



AGENDA REPORT

Finance Department

DATE:	May 17, 2022
TO:	Mayor Butt and Members of the City Council
FROM:	Anil Comelo, Interim Deputy City Manager Delmy Cuellar, Interim Finance Director
Subject:	Sole Source Contract with Bartel Associates, LLC to Prepare an Actuarial Report Necessary to Refinance the 2005 Series B Pension Obligation Bonds ("2005 POBs")
FINANCIAL IMPACT:	The proposed \$30,000 cost will be budgeted accordingly for Fiscal Year 2022-2023 and will be reimbursed from the refinance of the Pension Obligations Bonds.
PREVIOUS COUNCIL ACTION:	April 26, 2022 – City Council directed City staff to refinance the 2005 POBs.
STATEMENT OF THE ISSUE:	An actuarial analysis regarding the City's pension tax override is necessary for making disclosures to potential bond investors.
RECOMMENDED ACTION:	APPROVE a Sole Source contract with Bartel Associates, LLC., in a not to exceed amount of \$30,000, to prepare specialized actuarial analysis necessary to issue bonds and refinance the 2005 Pension Obligation Bonds, for a one-year term through May 16, 2023 – Finance Department (Anil Comelo/Delmy Cuellar 510-620-6790).

DISCUSSION:

At the direction of City Council, City staff is proceeding with the exploration of various options including the refinancing of the Pension Obligation Bonds ("2005 POBs"). The 2005 POBs are secured by a combination of the City's pension tax override and General Fund revenues. The actuarial analysis is needed to maximize the amount of pension tax override revenues that can be used to pay debt service on the proposed refinancing.

In 2003, a State appellate court ruled that the City of Huntington Beach could only use its own pension tax override revenues to pay for CalPERS costs related to employee benefits in place prior to July 1, 1978, the date that Proposition 13 went into effect. Consequently, the annual costs of new employee benefits added after July 1, 1978, cannot be paid for using pension tax override revenues. The City of Huntington Beach chose not to appeal that decision to the State Supreme Court, and the decision has been precedential since then.

In 2005, the City of Richmond retained Bartel Associates, LLC to calculate what percentage of its annual CalPERS costs for the unfunded actuarial liability were for employee benefits in place on or before July 1, 1978. This analysis was necessary so that potential investors in the 2005 POBs would know the maximum share of debt service on those bonds that could be paid from the pension tax override revenues. Bartel Associates calculated at that time that the percentage of debt service that could come from the pension tax override revenues was approximately 86 percent.

The 2005 study needs to be updated in order to provide the same level of information regarding the proposed refinancing of the 2005 POBs to potential bond investors.

The Bartel Associates scope of services (Attachment I) includes the option for a 10-year projection of the percentage of annual CalPERS costs that can be funded from the City's pension tax override. This is important because if the City's total eligible CalPERS costs drop below the "Huntington Beach percentage", the City would likely need to lower the actual tax levy, reducing overall City revenues. This projection will better enable the City's finance team to structure the proposed 2005 POB refinancing in a way that optimizes availability of future pension tax override revenues.

While there are other actuarial firms experienced in CalPERS matters, Bartel Associates, LLC remains the only firm with direct experience in calculating the percentage of debt service for a pension obligation bond that can be paid from pension tax override revenues under the 2003 Huntington Beach decision. They have done the same analysis for 14 other CalPERS members with pension tax overrides since 2018. Equally important, bond investors trust the Bartel Associates analysis. Therefore, City staff is recommending City Council approval of the one-year sole source contract with Bartel Associates, LLC.

DOCUMENTS ATTACHED:

Attachment 1 – Contract with Bartel Associates, LLC, including letter proposal dated
May 2, 2022.

Attachment 2 – Sole Source Justification