



AGENDA REPORT

Finance Department

| | |
|---------------------------------|---|
| DATE: | July 19, 2022 |
| TO: | Mayor Butt and Members of the City Council |
| FROM: | Anil Comelo, Interim Deputy City Manager Delmy Cuellar, Director of Finance Antonio Banuelos, Accounting Manager |
| Subject: | Information Item on Issuance of Taxable Pension Refunding Bonds, Series 2022 ("2022 Refunding Bonds") |
| FINANCIAL IMPACT: | Potential increase in annual debt service required because of need to fund termination payment on an interest rate swap. Potential future interim General Fund budget savings because of term extension. |
| PREVIOUS COUNCIL ACTION: | April 6, 2021; October 5, 2021; December 7, 2021, June 7th, 2022, June 21, 2022 |
| STATEMENT OF THE ISSUE: | On June 21st, the City Council approved a resolution authorizing the issuance of refunding bonds for the 2005 POBs. The City Council is being asked to consider options for how this refinancing is to be structured, including a potential term extension. |
| RECOMMENDED ACTION: | RECEIVE report, CONSIDER staff recommendations, and PROVIDE guidance on structuring the 2005 Pension Bond Refunding – Finance Department (Anil Comelo 620-6609/Delmy Cuellar 620-6790/Antonio Banuelos 620-6741). |

DISCUSSION:

Background. The City currently has the following outstanding two series of 2005 POBs: (i) \$17.899 million principal amount series maturing in 2023 (the "B-1 Bonds"), and (ii) \$127.868 million principal amount series maturing in 2034 (the "B-2 Bonds"). The City is strongly recommended to refinance the B-1 and B-2 Bonds given existing outstanding challenges. The City is party to two interest rate swaps (the "Swaps") associated with the 2005 POBs. However, the swap for the B-2 Bonds (the "B-2 Swap") is subject to mandatory early termination on August 1, 2023, before which time the City will need to either (a) arrange financing to pay the market value of the B-2 Swap upon such early termination or (b) amend the B-2 Swap to remove, reduce, or delay the mandatory early termination. These and other reasons to refinance the 2005 POBs as soon as possible to accomplish these goals is described in more detail in the attached memorandum and slide deck presentation.

Recommendation on Term Extension. The City's finance team has made a preliminary determination that extending the amortization period for the 2022 Refunding Bonds beyond the current final maturity for the B-2 Bonds of August 1, 2034, is advisable. The City's finance team recommends an extension to August 1, 2044. Such an extension can reduce General Fund expenses needed to pay CalPERS costs from regular General Fund revenues by an average of approximately \$7 million per year through 2034. Due to the term extension, the City would be paying debt service on the proposed refinancing bonds through 2044 instead of 2034. More detail on this recommendation is provided in the attached memorandum and slide deck presentation.

Optimizing Pension Tax Override ("PTO") Revenues. Bartel & Associates did an in-depth analysis of the eligibility of PTO revenues to pay current and future CalPERS related expenses for the City. A term extension on the 2022 Refunding Bonds would help the City leverage the PTO revenue in a more efficient way by re-aligning projected pension costs to projected revenues. The Bartel & Associates report is attached, with a brief summary of the findings on slide 6 of the attached presentation.

Next Steps. The City Council will likely be asked to consider approval of other legal documents required for the 2022 Refunding Bonds at its meeting of July 26th. At that time, the City Council will need to make a final decision on whether or not to extend the term of the 2022 Refunding Bonds, and if so, by how much.

Assuming City Council approval of the other legal documents required by the 2022 Refunding Bonds, as well as the final recommendations on the financing plan, as described above, at its meeting of July 26th or in September 2022, the 2022 Refunding Bonds will be sold in late August. If the approval does not take place at the July 26th meeting, the selling of the 2022 Refunding Bonds may be delayed.

DOCUMENTS ATTACHED:

Attachment 1 – July 7, 2022 Memo from NHA Advisors on 2022 Refunding Bonds

Attachment 2 – Slide Deck Presentation by NHA Advisors on Proposed 2022 Refunding Bonds

Attachment 3 – Bartel Associates Pension Tax Override Study for Fiscal Years 20221-22 and 2022-23