



NOTICE IS HEREBY GIVEN, that the undersigned Mayor Debbie Stone of the City of Upland, pursuant to legal requirements, does hereby call a special workshop of the Upland City Council.

**Thursday, September 10, 2020**

**3:00 p.m.**

**City Council Chamber**

A handwritten signature in cursive script that reads "Debbie Stone". The signature is written in black ink and is positioned above a solid horizontal line.

**Debbie Stone, Mayor**

**AGENDA ATTACHED**



## Special Meeting

September 10, 2020

3:00 PM

City Council Chamber

\*\*\*\*\*

### CITY COUNCIL WORKSHOP

---

1. CALL TO ORDER AND ROLL CALL
2. ORAL COMMUNICATIONS

Pursuant to Government Code Section 54954.2, any member of the public may address any item listed on the agenda. Anyone wishing to address the legislative body should submit a speaker card to the City Clerk at or prior to speaking. Speakers shall keep their comments to no more than three (3) minutes.

3. PENSION OBLIGATION BONDS DISCUSSION

Receive the Pension Obligation Bond Information presentation and provide Staff with direction on the next steps to proceed with consideration of issuing Pension Obligation Bonds. (Staff Person: Stephen Parker)

4. ADJOURNMENT - The next regularly scheduled City Council meeting is Monday, September 14, 2020

**NOTE:** All Agenda items and back-up materials are available for public review at the Upland Public Library, downstairs reference desk at 450 North Euclid Avenue, the City Clerk's Office at 460 North Euclid Avenue and the City website at [www.uplandca.gov](http://www.uplandca.gov).

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 at 909.931.4120. Notification 48 hours 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]

**POSTING STATEMENT:** On September 3, 2020 a true and correct copy of this agenda was posted at 450 N. Euclid Avenue (Upland Public Library) and 460 N. Euclid Avenue (Upland City Hall) and the City Website at [www.uplandca.gov](http://www.uplandca.gov)



## STAFF REPORT

**ITEM NO. 3.**

---

**DATE:** September 10, 2020  
**TO:** MAYOR AND CITY COUNCIL  
**FROM:** ROSEMARY HOERNING, CITY MANAGER  
**PREPARED BY:** ROSEMARY HOERNING, CITY MANAGER  
STEPHEN PARKER, CPA, ASSISTANT CITY MANAGER  
**SUBJECT:** PENSION OBLIGATION BONDS DISCUSSION

---

### **RECOMMENDED ACTION**

It is recommended that City Council receive the Pension Obligation Bond Information presentation and provide staff with direction on the next steps to proceed with consideration of issuing Pension Obligation Bonds.

### **GOAL STATEMENT**

The proposed action supports the Council's goal to provide sound fiscal stewardship for the City of Upland.

### **BACKGROUND**

In August 2019, the San Bernardino County Civil Grand Jury, in response to a complaint, issued a report on the City of Upland. The Grand Jury did not discover sufficient evidence to support allegations of poor management, hostile work environment and nepotism, nor did they find any evidence of Brown Act violations. The Grand Jury acknowledged that the City of Upland was not in great financial shape, but Upland's financial condition was no different from other California cities of like size. As a result of the extensive Grand Jury review, the Grand Jury provided a recommendation that the City of Upland develop a formal course of action to reduce their unfunded pension liability and develop a formal plan that funds future pension contributions.

The City is aware of its need to address pension liability and has taken many steps in recent years to address pension liability concerns, including, but not limited to:

- Establishing a Section 115 Trust in May 2016 for both Pension and Other Post-Employment Benefits (OPEB). The July 2020 balance of those trusts are \$7.2 million and \$1.2 million, respectively.

- Making the difficult decision in November 2016 to transfer City Fire service operations to San Bernardino County, which was implemented in July 2017. This decision was another measure taken by the City to limit and/or reduce anticipated future pension liabilities.
- Approving Memorandum of Understandings with all non-safety labor groups in October 2019 requiring that classic employees hired after January 1, 2020 would be required to contribute 1.4% of the employer portion of the CalPERS normal cost (on top of the entire 8% employee share).
- Approving, in March 2020, an additional \$1 million dollar payment toward the City's Unfunded Actuarial Liability.
- Reaching an agreement with GovInvest Inc. in September 2020 to use their Pension Module to model future pension projections under different scenarios and assist with the establishment of a Pension Liability Funding Plan.

In addition to the above actions taken, staff and City Council have looked into additional efforts that could reduce the City's unfunded pension liability. As a result of attending a recent League of California Cities webinar, Council Member Elliott requested consideration of the issuance of Pension Obligation Bonds to executive staff.

## **ISSUES/ANALYSIS**

The City's pension plan is managed under contract by California Public Employees' Retirement System (CalPERS). The City makes payments to CalPERS annually in two forms - the normal cost and a payment toward the Unfunded Actuarial Liability (UAL). CalPERS completes an actuarial valuation annually that reflects the rates for those two components. The normal cost is calculated as a percentage of payroll, and is intended to fully fund a share of future pension obligations. The UAL is the amount charged to the City to repay the estimated long-term liability owed to CalPERS for past changes in benefits, reductions in the discount rate, and lower than expected investment returns.

The City's UAL is a liability listed on the balance sheet that must be repaid to CalPERS. CalPERS' current discount rate, the rate it believes its investments will achieve on average over a long-term horizon, is 7%. As the City has a liability with CalPERS (the UAL), CalPERS assesses interest on the liability annually in the form of the 7% discount rate. The City's UAL is scheduled to increase from \$9.1 million in the current fiscal year to \$9.6 million in FY 21/22 and up to \$11.8 million in FY 30/31. These figures were determined prior to calculating the losses that will appear in next years' actuarial valuation as a result of CalPERS' 4.7% investment yield in FY 19/20 falling short of the 7% target.

In the current low interest rate environment, a 7% interest rate is rather high. This creates an opportunity where the consideration of issuing Pension Obligation Bonds comes becomes advantageous. July 2020 interest rates for Pension Obligation Bonds were 3.3%. If the City were to refinance the existing UAL debt to CalPERS with its 7% interest rate at a lower fixed rate by issuing bonds, the City would significantly reduce annual payments, and save up to 25% of total payments made towards the existing liability over the life of the bonds.

Suzanne Harrell of Harrell & Company has over 20 years of Financial Advisor experience, and has assisted in over 300 financings for cities and special districts totaling more than \$5.8 billion. She has recent Pension Obligation Bond (POB) experience assisting the cities of Ontario, La Verne, Baldwin Park, Carson, and the Otay Water District.

At this workshop, Ms. Harrell will be presenting detailed information pertaining to utilizing POBs as a debt management tool to manage existing pension liabilities with CalPERS, guidance from the League of California Cities and Government Finance Officers Association pertaining to POBs, misconceptions of POB's, recent developments in the space, and a comparison of two alternatives to fund the UAL - Pension Obligation Bonds and Lease Revenue Bonds.

## **FISCAL IMPACTS**

There is no fiscal impact from any action taken at the workshop. If City Council instructs staff to pursue the issuance of Pension Obligation Bonds or Lease Revenue Bonds to refinance our existing liability with CalPERS, current estimated savings exceed \$1 million annually and \$50 million over the term of the bonds.

## **ALTERNATIVES**

Provide alternative direction to staff.

## **ATTACHMENTS:**

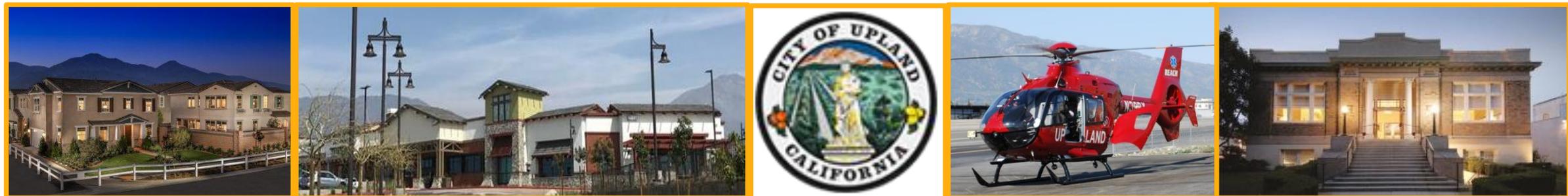
**Pension Obligation Bond Information**

# City of Upland

---



## POB Issuance and Savings Estimates September 2020



# Municipal Advisor Disclosures

---

Harrell & Co. is registered as a “municipal advisor” pursuant to Section 15B of the Securities Exchange Act and rules and regulations adopted by the United States Securities and Exchange Commission (“SEC”) and the Municipal Securities Rulemaking Board (“MSRB”). MSRB Rule G-42 requires us to provide you with information regarding any conflicts of interest that we may have and with information about where to find our SEC filings on the SEC website.

At the present time, Harrell & Co. has determined, after exercising reasonable diligence, that it has no known material conflicts of interest that would impair its ability to provide advice you in accordance with its fiduciary duty to municipal entity clients such as the City of Upland. To the extent any such material conflicts of interest arise after the date of this disclosure, Harrell & Co. will provide information with respect to such conflicts which may be in an engagement agreement.

The MSRB has made available on its website ([www.msrb.org](http://www.msrb.org)) a municipal advisory client brochure that describes the protections that may be provided by MSRB rules and how to file a complaint with the appropriate regulatory authority. Copies of our registration filings with the SEC can currently be found by accessing the SEC’s EDGAR system Company Search Page which is currently available at <https://www.sec.gov/edgar/searchedgar/companysearch.html> and searching for either Harrell & Co Advisors or for our CIK number which is 0001610917. As part of this registration Harrell & Co. is required to disclose to the SEC any information regarding criminal actions, regulatory actions, investigations, terminations, judgments, liens, civil judicial actions, customer complaints, arbitrations and civil litigation involving Harrell & Co. Pursuant to MSRB Rule G-42, we are required to disclose any legal or disciplinary event that is material to your evaluation of us or the integrity of our management or advisory personnel. As reflected in our filings with the SEC, Harrell & Co. has determined that no such event exists.

This presentation is for discussion purposes only. The information provided is based on information, market conditions, laws, opinions, and forecasts, all of which are subject to change. Harrell & Co. is not obligated to update material to reflect subsequent changes. In preparing this presentation, information contained herein has been obtained from sources considered reliable, but Harrell & Co. has not verified this information and does not represent that this material is accurate, current, or complete and it should not be relied upon as such.

To the extent that Harrell & Co. provides any alternatives, options, calculations or examples in the attached information, such information is not intended to express any view that the borrower could achieve particular results in any municipal securities transaction, and those alternatives, options, calculations or examples do not constitute a recommendation that any municipal issuer or obligated person should effect any municipal securities transaction. This material is not research and does not constitute tax or legal advice. Questions concerning tax or legal implications of materials should be discussed with your tax advisors and/or legal counsel.



# CalPERS Pension Plan Overview

# Participant Membership

Participant Type	Misc	Police	Total
Active	144	65	209
Transferred	161	48	209
Separated	102	38	140
Retired	414	137	551
<b>Total</b>	<b>821</b>	<b>288</b>	<b>1,109</b>

Participant Type	Fire
Active	-
Transferred	52
Separated	11
Retired	77
<b>Total</b>	<b>140</b>

# Pension Plan Overview – Unfunded Actuarial Liability (UAL)

Plan	UAL 6/30/2019 Valuation*	UAL Rolled forward to 6/30/2021	FY 2020-21 UAL Payment	6/30/2019 % Funded
Miscellaneous	\$ 49,380,664	\$ 49,410,189	\$3,113,125	68.4%
Police	43,316,739	42,211,121	3,471,702	64.6%
Fire	28,223,328	27,736,721	2,470,200	64.2%
<b>Total</b>	<b>\$120,920,731</b>	<b>\$119,358,031</b>	<b>\$9,055,027</b>	

**\*Most Recent Plan Valuation was 6/30/2019 Released August 2020**

**6/30/2021 Balance Reflects Scheduled UAL Payments made in FY 19-20 and 20-21**

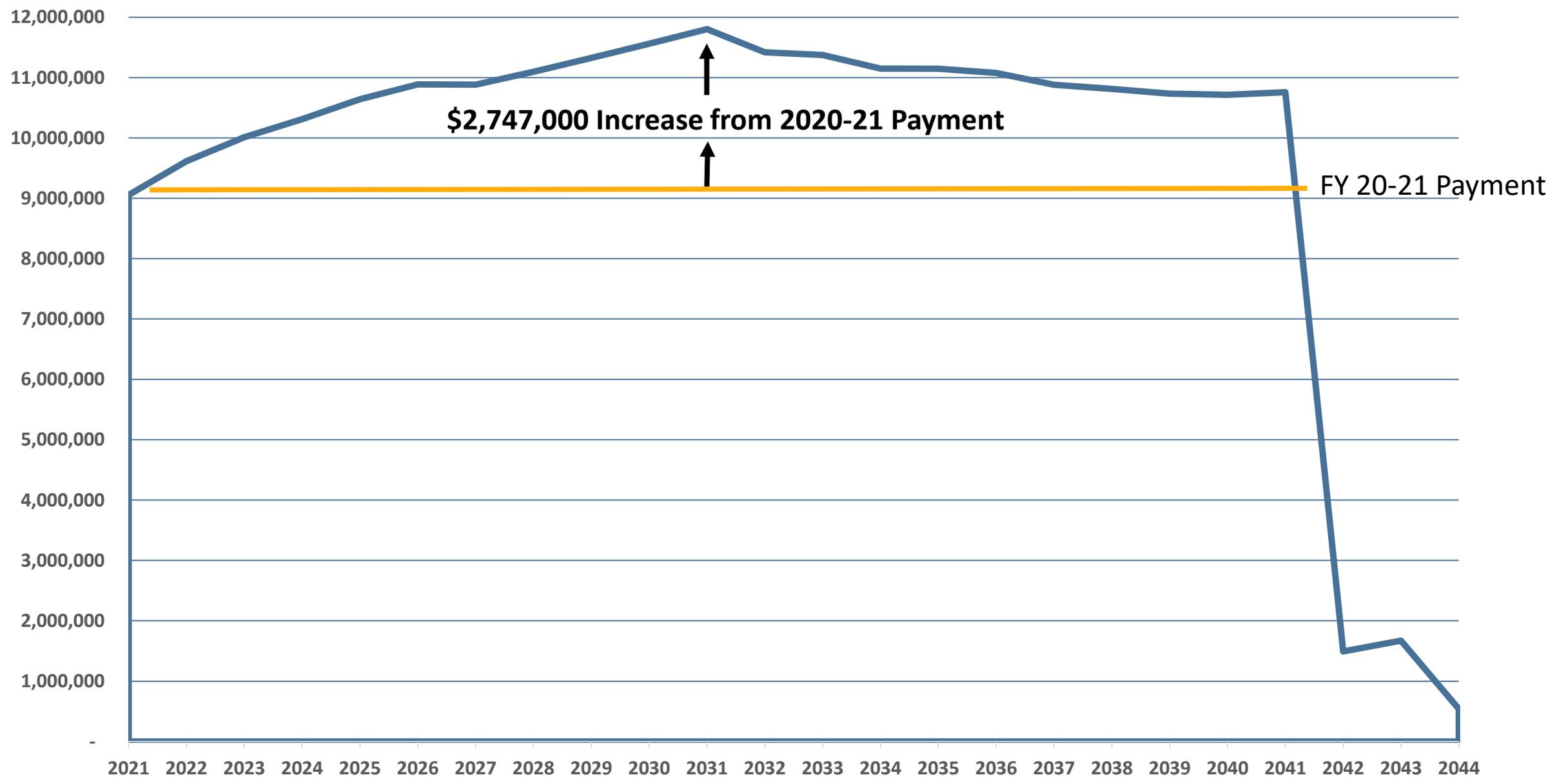
**Does Not Reflect FY 19-20 Return of 4.7%; Impacts FY 2021-22 UAL Rates**

# CalPERS UAL Calculation

---

- Existing UAL for Misc and Police Plans are a Made up of a Series of Amortization Bases
- Each Year, a UAL Base is Created by Annual Investment Returns, Changes in Discount Rate, Actual Retirement Payments
- Existing Bases are Amortized Over Different Periods Between 16 and 30 Years Based on PERS Methodology and Current PERS Discount Rate of 7%
- PERS Method Produces Larger Payments in Early Years and Lower Payments Later as UAL Bases are Paid Off
- Fire Plan is inactive – Amortized with Level Payments
- Police Plan – Fresh Start When Separated from Fire Plan in 2017

# Current UAL Payments Based on 6/30/2019 Valuation



Note: Does Not Include FY 19-20 UAL to be added to 6/30/2021 UAL



# Funding the UAL

# Long Term Budgetary Savings Relating to Pension Costs

---

## *League of California Cities has Identified Approaches to Address Unfunded Pension Liabilities*

- **Develop and Implement Plan to Pay Down City's Unfunded Liability**
- **Local Ballot Measures to Enhance Revenue**
- **Pension Rate Stabilization Program (Section 115 Trust or Reserves)**
- **Change Service Delivery Methods and Levels of Certain Public Services**
- **Use Procedures and Transparent Bargaining to Increase Employee Pension Contributions**
- **Issue Pension Obligation Bonds (POBs)**

# Pension Obligation Bonds

---

- **City May Issue Pension Obligation Bonds at Lower Interest Rates to Pay Off the UAL**
- **Estimated Budgetary Savings of \$44.5M \* Over 20 Years for Misc/Police Plans and \$12.7M\* Over 20 Years for Fire Plan**
- **Annual Savings for Misc/Police Plans Range From \$952,000 to \$3.1 Million**
- **Annual Savings for Fire Plan Average \$639,000**

\* July 2020 Interest Rates; See Page 16

# POBs Are a Debt Management Tool

---

- **Refinance 7% Payments at a Lower Fixed Rate of 3.3%\* including Costs of Issuance**
  - **POBs are Issued at Taxable Bond Rates and Rates are Based on City's Credit Rating**
- **Manageable Future Payments**
- **Budget Savings Result in Less Expenditure Cuts Needed in the Future**
- **Savings Realized Can Add to Reserves and/or be Used for Other City Priorities**

\* July 2020 Interest Rates; See Page 16

# POBs Are Not an Investment Vehicle

**One of GFOA Concerns is Cities Using POBs as an Investment Vehicle to Earn “7%” on PERS Assets**

FYE June 30	Annual Return	10 Year Average Return
2020	4.7%	8.7%
2019	6.7%	9.6%
2018	8.6%	6.6%
2017	11.2%	5.2%
2016	0.6%	6.0%
2015	2.4%	7.1%
2014	18.4%	8.2%
2013	13.2%	8.0%
2012	0.1%	7.0%
2011	21.7%	6.4%
2010	13.3%	3.5%
2009	(24.0)%	3.2%

# Misconception of POBs

---

- **POBs Only Pay Off Existing UAL and Allow the City to Restructure Payments Compared to the PERS Method**
- **Every Year Going Forward, there will be new UAL Base or UAL Credit created by:**
  - **PERS Investment Returns Over or Under the 7% Target Return**
  - **Change in the Actuarial Liability Calculation for Retirement Benefits Paid or Employee Retirements Different from Actuarial Assumptions**
  - **Any Future Change in the Discount Rate**
- **Future UAL Bases Will Have Their Own Payment Requirement; Recommendation is to Adopt a Pension Liability Funding Policy to Address Future UAL**

# GFOA View on POBs

<b>GFOA View</b>	<b>Response</b>
<b>Investment Vehicle</b>	<b>Debt Management</b>
<b>Complex Structure</b>	<b>Use Traditional Structure</b>
<b>Impacts Debt Capacity</b>	<b>UAL Already a Debt</b>
<b>No Early Prepayment</b>	<b>Can Refinance After 10 Yrs</b>
<b>Extend Maturity</b>	<b>Existing Maturity</b>
<b>Credit Negative</b>	<b>Credit Positive from Higher Funding Ratio</b>

# POB Issuance

---

- **Requires Judicial Validation (No Voter Approval)**
- **Does Not Require Lease of Assets to Secure Bond Payments – Validate the UAL is an Obligation Imposed by Law**
- **Issuance Assumed June 2021 Based on Time to Complete Validation Process**
- **Issued Under the Refunding Law – Treated as a Refinancing an Existing Obligation**

# Recent Developments

---

- **Howard Jarvis Group has Recently Answered a Validation Action**
- **Validation Process is Long Established for POBs and Howard Jarvis Group is Unlikely to Prevail**
- **Threat of Litigation can Delay the Issuance**
- **West Covina Switched to a Traditional Lease Revenue Bond (LRB) to Prepay Their UAL**
- **Additional Costs to Using LRB but Avoids Delay Associated With Judicial Validation**

# Two Alternatives to Fund UAL

	Pension Obligation Bonds	Lease Revenue Bonds
Repayment Obligation	General Fund	General Fund
Court Validation	Required; Can be Challenged	Not Required
Security	General Obligation	Leased Payments; Covenant to Annually Budget and Appropriate
Leased Assets	None Required	Required
Credit Rating	One Notch Higher than LRB Rating	One Notch Lower than POB Rating
Timing	Based on Court Validation Proceeding Calendar; 4-6 months; Extended if Challenged	90 days from Authorization to Proceed
Special Costs	Validation Costs	Title Insurance
Reserve Fund	Not Required to Achieve AA- POB Rating	Required to Achieve A+ LRB Credit Rating
FY 20-21 UAL Payments	City Pays Monthly Through June	Jan-June Payments Funded

# POB/LRB Issuance

## Prepay 100% UAL Based on June 30, 2019 Valuation

	POB	LRB	
Jan-June UAL Payments	\$ -	\$ 4,807,000	LRB Issued In January 2021
Miscellaneous Plan	\$ 42,211,000	40,933,000	
Police Safety Plan	49,410,000	47,913,000	
Fire Safety Plan	27,737,000	26,899,000	
	\$119,358,000	\$120,552,000	
Reserve Fund	-	8,600,000	Reserve Fund Offsets Final Payments
Costs of Issuance	1,212,000	1,268,000	
<b>Total Bonds Issued</b>	<b>\$120,570,000</b>	<b>\$130,420,000</b>	

Note: Does Not Include FY 19-209 UAL  
to be added to 6/30/2021 UAL

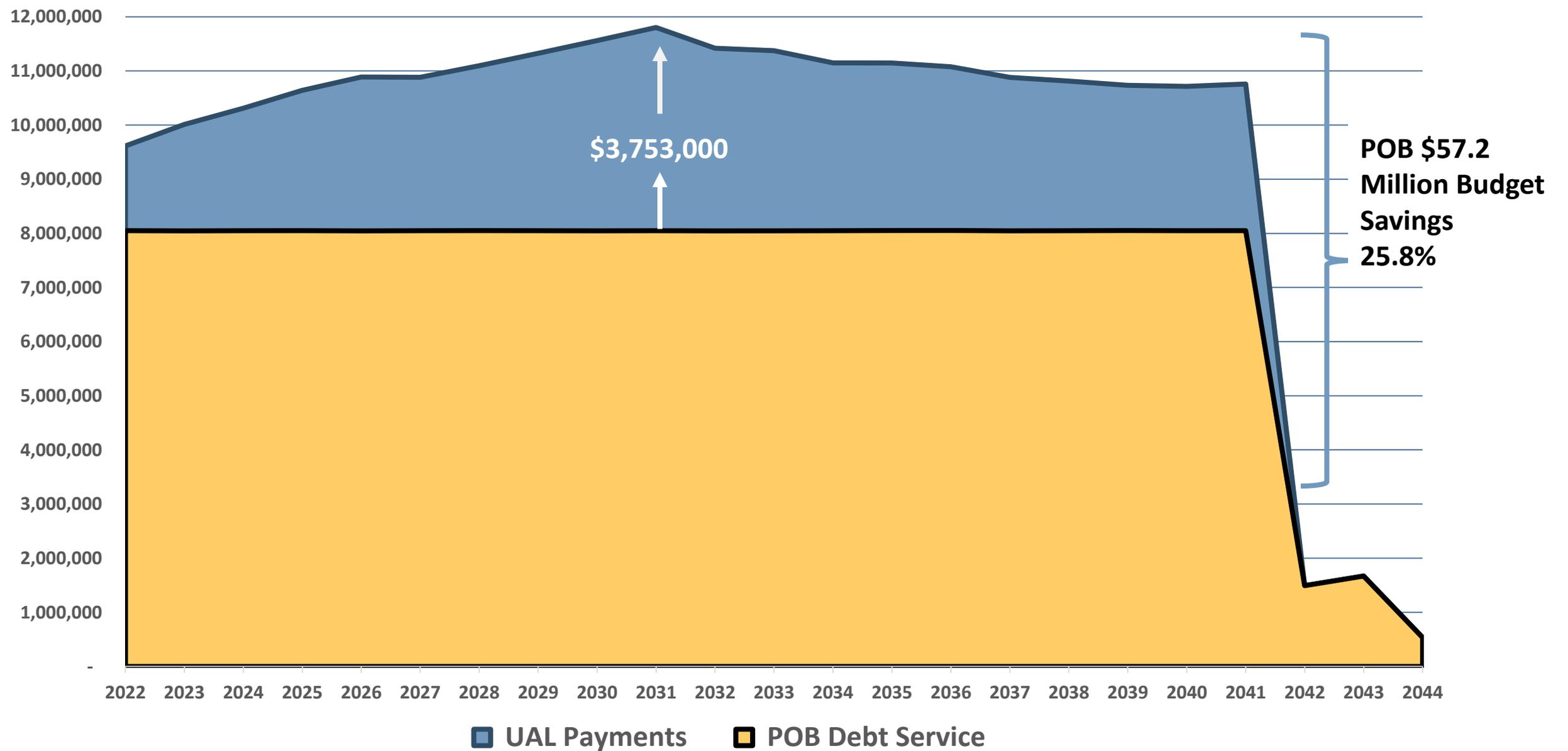
# POB Debt Service Estimates

FYE June 30	UAL Payments	Debt Service	Reduction
2022	\$ 9,614,614	\$ 8,050,000	\$ 1,564,614
2023	10,011,889	8,046,000	1,965,889
2024	10,311,784	8,049,000	2,262,784
2025	10,641,822	8,050,000	2,591,822
2026	10,887,523	8,046,000	2,841,523
2027	10,882,817	8,049,000	2,833,817
2028	11,096,008	8,051,000	3,045,008
2029	11,325,149	8,049,000	3,276,149
2030	11,560,597	8,047,000	3,513,597
2031	11,802,509	8,049,000	3,753,509
2032	11,418,887	8,046,000	3,372,887
2033	11,374,036	8,047,000	3,327,036
2034	11,148,759	8,049,000	3,099,759
2035	11,146,374	8,052,000	3,094,374
2036	11,076,834	8,053,000	3,023,834
2037	10,880,940	8,047,000	2,833,940
2038	10,812,497	8,049,000	2,763,497
2039	10,734,156	8,052,000	2,682,156
2040	10,714,965	8,049,000	2,665,965
2041	10,758,186	8,050,000	2,708,186
2042	1,492,312	1,492,000	312
2043	1,670,748	1,669,000	1,748
2044	538,120	533,000	5,120
	\$221,901,526	\$164,674,000	\$57,227,526
Reduction			25.8%

## Additional Structuring Options Disclosure

1. Preliminary and subject to change.
2. Assumes an AA- rating.
3. Interest rate assumptions are based on current market conditions and similar credits.
4. Upland's actual results may differ.
5. Costs of issuance and underwriter's discount are estimates for discussion purposes.
6. The use of bond insurance and surety reserve is common for similarly rated bonds, but not necessarily for AA-minus rated POBs, and was not utilized in structuring for this discussion.
7. Does not include FY 19-20 UAL to be added to next PERS Valuation Report; Based on a 6/30/2021 UAL Prepayment Date
8. Assumes all Plans (Misc/Fire/Police – Classic/PEPRA) are prepaid in full.

# Comparison – UAL and POB



Note: Does Not Include FY 18-19 UAL to be added to 6/30/2021 UAL

# LRB Debt Service Estimates

FYE June 30	UAL Payments	Debt Service	Reserve Fund Credits	Reduction
2021	4,807,307	1,380,000	(21,000)	3,448,307
2022	9,614,614	8,519,000	(42,000)	1,137,614
2023	10,011,889	8,515,000	(42,000)	1,538,889
2024	10,311,784	8,516,000	(42,000)	1,837,784
2025	10,641,822	8,514,000	(85,000)	2,212,822
2026	10,887,523	8,514,000	(85,000)	2,458,523
2027	10,882,817	8,519,000	(85,000)	2,448,817
2028	11,096,008	8,513,000	(127,000)	2,710,008
2029	11,325,149	8,511,000	(127,000)	2,941,149
2030	11,560,597	8,516,000	(127,000)	3,171,597
2031	11,802,509	8,514,000	(127,000)	3,415,509
2032	11,418,887	8,516,000	(127,000)	3,029,887
2033	11,374,036	8,516,000	(211,000)	3,069,036
2034	11,148,759	8,518,000	(211,000)	2,841,759
2035	11,146,374	8,514,000	(211,000)	2,843,374
2036	11,076,834	8,513,000	(211,000)	2,774,834
2037	10,880,940	8,515,000	(211,000)	2,576,940
2038	10,812,497	8,515,000	(211,000)	2,508,497
2039	10,734,156	8,517,000	(211,000)	2,428,156
2040	10,714,965	8,511,000	(211,000)	2,414,965
2041	10,758,186	8,515,000	(211,000)	2,454,186
2042	1,492,312	4,268,000	(4,296,000)	1,520,312
2043	1,670,748	1,806,000	(135,000)	(252)
2044	538,120	4,430,000	(3,898,000)	6,120
	<b>\$ 226,708,833</b>	<b>\$182,185,000</b>	<b>\$(11,265,000)</b>	<b>\$55,788,833</b>
<b>Reduction</b>				<b>24.6%</b>

## Additional Structuring Options Disclosure

1. Preliminary and subject to change.
2. Assumes an A+ rating.
3. Interest rate assumptions are based on current market conditions and similar credits.
4. Upland's actual results may differ.
5. Costs of issuance and underwriter's discount are estimates for discussion purposes.
6. The use of bond insurance and surety reserve is common for similarly rated bonds, but not necessarily for A+ rated LRBs to prepay UAL, and was not utilized in structuring for this discussion.
7. Does not include FY 19-20 UAL to be added to next PERS Valuation Report; Based on a 6/30/2021 UAL Prepayment Date
8. Assumes all Plans (Misc/Fire/Police – Classic/PEPRA) are prepaid in full.

# POB Issuance in California

Sale Date	Issuer	Par Amount	Moody's	S&P	Fitch	Bond Insurance	Pension Override?
7/23/2020	West Covina*	\$204,095,000	--	A+	--	--	No
6/11/2020	North County Fire	\$ 20,305,000	--	AA-	--	--	No
6/10/2020	Carson	108,020,000	--	AA-	--	--	No
6/9/2020	El Monte	118,725,000	--	A+	A-	AGM	Yes
6/4/2020	Riverside (City)	432,165,000	--	AA	AA-	--	No
6/2/2020	Inglewood	101,620,000	--	AA-	--	AGM	Yes
5/27/2020	Montebello	153,425,000	--	A+	--	AGM	Yes
5/14/2020	Larkspur	18,295,000	--	AAA	--	--	No
5/12/2020	Ontario	236,585,000	--	AA	AA-	--	No
4/22/2020	Riverside County	720,945,000	A2	AA	--	--	No
11/21/2019	Mont Co Fire	20,250,000	A2	AA-	--	--	No
9/24/2019	Marysville	15,000,000	--	A	--	--	No
9/5/2019	Glendora	64,420,000	--	AAA	--	--	No
8/08/2019	Hawthorne	121,865,000	A3	AA-	--	--	No
3/21/2019	Chowchilla	10,500,000	--	A+	--	--	No
3/6/2019	Baldwin Park	54,085,000	--	AA-	--	--	No
12/18/2018	Ridgecrest	19,955,000	--	A	--	BAM	No
8/15/2018	La Verne	54,265,000	--	AA+	--	--	No
6/28/2018	Tulare County	251,220,000	A1	AA-	--	--	No
12/13/2017	Monrovia	111,545,000	--	AA-	--	--	Yes
11/14/2017	Inglewood	52,795,000	A3	--	--	--	Yes
7/20/2017	Brawley	16,310,000	--	A-	--	--	No

\* Lease Revenue Bond to Prepay UAL;



# Questions and Direction to Staff

