



City of Arts & Innovation

Finance Committee

TO: FINANCE COMMITTEE MEMBERS **DATE: AUGUST 10, 2016**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: REVIEW OF OUTSTANDING CITY PENSION OBLIGATION BOND - DIRECT SUBMITTAL

ISSUE:

Review the status of current City Pension Obligation Bond.

RECOMMENDATION:

That the Finance Committee receive and file this report on the City's Pension Obligation Bond.

BACKGROUND:

The City of Riverside has two retirement accounts with California Public Employee's Retirement System (CalPERS) established in the 1940's, one for Public Safety Employees and one for Miscellaneous Employees. Each year, CalPERS sends a report to their member agencies on the status of their retirement plans indicating what percentage the plans are funded and then unfunded. The percentage called unfunded becomes an "unfunded liability" in the financial statements of each agency, per Government Accounting Standards Board (GASB) Pronouncements 68 and 74.

In 2004 and 2005, the City made a decision to issue Pension Obligation Bonds (POBs) to prefund the unfunded CalPERS liability, instead of continuing to fund it annually. On 6/29/2004, \$89,540,000 of fixed rate POBs were issued, and on 6/30/2005, an additional \$60,000,000 in POBs were sold split into two Series, an A and B series. The A Series portion of the 2005 POBs were a fixed rate series and the B Series POB's are a variable rate which are refunded annually.

The City has saved approximately \$9,000,000 in interest costs on the Series B variable rate bonds due to the unusually low interest rates we have had since 2010.

DISCUSSION:

In February of 2004 the City Council gave direction to staff to fully fund the "unfunded liability" portion of the Public Safety Employee's retirement plan, which amounted to approximately \$89,100,000. On June 29, 2004 the City Council authorized staff to work with California Statewide Communities Development Authority and become a participating member in their Pension Obligation Bond Offering at the time. The City's portion of that bond offering was \$89,540,000. This was a fixed rate bond offering with an average coupon rate of 5.588% to 5.896% with an 18

year term. These bond funds were deposited with CalPERS, which practically eliminated the City's unfunded pension liability in the Public Safety Employee Retirement Plan at that time.

A year later, the City Council gave the direction to fully fund the Miscellaneous Employees Plan using Pension Obligation Bonds. On June 30, 2005 Council approved two City of Riverside Taxable Pension Obligation Bonds with a Series A for \$30,000,000 and a Series B for \$30,000,000. The Series A bonds are fixed rate bonds with an average interest rate of 4.78% and a term of 14 years. The Series B Bonds for \$30,000,000 were variable interest rate Auction Rate Securities, and were refunded in 2008 into Pension Obligation Refunding Bond Anticipation Notes (POB BAN) renewable on an annual basis. Payments are interest only with an outstanding principle of \$31,500,000. Interest rates vary, depending on 10 Year U.S. Treasury Notes and have been between 3.19% in 2008 to 0.98% in 2016. There is no "payoff date" per se, on these notes, since they are renewed each year.

The City has a plan to refinance these bonds into a more traditional principle and interest POB BAN when fixed rate taxable bonds become more interest rate friendly.

The table below indicates status of current Pension Obligation Bonds:

Name	Original Issuance Amount	Outstanding Balance as of June 30, 2015	Payoff Date	Annual Debt Payment
Cal Statewide Communities Development Authority POB	\$89,540,000	\$61,745,000	6/1/2023	\$8,770,000
2005 Series A POB	\$30,000,000	\$16,040,000	6/1/2020	\$3,552,000
2005 Series B POB	\$30,200,000	\$31,940,000	6/1/2017	\$245,190

FISCAL IMPACT:

There is no fiscal impact with the receipt of this update.

Prepared by: Scott G Miller, Interim Finance Director/Treasurer
 Certified as to availability of funds: Scott G. Miller, Interim Finance Director/Treasurer
 Approved by: Marianna Marysheva-Martinez, Assistant City Manager
 Approved as to form: Gary G. Geuss, City Attorney

Attachment: Presentation