



Agenda Report

March 11, 2019

TO: Honorable Mayor and City Council

FROM: Director of Finance

SUBJECT: AMENDMENT TO AGREEMENT NO. 20,823 WITH THE FIRE AND POLICE RETIREMENT SYSTEM (FPRS) TO ESTABLISH A BENEFICIAL INTEREST IN THE CONCORD PROPERTY

RECOMMENDATION:

It is recommended that the City Council:

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; and
2. Authorize the City Manager to execute an amendment to Agreement No. 20,823 with FPRS to establish a beneficial interest of FPRS in the Concord property, as further described in this Agenda Report.

BACKGROUND:

In 1989, the City Council assigned beneficial interest of the Concord Senior Housing Apartments ("Concord") to FPRS with the intent that the beneficial interest would generate ongoing revenue to help support the outstanding pension liability of FPRS. The City is in negotiations to sell the Concord and the proposed amendment to Agreement No. 20,823 will establish the beneficial interest terms and define how any proceeds from the Concord sale or future net income from its operations is recognized by FPRS.

The funds used for the purchase of the Concord property originated from set aside monies from the City's 1989 Discretionary Contribution Fund to FPRS. This use served the dual public purpose of securing low-income senior housing for the residents of the City, while providing an asset for the benefit of FPRS. On July 31,

1989, the City and Pasadena RHF Housing, Inc. ("RHF") entered into a ground lease agreement for the Concord located at 275 East Cordova Street in Pasadena. At the time of this agreement, it was approved by the City Council that FPRS would receive a 93% beneficial interest in the property and 100% of all positive cash flow owed to the City, including annual rent and related interest. At the time, it was projected that the Concord would generate positive cash flow which would result in improved funding for FPRS and reduce the future liability of the City's General Fund to provide funding. Unfortunately, regular positive cash flow from the operations did not materialize, and FPRS has required additional funding supported by Pension Obligation Bonds and the General Fund.

On November 1, 2011, the City and FPRS entered into the Amended and Restated Contribution Agreement No. 20,823 to ensure the retirement fund was financially solvent and that it had sufficient funding to support the benefits provided to its beneficiaries. The beneficial interest in the Concord was not memorialized in this agreement; however, the original commitment from 1989 remained.

As the City is now considering the sale of all or a portion of the Concord property, City and FPRS staff have worked to establish a beneficial interest, memorializing a long-standing practice. City and FPRS staff have prepared an amendment to the Contribution Agreement that confers the referenced beneficial interest to FPRS.

The proposed amendment memorializes the accrued rent and interest owed to the City as of July 31, 2018 in the amount of \$6,435,116. Further, the proposed amendment assigns FPRS 100% of the past due amount and all future rents and income from operations through the term of the ground lease agreement, which expires on August 1, 2031, or until the City sells the Concord, whichever occurs first. In addition to operational related revenues, FPRS will also receive 93% of any proceeds generated from the sale of the Concord property. If a sale were to occur, the accrued rent plus any subsequent annual rent and interest as outlined above would be transferred to FPRS first, and any remaining sale proceeds would be allocated to FPRS based upon the 93% beneficial interest. Per the original action in 1989, the remaining 7% beneficial interest will be allocated to the Pasadena Housing Successor Agency.

Lastly, the proposed amendment provides that any proceeds from the sale of the Concord received in FY 2020 would be counted towards the City's obligation of making a payment to maintain the minimum funding level of 79.5% for that year. If the Concord proceeds were received after January 1, 2020, the date in which the City's mandatory contribution is required, but before July 1, 2020, then the Concord proceeds remitted to the FPRS would be reduced by the amount of the mandatory contribution previously paid.

The proposed amendment was reviewed and approved by the FPRS Retirement Board at their meeting on February 20, 2019.

ENVIRONMENTAL ANALYSIS:

The proposed actions are governmental fiscal activities that would not cause either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. Therefore, the proposed action is not a "project" subject to CEQA, as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines. Since the action is not a project to CEQA, no environmental document is required.

FISCAL IMPACT:

The actuarial valuation dated June 30, 2018 for FPRS reported a funding level of 79.9%. Per the Amended and Restated Contribution Agreement No. 20,823, the minimum funding level is 79.0% for FY 2019. The minimum funding level increases to 79.5% in FY 2020; however, the projected actuarial valuation level was projected to decrease to 77.2% in the same year. Therefore, the actuarial valuation projected a required \$3.1 million payment from the City in FY 2020. Based on actions taken by the FPRS Retirement Board on February 20, 2019 to set the Cost of Living Adjustment (COLA) at 4.0% and considering the investment earnings through January 31, 2019 of 0.4%, the required contribution for FY 2020 is now estimated to be between \$3.6 and \$3.8 million.

Through the sale of the Concord property, FPRS is projected to receive approximately \$14.57 million dollars of net proceeds in FY 2020 and an additional \$5.88 million in FY 2023. If these proceeds are realized, the FPRS would be funded at close to 90%, and the next City contribution would likely be pushed back to FY 2027 or beyond. In the event the Concord transaction does not proceed, the City will need to make additional supplemental contributions annually to the system for at least the next 20 years ranging from \$3.8 million to \$1.2 million.

Respectfully submitted,



MATTHEW E. HAWKESWORTH
Director of Finance

Approved by:



STEVE MERMELL
City Manager