



City of La Habra

City Council Meeting

November 15, 2021

POBs by other CA Cities Sold Since 2019

- Arcadia
 - Auburn
 - Azusa
 - Baldwin Park
 - Buena Park
 - Brawley
 - Carson
 - Chowchilla
 - Chula Vista
 - Coachella
 - Commerce
 - Corona
 - Corte Madera
 - Covina
 - Downey
 - El Cajon
 - El Monte
 - El Segundo
 - Gardena
 - Glendora
 - Grass Valley
 - Hawthorne
 - Huntington Beach
 - Inglewood
 - La Verne
 - Lakeport
 - Larkspur
 - Manhattan Beach
 - Marysville
 - Montclair
 - Montebello
 - Monterey Park
 - Ontario
 - Orange
 - Pacifica
 - Pasadena
 - Placentia*
 - Pomona
 - Redondo Beach*
 - Ridgecrest
 - Riverside
 - Sanger
 - San Anselmo
 - San Fernando
 - Santa Ana
 - Torrance*
 - West Covina*
 - Whittier
 - Willows
- Upcoming POB Sales
- Barstow
 - Bell
 - Cathedral City
 - Eureka
 - Indio
 - Pico Rivera
 - Poway
 - Rialto
 - Rohnert Park
 - San Gabriel
 - San Jose
 - Santa Rosa
 - Vernon

Pension Funding Status as of June 30, 2020*

- City contributes to two CalPERS benefit pension systems
 - ◆ Miscellaneous Plan
 - ◆ Safety Plans
- City makes two types of payments to CalPERS each year
 - ◆ Normal Cost
 - ◆ Unfunded Accrued Liability (UAL)
- UAL as of June 30, 2020 is \$96.27 million

- Current estimated pension funded status is 68.8%
- City seeks total funded status of 100%

| Estimated Funded Ratios | | | |
|-------------------------|-------------------------------|---------------------|------------------|
| | Total Accrued Liability | UAL Balance | Funded Ratios |
| Miscellaneous Plan | \$129,322,077 | \$33,181,406 | 74.3% |
| Safety Plans | \$179,032,648 | \$63,091,279 | 64.8% |
| Total | \$308,354,725 | \$96,272,685 | 68.8% |
| | a | b | c=(a-b)/a |

* Estimate as of June 30, 2020 based on CalPERS report dated July 2021. Does not include the CalPERS investment gains earned in FY 2020-21 of 21.3% and anticipated change in the current discount rate 7%.

Estimated Current Pension Funding Status

- City's current estimated total UAL balance ranges between \$70.6M to \$92.8M
 - ◆ Assumes payoff on December 15, 2021
 - ◆ Assumes CalPERS' investment earnings from FY 2020-21 of 21.3%
 - ◆ CalPERS' plan demographic and financial assumption changes are anticipated to be finalized at its Board meeting on November 17, 2021

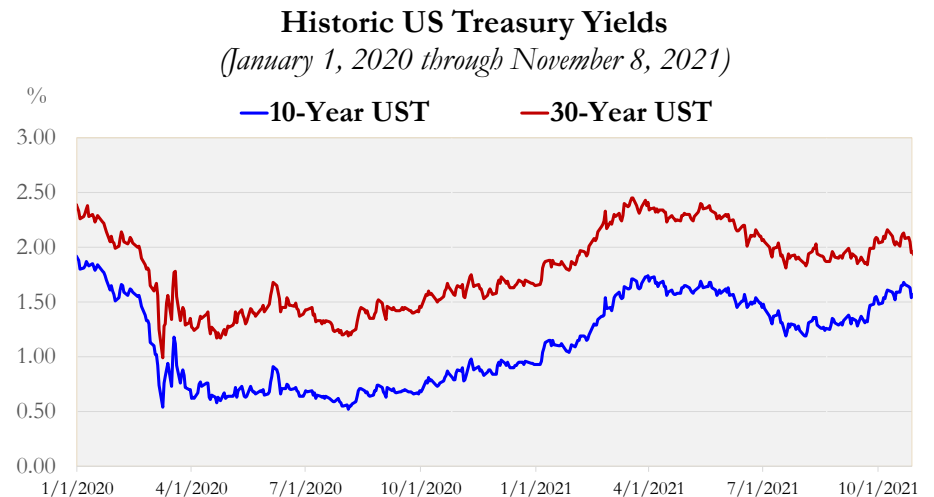
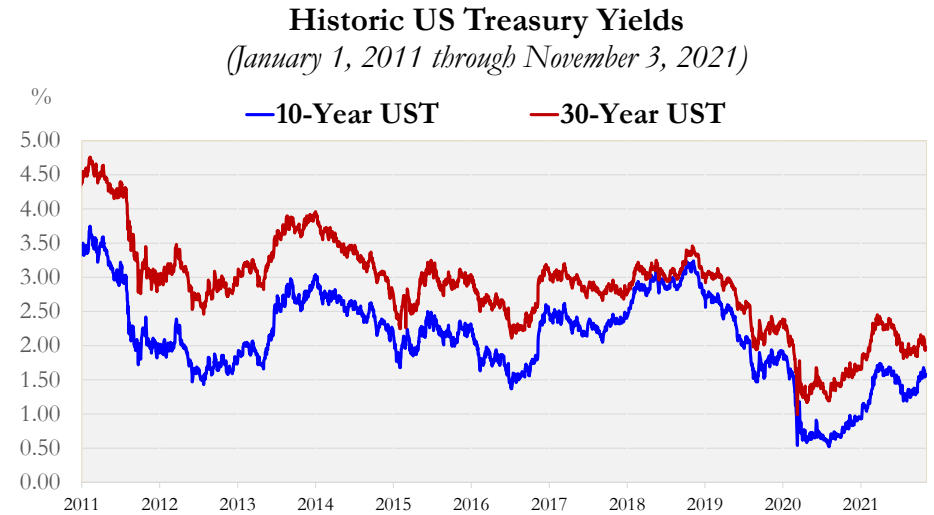
Projected UAL Payoff on December 15, 2021

| From 6/30/2020 Valuation | Misc. Plan | Safety Plans | Total |
|---|--------------|--------------|--------------|
| Current | \$31,992,373 | \$60,830,445 | \$92,822,818 |
| W/Projected 21.3% FY 2021 Earnings and 6.8% Discount Rate | \$21,809,000 | \$48,796,000 | \$70,605,000 |
| W/Projected 21.3% FY 2021 Earnings and 6.5% Discount Rate | \$27,710,000 | \$58,220,000 | \$85,930,000 |

*Preliminary; provided by CalPERS on October 20, 2021, assuming payoff of 100% of the UAL on December 15, 2021.

Historical Interest Rates and Market Trends

- Despite volatile market conditions, interest rates remain low
- Current average POB interest rates are less than 3.15% vs. CalPERS' 7% interest rate



Pension Obligation Bond Objectives

- Increase overall funding ratio to approximately 100%
- Smooth out/Level annual payments
- Maximize savings
- Minimize risks
- No extension of final maturity date
- Preserve flexibility – callable in 10 years at 100%

Summary of POB Scenario Assumptions

POB Assumptions

- Current Taxable Interest Rates
 - ◆ S&P AA underlying rating
 - ◆ Optionally callable in 10 years
- No Reserve Fund
- No Extension of Final Maturity
 - ◆ Reduced final term by 3 years
- 100% Funded Ratio
- UAL Balance assumes FY 2020-21 return of 21.3% and 6.8% actuarial discount rate

SOURCES AND USES

| Sources | Miscellaneous | Safety | Total |
|------------|---------------|--------------|--------------|
| Par Amount | \$21,975,000 | \$49,160,000 | \$71,135,000 |

| Uses | Miscellaneous | Safety | Total |
|-------------------|---------------|--------------|--------------|
| UAL Balance | \$21,809,427 | \$48,796,423 | \$70,605,850 |
| Issuance Expenses | \$165,573 | \$363,577 | \$529,150 |
| | \$21,975,000 | \$49,160,000 | \$71,135,000 |

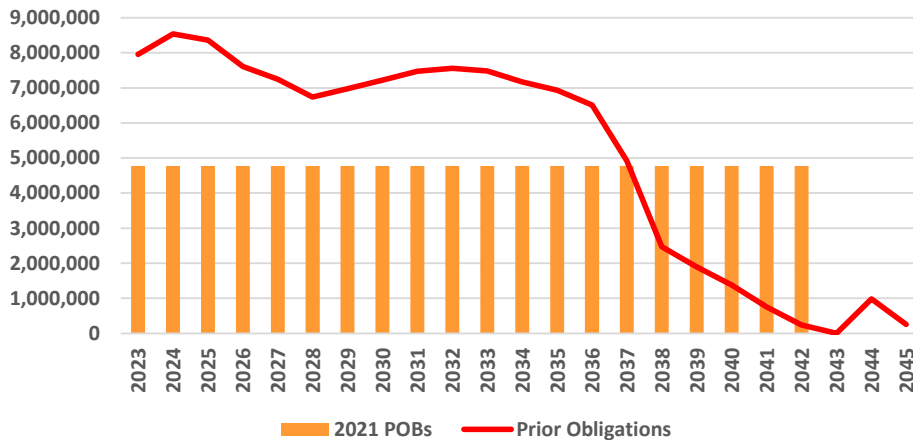
ANNUAL DEBT SERVICE

| Bond Year Ending 8/1 | Principal | Interest | Total |
|----------------------|--------------|--------------|--------------|
| 2022 | \$2,615,000 | \$2,158,022 | \$4,773,022 |
| 2023 | \$2,885,000 | \$1,888,607 | \$4,773,607 |
| 2024 | \$2,915,000 | \$1,855,665 | \$4,770,665 |
| 2025 | \$2,960,000 | \$1,811,856 | \$4,771,856 |
| 2026 | \$3,015,000 | \$1,758,196 | \$4,773,196 |
| 2027 | \$3,075,000 | \$1,695,120 | \$4,770,120 |
| 2028 | \$3,150,000 | \$1,622,872 | \$4,772,872 |
| 2029 | \$3,230,000 | \$1,544,382 | \$4,774,382 |
| 2030 | \$3,310,000 | \$1,460,150 | \$4,770,150 |
| 2031 | \$3,405,000 | \$1,369,473 | \$4,774,473 |
| 2032 | \$3,500,000 | \$1,271,905 | \$4,771,905 |
| 2033 | \$3,605,000 | \$1,167,080 | \$4,772,080 |
| 2034 | \$3,715,000 | \$1,055,422 | \$4,770,422 |
| 2035 | \$3,835,000 | \$936,480 | \$4,771,480 |
| 2036 | \$3,965,000 | \$809,697 | \$4,774,697 |
| 2037 | \$4,100,000 | \$674,780 | \$4,774,780 |
| 2038 | \$4,240,000 | \$533,417 | \$4,773,417 |
| 2039 | \$4,385,000 | \$387,223 | \$4,772,223 |
| 2040 | \$4,535,000 | \$236,029 | \$4,771,029 |
| 2041 | \$4,695,000 | \$79,580 | \$4,774,580 |
| | \$71,135,000 | \$24,315,953 | \$95,450,953 |

Estimated Financing Results*

- All-in True Interest Cost: 3.14%
- Projected Cumulative Benefit: \$21.2 million
- Projected Present Value (PV) of benefit discounted at all-in TIC: \$20.3 million
- PV as of % of Par Amount: 28.6%

Comparison of Current UAL and Proposed 2021 Bonds Annual Payment Schedules (\$000s)



Savings Summary

| FY | Prior Obligations | Aggregate Debt Service | Savings | PV Savings |
|------------------|--------------------|------------------------|-------------------|-------------------|
| 2023 | 7,953,595 | (4,773,022) | 3,180,573 | 3,032,826 |
| 2024 | 8,542,174 | (4,773,607) | 3,768,567 | 3,491,322 |
| 2025 | 8,364,202 | (4,770,665) | 3,593,537 | 3,224,817 |
| 2026 | 7,608,474 | (4,771,856) | 2,836,618 | 2,458,237 |
| 2027 | 7,247,638 | (4,773,196) | 2,474,442 | 2,072,931 |
| 2028 | 6,739,745 | (4,770,120) | 1,969,625 | 1,590,765 |
| 2029 | 6,978,177 | (4,772,872) | 2,205,305 | 1,730,718 |
| 2030 | 7,223,167 | (4,774,382) | 2,448,785 | 1,866,646 |
| 2031 | 7,474,893 | (4,770,150) | 2,704,744 | 2,002,040 |
| 2032 | 7,556,201 | (4,774,473) | 2,781,728 | 1,996,366 |
| 2033 | 7,482,490 | (4,771,905) | 2,710,585 | 1,884,168 |
| 2034 | 7,171,651 | (4,772,080) | 2,399,572 | 1,612,079 |
| 2035 | 6,934,563 | (4,770,422) | 2,164,141 | 1,405,233 |
| 2036 | 6,510,138 | (4,771,480) | 1,738,659 | 1,086,784 |
| 2037 | 4,919,754 | (4,774,697) | 145,057 | 55,397 |
| 2038 | 2,468,864 | (4,774,780) | (2,305,916) | (1,433,914) |
| 2039 | 1,899,118 | (4,773,417) | (2,874,299) | (1,724,840) |
| 2040 | 1,383,202 | (4,772,223) | (3,389,021) | (1,966,007) |
| 2041 | 752,118 | (4,771,029) | (4,018,911) | (2,254,418) |
| 2042 | 240,594 | (4,774,580) | (4,533,986) | (2,461,850) |
| 2043 | 0 | 0 | 0 | 0 |
| 2044 | 984,083 | 0 | 984,083 | 495,250 |
| 2045 | 257,858 | 0 | 257,858 | 125,790 |
| Sub Total | 116,692,699 | (95,450,953) | 21,241,746 | 20,290,338 |
| Cash on Hand | | | 4,664 | 4,664 |
| Total | | | 21,246,410 | 20,295,001 |

*Estimated. Actual savings numbers will depend on the final POB interest rates achieved and the CalPERS actual investment performance over the life of the POBs to final maturity. The CalPERS performance rate will fluctuate, and the City has no control over CalPERS' investment performance.

Pension Funding Policy

- The purpose of the policy is to provide guidance on the development of a funding plan for any UAL that are calculated annually by CalPERS, or for any unfunded accrued liabilities remaining immediately after the issuance of the POBs. The funding policy will support the decision-making and budgeting process of the City Council and be consistent with the overall purpose and goals of the City's pension plan.
- Pension Funding Policy Goals
 - ◆ Support the City's financial sustainability and position,
 - ◆ Ensure the City has flexibility to respond to changes in future service priorities, revenue levels and operating expenditures,
 - ◆ Support the City's creditworthiness, and
 - ◆ Ensure that pension funding decisions are structured to protect the City's service to residents

POB Finance Team

- 2021 POB Finance Team
 - ◆ Underwriter: BofA Securities, Inc.
 - ◆ Bond Counsel and Disclosure Counsel: Quint & Thimmig
 - ◆ Municipal Advisor: Fieldman, Rolapp & Associates, Inc.
 - ◆ Actuarial Consultant: Bartel Associates, Inc.
 - ◆ Trustee: The Bank of New York Mellon Trust Company

Recommendations

- Approve the Resolution authorizing the distribution of the financing documents in connection with the sale of Pension Obligation Bonds
 - ◆ Preliminary Official Statement
 - ◆ Bond Purchase Agreement
 - ◆ Continuing Disclosure Certificate
- Approve the Resolution adopting the Pension Funding Policy

Preliminary Financing Timeline

| | |
|-------------------|--|
| November 4, 2021 | <ul style="list-style-type: none">• Signed Judgement from Orange County Superior Court• Meeting with credit rating agency (Standard & Poor's) |
| November 12, 2021 | <ul style="list-style-type: none">• Receive rating from Standard & Poor's |
| December 4, 2021 | <ul style="list-style-type: none">• 30-Day Passive Validation Period Ends |
| December 2021 | <ul style="list-style-type: none">• Post Preliminary Official Statement• Sell Bonds• Close Bonds/Wire Transfer Funds to CalPERS |