

ALTERNATIVES FOR REFINANCING THE CITY'S CURRENT PENSION OBLIGATION BONDS (POBs) OUTSTANDING

Finance Department

Finance Committee
February 8, 2017

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BACKGROUND

1. The City currently has \$101 million of Pension Obligation Bonds outstanding with limited restructuring/refinancing opportunities available
2. Bonds were issued pursuant to a judicial Validation Judgment dated May 3, 2004 that all the POB's will be valid, legal and binding obligations of the City
3. As part of a 2008 refinancing of the 2005 Series B POB market security program, the City used Bond Anticipation Notes (BANs) which were interest only payments for 15 years and 5 year principal "balloon" payments for years 15-20. There is approx. \$31.1 million of the bonds outstanding
4. This presentation summarizes the City's current POB debt profile, and alternatives on how to amortize (i.e., pay down) this remaining \$31.1 million in principal

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EXISTING POB'S – CURRENT DEBT SUMMARY

	2004 Series A-1	2005 Series A	2016 BAN
Issuer / Series	California Statewide Communities Development Authority Pooled Taxable Pension Obligation Bonds	City of Riverside Taxable Pension Obligation Bonds	City of Riverside Taxable Pension Obligation Refunding Bond Anticipation Notes
Principal Outstanding	\$56,600,000	\$13,255,000	\$31,145,000
Final Maturity Date	June 1, 2023	June 1, 2020	June 1, 2017
Interest Rates	Fixed Rate [5.896% to 6.076%]	Fixed Rate [4.780%]	Fixed Rate [0.980%]
Call Feature	Any Date -- Make Whole Call MWC = Sum of present values of the remaining scheduled principal and interest payments discounted at a composite Treasury Rate plus 10 basis The Currenty Make Whole Premium (which can change daily) exceeds \$10 million	Non-Callable to Maturity	Non-Callable to Maturity

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BACKGROUND ON 2016 BAN

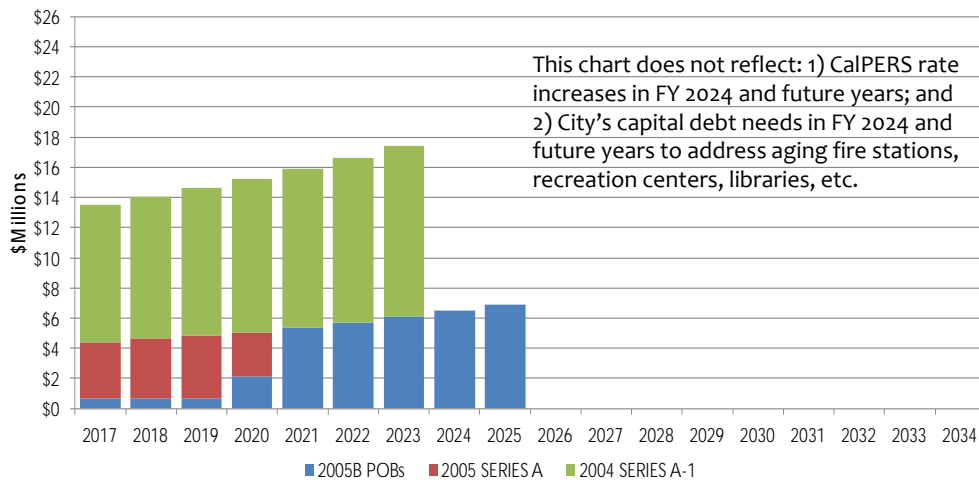
1. City issued \$30 million of 2005 Series B Auction Rate Securities along with the fixed rate 2005 Series A POBs
2. Series B bonds structured as interest only payments for 15 years with "balloon" principal payments from 2021 through 2025 which would then retire the debt
3. In February 2008, the auction rate market failed as a result of the broader crisis occurring in financial markets at that time
4. Beginning in May 2008, the City issued one year interest only Bond Anticipation Notes (BANs) to "refinance" the failing 2005 Series B auction rate securities with the same term as the original series B- these bonds must be re-issued every May to begin June 1 every year.
5. As of May 31, 2017, no principal payments will have been made for these bonds. Current balance is approx. \$31.1M

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PROJECTED ANNUAL POB DEBT SERVICE (2018 – 2025) WHEN 2005 SERIES B BONDS WERE ISSUED



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ALTERNATIVES TO CONSIDER – REDEMPTION OF 2016 BANs

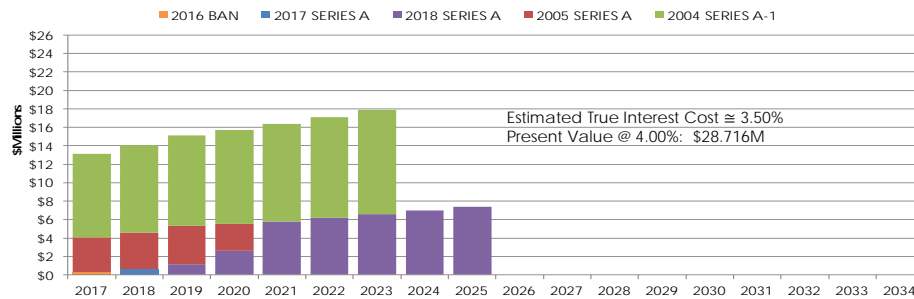
1. Alternative #1 – Continue issuing one year BANs (need to issue in June 1, 2017) and come up with a plan to pay them off at a later date before they expire May 31, 2018
2. Alternative #2 – Issue either 5 Year or 10 Year fixed rate bonds in Q2 2017 with a final maturity date of June 1, 2022 or June 1, 2027
3. Alternative #3 – Continue issuing BANs but pay “buy-down (principal) amounts year until the bonds are retired. One example is paying an \$11M “buy-down” each year for three years with a final maturity date of June 1, 2020
4. Alternative #4 – Payoff in full the BANs before June 1, 2018. This would be approx. \$32.0M
5. All these options fall under the dates authorized under the Validation Judgment of June 1, 2034



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ALTERNATIVE #1 – CONTINUE ISSUING BANS [& ISSUE TAKEOUT IN 2018 CONSISTENT WITH 2005 PLAN OF FINANCE]



FY ENDING	2004 SERIES A-1	2005 SERIES A	2016 BAN	2017 SERIES A	2018 SERIES A	TOTAL
2017	\$9,097,136	\$3,753,589	\$309,460	\$0	\$0	\$13,160,185
2018	9,437,526	3,964,453		648,044	-	14,050,023
2019	9,792,824	4,178,109			1,124,804	15,095,737
2020	10,159,786	2,928,601			2,600,994	15,689,381
2021	10,540,170				5,816,880	16,357,049
2022	10,935,437				6,165,920	17,101,357
2023	11,346,756				6,550,560	17,897,316
2024					6,957,245	6,957,245
2025					7,370,510	7,370,510

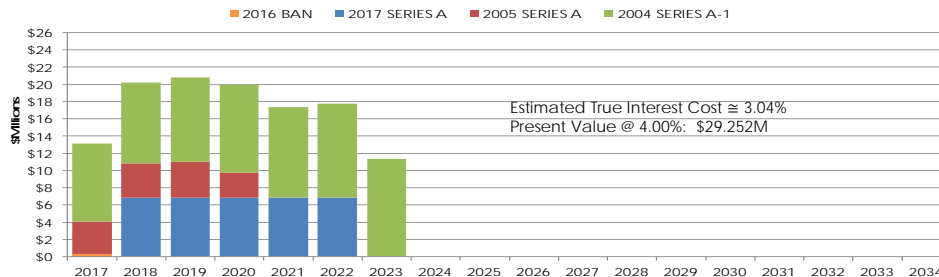
* 2017 BAN assumed interest rate is 2.03% (the rate on the 2016 BAN was 0.98%). The 2018 issuance is structured in relation to the originally expected debt service profile in 2005, adjusting for rates as of November 2017 plus 50 bps. Preliminary, subject to change based on market conditions.

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ALTERNATIVE #2A – ISSUE 5-YEAR FIXED RATE BONDS IN Q2 2017 WITH A FINAL MATURITY DATE OF JUNE 1, 2022*



FY ENDING	2004 SERIES A-1	2005 SERIES A	2016 BAN	2017 SERIES A	TOTAL
2017	\$9,097,136	\$3,753,589	\$309,460	\$0	\$13,160,185
2018	9,437,526	3,964,453		6,832,242	20,234,221
2019	9,792,824	4,178,109		6,831,857	20,802,790
2020	10,159,786	2,928,601		6,836,305	19,924,692
2021	10,540,170			6,834,071	17,374,241
2022	10,935,437			6,834,079	17,769,516
2023	11,346,756				11,346,756

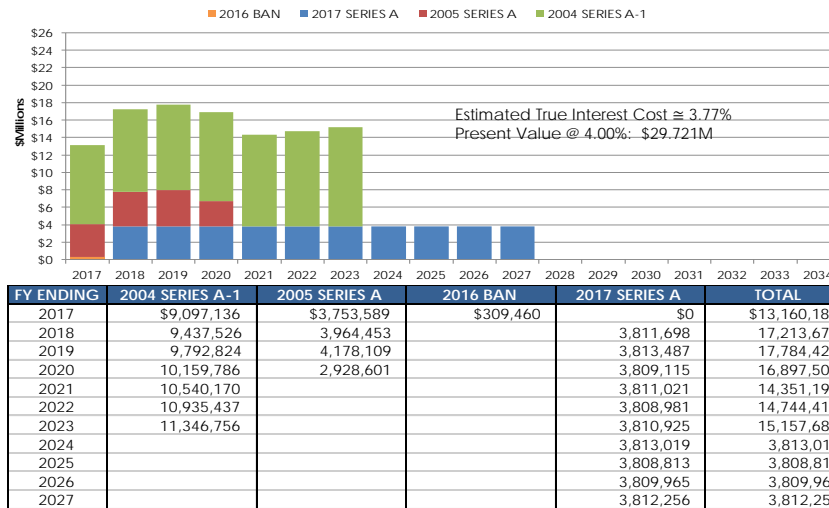
* 2017 Series A Bond Debt Service is projected based on interest rates as of November 2016 plus 50 basis points. Bond delivery date is assumed to be May 25, 2017. Preliminary, subject to change based on market conditions.

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ALTERNATIVE #2B – ISSUE 10-YEAR FIXED RATE BONDS IN Q2 2017 WITH A FINAL MATURITY DATE OF JUNE 1, 2027*



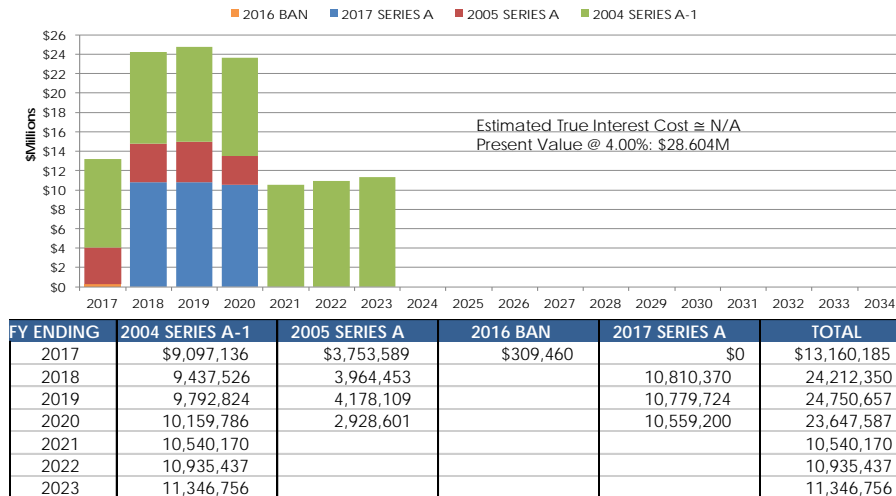
* 2017 Series A Bond Debt Service is projected based on interest rates as of November 2016 plus 50 basis points. Bond delivery date is assumed to be May 25, 2017. Preliminary, subject to change based on market conditions.

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ALTERNATIVE #3 – CONTINUE ISSUING BANS BUT “BUY DOWN” PRINCIPAL UNTIL BONDS RETIRED IN THREE YEARS*



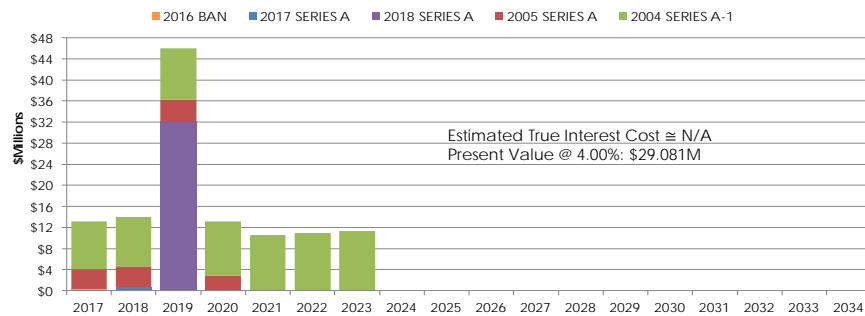
* Each BAN rollover is assumed at 2.03% (the rate on the 2016 BAN was 0.98%) on the unpaid principal plus transaction costs on May 25 of each year. Preliminary, subject to change based on market conditions.

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ALTERNATIVE #4 – ISSUE ONE YEAR BAN BEFORE JUNE 1, 2017 & PAY OFF BANS BEFORE JUNE 1, 2018*



FY ENDING	2004 SERIES A-1	2005 SERIES A	2016 BAN	2017 SERIES A	2018 SERIES A	TOTAL
2017	\$9,097,136	\$3,753,589	\$309,460	\$0	\$0	\$13,160,185
2018	9,437,526	3,964,453		648,044	0	14,050,023
2019	9,792,824	4,178,109			32,038,416	46,009,349
2020	10,159,786	2,928,601				13,088,387
2021	10,540,170					10,540,170
2022	10,935,437					10,935,437
2023	11,346,756					11,346,756

* 2017 BAN assumed interest rate is 2.03% (the rate on the 2016 BAN was 0.98%).

NOTE: SCALE OF DEBT SERVICE CHART ABOVE IS DIFFERENT FROM OTHER ALTERNATIVES TO ACCOUNT FOR FY 2019 PAYOFF.

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STAFF RECOMMENDATION

Staff Recommends Alternative #2, a 10 year short term refinancing of the current BANs using Measure Z funds with the goal to retire the debt in 2027.

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RECOMMENDATION

That the Finance Committee:

1. Review this Report;
2. Direct staff to work with the Budget Engagement Commission to further review the refunding options, and in particular Alternative 2 recommended by staff, using Measure Z funds as the payment source; and,
3. Direct the Chief Financial Officer or designee to develop a POB debt refinancing plan upon input from the Budget Engagement Commission and present such plan to the City Council for final approval as part of the Measure Z five-year spending plan.

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