



*City of Arts & Innovation*

# Financial Performance and Budget Committee

**TO: FINANCIAL PERFORMANCE AND BUDGET COMMITTEE MEMBERS**

**DATE: JUNE 10, 2022**

**FROM: FINANCE DEPARTMENT**

**WARDS: ALL**

**SUBJECT: PENSION OBLIGATION BOND AND CALPERS UPDATE**

## **ISSUE:**

Receive and file an update regarding the financial status of the 2020 issuance of the Pension Obligation Bonds by the City of Riverside to restructure a portion of the City's Unfunded Accrued Liability with the California Public Employees' Retirement System and achieve financial stability.

## **RECOMMENDATION:**

That the Financial Performance and Budget Committee receive and file the update regarding the financial status of the 2020 issuance of the Pension Obligation Bonds by the City of Riverside to restructure a portion of the City's Unfunded Accrued Liability with the California Public Employees' Retirement System and achieve financial stability.

## **BACKGROUND:**

In June of 2020, the City issued \$432 million of Pension Obligation Bonds (POBs) with the proceeds from the issuance used to pay off approximately 67% of the City's Unfunded Accrued Liability (UAL) for employee pension benefits with California Public Employees' Retirement System (CalPERS). The all-in (inclusive of financing costs) interest rates set on the 25-year POBs were 3.69%, the lowest rate set on any pension bond at that time, which was at the onset of the Pandemic.

In addition to converting the 7% UAL debt with CalPERS to 3.69% debt on the POB, the City utilized the restructuring to achieve several objectives including: (1) developing a more manageable repayment schedule for this large pension liability that will enhance budget predictability and enhance City's ability to maintain service levels; and (2) prioritizing projected savings towards adequately funding various City reserves, including setting aside a portion into a new Section 115 Trust.

Over \$140 million of net present value savings is projected on the refinancing (\$178 million on a cumulative basis) and over \$10 million annually on average through 2036. While those savings assume CalPERS earns 6.8% returns in the future, the City is conservatively planning for below average performance by CalPERS and has put into place strategies, through the POB and the new Pension Funding Policy, to mitigate that risk to ensure the City's long term fiscal sustainability.

The rule of thumb is that if CalPERS earns more than the rate paid on the bonds, the City will be better off. If CalPERS historically earns under the bond rate, the City would be worse off in the long run. While past performance does not guarantee future results, CalPERS' historical 30-year returns are 8.4%, 6.9% for the last 20 years on average, 8.5% for last 10 years and 10.3% for the last 5 years.

## **DISCUSSION:**

To provide ongoing dialogue and transparency regarding the City's decision to issue the 2020 Pension Obligation Bond, staff has committed to periodic updates to the Financial Performance and Budget Committee and ultimately City Council to address any questions or concerns about the state of the City's pension liabilities. As support for the discussion, staff engaged the actuarial firm of Bartel and Associates to update the CalPERS outlook and performance of the Pension Obligation Bond. A copy of their report is attached. For ease of discussion, staff and NHA Advisors (Municipal Advisor on the 2020 POBs) put together a presentation summarizing at a high level the impact of the City issuance of the \$432 million POB in June of 2020 in conjunction with recent changes to CalPERS assumptions and actual investment performance since the time of the POB issuance.

As detailed in the attached presentation, the City benefitted significantly from the strong 21.3% gain by CalPERS in FY 2021. However, as will be shown in the sensitivity analysis provided in the presentation, it is important for the City to continue to plan conservatively, given that the UAL and projected pensions costs are still very sensitive to CalPERS investment performance.

## **STRATEGIC PLAN ALIGNMENT:**

This item contributes to **Strategic Priority No. 5 - High Performing Government** and the following two Goals:

- **Goal 5.3** – Enhance communication and collaboration with community members to improve transparency, build public trust, and encourage shared decision making.
- **Goal 5.4** – Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.

The Report utilizes City data to present updated information on the performance of the 2020 POBs. The information is provided publicly to enhance transparency surrounding City finances and encourage community input.

This item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – The POB update enhances transparency regarding City finances and shares important information about the City's fiscal health related to pension costs.
2. **Equity** – The POB Update and related information is available to all members of the public and provides data that can help guide financial decision making regarding the equitable distribution and fiscal sustainability of city services.

3. **Fiscal Responsibility** – The POB Report demonstrates fiscal responsibility through the monitoring of the performance of the Pension Obligation Bonds issued to reduce the impact of rising pension costs.
4. **Innovation** – The POB Report utilizes the most current strategy available to cities to help mitigate the rising pension costs and control the Unfunded Accrued Liability.
5. **Sustainability & Resiliency** – The POB Report provides an update to help evaluate the City's fiscal sustainability and resiliency and provide useful information for decision making related to the provision of city services and funding of long-term needs.

### **FISCAL IMPACT:**

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

The fiscal impact of the issuance of the POBs was a savings of approximately \$7.2 million per year to the General Fund for FY 2020/21 and FY 2021/22 and over \$10 million per year on average through FY 2035 across all City funds. Overall savings was estimated at \$178 million, equivalent to \$140 million on a net present value basis.

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### **Attachments:**

1. CalPERS Actuarial Analysis
2. Presentation