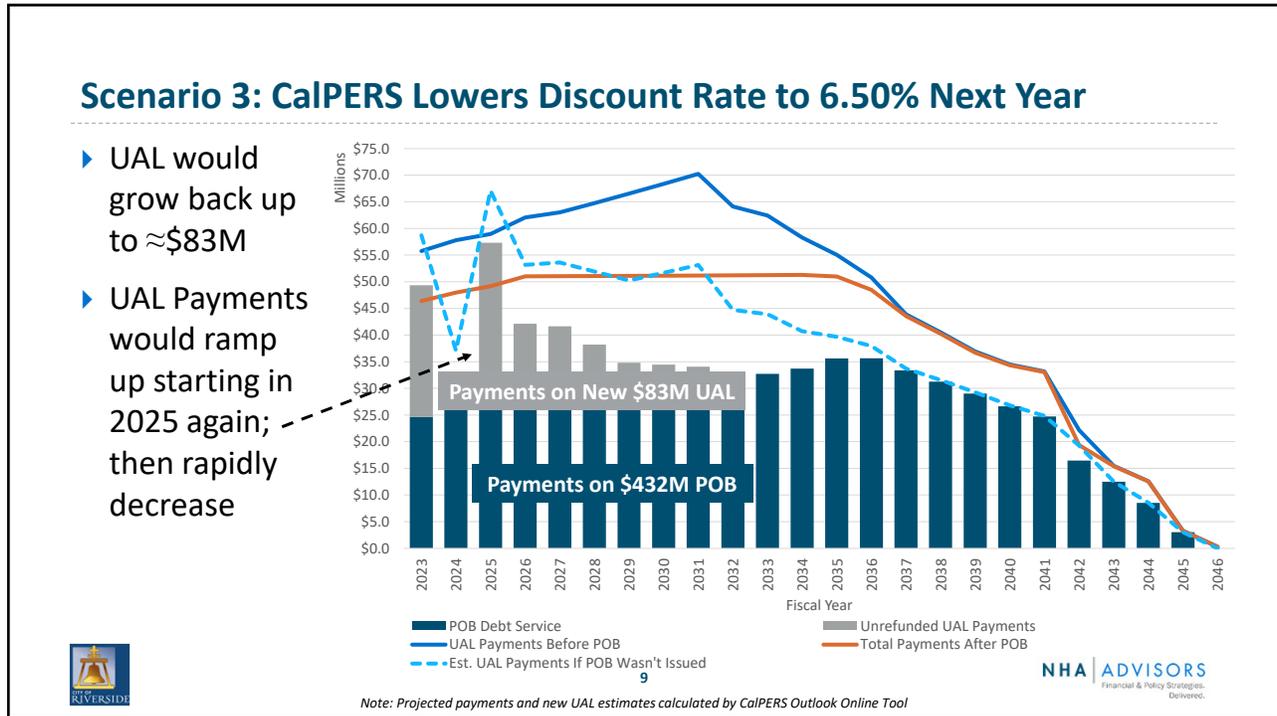
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Takeaways

- ▶ Riverside, along with many other agencies who issued POBs in 2020, have benefitted significantly from great market timing – locking in low interest rates and magnifying the benefit of the 21.3% gains from CalPERS in FY 2021
 - ▶ The 3.69% interest rate the City locked in is over 1.25% lower than current (April 2022) POB rates
- ▶ While POB payments are fixed and predictable, the UAL (and related amortization payments), are extremely sensitive to CalPERS investment earnings
 - ▶ City should plan/forecast using conservative assumptions and perform sensitivity analysis to understand potential impacts under a variety of CalPERS results
- ▶ Significant savings (reduction in UAL payments) is **expected for FY 2024**
 - ▶ City should consider using majority of that savings to bolster reserves (like the Section 115 Trust) to ensure this “shock absorber” is funded to healthy levels
 - ▶ Provides strong resiliency to absorb future economic shocks/new UAL; such as the expected increases coming from the FY 2022 underperformance

10