MONTCLAIR

ADJOURNED MEETING OF THE CITY COUNCIL

AGENDA

Tuesday, April 20, 2021
6:00 p.m.

Zoom Link: https://zoom.us/j/91711974828
Dial-in Number: 1-669-900-6833
Meeting ID: 917-1197-4828

*Please mute yourself while the meeting is in session, unless you are requested to speak (Dial *6 on the phone to toggle mute).*

*If you want to make a public comment on this workshop or speak on a non-agenda item, please to complete a Virtual Speaker Card at www.cityofmontclair.org/public-comment. The Mayor will call on those who have submitted a request to speak at the appropriate time. Those who did not submit a request to speak may request to speak by using the "raise hand" function on the Zoom meeting platform or over the phone by dialing *9.*

Audio recordings of City Council meetings are available on the City's website at www.cityofmontclair.org/council-meetings/ and can be accessed by the end of the next business day following the meeting.

I. CALL TO ORDER

II. ROLL CALL

III. COUNCIL WORKSHOP

A. Presentation on Potential Pension and Infrastructure Bonds

IV. PUBLIC COMMENT

This section intended to provide members of the public with an opportunity to comment on any subject not on this agenda. Each speaker will be afforded up to five minutes to address the City Council. (Government Code §54954.3)

Under provisions of the Brown Act, the Council is prohibited from taking action on items not listed on the agenda.

V. ADJOURNMENT

Reports, backup materials, and additional materials related to any item on this Agenda distributed to the City Council after distribution of the Agenda packet are available for public inspection in the Office of the City Clerk between 7:00 a.m. and 6:00 p.m., Monday through Thursday. Pursuant to the Governor's Executive Orders in relation to the COVID-19 pandemic, please call the City Clerk's Office at (909) 625-9416 or e-mail cityclerk@cityofmontclair.org to request such review of items via e-mail.

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the City Clerk's Office. Notification prior to the meeting will enable the City to make reasonable arrangements to ensure accessibility to this meeting. (28 CFR 35.102-35.104 ADA Title II)

I, Andrea M. Phillips, City Clerk, hereby certify that I posted, or caused to be posted, a copy of this Agenda after the meeting from which the presentation was adjourned on the bulletin board at the north door of Montclair City Hall at 5111 Benito Street, Montclair, CA 91763 on Monday, April 19, 2021.

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April 20, 2021

Pension Obligation Bonds and Lease Revenue Bonds Discussion

City of Montclair

Introduction

- In the past several months, City Staff and Hilltop Securities have been structuring financing scenarios that might prove beneficial to the City and its long term planning, budgeting and goals. The first financing scenario is to raise moneys to finance several infrastructure projects with the additional Transaction and Use Tax approved by voters with Measure L

- The second financing scenario is to tackle the spiking Unfunded Accrued Liability payments from the City to CalPERS. These UAL payment increases are primarily due to CalPERS adjustments to various amortization formulas and the decrease in its discount rate to 7%. Annual CalPERS payments are projected to increase sharply each year until 2033 at which time annual payments begin to decrease

- Financings in California are governed by the State Constitution as amended from time to time

Constitutional Debt Limit

- Article XVI, Section 18 of the California Constitution prohibits cities, counties, and school districts from entering into indebtedness or liability that in any year exceeds the income and revenue provided for such year unless the local agency first obtains two-thirds voter approval for the obligation

Exceptions to the Debt Limit

- Lease Exception – A long-term lease obligation entered into by a city, county, or school district as lessee will not be considered an "indebtedness or liability" under the debt limit if the lease meets the following criteria:
  - Most general fund related capital improvements are financed using a lease revenue bond structure. A joint powers financing authority issues revenue bonds secured by lease payments to be made by the city under a lease agreement
  - Obligation to pay rent in each year is contingent upon the lessee having "beneficial use and occupancy" of the leased premises during that year. If such use and occupancy is not provided, there is an abatement of rent during the period that use and occupancy is not available
  - In the event the lessee fails to pay rent when due, there can be no acceleration of the future rent due. The rent in each year represents the "fair rental value" of the premises

- Obligation Imposed by Law – Indebtedness to finance an obligation which is imposed on the local agency by law – such as **Pension Obligations** – is not subject to the debt limit.
  - The theory of this exception is that the obligation is involuntary, and therefore it would be meaningless to put the question to the voters
  - Because of limited case law authority on this exception to the debt limit, a **judicial validation** action is required in order to establish the validity of the bonds
  - Under a judicial validation proceeding, the city files a lawsuit against the public. In most cases, no response to the complaint is filed and the city obtains a default judgement that cannot be challenged

Taxable vs. Tax-Exempt Bonds

- Lease Bonds will be Federally Tax-Exempt – must be used to finance public capital improvements that are owned and used by the City. Interest payments to investors would not be included for Federal income tax purposes
- Pension Obligation Bonds will be Federally Taxable – they are considered working capital expenditures and therefore do not qualify for tax-exemption. Interest payments to investors would be included for Federal income tax purposes
- Both financings would be State Tax-Exempt because they are issued for governmental purposes. Interest on both financings would not be included for State income tax purposes
- Interest rate differential to the City is as little as 0.10% in year one and 1% in year 20 depending on the rating of the financing

Security

- Both financings will be secured by moneys available for payment from the City's General Fund
- City's General Fund currently rated A+ by Standard & Poor's – possibility of an upgrade with the passage of Measure L
- Lease Revenue Bonds will be additionally secured by Leased Asset(s) in an amount at least equal to the principal amount of Bonds issued

Lease Revenue Bond Financing in California

- Majority of Infrastructure financings done as Lease Revenue Bonds in the State
- Allows the City to finance a variety of governmental projects without incurring a “debt” that is subject to the State voter approval and debt limitation requirements
- Subject to annual appropriation by the City
- Bonds secured by the City’s General Fund and “Leased Assets” through a Property Lease
- Improvements financed by the Montclair Public Financing Authority and Leased to the City of Montclair

Montclair’s Lease History

- In May, 2005, the City issued it’s $31,300,000 Lease Revenue Bonds to finance new Police Facilities and the Senior/Youth Center. The Bonds were issued following an increase in Transaction and Sales Tax approved by the voters with Measure F
- In November, 2014, the City issued it’s $45,000,000 Lease Revenue Refunding Bonds to refinance the 2005 Bonds and provide additional new proceeds to finance street and park improvements throughout the City. The 2014 Bonds are currently outstanding in the amount of $40,155,000 and have a final maturity date of October 1, 2045. The 2014 Bonds do not currently provide enough savings to warrant refunding
- Annual debt service payments are additionally secured by a pledge of Measure F funds pursuant to City Council policy

Lease Revenue Bonds – Financing Summary

- The City is considering using additional revenues generated through the passage of Measure L to finance various infrastructure including the following:
  - Pavement Rehabilitation, Median Rehabilitation, Street Traffic Calming, Park Improvements, Facility and Grounds Improvements
- The estimated costs and amortization associated with this financing can be found below and adjacent

SOURCES	
Bond Par Amount (1)	$ 42,770,000
Bond Premium (2)	4,524,832
Total Sources	**47,294,832**

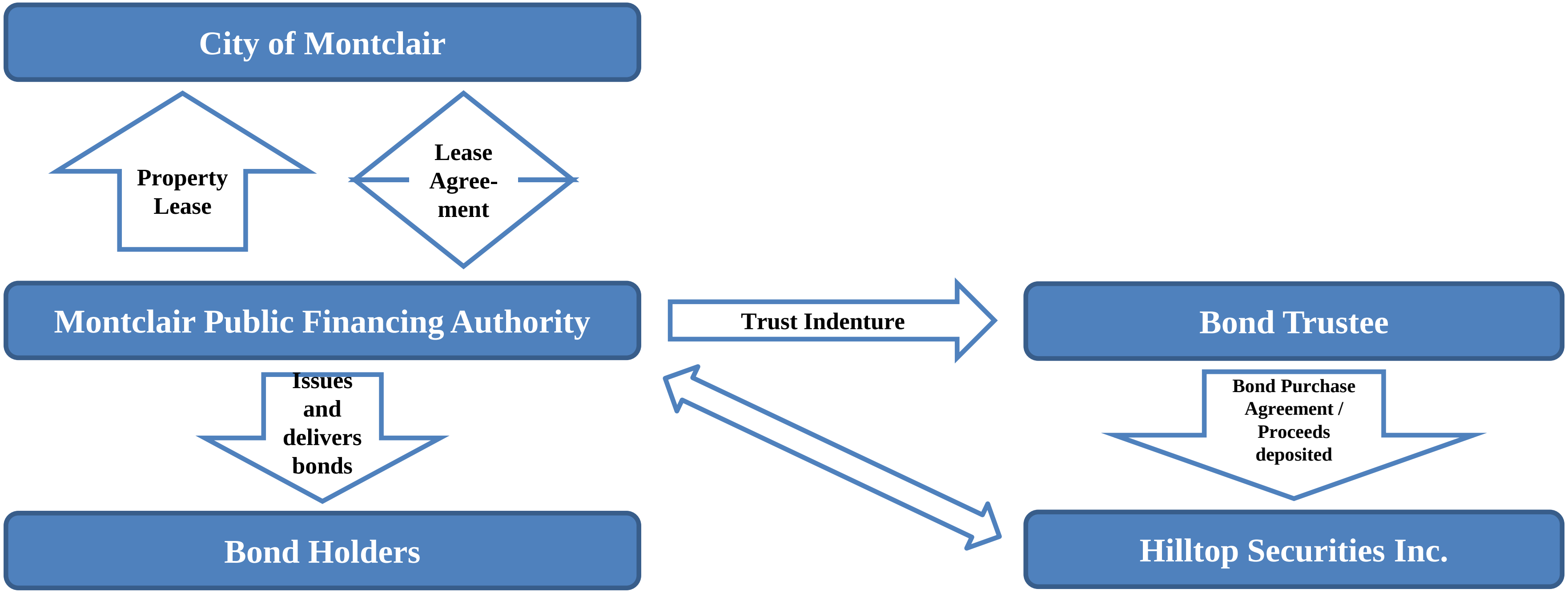
USES	
Deposit to Project Fund	47,000,000
Costs of Issuance (3)	294,832
Total Uses	**$ 47,294,832**

(1) Approximate principal amount of Bonds to be issued
(2) Bond Premium is paid by the investors of the Bonds to the Financing Authority to offset higher interest rates
(3) Includes underwriter's discount and professional fees including Bond Counsel, Disclosure Counsel, Trustee, rating fees and other miscellaneous costs

Fiscal Year	Principal	Interest Rate	Yield	Interest	Debt Service
6/30/2022	$ 1,525,000	3.00%	0.65%	$ 900,115	$ 2,425,115
6/30/2023	810,000	3.00%	0.84%	1,616,000	2,426,000
6/30/2024	830,000	3.00%	1.11%	1,591,700	2,421,700
6/30/2025	855,000	3.00%	1.31%	1,566,800	2,421,800
6/30/2026	885,000	3.00%	1.53%	1,541,150	2,426,150
6/30/2027	910,000	4.00%	1.77%	1,514,600	2,424,600
6/30/2028	945,000	4.00%	1.90%	1,478,200	2,423,200
6/30/2029	985,000	4.00%	2.03%	1,440,400	2,425,400
6/30/2030	1,025,000	4.00%	2.15%	1,401,000	2,426,000
6/30/2031	1,065,000	4.00%	2.22%	1,360,000	2,425,000
6/30/2032	1,105,000	4.00%	2.41%	1,317,400	2,422,400
6/30/2033	1,150,000	4.00%	2.41%	1,273,200	2,423,200
6/30/2034	1,195,000	4.00%	2.41%	1,227,200	2,422,200
6/30/2035	1,245,000	4.00%	2.41%	1,179,400	2,424,400
6/30/2036	1,295,000	4.00%	2.41%	1,129,600	2,424,600
6/30/2037	1,345,000	4.00%	2.61%	1,077,800	2,422,800
6/30/2038	1,400,000	4.00%	2.61%	1,024,000	2,424,000
6/30/2039	1,455,000	4.00%	2.61%	968,000	2,423,000
6/30/2040	1,515,000	4.00%	2.61%	909,800	2,424,800
6/30/2041	1,575,000	4.00%	2.61%	849,200	2,424,200
6/30/2042	1,640,000	4.00%	2.75%	786,200	2,426,200
6/30/2043	1,705,000	4.00%	2.75%	720,600	2,425,600
6/30/2044	1,770,000	4.00%	2.75%	652,400	2,422,400
6/30/2045	1,840,000	4.00%	2.75%	581,600	2,421,600
6/30/2046	1,915,000	4.00%	2.75%	508,000	2,423,000
6/30/2047	1,990,000	4.00%	2.80%	431,400	2,421,400
6/30/2048	2,070,000	4.00%	2.80%	351,800	2,421,800
6/30/2049	2,155,000	4.00%	2.80%	269,000	2,424,000
6/30/2050	2,240,000	4.00%	2.80%	182,800	2,422,800
6/30/2051	2,330,000	4.00%	2.80%	93,200	2,423,200
Totals	**$ 42,770,000**			**$ 29,942,565**	**$ 72,712,565**

Lease Revenue Bonds Structure

- The 2021 Lease Revenue Bonds would be issued based on an Indenture of Trust which sets out the terms of the Bonds including payment, interest rates, redemption and covenants of the City
- The Lease Agreement which sets out the terms of the lease between the City and the Financing Authority including rental payments and insurance and the Property Lease which sets out a description of the assets being pledged and subject to Lease Payments
- The Lease Payments made to the Financing Authority are assigned to a Trustee and used to make debt service payments on the Bonds. The Financing Authority is the Lessor and the City is the Lessee. A diagram of the structure is as follows:



Pension Obligation Bonds

- The City can issue Pension Obligation Bonds (“POBs”) to fund all or a portion of its Unfunded Accrued Liability (“UAL”) at CalPERS
  - City’s UAL of $77,699,081 as of June 30, 2019
  - Judicial Validation process is necessary

- The Pension Obligation Bond debt service will be paid with moneys already budgeted by the City as its annual General Fund payment committed to CalPERS. Effectively replaces one debt for another of a lower interest rate

- CalPERS currently charging 7% on the City’s UAL. Bond debt service based on current interest rates would be less than 4%

- The City can issue POBs and effectively replace monthly CalPERS UAL payments (unpredictable and subject to change) with fixed POB bond debt service payments
  - Known costs to budget for -- semiannual debt service payments

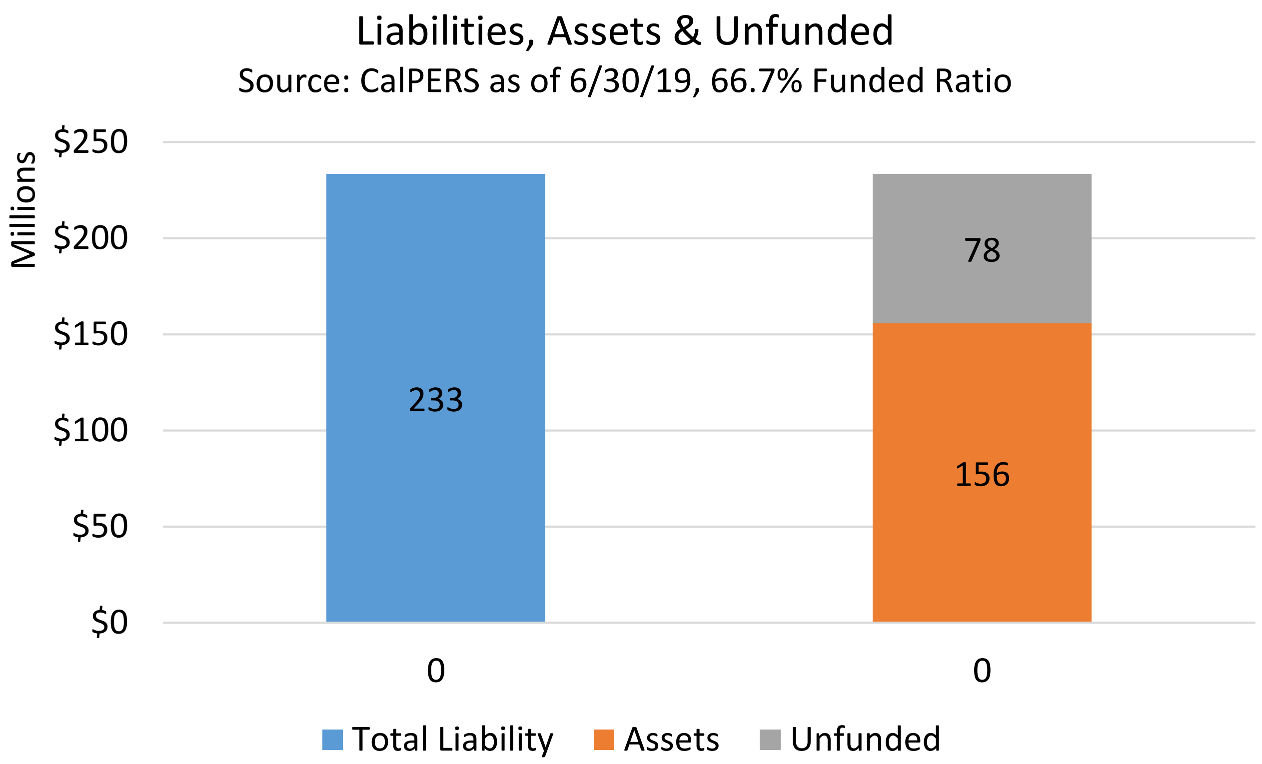
- We will explore three financing scenarios for POBs that deliver 34-36% net present value savings vs. the City’s UAL amortization payments for its nine CalPERS plans

The City's Potential Goals for Pension Obligation Bonds

1. Reduce short- and long-term budget pressures – CalPERS payment spikes
2. Change the payment pattern (e.g., a smooth pattern for bond repayment, vs an irregular pattern with no bonds). Smoother payment patterns make budgeting easier
3. Obtain higher expected investment returns on investments at CalPERS (current discount rate 7%) than borrowing cost (estimated at 3.5-4.5%); this is sometimes referred to as "arbitrage"
4. Shorten amortization period
5. Raise the funded level of the pension plan (e.g., from 66.7% to 100%)
6. Proactive approach to establish a long-term plan well-suited to the City
7. Establish a pension policy to plan for future UAL payments

Projected Liabilities, Assets & Unfunded Liabilities

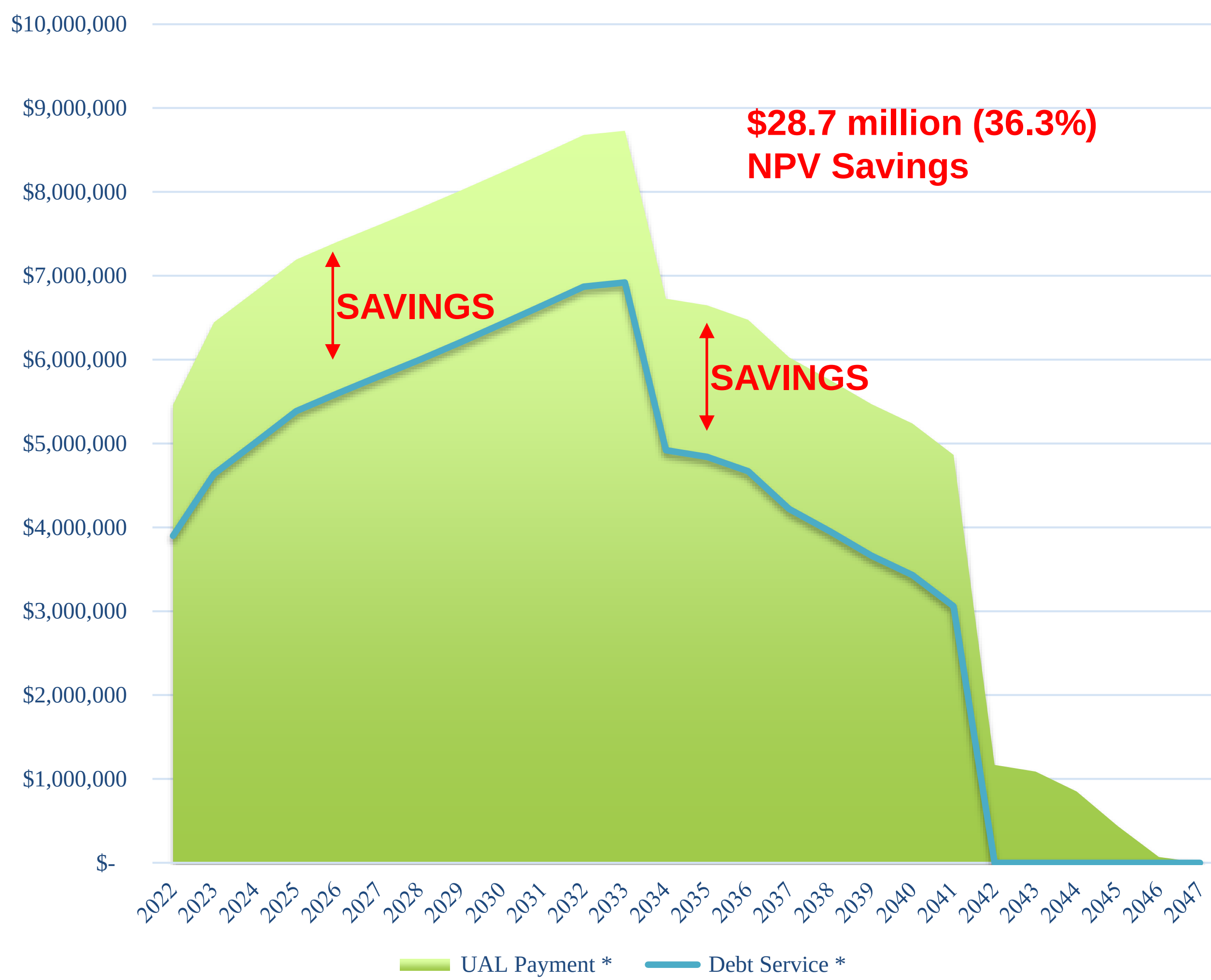
- Projections in this chart are from the City's July 2020 CalPERS actuarial studies with UAL information as of June 30, 2019
- Includes all nine CalPERS plans, combined funded ratio is 66.7% @ 7.0% discount rate



POB Scenario 1: “Bell Curve” Debt Service Solution - $79.525 Million Bonds

- Fully Funds UAL, generates substantially level debt service savings versus projected UAL Payments

FY	UAL Payment *	Debt Service *	Savings
2022	$ 5,462,797	$ 3,898,769	$ 1,564,028
2023	6,444,492	4,636,746	1,807,746
2024	6,815,904	5,008,020	1,807,884
2025	7,192,701	5,385,523	1,807,178
2026	7,404,828	5,595,869	1,808,959
2027	7,603,098	5,798,567	1,804,531
2028	7,806,820	5,997,709	1,809,111
2029	8,016,141	6,208,073	1,808,068
2030	8,231,216	6,424,171	1,807,045
2031	8,452,210	6,645,187	1,807,023
2032	8,679,277	6,869,877	1,809,400
2033	8,728,526	6,920,189	1,808,337
2034	6,726,944	4,919,034	1,807,910
2035	6,646,986	4,841,182	1,805,804
2036	6,474,215	4,668,114	1,806,101
2037	6,027,184	4,218,782	1,808,402
2038	5,756,384	3,951,355	1,805,029
2039	5,470,198	3,663,779	1,806,419
2040	5,238,063	3,431,888	1,806,175
2041	4,864,183	3,059,012	1,805,171
2042	1,167,242	-	1,167,242
2043	1,087,367	-	1,087,367
2044	850,200	-	850,200
2045	436,996	-	436,996
2046	69,379	-	69,379
2047	159	-	159
	$ 141,653,510	$ 102,141,847	$ 39,511,663



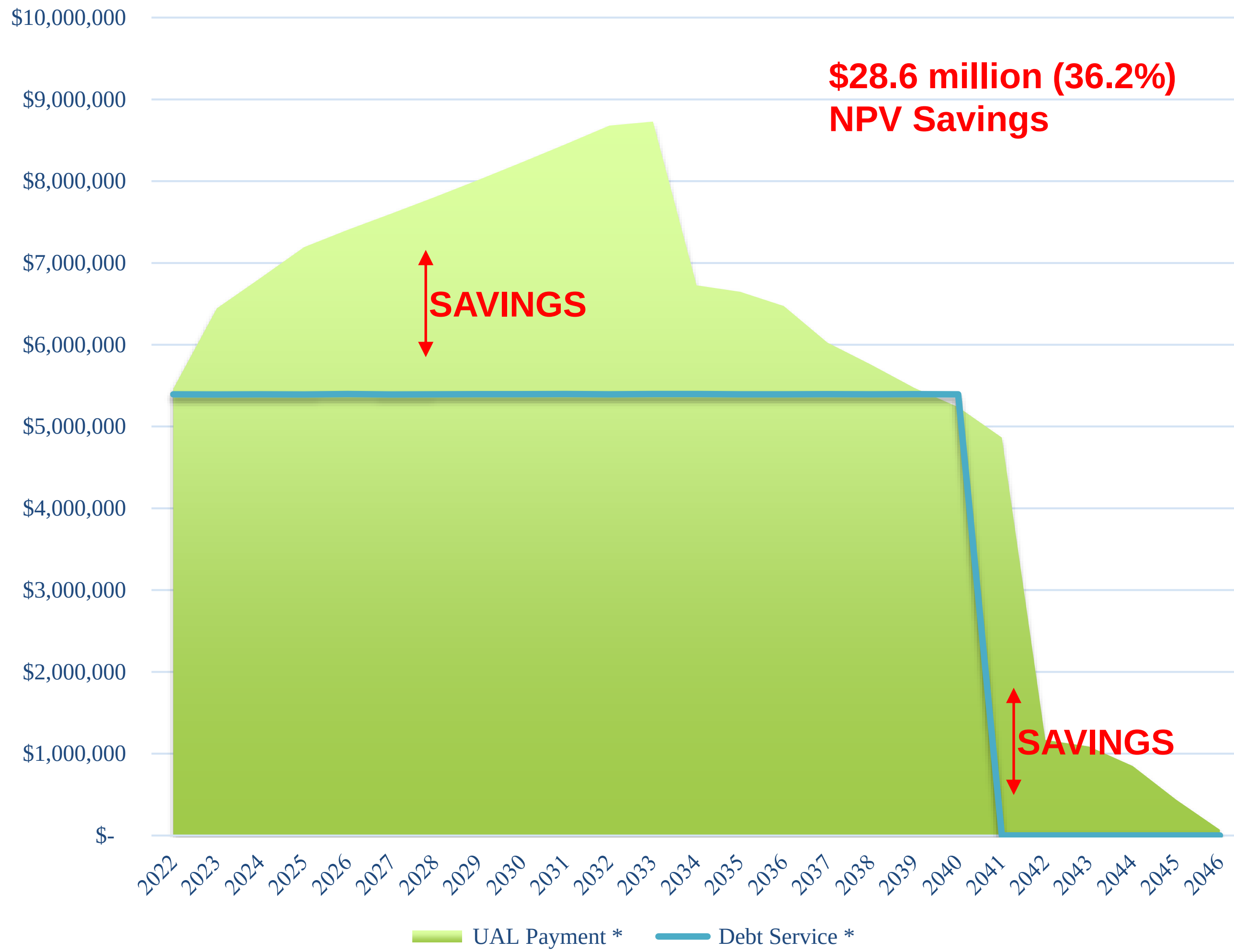
*** Estimated, Subject to Change**

HilltopSecurities
A Hilltop Holdings Company.

POB Scenario 2: Level Debt Service to FY2040 - $79.525 Million Bonds

- Fully funds UAL, level debt service through FY2040

FY	UAL Payment *	Debt Service *	Savings
2022	$ 5,462,797	$ 5,394,403	$ 68,394
2023	6,444,492	5,392,500	1,051,992
2024	6,815,904	5,393,315	1,422,589
2025	7,192,701	5,392,049	1,800,653
2026	7,404,828	5,396,758	2,008,070
2027	7,603,098	5,391,818	2,211,280
2028	7,806,820	5,392,848	2,413,972
2029	8,016,141	5,395,107	2,621,034
2030	8,231,216	5,394,929	2,836,288
2031	8,452,210	5,396,775	3,055,435
2032	8,679,277	5,394,103	3,285,174
2033	8,728,526	5,396,491	3,332,036
2034	6,726,944	5,396,506	1,330,439
2035	6,646,986	5,393,771	1,253,216
2036	6,474,215	5,392,893	1,081,322
2037	6,027,184	5,394,685	632,499
2038	5,756,384	5,392,720	363,664
2039	5,470,198	5,395,616	74,582
2040	5,238,063	5,393,043	(154,980)
2041	4,864,183	-	4,864,183
2042	1,167,242	-	1,167,242
2043	1,087,367	-	1,087,367
2044	850,200	-	850,200
2045	436,996	-	436,996
2046	69,379	-	69,379
2047	159	-	159
	$ 141,653,510	$ 102,490,327	$ 39,163,183

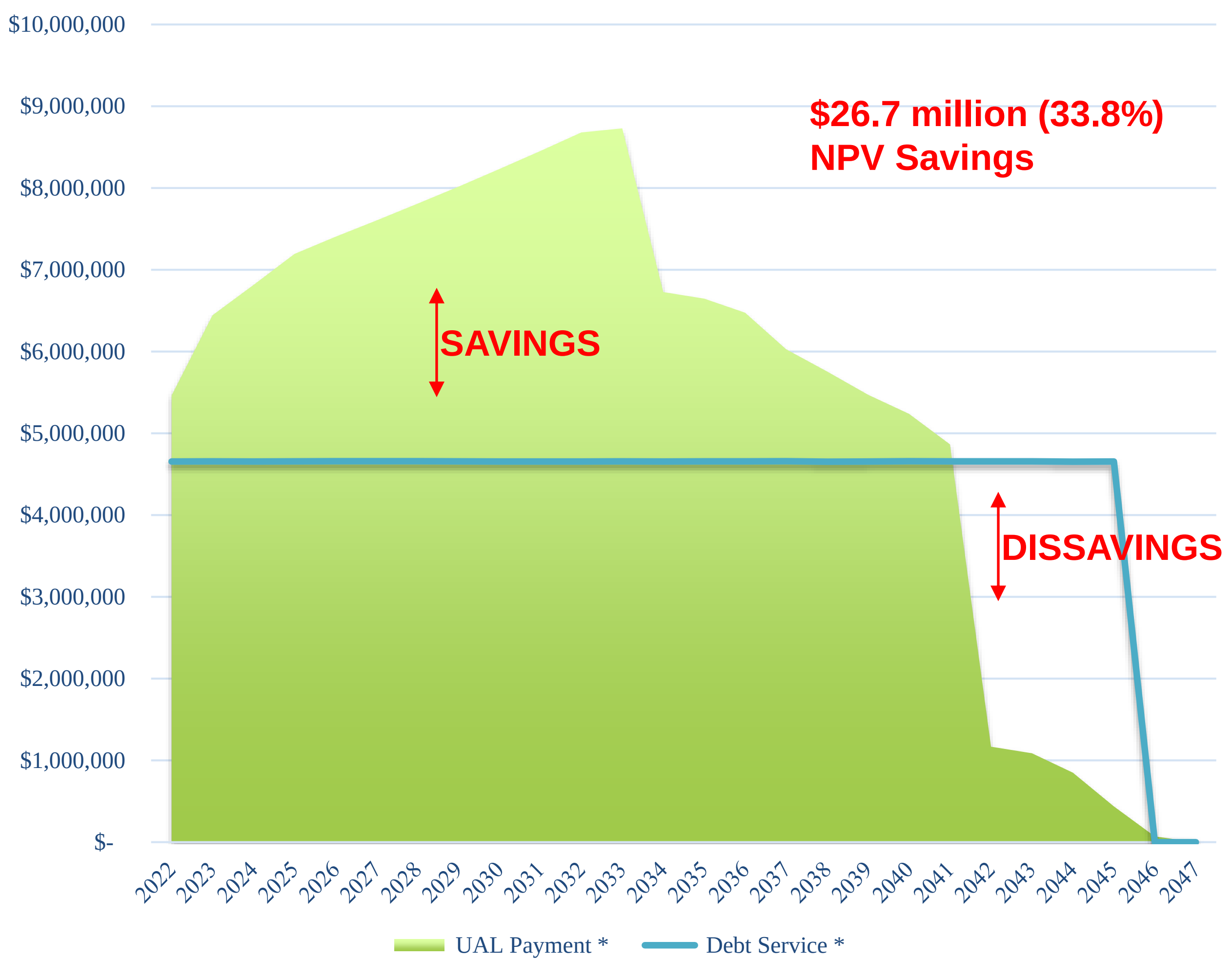


*** Estimated, Subject to Change**

POB Scenario 3: Level Debt Service to FY2045 - $79.525 Million Bonds

- Fully funds UAL, debt service is level through FY2045

FY	UAL Payment *	Debt Service *	Savings
2022	$ 5,462,797	$ 4,654,953	$ 807,844
2023	6,444,492	4,656,813	1,787,679
2024	6,815,904	4,654,158	2,161,746
2025	7,192,701	4,656,362	2,536,339
2026	7,404,828	4,658,302	2,746,527
2027	7,603,098	4,658,220	2,944,878
2028	7,806,820	4,657,837	3,148,983
2029	8,016,141	4,656,071	3,360,070
2030	8,231,216	4,655,304	3,575,913
2031	8,452,210	4,653,736	3,798,474
2032	8,679,277	4,653,949	4,025,328
2033	8,728,526	4,656,861	4,071,665
2034	6,726,944	4,654,366	2,072,578
2035	6,646,986	4,656,294	1,990,693
2036	6,474,215	4,657,169	1,817,047
2037	6,027,184	4,657,649	1,369,535
2038	5,756,384	4,653,115	1,103,269
2039	5,470,198	4,654,936	815,262
2040	5,238,063	4,657,778	580,285
2041	4,864,183	4,656,476	207,707
2042	1,167,242	4,656,703	(3,489,460)
2043	1,087,367	4,657,305	(3,569,938)
2044	850,200	4,653,113	(3,802,913)
2045	436,996	4,654,125	(4,217,129)
2046	69,379	-	69,379
2047	159	-	159
	$ 141,653,510	$ 111,741,590	$ 29,911,920



*** Estimated, Subject to Change**

Legal Structure / Authorization of California POBs

The most used legal structure for pension debt in California is judicially validated "Obligations imposed by law", unsecured by specific City assets

- In California generally issued as refunding bonds under Local Agency Refunding Law (CA Government Code 53580-53589.5, see also CA Constitution Article XVI, Section 18) to refund a portion of the issuer's outstanding obligation to the pension fund
- Typical validation timeframe is 90-120 days, longer in current environment
- Validation asks the court to rule that the Pension Obligation Bonds are legal, valid and binding allowing Bond Counsel to render its unqualified opinion letter required to market the Bonds

Sample Validation Timeline

- Estimated cost of Validation $20,000, reimbursable from bond proceeds if bonds are issued
- This timeline may be further affected by general delays related to the Pandemic

Document/Event	Timing	Comment
City Bond Resolution	Week 1	City Resolution adopted prior to validation action
Summons and Complaint	Week 3	Beginning of validation proceedings to occur within 60 days of the adoption of the Resolution
Application for Order of Publication	Week 3	Filed same day as summons and complaint
Clerk Declaration in Support of Application for Order of Publication	Week 3	Filed same day as application for order of publication
Order of Publication	Week 5	Court will grant after review of summons, complaint, application for order of publication, and clerk declaration in support
1st Publication	Week 6	Publication to begin once order of publication is received. Publication must occur once a week for three successive weeks pursuant to GC §6063
2nd publication	Week 7	Second consecutive weekly publication
3rd publication	Week 8	Third consecutive weekly publication
10 days period after final publication to answer complaint	Week 10	Jurisdiction is complete 10 days after the completion of publication of the summons pursuant to GC §6063
Declaration of Publication	Week 10	Filed once jurisdiction is complete
Attorney Declarations of No Opposition	Week 10	Filed once jurisdiction is complete
Memorandum of Points and Authorities in Support of Entry of Default Judgment	Week 10	Filed once jurisdiction is complete
Proposed Judgment	Week 10	Filed once jurisdiction is complete
Signed Judgment	Week 10	Court grants Judgment after review of memorandum of points and authorities and a hearing
Passive Validation	Week 15	30 days after Judgment is entered

Recent Pension Obligation Bond Issuances in California

$363,645,000 Huntington Beach -- / AA+ / AA+ 3/17/21 2.92%	$286,485,000 Orange -- / AA / -- 3/3/21 2.71%	350,025,000 Chula Vista -- / AA / -- 2/11/21 2.52%	$113,585,000 Downey -- / AA / -- 2/9/21 2.60%	$106,335,000 Monterey Park -- / AA / -- 2/2/21 2.64%
$147,210,000 El Cajon -- / AA / -- 1/13/21 2.84%	$17,590,000 Coachella -- / AA- / - 11/19/20 2.78%	$101,490,000 Gardena -- / AA- / -- 11/10/20 3.29%	$90,000,000 Arcadia -- / AAA / -- 10/27/20 2.67%	$70,075,000 Azusa -- / AA- / -- 9/17/20 3.21%

Also issued since January 1, 2020

- $348M Torrance
- $219M Pomona
- $204 West Covina
- $50M Orange County
- $18M Grass Valley
- $108M Carson
- $118M El Monte
- $432M Riverside
- $101M Inglewood
- $236M Ontario
- $153M Montebello
- $18M Larkspur
- $720M Riverside County
- $131M Pasadena
- $463M Orange County

The Government Finance Officers Association View (in 2015) vs. Current Pension Obligation Bonds

The GFOA View (in 2015)	Current Pension Obligation Bonds
Invested pension bond proceeds might earn less than the borrowing costs	**Yes.** Instead of CalPERS's expected earnings rate of 7.0%, lower actual returns could occur. The chances of returns below current < 3.5-4.0% borrowing costs are low, but they do exist. City's municipal advisor and actuary and "stress test" options to better quantify this risk.
"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 other 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 merely replace a portion of an agency's payments to CalPERS with debt service. It is converting one debt to another type of debt at a lower interest rate.
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**. Current pension bonds are issued with a call feature, allowing agencies to refinance them in the future.
"Pension bonds are frequently structured in a manner that defers the principal payments…"	**Not Always**. The term of pension bonds can be shortened, lengthened, or stay the same. Three hypothetical options presented herein all include immediate amortization of principal.
"Rating agencies may not view the proposed issuance of Pension bonds as credit positive…"	**Not Likely**. Rating agencies have generally been viewing pension bonds as neutral to positive and an enhancement to long term affordability. Rating agencies also recognize the implementation of prudent strategies to address pension liabilities.