



AGENDA OF A SPECIAL MEETING  
NATIONAL CITY COUNCIL  
ONLINE ONLY MEETING  
<https://www.nationalcityca.gov/webcast>  
LIVE WEBCAST  
COUNCIL CHAMBERS  
CIVIC CENTER  
1243 NATIONAL CITY BOULEVARD  
NATIONAL CITY, CALIFORNIA  
TUESDAY, SEPTEMBER 7, 2021 – 5:00 PM

**ALEJANDRA SOTELO-SOLIS**  
Mayor

**JOSE RODRIGUEZ**  
Vice Mayor

**MARCUS BUSH**  
Councilmember

**RON MORRISON**  
Councilmember

**MONA RIOS**  
Councilmember

1243 National City Blvd.  
National City, CA 91950  
619-336-4240

Meeting agendas and  
minutes available on the  
City's website at  
[WWW.NATIONALCITYCA.GOV](http://WWW.NATIONALCITYCA.GOV)

**NOTICE:** The health and well-being of National City residents, visitors, and employees during the COVID-19 outbreak remains our top priority. The City of National City is coordinating with the County of San Diego Health Human Services Agency, and other agencies to take measures to monitor and reduce the spread of the novel coronavirus (COVID-19). **The World Health Organization has declared the outbreak a global pandemic and local and state emergencies have been declared providing reprieve from certain public meeting laws such as the Brown Act.**

As a result, the City Council Meeting will occur only online to ensure the safety of City residents, employees and the communities we serve. A live webcast of the meeting may be viewed on the city's website at [www.nationalcityca.gov](http://www.nationalcityca.gov). **For Public Comments see "PUBLIC COMMENTS" section below.**

**ORDER OF BUSINESS:** Public sessions of all Regular Meetings of the City Council / Community Development Commission - Housing Authority (hereafter referred to as Elected Body) begin at 6:00 p.m. on the first and third Tuesday of each month. Public Hearings begin at 6:00 p.m. unless otherwise noted. Closed Meetings begin in Open Session at 5:00 p.m. or such other time as noted, and after announcing closed session items, convenes into a Closed Meeting. If a workshop is scheduled, the subject and time of the workshop will appear on the agenda. The Mayor and Council members also sit as the Chairperson and Members of the Board of the Community Development Commission (CDC).

**REPORTS:** All open session agenda items and reports as well as all documents and writings distributed to the Elected Body less than 72 hours prior to the meeting, are available for review on the City's website at [www.nationalcityca.gov](http://www.nationalcityca.gov). Regular Meetings of the Elected Body are webcast and archived on the City's website at [www.nationalcityca.gov](http://www.nationalcityca.gov).

**PUBLIC COMMENTS:** There are multiple ways you can make sure your opinions are heard and considered by our City Council as outlined below:

**Submit your public comment prior to the meeting:** To submit a comment in writing, email [PublicComment@nationalcityca.gov](mailto:PublicComment@nationalcityca.gov), provide the agenda item number and title of the item in the subject line of your email. Public comments or testimony is limited to up to three (3) minutes. If the comment is not related to a specific agenda item,

indicate General Public Comment in the subject line. All email comments received by 1:00 p.m. on the day of the meeting will be read into the record at the City Council meeting, emailed to the City Councilmembers, and retained as part of the official record. All comments will be available on the City website within 48 hours following the meeting.

**Questions about public comment or City Council protocols?** Please contact the City Clerk's Office at (619) 336-4228 or via email at [Clerk@nationalcityca.gov](mailto:Clerk@nationalcityca.gov).

**WRITTEN AGENDA:** With limited exceptions, the Elected Body may take action only upon items appearing on the written agenda. Items not appearing on the agenda must be brought back on a subsequent agenda unless they are of a demonstrated emergency or urgent nature, and the need to take action on such items arose after the agenda was posted.

Upon request, this agenda can be made available in appropriate alternative formats to persons with a disability in compliance with the Americans with Disabilities Act. Please contact the City Clerk's Office at (619) 336-4228 to request a disability-related modification or accommodation. Notification 24-hours prior to the meeting will enable the City to make reasonable arrangements to ensure accessibility to this meeting.

**AVISO:** La salud y el bienestar de los residentes, visitantes y empleados de National City durante el brote de COVID-19 sigue siendo nuestra máxima prioridad. El Ayuntamiento de la Ciudad de National City se está coordinando con la Agencia de Salud y Servicios Humanos del Condado de San Diego y otras agencias para tomar medidas con el fin de monitorear y reducir la propagación del nuevo coronavirus (COVID-19). La Organización Mundial de la Salud declaró el brote como una pandemia global y se han manifestado emergencias locales y estatales que resultan en la suspensión de ciertas leyes de reuniones públicas, tal como la Ley Brown.

Como resultado de ello, la junta del Concejo Municipal del Ayuntamiento se llevará a cabo solamente en línea para garantizar la seguridad de los residentes, empleados y comunidades locales que atendemos. Se podrá ver una transmisión en vivo de la junta en el sitio web del Ayuntamiento en [www.nationalcityca.gov](http://www.nationalcityca.gov). **Para comentarios públicos, vea la sección "COMENTARIOS PÚBLICOS" más adelante.**

**ORDEN DEL DÍA:** Las sesiones públicas de todas las juntas ordinarias del Concejo Municipal/Comisión de Desarrollo Comunitario - Autoridad de Vivienda (en lo sucesivo denominado Órgano Electo) inician a las 6:00 p.m. el primer y tercer martes de cada mes. Las audiencias públicas inician a las 6:00 p.m., a menos que se indique lo contrario. Las juntas cerradas inician en sesión abierta a las 5:00 p.m. o en cualquier otro momento que se indique, y tras anunciar los temas de la sesión cerrada, la junta se realiza como sesión cerrada. Si se programa una reunión de discusión y análisis, el tema y la hora de la misma aparecerán en la agenda. La Alcaldesa y los Concejales se reúnen por igual que el Presidente y los integrantes del Consejo de la Comisión de Desarrollo Comunitario.

**INFORMES:** Todos los temas e informes de la agenda de la sesión abierta, así como todos los documentos y escritos entregados al Órgano Electo menos de 72 horas antes de la sesión, aparecerán en el sitio web del Ayuntamiento. Las juntas ordinarias del Órgano Electo se transmiten por Internet y se archivan en el sitio web del Ayuntamiento en [www.nationalcityca.gov](http://www.nationalcityca.gov).

**COMENTARIOS PÚBLICOS:** Hay varias formas en las que puede asegurarse de que sus opiniones sean escuchadas y consideradas por nuestro Concejo Municipal como se describe a continuación:



**Envíe su comentario público antes de la sesión:** Para enviar un comentario por escrito, envíe un correo electrónico a [PublicComment@nationalcityca.gov](mailto:PublicComment@nationalcityca.gov). Por favor, indique el número del tema del programa y el título del tema en la línea de asunto de su correo electrónico. Los comentarios o testimonios públicos están limitados a tres (3) minutos. Si el comentario no está relacionado con un tema específico del programa, indique Comentario público general en la línea de asunto. Todos los comentarios recibidos por correo electrónico antes de las 1:00 p.m. del día de la reunión serán leídos en el registro en la reunión del Concejo Municipal, enviados por correo electrónico a los Concejales de la Ciudad, y retenidos como parte del registro oficial. Todos los comentarios estará disponible en el sitio web de la ciudad dentro de las 48 horas posteriores a la reunión.

**¿Preguntas sobre comentarios públicos o protocolos del Concejo Municipal?** Comuníquese con la Oficina de la Secretaria del Ayuntamiento al teléfono (619) 336-4228, o por correo electrónico a [Clerk@nationalcityca.gov](mailto:Clerk@nationalcityca.gov).

**AGENDA ESCRITA:** Con contadas excepciones, el Órgano Electo puede tomar medidas únicamente sobre los temas que aparecen en la agenda escrita. Los temas que no aparezcan en la agenda deben aparecer en una agenda subsecuente, a menos que sean de emergencia o urgencia demostrada, y la necesidad de tomar medidas sobre esos temas haya surgido después de haber sido publicada la agenda.

Previa solicitud, esta agenda puede estar disponible en formatos alternativos apropiados para personas con discapacidades, en observancia de la Ley de Estadounidenses con Discapacidades. Llame al teléfono (619) 336-4228 de la Oficina del Secretario del Ayuntamiento para solicitar una modificación o adaptación de acceso relativa a la discapacidad. Notificar 24 horas antes de la sesión permitirá al Ayuntamiento hacer arreglos razonables para garantizar la accesibilidad a esta junta.

**OPEN TO THE PUBLIC**

**OPEN SESSION**

**CALL TO ORDER**

**ROLL CALL**

**PUBLIC COMMENT:** (Public Comment will be restricted to Agenda Items only)

**PENSION OBLIGATION BONDS WORKSHOP**

1. Report on CalPERS Unfunded Accrued Liability Restructuring and Issuance of 2021 Pension Obligation Bonds.
2. Resolution of the City Council of the City of National City adopting City Council Policy #202 entitled "Pension Funding Policy".

**ADJOURNMENT**

Next Regular City Council Meeting: Tuesday, September 7, 2021, 6:00 p.m., City Council Chambers, Civic Center – National City, California.





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CIVIC CENTER, 1243 NATIONAL CITY BOULEVARD  
NATIONAL CITY, CALIFORNIA  
TUESDAY, SEPTEMBER 7, 2021 – 5:00 PM**

NOTICE IS HEREBY GIVEN, that the City Council of the City of National City will hold a Special Meeting on **Tuesday, September 7, 2021, at 5:00 p.m.**, or as soon thereafter as the matter may be considered, in the Council Chambers at the Civic Center, 1243 National City Boulevard, National City, California, 91950. The business to be transacted at said meeting will be for the City Council to consider the following:

**OPEN TO THE PUBLIC**

**OPEN SESSION**

**CALL TO ORDER**

**ROLL CALL**

**PUBLIC COMMENT:** (Public Comment will be restricted to Agenda Items only)

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**CITY OF NATIONAL CITY, CALIFORNIA  
COUNCIL AGENDA STATEMENT**

**MEETING DATE:** September 7, 2021

**AGENDA ITEM NO.:** 1

**ITEM TITLE:**

Report on CalPERS Unfunded Accrued Liability Restructuring and Issuance of 2021 Pension Obligation Bonds.

**PREPARED BY:** Molly Brennan, Administrative Services Director

**DEPARTMENT:** Finance

**PHONE:** 619-336-4265

**APPROVED BY:** \_\_\_\_\_

*Molly Brennan*

**EXPLANATION:**

See attached.

**FINANCIAL STATEMENT:**

**APPROVED:** \_\_\_\_\_

*Peter Symonakis*

**FINANCE**

**APPROVED:** \_\_\_\_\_

**MIS**

None for this report. If the City does decide to move forward in Fall of 2021 with a UAL restructuring, significant short- and long-term budgetary savings are expected.

**ENVIRONMENTAL REVIEW:**

This is not a project and, therefore, not subject to environmental review.

**ORDINANCE:**    **INTRODUCTION**     **FINAL ADOPTION**

**STAFF RECOMMENDATION:**

That City Council receive the presentation and provide guidance on the City's preliminary plan of finance as outlined in the Staff Report.

**BOARD / COMMISSION RECOMMENDATION:**

**ATTACHMENTS:**

1. Staff Report
2. Presentation





## City Council Agenda Report

### September 7<sup>th</sup> Workshop

CalPERS UAL Restructuring Discussion  
Update on 2021 Pension Obligation Bond

#### ITEM

City staff, in conjunction with discussions with City Council, have explored the use of pension obligation bonds (“POBs” or “Bonds”) to meet several objectives, including: (1) generating cash flow savings to the City and taxpayers using historically low interest rates (currently  $\approx 2.75\% - 3.25\%$ ) relative to the current California Public Employees Retirement System (CalPERS) discount rate of 7.00%; (2) to create a repayment schedule for the City’s unfunded pension liabilities (“UAL”) that is more manageable and creates budgetary savings; and (3) enhance budget predictability and long-term fiscal sustainability by creating a smoother repayment shape at a lower level.

After an initial workshop on October 6, 2020, to discuss the concept (including benefits and risks) of a UAL restructuring, City Council approved the base POB documents on October 20, 2020 and approved the initiation of a validation process through the court system. The successful validation process ended in July 2021. As the market for POBs has improved since 2020 (lower interest rates), staff is recommending continuing the financing process to issue a POB this fall to secure savings. Staff and its Municipal Advisor (NHA Advisors, LLC) have analyzed multiple scenarios over the past few months to optimize the plan of finance. The recommendation for the financing plan is detailed below. An update on CalPERS events and actions related to recent returns and imminent assumption changes is also discussed.

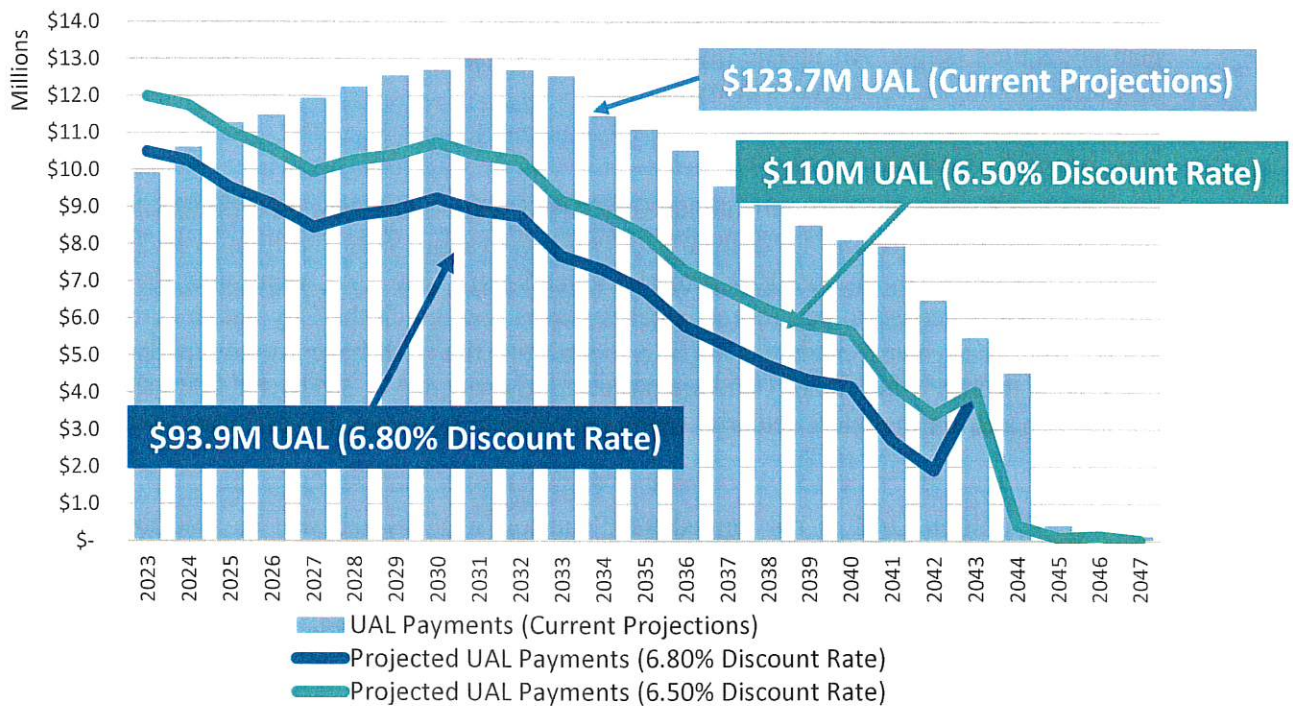
#### BACKGROUND/DISCUSSION

Over the last 8 years, the City of National City’s (the “City”) UAL for its CalPERS Miscellaneous and Safety Plans has grown 74.6%, from \$70.8 million to about \$123.7 million (6/30/2022 projected amount determined by the 6/30/20 actuarial valuations). The UAL represents the shortfall/gap between what is needed to pay retiree benefits versus how much the City has in current CalPERS assets. Annual payments made to CalPERS to amortize the UAL have grown rapidly: from \$3.9M in FY 2016 to \$7.8M in FY 2021 and are projected to grow to \$11.3M by FY 2025 and \$13.0M by FY 2031 (based on the latest actuarial reports excluding the recent FY 2021 investment return of 21.3%).

The \$123.7 million UAL is not immediately due to CalPERS and will be amortized over time (different components amortized over different time periods, typically between 3 and 28 years) at the discount rate of 7.00%. Pension cost increases are the largest financial challenge facing most cities throughout the state and are primarily due to factors outside of their control (actuarial assumption changes made by CalPERS, below average investment returns over the last 20 years, etc.).

**Update on Recent CalPERS Returns and Likely Assumption Changes:** While the \$123.7 million UAL is based on the latest actuarial reports released in August 2021 and incorporates the 4.70% returns from FY 2020, the reports do not include the benefit of the recent FY 2021 21.30% return or any new potential assumption changes. The current thinking is that in November CalPERS will likely lower the discount rate (target investment return). Based on existing CalPERS policy, the high rate of return for FY 2021 will trigger a discount rate reduction to 6.80% (down from current 7.00%). There is a chance that the CalPERS board will elect to lower it even more (6.50% or lower) based on an updated asset and liability study currently underway. CalPERS will also be re-visiting several other assumptions (demographic, mortality rates, etc.) through its experience study this fall. The City and financing team are closely monitoring these discussions and decisions, all of which will help clarify the ultimate structuring strategy for the City’s POB.

As shown in the chart below, it is estimated that the City’s UAL will be reduced to approximately \$94 million after incorporating the 21.3% returns and a hypothetical 6.80% discount rate. It is highly likely that CalPERS may reduce the discount rate below 6.80%. If the discount rate is reduced to 6.50%, the UAL is estimated to increase to \$110 million (payments shown in teal line below) or even higher (\$124 million) if the discount rate is reduced to 6.25%. While the projected reduction is beneficial for the City, the UAL debt continues to amortize at the 6.80% discount rate and on a repayment schedule that is very un-even, with spikes in the early years and through 2030 (see blue line below), ultimately being paid off by FY 2045/46. Note: these hypothetical scenarios reflect only the impact of discount rate changes on the UAL. No assumptions are incorporated about potential changes in the UAL from the results of the CalPERS experience study. It should also be noted that a discount rate reduction will not only increase the UAL, but also the City’s Normal Cost payments that are required for current employees.



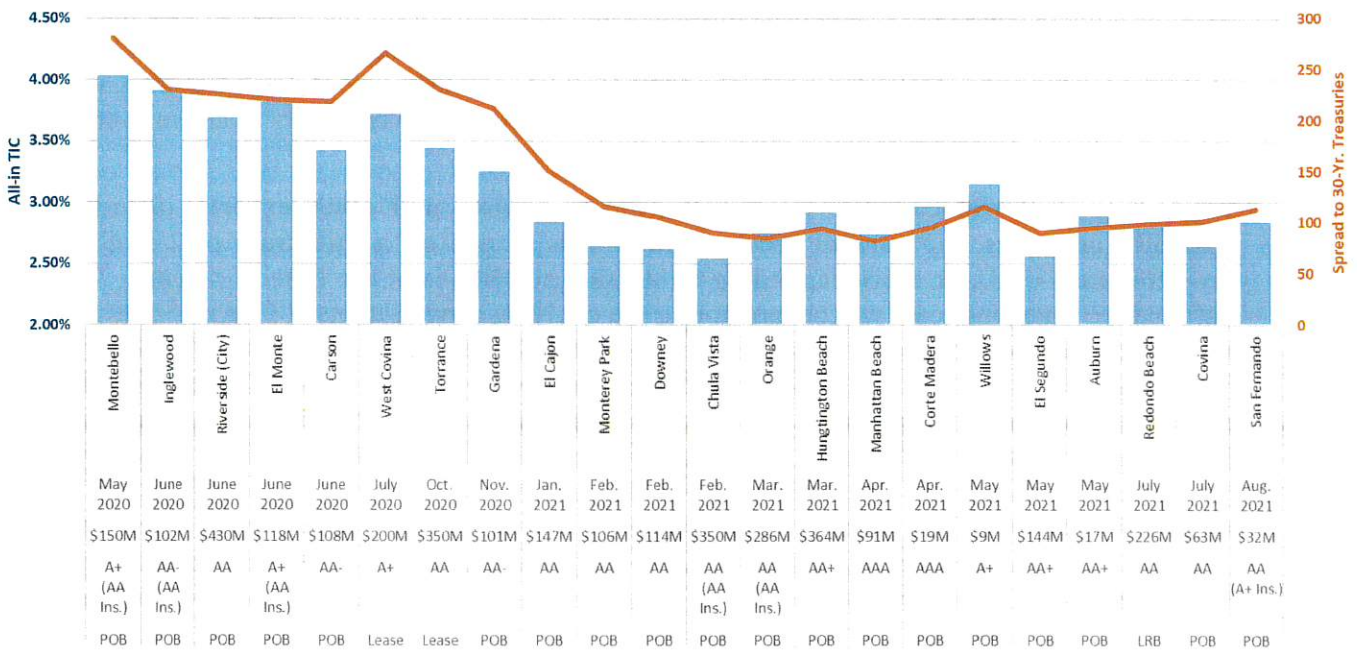


**Benefits of a UAL Restructuring using a POB:** The City is considering issuing a POB to pay off *a portion* of its UAL to achieve several objectives:

- **Fiscal Sustainability Tool:** Ability to “re-shape” the City’s overall pension repayment in a way that creates enhanced long-term fiscal sustainability, budgetary predictability, and *enhanced resiliency to future economic shocks*
- **Near-Term Budgetary Savings:** By modifying the current near term “peak” in scheduled payments into a more predictable (i.e., level) structure, near term cash flow savings are generated
- **Interest Rate Savings “Arbitrage”:** City can borrow at rates much lower (currently 2.75% – 3.25% depending on term & credit) than the CalPERS discount rate (6.8%)
- **Increase Funded Ratio:** Current ratios range from 70.5% (Miscellaneous) to 64.3% (Safety); these could be increased to above 90% through the restructuring
- **Modify Maturity:** Shorten or lengthen repayment period as deemed most fiscally appropriate. The City’s preliminary recommendation (see discussion below) is to shorten the payment term to about 20 years, from the current term of 24 years.

**Other Cities Issuing POBs and Market Update:** Over the last few years 70 CalPERS members have issued bonds to restructure their UAL. The majority of these were cities, including the cities of Chula Vista, El Cajon, San Fernando, Buena Park, Redondo Beach, Willows, Auburn, Corte Madera, Manhattan Beach, Huntington Beach, Orange, Ukiah, Downey, Coachella, Gardena, Arcadia, Placentia, Torrance, Azusa, Larkspur, Marysville, Grass Valley, Riverside, Pomona, West Covina, El Monte, Ontario, Carson, Inglewood, Montebello, Pasadena, Glendora, Monrovia, Hawthorne, La Verne and several others. In late August, it is expected that Santa Ana and Commerce will also issue their POBs.

Interest rates set on these recent financings ranged from about 2.54% (Chula Vista) to 4.25%, with rates dictated by market conditions at the time of pricing, credit rating of the issuer, and amortization.



The majority of the most recent cities to come to market (most have a credit rating in the “AA” category) have achieved below 3.0% interest rates. The significant reduction in interest rates for POBs in the last 8 months has been driven by growing investor appetite for POBs (as can be seen in the graph above). The orange line depicts how much additional interest rate above risk-free Government Treasury Bonds an investor requires to purchase a POB. These “spreads” have dropped over 100 basis points (100 bps) in the last year. The blue bars in the chart represent the all-in interest cost paid by these cities on their POBs.

**Risks and Considerations:** Ultimately, actual savings from a UAL restructuring will be dependent on two factors: (1) actual interest rates at the time of bond sale and (2) future CalPERS returns. The rule of thumb for evaluating the benefit of a UAL restructuring is that the City will be better off (i.e., the UAL refunding will produce positive savings) if CalPERS earns more than the interest rate on the POB (currently estimated at 3.0%). While past performance does not guarantee future results, CalPERS’ historical 30-year returns are 7.5%, 7.4% for the last 20 years on average, 8.8% for last 10 years and 10.5% for the last 5 years. This risk (re-investment/market timing risk) is the core reason why the GFOA (Governance Finance Officers Association) recommends against agencies issuing POBs.

To quantify this reinvestment risk for the City and its stakeholders, the City’s Municipal Advisor prepared a series of stress tests to analyze and understand the impact to the City if CalPERS underperforms in the future.

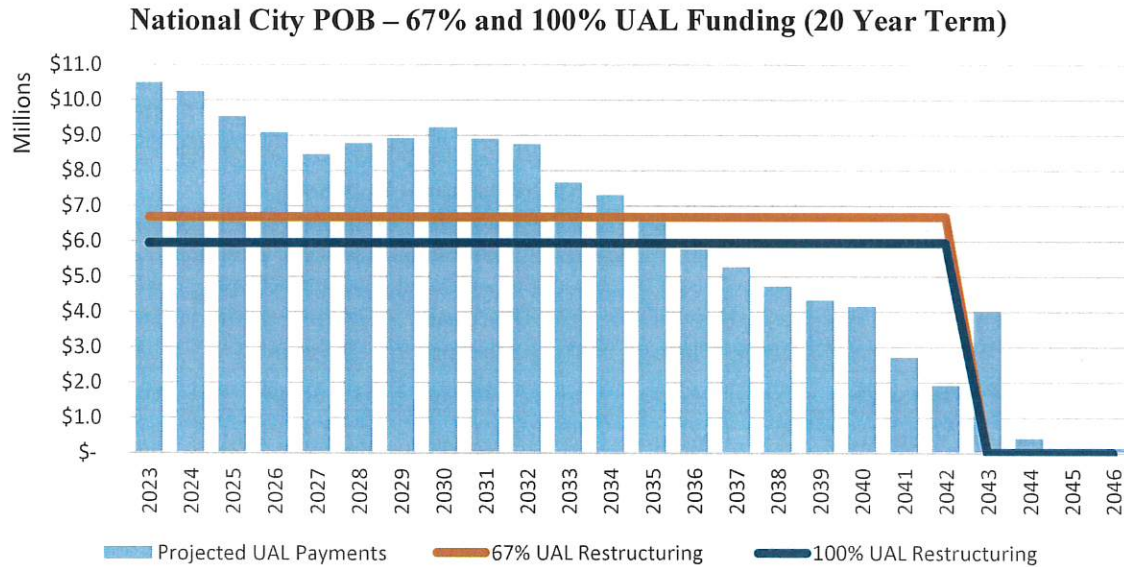
**Updated Analysis/Recommended POB Sizing:** The table/charts below summarize the estimated savings from restructuring two-thirds (67%) and 100% of the City’s projected \$94 million UAL over a 20-year POB maturity schedule, based on FY 2021 investment returns and a 6.8% discount rate. A pay-off of about 2/3 of the City’s UAL (about \$60 million) is projected to bring the funded ratios of the City’s plans to about 92%, while a pay-off all the City’s UAL will fully fund the City’s retirement obligations. While the City does have the ability to pay off up to \$123.7 million (current valuation) of UAL with CalPERS through the POB, City staff and its advisor are recommending a conservative approach to balance the risks/rewards of the POB. In general, the more UAL converted from 6.80% debt to 3.00% debt, the more savings generated and the lower payments for the City. However, sizing the POB too high will introduce the risk that the City’s plans will become overfunded (>100%) if CalPERS were to have several years of above average returns.

**While City staff will continue to consult with its advisor and other experts, including CalPERS actuaries, the current recommendation is to pay off a minimum of 2/3 of the projected new UAL, or more depending on market conditions at the time of pricing.** City staff and the financing team will be monitoring the evolving conversations at CalPERS and will adjust the target depending on assumption changes that will likely occur. Since the UAL could be higher than \$94 million if there is a discount rate reduction below 6.80% or if the results of the experience study indicate increased liabilities, the ultimate size of the POB could be higher than \$60M. As shown in the tables below, savings estimates for a full \$94 million POB are also shown for comparison purposes. There will be some fluctuations in the sizing and the POBs will be structured so that the final maturity is approximately 20 years (allowing the City to shorten the term of its pension debt) and will target an overall payment that is more affordable for the City’s budget (around \$7 million per year). It is also important to note that these bonds will be structured



with a 10-year call feature, meaning that the City will have the opportunity to pay this debt off early (after 10 years) with no penalty or refinance the debt if interest rates are lower at that time.

As shown below, present value (“PV”) savings for the \$60M POB (orange line) are estimated at \$15.2 million, or 25.3% of refunded UAL. Savings through 2036 for this scenario are estimated at about \$26.3 million cumulatively and \$1.9 million on an annual average basis. PV savings for the \$90M POB (blue line) are estimated at \$26.3 million, or 29.2% of refunded UAL. Savings through 2036 for this option are estimated at about \$36.6 million cumulatively and \$2.6 million on an annual average basis.



\* All savings estimates assume CalPERS earns 6.80% in the future

Metrics	67% UAL Restructuring	100% UAL Restructuring
<b>\$ UAL Funded (6/30/22)</b>	\$62,339,925	\$93,509,888
<b>% UAL Funded (Projected After FY 2021 Returns)</b>	67%	100%
<b>Funded Ratio (Projected After FY 2021 Returns)</b>	92%	100%
<b>Maturity</b>	20 Years	20 Years
<b>Average Life</b>	12.9 Years	11.4 Years
<b>All-In Interest Rate</b>	2.93%	2.79%
<b>Present Value Savings (%)</b>	25.31%	29.24%
<b>Present Value Savings (\$)</b>	\$15,192,777	\$26,329,349
<b>Cumulative Savings</b>	\$13,933,908	\$28,634,635
<b>Savings (2023-2036)</b>	\$26,288,715	\$36,574,133
<b>Avg. Annual Savings (2023-2036)</b>	\$1,877,765	\$2,612,438

It should be noted that “savings” is the difference between what the City would pay with a POB vs. without one. However, the City’s projected payments without a POB are significantly higher than in recent years. For context, the City paid about \$7 million in FY 2020 on the UAL, \$8 million in FY 2021 and \$9 million in FY 2022. The orange line above which represents the estimated total aggregate payments between the POB and the unrefunded UAL are slightly below \$7 million. **Thus, the restructuring is essentially bringing the City’s pension payments back to FY 2020 levels. The City will likely still need to explore additional strategies to fully erase the City’s persistent budget deficit.**

**Preliminary Stress Testing:** In order to better assess the risk of the proposed POB, the City’s finance team analyzed the reduction in savings assuming various situations of CalPERS investment performance. These “what-if” situations include CalPERS reducing the discount rate to (and earning annually) 6.00% and also reducing the discount rate to (and earning annually) 5.00%. In addition, the scenario of a market crash was also calculated. The scenario of a negative 5.00% investment return in the first year after the POB is issued, as well as a negative 15% were also calculated. For both scenarios, returns after the initial market crash are assumed to be 6.80%.

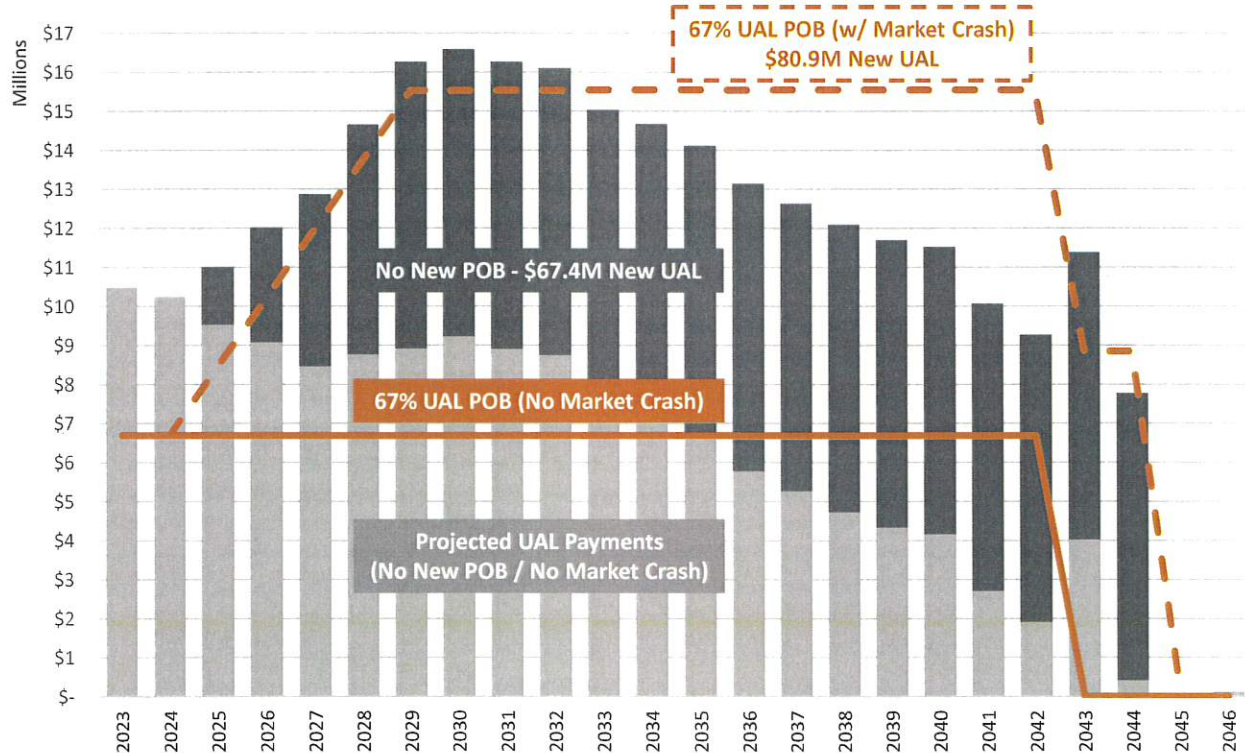
<b>Estimated UAL Sensitivity (67% UAL Funding)</b>				
	<b>5% Discount Rate Change</b>	<b>6% Discount Rate Change</b>	<b>-5% Market Crash (After Issuance)</b>	<b>-15% Market Crash (After Issuance)</b>
<b>Baseline PV Savings</b>	\$15.2 Million	\$15.2 Million	\$15.2 Million	\$15.2 Million
<b>Reduction in PV Savings</b>	\$12.7 Million	\$7.1 Million	\$7.4 Million	\$13.6 Million
<b>Net PV Savings (\$)</b>	<b>\$2.5 Million</b>	<b>\$8.1 Million</b>	<b>\$7.8 Million</b>	<b>\$1.6 Million</b>
<b>Net PV Savings (%)</b>	<b>4.08%</b>	<b>13.43%</b>	<b>13.06%</b>	<b>2.67%</b>

<b>Estimated UAL Sensitivity (100% UAL Funding)</b>				
	<b>5% Discount Rate Change</b>	<b>6% Discount Rate Change</b>	<b>-5% Market Crash (After Issuance)</b>	<b>-15% Market Crash (After Issuance)</b>
<b>Baseline PV Savings</b>	\$25.8 Million	\$25.8 Million	\$25.8 Million	\$25.8 Million
<b>Reduction in PV Savings</b>	\$19.1 Million	\$10.7 Million	\$11.0 Million	\$20.4 Million
<b>Net PV Savings (\$)</b>	<b>\$6.7 Million</b>	<b>\$15.1 Million</b>	<b>\$14.8 Million</b>	<b>\$5.4 Million</b>
<b>Net PV Savings (%)</b>	<b>7.42%</b>	<b>16.77%</b>	<b>16.40%</b>	<b>6.01%</b>

As the table above shows, PV saving is reduced under these stress tests, however, the City would still be better off having issued the POB than if it had not. As a graphical depiction of the more dire stress test (-15% returns in very first year after POB is issued), please refer to the chart below. Under this scenario, the new UAL added would be higher (\$81 million) if the City had issued a POB than if it didn’t (\$67 million) due to poor market timing. However, as shown in the dotted orange line (vs. the top of the dark grey bars), the City would still be better off on a cash flow basis (and PV savings) for the next decade having issued the POB.



### National City POB – Stress Test (-15% Returns / Market Crash)



While reinvestment risk is unavoidable, the stress tests demonstrate that the risks are manageable, and that the City would be better off having issued the POB even under these more pessimistic situations. If there were a future market downturn, the City could use reserves in the 115 pension trust funds to address any new UAL and re-invest those monies at a lower entry point in the stock market (dollar cost averaging).

**Underwriting:** City Staff and NHA Advisors recommends Hilltop Securities (“HTS”) serve as underwriter for the upcoming POB. HTS is one of the leading underwriters for CalPERS UAL restructurings, having completed 15 transactions for over \$1 billion of UAL funded since 2019. This experience includes UAL restructurings for the cities of Ontario, Huntington Beach, Grass Valley, Auburn, West Covina, Willows, Marysville and La Puente. Furthermore, HTS has an in-house actuarial expert that works on all the firm’s pension projects nationwide. This niche experience will be extremely helpful in assisting on the quantitative and risk assessment (stress testing) aspects of the process. Lastly, HTS underwrote the City’s most recent financings, has a deep understanding of the City’s credit, and has relationships with both the investors who purchased the City’s debt in the past, as well as all the current investors for POBs.

### NEXT STEPS

With the validation complete, the City’s financing team will continue moving forward with the financing process. Staff members currently leading the financing process include Brad Raulston, Molly Brennan and Janel Pehau. External members of the financing team include NHA Advisors

(Municipal Advisor), Kutak Rock (Bond and Disclosure Counsel) and Hilltop Securities (Recommended Underwriter). Should the City Council direct City staff to move forward with the financing, the drafting of the preliminary official statement ("POS") by Kutak Rock will be completed. The POS is the prospectus used to garner investor interest in the POB. A credit rating process will also be initiated, with a presentation made by City staff to Standard and Poor's. While the City would like to take advantage of historically low interest rates and the strong market, it is also important to understand the pending CalPERS actions and changes in assumptions. It is anticipated that City Council approval of the POS would come in October or November with POB issuance shortly thereafter.



# PENSION OBLIGATION BOND STATUS UPDATE AND NEXT STEPS

**NHA | ADVISORS**  
Financial & Policy Strategies.  
Delivered.

SEPTEMBER 7, 2021



# National City Pension Obligation Bond















## Process Update/Overview

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- ▶ **Spring/Summer 2020:** Staff began conversations about concept of a UAL Restructuring with its municipal advisor (NHA Advisors)
- ▶ **October 2020:** Public/Council Workshop held discussing pros/cons and risks of POBs
- ▶ **October 2020:** Council approval of basic POB legal documents and initiation of court validation process in San Diego County
- ▶ **Spring 2021:** POB market updates and structuring options analysis (NHA/staff)
- ▶ **July 2021:** Validation Process completed
- ▶ **August 2021:** Refined structuring options discussion based on new CalPERS information
- ▶ **September 7, 2021 (Tonight) – POB Update**
  - ▶ Pension bond market update
  - ▶ Recommended POB structuring option/sizing
  - ▶ Revisiting risks/stress testing
  - ▶ Next steps

# POB Market Update – Recent Issuances

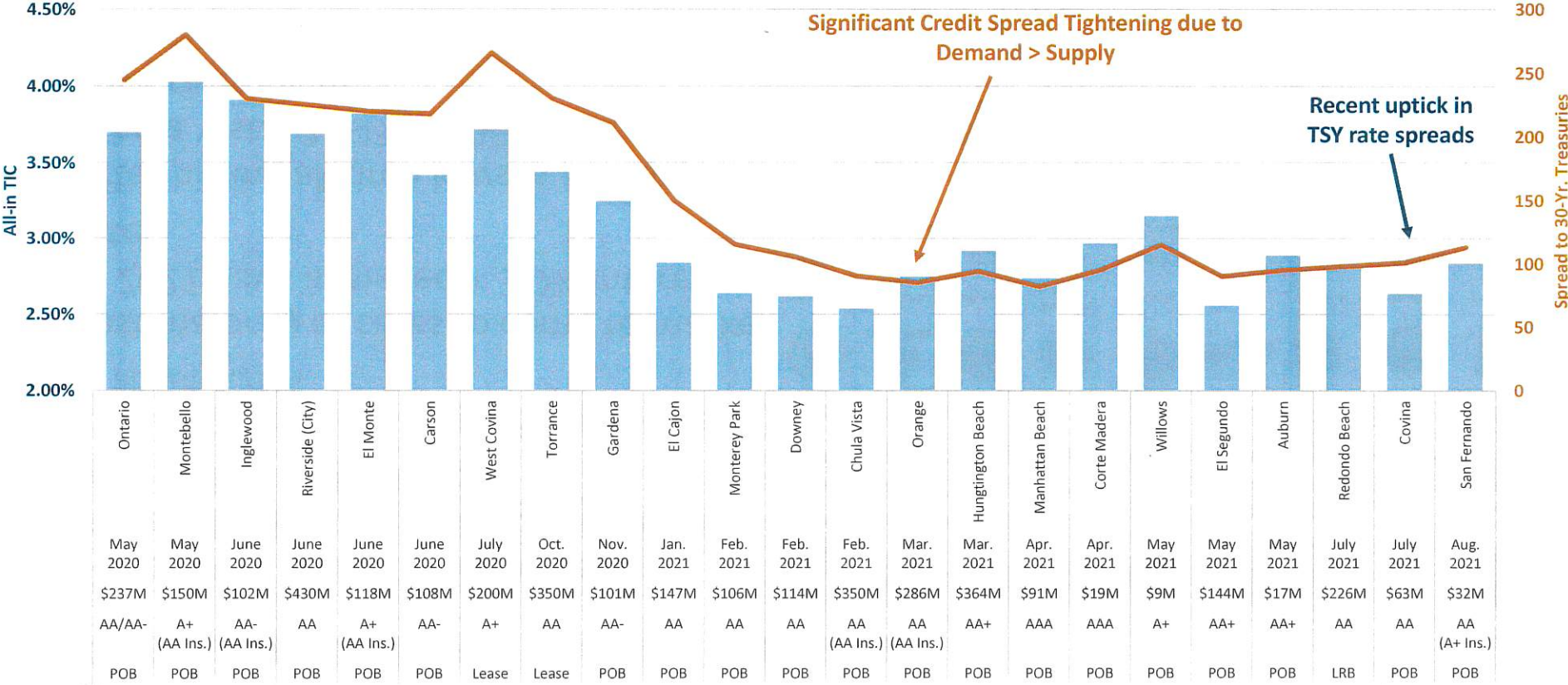
- ▶ Since 2020, about 70 agencies have issued UAL Restructuring bonds for over \$6.5 billion in UAL funded
  - ▶ Interest rates have ranged from 2.54% to about 4.25%
- ▶ Vast majority of cities to come to market in 2021 have achieved < 3.0% interest rates
- ▶ After hitting all time lows in February (Chula Vista: 2.54%), POB interest rates have risen slightly
  - ▶ Rates are still 0.50% to 0.75% lower than when City Council reviewed the opportunity last Fall

									
San Fernando	Whittier	Redondo Beach	Red Bluff	Auburn	El Segundo	Willows	Corte Madera	Manhattan Beach	Huntington Beach*
(2021)	(2021)	(2021)	(2021)	(2021)	(2021)	(2021)	(2021)	(2021)	(2021)
\$31,780,000	\$133,895,000	\$226,180,000	\$18,540,000	\$17,165,000	\$144,135,000	\$8,510,000	\$18,955,000	\$91,275,000	\$363,645,000
AA (Ins.)	AA (Ins.)	AA	A+	AA+	AA+	A+	AAA	AAA	AA+
									
Orange	Chula Vista	Downey	Monterey Park*	El Cajon	Ukiah	Coachella	Gardena	Arcadia	Placentia
(2021)	(2021)	(2021)	(2021)	(2021)	(2020)	(2020)	(2020)	(2020)	(2020)
\$286,485,000	\$350,025,000	\$113,580,000	\$106,335,000	\$147,210,000	\$49,875,000	\$17,590,000	\$100,590,000	\$90,000,000	\$52,950,000
AA	AA	AA	AA	AA	A+	AA-	AA-	AAA	BBB+
									
Torrance	Azusa	Pomona	West Covina	Grass Valley	Carson	El Monte*	Riverside	Inglewood*	Montebello*
(2020)	(2020)	(2020)	(2020)	(2020)	(2020)	(2020)	(2020)	(2020)	(2020)
\$349,515,000	\$70,075,000	\$219,890,000	\$204,095,000	\$18,311,000	\$108,020,000	\$118,725,000	\$432,165,000	\$101,620,000	\$153,425,000
AA	AA-	AA-	A+	Private Placement	AA-	A+ (Ins.)	AA	AA- (Ins.)	A+ (Ins.)

\* Secured by pension tax override



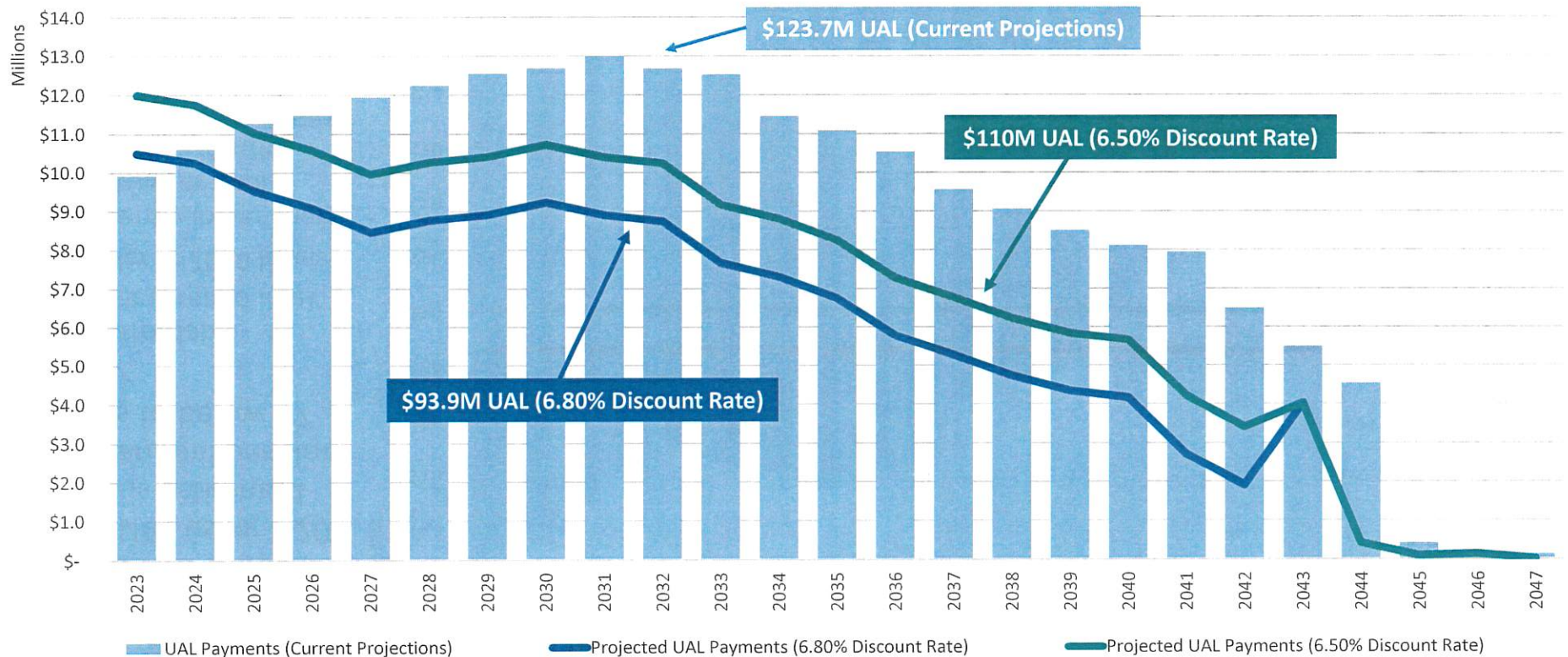
# POB Market Update: POB Interest Rates (Blue Bars) Have Dropped Dramatically due to Growing Investor Demand (Orange Line)



Note: Spreads and interest rates should be considered best estimates. Rates reflect estimated TIC or all-in TIC.

# Large UAL Reduction after 21.3% FY 2021 Gains Will Benefit City

## Discount Rate Reduction is Unknown Though; Will Offset Some of the Gains

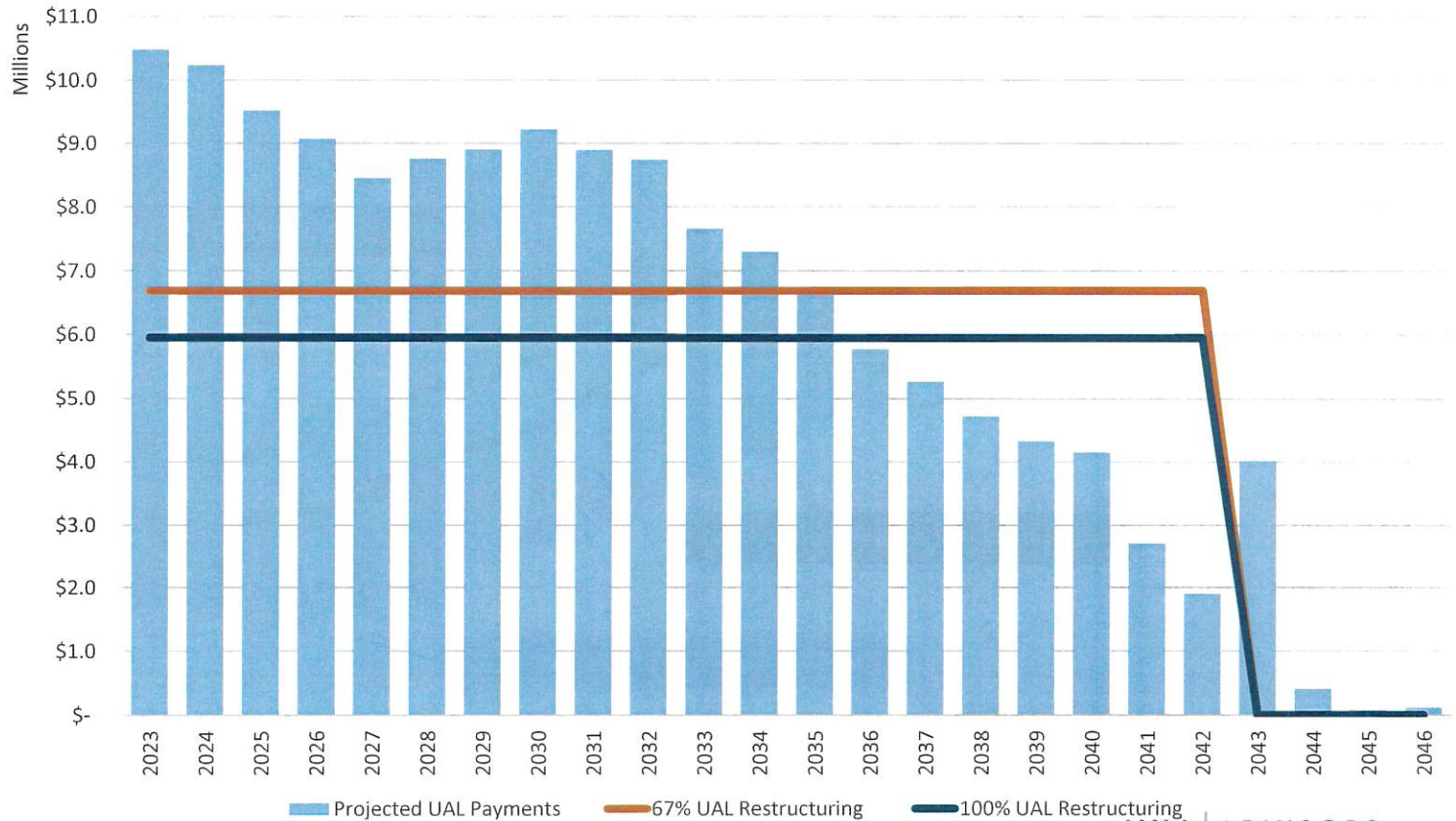




# Updated POB Scenarios Targeting Lower \$94M UAL

## 67% and 100% UAL Funding (20-Year Term)

- ▶ Paying off two-thirds (67%) of UAL using a 20-year POB is estimated to lower annual pension payments to below \$7 million
  - ▶ More affordable payment (orange line)
    - ▶ Similar to 2020 levels
  - ▶ Significantly lower than the >\$10M annual payments currently scheduled with CalPERS
  - ▶ Shortens the City's pension debt by 4 years (from FY 2046 to FY 2042)



## Updated POB Scenarios – Estimated Savings 67% and 100% UAL Funding (20-Year Term)

<b>Metrics</b>	<b>67% UAL Restructuring</b>	<b>100% UAL Restructuring</b>
<b>\$ UAL Funded (6/30/22)</b>	\$62,339,925	\$93,509,888
<b>% UAL Funded (Projected After FY 2021 Returns)</b>	67%	100%
<b>Funded Ratio (Projected After FY 2021 Returns)</b>	92%	100%
<b>Maturity</b>	20 Years	20 Years
<b>Average Life</b>	12.9 Years	11.4 Years
<b>All-In Interest Rate</b>	2.93%	2.79%
<b>Present Value Savings (%)</b>	25.31%	29.24%
<b>Present Value Savings (\$)</b>	\$15,192,777	\$26,329,349
<b>Cumulative Savings</b>	\$13,933,908	\$28,634,635
<b>Savings (2023-2036)</b>	\$26,288,715	\$36,574,133
<b>Avg. Annual Savings (2023-2036)</b>	\$1,877,765	\$2,612,438



## Recommended Sizing and Structure for POB

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- ▶ While City has ability to pay off up to \$124M of UAL if executed by June of 2022, staff and NHA are recommending that only a portion of UAL be paid off
  - ▶ Balance risk/reward and better match the projected new UAL
- ▶ **Current recommendation is to fund at least two-thirds of UAL and use a term of 20 years or less**
  - ▶ Dependent on market conditions, sizing could be higher than 67%
  - ▶ 20-year term shortens the maturity of the City's pension debt by 4 years and generates a lower interest rate than the previous 24-year term options the City was previously evaluating
    - ▶ City may decide to shorten the maturity further (18 or 19 years) if annual payment level can be maintained at an affordable level (i.e. \$7M or lower)
      - Note: At \$7 million, a large portion of City's budget deficit would be addressed, though additional measures should be considered to fully eliminate it
  - ▶ Actual sizing for POB is likely to range between \$60M and \$95M and will be dependent on result of CalPERS experience study and its impact on future UAL
    - ▶ City and team will be monitoring these changes in order to prudently size the POB and will provide an update to City Council at final POS approval meeting
  - ▶ POBs will also be "callable," meaning they can be paid off or refinanced at no penalty after 10 years

## Revisiting POB Risks

### CalPERS Reinvestment/Market Timing Risk

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- ▶ Savings is ultimately dependent on future CalPERS returns, which are unknown at time of issuance
  - ▶ If CalPERS earns less than 6.8%, savings will be less than shown on previous pages
  - ▶ If CalPERS earns more than 6.8%, savings will be more than shown on previous pages
- ▶ Rule of Thumb: Present value savings occur ONLY if CalPERS earns greater returns than pension bond interest rate (i.e., 3.00% in current market)
  - ▶ City would be worse off if CalPERS earned less than bond rate (3.00%) on average over next 20 years
  - ▶ Near-term losses exacerbate this risk given large lump sum deposit into the market

CalPERS 5-Year Average Annual Return: 10.5%

CalPERS 10-Year Average Annual Return: 8.8%

CalPERS 20-Year Average Annual Return: 7.4%

CalPERS 30-Year Average Annual Return: 7.5%



# CalPERS Reinvestment/Market Timing Risk

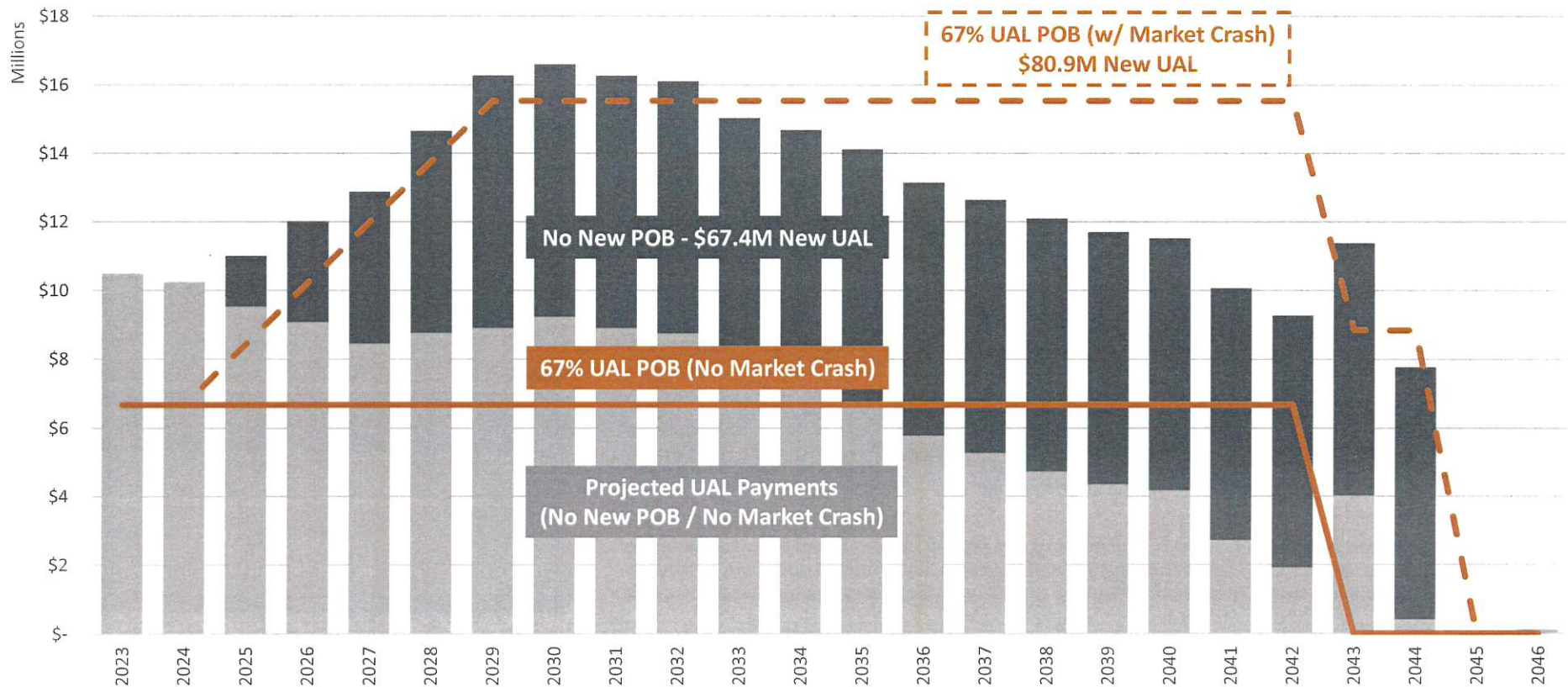
## Preliminary Stress Tests to Quantify Downside Risk/Savings Reduction

- ▶ Savings reduced under stress test scenarios
  - ▶ CalPERS earns (and reduces discount rate to) 5% and 6%
  - ▶ Market crash (in first year after POB issued); 6.8% returns thereafter
    - ▶ -5% returns
    - ▶ -15% returns
- ▶ However, City still better off having issued POB than if it hadn't

Estimated UAL Sensitivity (67% UAL Funding)				
	5% Discount Rate Change	6% Discount Rate Change	-5% Market Crash (After Issuance)	-15% Market Crash (After Issuance)
<b>Baseline PV Savings</b>	\$15.2 Million	\$15.2 Million	\$15.2 Million	\$15.2 Million
<b>Reduction in PV Savings</b>	\$12.7 Million	\$7.1 Million	\$7.4 Million	\$13.6 Million
<b>Net PV Savings (\$)</b>	<b>\$2.5 Million</b>	<b>\$8.1 Million</b>	<b>\$7.8 Million</b>	<b>\$1.6 Million</b>
<b>Net PV Savings (%)</b>	<b>4.08%</b>	<b>13.43%</b>	<b>13.06%</b>	<b>2.67%</b>

Estimated UAL Sensitivity (100% UAL Funding)				
	5% Discount Rate Change	6% Discount Rate Change	-5% Market Crash (After Issuance)	-15% Market Crash (After Issuance)
<b>Baseline PV Savings</b>	\$25.8 Million	\$25.8 Million	\$25.8 Million	\$25.8 Million
<b>Reduction in PV Savings</b>	\$19.1 Million	\$10.7 Million	\$11.0 Million	\$20.4 Million
<b>Net PV Savings (\$)</b>	<b>\$6.7 Million</b>	<b>\$15.1 Million</b>	<b>\$14.8 Million</b>	<b>\$5.4 Million</b>
<b>Net PV Savings (%)</b>	<b>7.42%</b>	<b>16.77%</b>	<b>16.40%</b>	<b>6.01%</b>

# Preliminary Stress Test: 15% Negative CalPERS Returns in 1st Year After Issuance (PV Savings Reduced to ≈ \$1.6M) With No Recovery



\* NHA is not an actuary. Analysis should be considered best estimates for presentation purposes.



# Government Finance Officers Association (GFOA)

## GFOA's Critique of POBs and How Current POBs Differ

Invested pension bond proceeds might earn less than the borrowing costs

- Yes. Instead of CalPERS's expected earnings rate of 6.8%, lower actual returns could occur. The chances of long-term returns being below current < 3.00% borrowing costs are low, but they do exist. A "stress testing" process is often helpful to better quantify this risk (i.e., analysis based on CalPERS earning poor returns in future)

"Pension bonds are complex instruments that carry considerable risk...and may include swaps or derivatives..."

- No. Current pension bond issuances are fixed rate bonds that typically do not include swaps or derivatives.

"Issuing taxable debt to fund the pension liability increases the jurisdiction's bonded debt burden and potentially uses up debt capacity..."

- No. Pension bonds replace all or a portion of an agency's payments to PERS with debt service on the bond. It is converting one liability for another on the balance sheet at a lower interest rate. A lease bond will reduce asset capacity for future issuances.

Pension bonds are "typically issued without call options" making it more difficult to refund bonds if interest rates fall or a different debt service structure is desired in the future.

- No. Nearly all recent pension bonds are issued with an optional redemption feature, allowing agencies to refinance or accelerate repayment upon them in the future.

"Pension bonds are frequently structured in a manner that defers the principal payments..."

- Not Always. Most of the recent pension bonds amortize principal immediately. Shortening, lengthening, or maintaining the same term of payments is at the discretion of each agency.

"Rating agencies may not view the proposed issuance of Pension bonds as credit positive..."

- Not true if pension bond is prudently structured to increase payment affordability, financial flexibility and resiliency as part of a policy driven reserves and pension funding strategy.

## National City POB – Key Finance Team Members

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- ▶ City of National City
  - ▶ Brad Raulston, Molly Brennan, Janel Pehau
- ▶ Municipal Advisor – NHA Advisors
  - ▶ Craig Hill, Mike Meyer, Leslie Bloom, Roy Kim
- ▶ Bond and Disclosure Counsel – Kutak Rock
  - ▶ Albert Reyes, Ryan Jardine
- ▶ Recommended Underwriter – Hilltop Securities
  - ▶ Todd Smith, Andy Kuo, Brian Whitworth



## National City POB – Next Steps and Preliminary Schedule

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- ▶ September 7th – POB Workshop; Council Q&A and Guidance
  - ▶ + Approval of Pension Funding Policy
- ▶ September/October
  - ▶ POS (Investor Prospectus Drafted)
  - ▶ MA (NHA) and Underwriter (Hilltop) continue to refine POB options analysis and stress testing to ensure final POB structure is optimized
  - ▶ Credit rating process
- ▶ October/November
  - ▶ POB structure and sizing refined and updated based on CalPERS changes
  - ▶ Final POS Approval by City Council
  - ▶ Price POB (lock interest rate)
- ▶ November/December
  - ▶ Close transaction and pay down CalPERS UAL

**CITY OF NATIONAL CITY, CALIFORNIA  
COUNCIL AGENDA STATEMENT**

**MEETING DATE:** September 7, 2021

**AGENDA ITEM NO. 2**

**ITEM TITLE:**

Resolution of the City Council of the City of National City adopting City Council Policy #202 entitled "Pension Funding Policy."

**PREPARED BY:** Janel Pehau, Finance Analyst

**DEPARTMENT:** Finance

**PHONE:** (619) 336-4330

**APPROVED BY:**



**EXPLANATION:**

At the October 20, 2020 City Council meeting, the City Council authorized staff to formally begin the process to issue pension obligation bonds (POBs) by initiating a validation process through the Court system. It was successfully completed in July 2021. An additional step in preparing for the issuance of POBs is to formally adopt a pension funding policy that memorializes both past and future practices and strategies for meeting the City's long-term pension obligations. The proposed policy is attached. In summary, it indicates that the City will make its actuarially determined contribution to CalPERS each year, prepay its annual unfunded accrued liability (UAL) payment in July of each fiscal year to achieve budgetary savings, maintain a pension stabilization fund in the form of a Section 115 Pension Trust, achieve and maintain a funded status of between 80% and 100% for both the Safety and Miscellaneous plans, consider making additional discretionary payments to CalPERS when prudent to do so, and to issue POBs when doing so will result in sufficient savings at an acceptable level of risk compared to the CalPERS UAL amortization schedule.

**FINANCIAL STATEMENT:**

No fiscal impact.

**APPROVED:**



**Finance**

**APPROVED:**

**MIS**

**ENVIRONMENTAL REVIEW:**

This is not a project and therefore, not subject to environmental review.

**ORDINANCE: INTRODUCTION:**

**FINAL ADOPTION:**

**STAFF RECOMMENDATION:**

Approve the attached Resolution adopting City Council Policy #202 entitled "Pension Funding Policy."

**BOARD / COMMISSION RECOMMENDATION:**

N/A

**ATTACHMENTS:**

1. Resolution
2. Proposed City Council Policy #202: Pension Funding Policy (Exhibit A to the resolution)



**RESOLUTION NO. 2021 -**

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF NATIONAL CITY, CALIFORNIA, ADOPTING CITY COUNCIL POLICY #202 ENTITLED "PENSION FUNDING POLICY"**

**WHEREAS**, it has been the practice of the City Council of the City of National City ("City") to annually make all of the actuarially determined contributions to the California Public Employee Retirement System ("CalPERS") for both its Safety and Miscellaneous pension plans; and

**WHEREAS**, the cost to make the annual actuarially determined contributions continues to rise; and

**WHEREAS**, on October 20, 2020, the City Council directed the City Manager to proceed with the court validation process required to position the City to issue Pension Obligation Bonds ("POBs"); and

**WHEREAS**, an additional step in the process of issuing POBs is to have in place a pension funding policy; and

**WHEREAS**, the City Council wishes to memorialize in the form of a Council Policy both past and future practices and strategies for meeting the City's pension funding obligations; and

**WHEREAS**, the City Council has reviewed the proposed City Council Policy #202 entitled "Pension Funding Policy" attached hereto as Exhibit A; and

**WHEREAS**, the City Council directs City staff to prepare for the issuance of POBs in Fall 2021 if the guidelines defined in Section 6 of the "Pension Funding Policy" are achieved.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF NATIONAL CITY, CALIFORNIA, DOES RESOLVE, DECLARE, DETERMINE, AND ORDER AS FOLLOWS:**

**Section 1:** Adopts the proposed City Council Policy #202, "Pension Funding Policy."

**Section 2:** Directs City staff to prepare for the issuance of POBs in Fall 2021 if the guidelines defined in Section 6 of the "Pension Funding Policy" are achieved

**Section 3:** The City Clerk shall certify the passage and adoption of this Resolution and enter it into the book of original Resolutions.

///

**PASSED and ADOPTED this 7th day of September, 2021.**

\_\_\_\_\_  
Alejandra Sotelo-Solis, Mayor

**ATTEST:**

\_\_\_\_\_  
Luz Molina, City Clerk

**APPROVED AS TO FORM:**

\_\_\_\_\_  
Charles E. Bell Jr., City Attorney



**CITY COUNCIL POLICY  
CITY OF NATIONAL CITY**

<b>TITLE:</b> Pension Funding Policy	<b>POLICY #202</b>
<b>ADOPTED:</b> September 7, 2021	<b>AMENDED:</b>

**Purpose**

The purpose of this policy is to define how the City's pension funding obligations will be met. As part of its overall compensation plan, the City provides a defined benefit pension benefit to its employees. This benefit is administered by the California Public Employees Retirement System (CalPERS) and funded through contributions from the City and its employees and from investment earnings on those contributions. The CalPERS Board of Administration, under the California Public Employees' Retirement Law (PERL), is responsible for the administration and investment of the funds it receives and determines the amounts contributed by each of the governmental entities that participate in CalPERS. The PERL sets employee contribution rates. The City has two separate plans with CalPERS, one for Safety employees (the Safety Plan) and one for all other employees (the Miscellaneous Plan).

**Policy**

It is the policy of the City to fulfill its obligation to its residents and employees to maintain fiscally responsible management practices and to its employees to ensure that promised retirement benefits are funded. To that end, the City will meet its pension funding obligations as follows:

1. **Actuarially Determined Contributions:** Each fiscal year, the City will contribute to CalPERS the amount determined by CalPERS actuaries to be the minimum required employer contribution for that year. The minimum contribution consists of two components, normal cost and unfunded accrued liability (UAL). The normal cost is expressed as a rate that is applied to pensionable payroll costs and reflects the cost of pension benefits earned by employees in the current fiscal year. The UAL payment is a flat dollar amount that represents a portion of the cost of past benefits earned by employees, but for which, because of deviations in actual experience and changes in assumptions about investment performance, the normal cost rates established for those prior years has been determined to be insufficient to provide the promised retirement benefit. The CalPERS actuaries recalculate the total UAL each year and an updated multi-year amortization schedule is provided to show the projected annual minimum payments.
2. **Annual UAL Prepayment:** CalPERS offers the option to make monthly payments on the UAL or prepay the entire annual amount at a discounted level by the end of July. The City will prepay its annual obligation each year to achieve budgetary savings.
3. **Section 115 Pension Trust:** The City will maintain a pension stabilization fund in the form of a Section 115 Pension Trust. The targeted funding level for this fund is defined in City Council Policy 201, Maintenance of Reserve Funds. Assets in the Section 115 Pension Trust may be used only for pension related costs and at the direction of the City Council. Once the targeted funding level is reached, the earnings on the assets in the Trust may

**CITY COUNCIL POLICY  
CITY OF NATIONAL CITY**

<b>TITLE:</b> Pension Funding Policy	<b>POLICY #202</b>
<b>ADOPTED:</b> September 7, 2021	<b>AMENDED:</b>

be applied to offset a portion of the City's annual pension contributions to CalPERS or make additional discretionary payments to CalPERS.

4. Targeted Funding Level: The City's goal is to achieve and maintain a funded status for each of its plans of between 80% and 100%. A funded status of 100% signifies that the City's pension assets with CalPERS match its accrued liabilities.
5. Additional Discretionary Payments: CalPERS allows member agencies to make additional discretionary payments at any time and in any amount, which would serve to reduce the UAL and future required contributions. The City will consider this option in the context of its annual evaluation of reserve levels and budgetary requirements.
6. Pension Obligation Bonds (POBs): POBs are a tool that can be used to provide an additional discretionary payment to CalPERS upon the determination that the cost to borrow the funds for the payment is less than continuing to make the projected prescribed UAL payments at the current discount rate. If the City issues POBs, the following guidelines will apply:
  - a. Expert advice and analysis by actuaries and municipal advisors will be utilized to quantify the risk of CalPERS investment underperformance, including discount rate reductions, stock market crashes, or sustained investment underperformance, and the threshold at which the City would be worse off issuing POBs versus not.
  - b. The interest rate on the POBs shall be at least 2.5% less than the current CalPERS discount rate.
  - c. The final maturity date on the POBs will be no more than the then current term of the UAL.
  - d. The POBs structure will contain an early call provision.

**Related Policy References**

Council Policy #201: Maintenance of Reserves

**Prior Policy Amendments**

None