



Budget Engagement Commission

City of Arts & Innovation

TO: HONORABLE COMMISSIONERS

DATE: JULY 16, 2020

FROM: FINANCE DEPARTMENT

WARDS: ALL

SUBJECT: 2020 PENSION OBLIGATION BOND ISSUANCE - UPDATE

ISSUE:

Receive and file this update regarding the successful 2020 issuance of the Pension Obligation Bonds by the City of Riverside in order to restructure a portion of the City's Unfunded Accrued Liability with the California Public employees' Retirement System.

RECOMMENDATION:

That the Budget Engagement Commission receive and file this update regarding the successful 2020 issuance of the Pension Obligation Bonds by the City of Riverside in order to restructure a portion of the City's Unfunded Accrued Liability with the California Public employees' Retirement System.

BACKGROUND:

The California Public Employees' Retirement System (CalPERS) Board of Administration has approved several changes to improve the funded status of the retirement plan, including lowering the discount rate assumption from 7.5% to 7.0%, modifying amortization methods, and updating assumptions about life expectancy. These relatively recent changes have resulted in increases in employer contributions for all agencies participating in CalPERS. Based on the most recent CalPERS actuarial report, it is currently anticipated that the City's pension costs will increase by approximately 28% by Fiscal Year 2024/25 and continue to grow through FY 2030/31.

On May 5, 2020, City Council authorized the Finance Department to refinance a portion of the City's Unfunded Accrued Liability (UAL) with CalPERS in order to create an interest rate savings and a more consistent repayment structure, with a cap on the issuance interest rate of 3.99%.

DISCUSSION:

The City sought to find a balance between increasing pension liability costs, volatile market conditions, and the potential slowdown in the economy due to the COVID-19 pandemic. By employing the tactic of longer-term financing of the UAL through a bond issuance, the City had the opportunity to recapture the difference in the interest rates of the bond issuance versus the

7.0% CalPERS UAL discount rate.

There were some potential roadblocks to the issuance of new Pension Obligation Bonds (POB) due to the recent, violent market moves, the potential lack of investor appetite for debt (specifically taxable POBs), and other liquidity issues within the municipal debt markets. However, due to the U.S. Federal Reserve Bank's (Fed) unprecedented liquidity injections into the equity and debt markets, the huge market fluctuations have seemingly been calmed and the potential for a better interest rate arose.

In addition, the Fed announced continued buying within the municipal debt market as a backstop to any upward pressure on interest rates for agencies attempting to issue new debt. Furthermore, Fitch Ratings (one of the City of Riverside's rating agencies) issued a press release on May 26, 2020, reaffirming the ratings of the City of Riverside's POBs as AA- with a stable outlook, one of the highest ratings that a municipal agency can receive, as AAA is the highest rating.

The bond issuance was completed on June 4, 2020, with Bank of America and Raymond James as the City's lead bond underwriters. The level of oversubscription to the City's bond offering was approximately 11 times the offering amount. There was considerable positive interest in the City's offering. Due to the oversubscription, the City was able to leverage that demand in the bond offering in order to negotiate the interest rate down for the best available total interest cost. The City's Chief Financial Officer (CFO), alongside the underwriters, negotiated the rate down to an overall 3.688%, the best rate for a pension bond issuance at the time post onset of COVID-19. All tranches of the bonds were oversubscribed, and the offering was completed without any issues. The total bond issuance amount was \$432 million, payable over 25 years with an average life of 13 years.

FISCAL IMPACT:

There is no fiscal impact associated with the recommended actions of this report.

The projected fiscal impact of the issuance of the POBs is approximately \$7.6 million per year savings to the General Fund for FY 2020/21 and FY2021/22 and a total estimated present value savings of \$178.5 million citywide over the life of the bonds. Additionally, the bond issuance smooths future payments for budget predictability thereby reducing the impact of rising pension costs on City operations. The current funding ratio has improved from 71% - Safety and 78% - Miscellaneous to 92% for both plans.

Prepared by:	Peter Kakos, Principal Management Analyst
Approved as to availability of funds:	Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by:	Moises Lopez, Deputy City Manager

Attachment: Presentation