

2019 Refunding Pension Obligation Bonds

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Funding of the Fire and Police Retirement System (FPRS)

- In 1999, City issued \$101.9 million POBs;
- In 2004 City issued \$40.7 million POBs;
- In 2012 City issued \$47.44 million POBs;
- In 2015 SB 481 sunset and the City refunded all the outstanding 1999, 2004, and 2014 POBs by issuing \$119.46 million of its 2015 Series A&B Refunding POBs and assumed the debt service payment on the bonds.



Background

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- Despite the issuance of POBs, supplemental General Fund contributions are still required from time to time in accordance with the Contribution Agreement. As of 6/30/18 FPRS actuarial report, FPRS was funded at 79.9% and a supplemental contribution of \$3.5 million was projected by the actuary in FY2020.
- The Actuary also projected the System's funding ratio below the required 80% beginning FY2020 through FY2049 necessitating annual supplemental contributions from the General Fund
- In March, City Council approved an amendment to the Contribution Agreement establishing the beneficial interest in the Concord to the FPRS. Upon the sale of the asset, FPRS will receive a total of \$20.45 million and is projected to be funded close to 90% funding ratio.



Proposed Refunding

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- Interest rates declined over the last 6 months creating the opportunity of refinancing the current outstanding 2015 POBs

10-Year UST Yield Since June 2018





Refunding plan

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- Issue fixed rate bonds to refinance all of the 2015 A POBs and a portion of the 2015 B POBs
 - No new money and no extension of the terms
 - Refund all callable bonds
 - Level savings
- Total savings of \$13.9 million (over \$500K annually)

	Series 2019 A (Refunding of 2015 A POBs)	Series 2019 B (Refunding of 2015 B POBs)	Total
Sources			
Principal	84,120,000	47,595,000	131,715,000
Uses			
Refunding Escrow	83,746,654	47,383,507	131,130,160
Costs of Issuance	373,346	211,493	584,840
Total	84,120,000	47,595,000	131,715,000



Refunding plan

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Estimated Funds Required to Defeas \$111,905,000 of 2015 Bonds:

Refunded principal	\$111,905,000
Interest to call date (5/1/25)	28,545,749
Estimated investment earnings to call date	<u>(9,320,589)</u>
Estimated funds required to defease bonds	131,130,160



Sensitivity analysis

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Rate Movement	Interest Rate Sensitivity Analyses		
	-10 BPS	CURRENT	+10 BPS
Avg. Bond Yield	2.82%	2.92%	3.03%
NPV Savings (\$)	\$10,324,209	\$8,420,933	\$6,551,689
NPV Savings (%)	9.23%	7.53%	5.85%
Total Savings	\$14,403,604	\$11,849,359	\$9,286,705
Year			
2020	\$281,027	\$233,157	\$180,327
2021	\$565,747	\$465,189	\$364,761
2022	\$563,213	\$463,111	\$363,069
2023	\$566,115	\$466,486	\$366,847
2024	\$564,595	\$465,443	\$366,211
2025	\$563,971	\$465,298	\$366,476
2026	\$564,833	\$466,625	\$363,197
2027	\$564,123	\$463,592	\$362,879
2028	\$565,834	\$463,120	\$365,164
2029	\$563,661	\$463,930	\$363,791
2030	\$567,204	\$465,522	\$363,383
2031	\$564,043	\$465,578	\$366,616
2032	\$566,873	\$466,686	\$365,962
2033	\$562,830	\$466,122	\$363,846
2034	\$566,905	\$463,768	\$365,167
2035	\$563,848	\$463,376	\$362,293
2036	\$565,475	\$464,247	\$362,410
2037	\$563,088	\$466,373	\$364,058
2038	\$566,597	\$464,520	\$362,005
2039	\$564,135	\$462,115	\$364,688
2040	\$563,263	\$466,098	\$363,413
2041	\$564,763	\$462,903	\$365,733
2042	\$564,388	\$463,583	\$362,388
2043	\$566,575	\$462,425	\$362,985
2044	\$565,350	\$463,625	\$366,580
2045	\$565,150	\$466,470	\$362,460

Rate Analysis as of 9-9-19



Sensitivity analysis

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Year	Annual Savings		
	-10 BPS	CURRENT	+10 BPS
2020	\$228,541	\$192,921	\$163,009
2021	\$436,022	\$374,262	\$308,719
2022	\$438,260	\$376,467	\$310,879
2023	\$435,560	\$373,761	\$313,153
2024	\$438,512	\$376,710	\$310,989
2025	\$438,280	\$376,408	\$310,612
2026	\$439,802	\$372,808	\$311,892
2027	\$438,724	\$373,919	\$309,976
2028	\$439,880	\$372,290	\$310,462
2029	\$437,352	\$372,147	\$312,489
2030	\$435,764	\$373,006	\$310,578
2031	\$435,591	\$375,210	\$310,069
2032	\$435,348	\$372,406	\$309,777
2033	\$439,928	\$374,656	\$309,615
2034	\$439,167	\$376,796	\$309,589
2035	\$437,099	\$376,481	\$311,107
2036	\$439,370	\$372,060	\$310,093
2037	\$437,944	\$374,376	\$310,952
2038	\$437,740	\$373,044	\$313,452
2039	\$437,038	\$376,503	\$310,883
2040	\$439,585	\$372,867	\$311,193
2041	\$440,212	\$373,049	\$310,763
2042	\$439,834	\$372,850	\$310,596
2043	\$437,895	\$376,719	\$310,146
2044	\$438,599	\$373,718	\$308,657
2045	\$436,233	\$373,458	\$310,583

Rate Analysis as of 9-23-19

Rate Movement	Interest Rate Sensitivity Analyses		
	-10 BPS	CURRENT	+10 BPS
Par Amount	\$131,035,000	\$130,390,000	\$129,745,000
Escrow Yield	1.49%	1.59%	1.69%
Avg. Bond Yield	2.99%	3.09%	3.19%
NPV Savings (\$)	\$7,891,498	\$6,682,174	\$5,502,038
NPV Savings (%)	7.05%	5.97%	4.92%
Annual Savings	\$437,989	\$374,239	\$310,689
Total Savings	\$16,429,287	\$9,548,889	\$7,930,231

- Treasury rates are 4-5 basis points off the City's goal of \$400,000 in annual savings
- Savings may be improved by a higher yield on the escrow



Fiscal Impact

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- The recommended refunding will not extend the current term on the bonds nor will it raise net new funds for funding purposes. Based on current market conditions as of September 5, 2019, it is anticipated that the true interest cost of the 2019 POBs series will be an estimated 2.92% rate and the City will save an aggregate \$11.8 million in interest cost over the term of the bonds or \$8.4 million on a net present value basis. The annual debt service payment savings is estimated to be \$465,000.
- All costs associated with the refunding will be incorporated and paid by the bond proceeds of the 2019 POBs series. Funds have already been appropriated in the City's FY 2020 operating budget to pay debt service on the bonds. There is no anticipated impact to other operational programs or capital projects as a result of this action



Recommendation

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1. Find that the proposed action is not a project subject to the California Environmental Quality Act (CEQA) as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required for the project;
2. Adopt a Resolution authorizing the issuance of one or more series or subseries of City of Pasadena Pension Obligation Refunding Bonds; approving the form of and authorizing the execution of supplemental trust agreement providing for such issuance, approving the form of and authorizing the execution of a bond purchase agreement, a continuing disclosure agreement and escrow agreements and approving the form of and authorizing the distribution of a preliminary official statement and official statement, and authorizing certain matters related thereto;
3. Grant the proposed Trust Agreement Supplements an exemption from the competitive selection process pursuant to Pasadena Municipal Code Section



Recommendation

FINANCE DEPARTMENT

- 4.08.049B. Competitive bidding is not required pursuant to City Charter Section 1002(F), contracts for professional or unique services; and competitive selection process pursuant to Pasadena Municipal Code Section
4. Approve contracts with Stifel, Nicolaus & Company, Incorporated and Bank of America Merrill Lynch as underwriters for the proposed refunding bonds at a discount rate (fee) not to exceed 0.30% of the bonds. Competitive bidding is not required pursuant to City Charter Section 1002(F), contract for professional or unique services.