HOW TO EXPLAIN PENSION OBLIGATION BONDS TO YOUR GOVERNING BOARD

AUGUST 26, 2021 2 PM - 3 PM ET / 11 AM – 12 PM PT

SPEAKERS

Donald Field

Partner
Orrick
(Moderator)

Mike Perkowski

Co-Founder and Partner
New Reality Media, LLC
(Moderator)

Oliver Chi

City Manager
City of Huntington Beach
(Speaker)

Mark Young

Managing Director
KNN Public Finance
(Speaker)

John Kim

Managing Director & Executive
Committee Member
Stifel
(Speaker)

Kevin Hale

Counsel
Orrick
(Speaker)

- **How and why to consider the refunding of unfunded pension liabilities with POBs?**
- What market conditions make POBs one tool to combat rising pension costs?
- **What is needed (board study sessions, policies, etc.) to responsibly move forward with a POB issuance?**
- How much unfunded pension liability should an issuer consider refunding with POBs?
- **What happens if conditions (stock market, actuarial assumptions, etc.) change after POBs are issued?**

HUNTINGTON BEACH, CA

Surf City, USA™

201,281 population

4th largest in Orange Co. / 24th in CA

11M visitors annually

$424M operating budget (2021-22)
($228M General Fund)

450 mi streets 1,030 mi of utility mains/drains, 78 parks

1,500 public employees

970 active/1,613 retirees

CalPERS

How Did We Get Here?

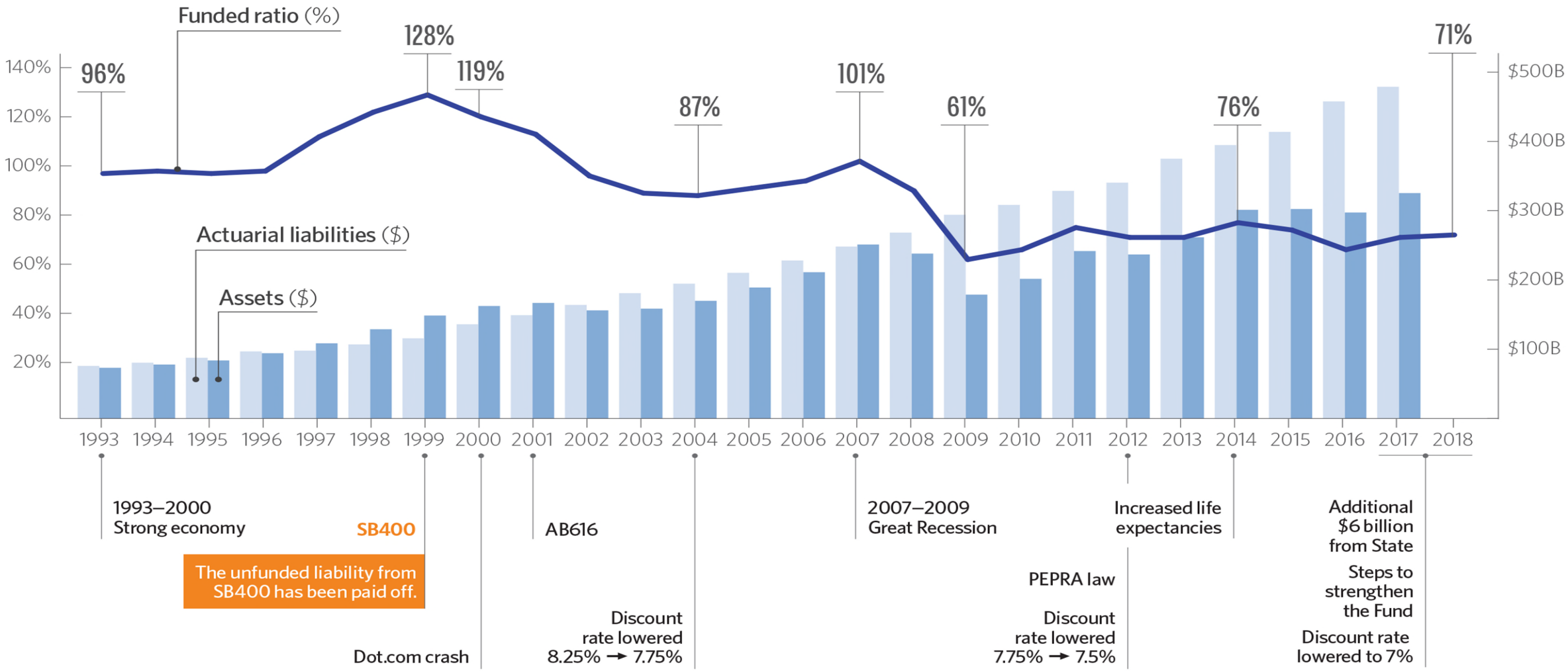
$1.387 BILLION

$951 MILLION

*As of 6/30/19.

$436 MILLION* (Unfunded)

- **Enhanced benefits/COLAs**
- **Life expectancy**
- **Investment losses**
- **Discount rate changes ↓**


Funded ratio (%)
96%
128%
119%
87%
101%
61%
76%
71%
140%
120%
100%
80%
60%
40%
20%
$500B
$400B
$300B
$200B
$100B
Actuarial liabilities ($)
Assets ($)
1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018
1993–2000
Strong economy
SB400
The unfunded liability from SB400 has been paid off.
Dot.com crash
AB616
Discount rate lowered 8.25% → 7.75%
2007–2009
Great Recession
PEPRA law
Discount rate lowered 7.75% → 7.5%
Increased life expectancies
Additional $6 billion from State
Steps to strengthen the Fund
Discount rate lowered to 7%

City of Huntington Beach
Pension Cost Areas
FY 2019/20 Actuals

Data Category	Employer Cost	Employee Cost	UAL Cost	TOTAL
Total Contribution	$ 13,954,534	$ 7,703,574	$ 28,864,623	$ 50,522,730
Percentage of Total	28%	15%	57%	100%

Between 2010-2020, our annual UAL payment grew 451%

2009-08: $5.23M

2019-20: $28.86M

2029-30: $44.24M

By 2029-30, our annual UAL payment would **increase by another $15.38M**

Our Choices

We highlighted that our pension cost problem was really a UAL repayment problem, and that to solve the fiscal issue, we had 3 options:

1. Hope (and pray) for consistently high investment returns exceeding CalPERS' 7% discount rate
2. Find $15.38M annually in the budget, either through cuts and / or revenue increase
3. Manage our UAL pension debt through a refinancing plan utilizing a pension obligation bond (POB)

Preconditions To Consider POBs

Pension System Reform

Low Taxable Interest Rates

Future Investment Return

Pension System Reform

- **Amortization policies to *actually* pay off the liability**
- **Cost predictability through cost-sharing** (employee/employer contribution rates)
- **Investment return smoothing**
- **Lowering of discount rate**

Low Taxable Interest Rates

- Low U.S. Treasury rates
- Low POB credit spreads
- Strong public credit ratings
- 2%-3% POB rates achieved today
- Significant gap between taxable POB rate vs. your discount rate

10 Year History of the 10Y Treasury Yield

Source: www.macrotrends.net

Future Investment Return

- **Impossible to predict → greatest risk**
- **Historical investment returns**

Annualized Investment Returns*
(for FY end 6/30)

1 year	4.7%
3 years	6.6%
5 years	6.3%
10 years	8.5%
20 years	5.5%
30 years	8.0%

* *Time-weighted rate of return net of investment expenses*

- **Changes to discount rate**

Daily Pilot

OPINION

Commentary: Huntington Beach's pension bond proposal feels like déjà vu

The Huntington Beach City Council's recent appr
wipeout, two Orange County elected officials writ

LATEST OPINION >

Commentary: Bill that would expand Cal Grants funding stops short of helping some California degree-seekers

Aug. 5, 2021

BY JOHN MOORLACH, SHARI FREIDENRIC

DEC. 31, 2019 5:03 PM PT

Surf City is risking a fiscal wipeout if it approves a proposal for pension obligation bonds.

COMMENTARY

Governments Issuing Pension Obligation Bonds Risk Worsening, Not Improving, Their Financial Shape

POBs bring long-term risks that can worsen a government's fiscal health.

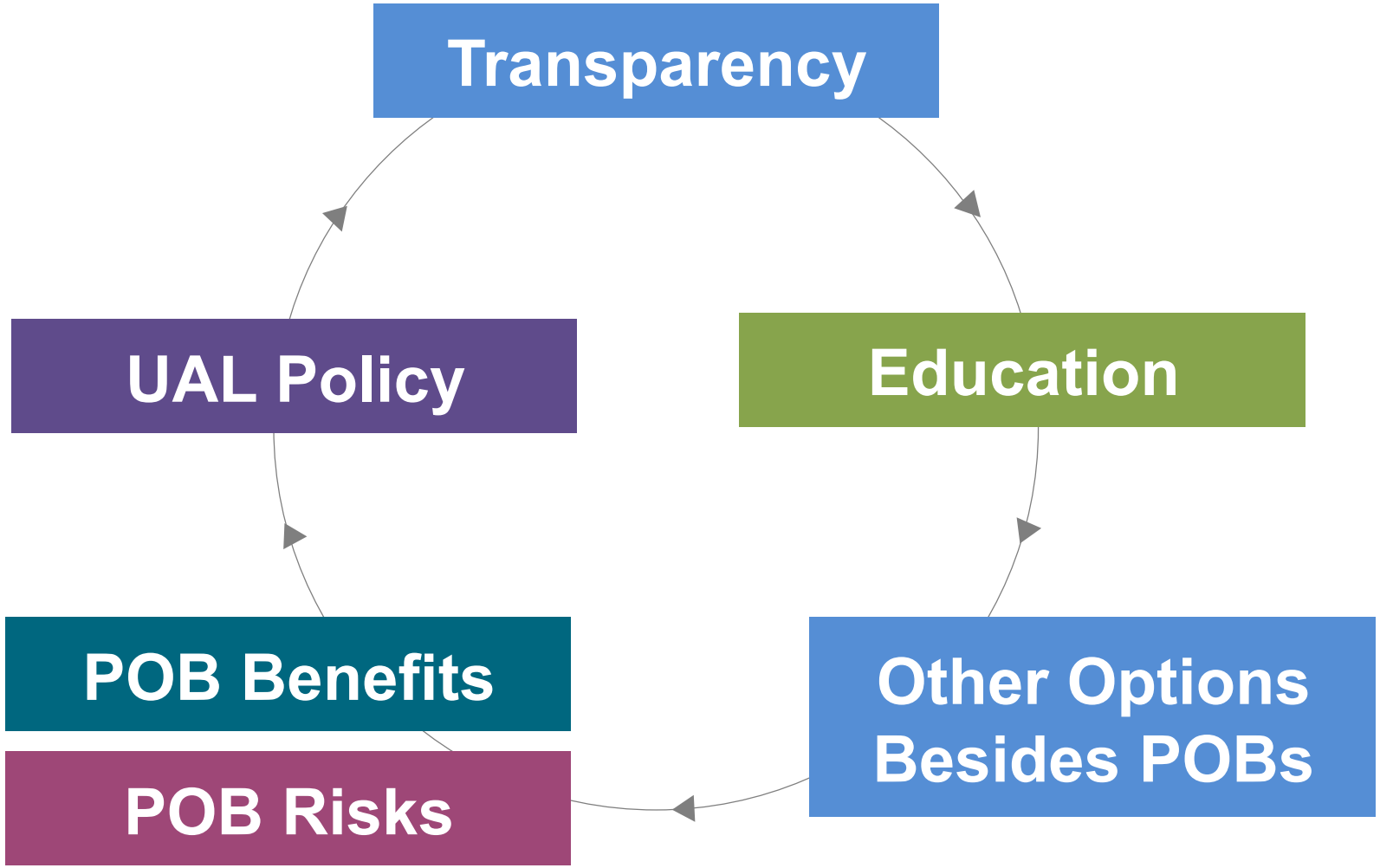
By Anil Niraula
August 15, 2018

BY JOHN MOORLACH, SHARI FREIDENRICH

DEC. 31, 2019 5:03 PM PT

Surf City is risking a fiscal wipeout if it approves a proposal for pension obligation bonds.

Moving A POB Discussion Forward



Address Pension Costs Transparently

- **Explain how defined benefit pension costs actually work**
  - Employer normal cost, employee normal cost and UAL cost
- **Highlight the scale of pension payment components to illustrate that UAL payments are driving cost increase**
  - Identify relative cost of each portion of the City's overall annual pension bill
- **Explain UAL pension cost increases in plain, simple language**
  - Provide illustrative details to identify the enormity of how UAL costs are driving overall pension related spending
  - Highlight how UAL pension debt needs to be looked at as a real debt that needs to be managed prudently like any other obligation

City of Huntington Beach
Pension Cost Areas
FY 2019/20 Actuals

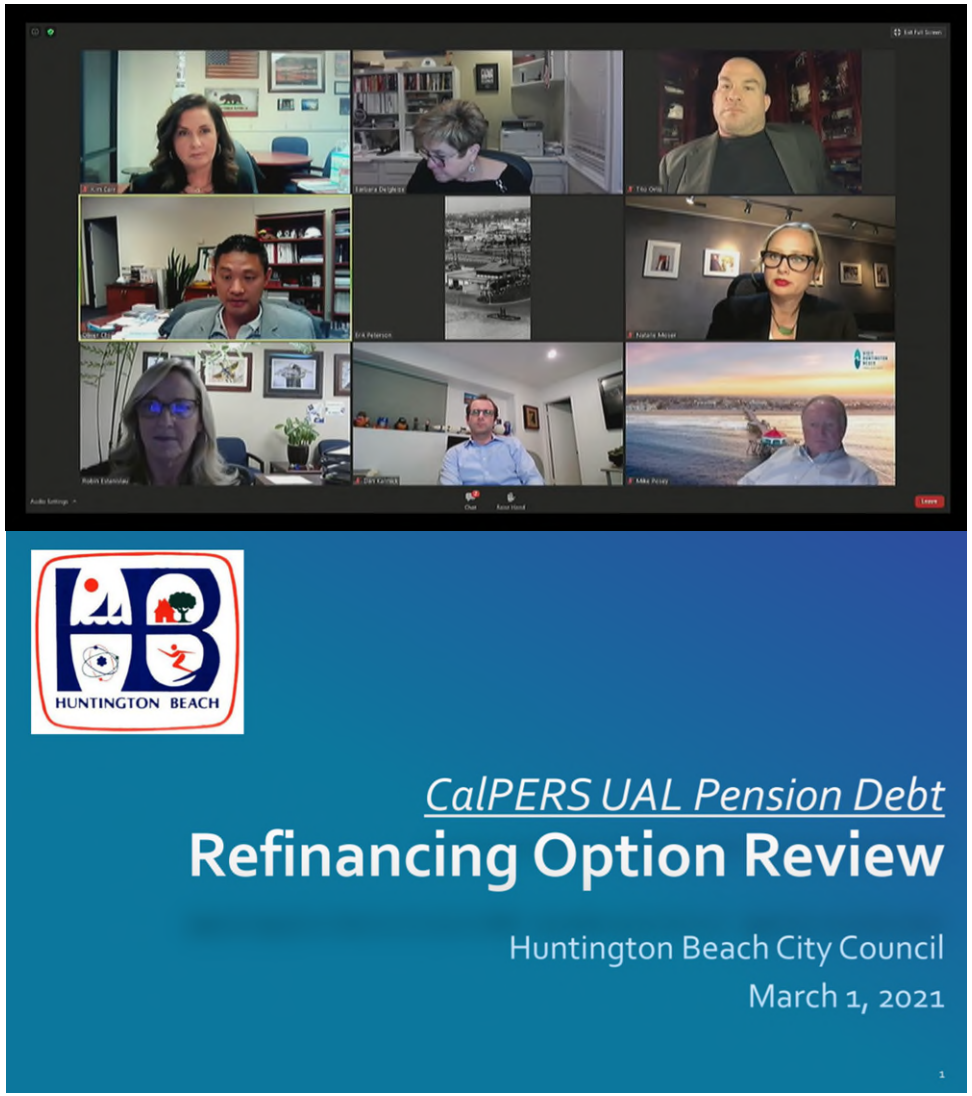
Data Category	Employer Cost	Employee Cost	UAL Cost	TOTAL
Total Contribution	$ 13,954,534	$ 7,703,574	$ 28,864,623	$ 50,522,730
Percentage of Total	28%	15%	57%	100%

Education is Key

8 public meetings

Assessment Completed to Date

- During the past year, staff have assessed the refinance option with both the City Council and the Finance Commission
  - **October 21, 2019** – City Council Study Session conducted
  - **October 30, 2019** – Reviewed refinancing plan with the Finance Commission
  - **November 18, 2019** – City Council voted to authorize staff to proceed with the requisite judicial validation process to facilitate the refinance plan
  - **February 26, 2020** – Finance Commission voted to recommend the refinancing plan, along with establishing a UAL funding policy
  - **March 16, 2020** – Finance Commission reviewed further details related to the UAL funding policy
  - **May 18, 2020** – Court authorizes City's judicial validation for UAL refinance
  - **February 24, 2021** – Finance Commission votes to unanimously to recommend refinancing plan along with the UAL policy



Arguments in Favor of POBs

- **Identify options for addressing increasing UAL pension cost increases**
  - Highlight available strategies, outside of refinancing
- **Identify how refinancing offers massive savings**
  - Refinancing for HB was estimated to yield $170.1 M in savings
- **Articulate why refinancing is cheaper**
  - Highlight the current ultra low-interest world we currently live in
  - CalPERS assesses an interest rate of 7% on all UAL debt, and refinancing would achieve an interest rate of around 2-3%

Arguments Against POBs

- **POBs do nothing to address future possible UAL growth**
  - Returning our UAL to zero now does nothing to keep it at zero in the future
- **CalPERS underperformance could cause our new POB assets ➡ lose value**
  - If CalPERS doesn't ~~earn an~~ investment return equal to the cost of refinancing our UAL debt, the program will cost more than the savings benefit achieved
- **CalPERS over-performance ➡ reduce our original need for a POB**
  - If CalPERS over-performs and beats 7%, our UAL balance would decrease
- **Unknown possible State legislative / judicial changes in the future**
  - State/courts could make pension rule changes that reduce UAL amounts

Development of a UAL Funding Policy

- **In conjunction with a POB issuance, we recommend developing and adopting a UAL funding policy as "best practice"**
- **For example, an illustrative policy should include the following:**
  - Provides guidance on the development and adoption of a funding plan for any new UAL
  - Overall objective is to fund the CalPERS pension plan to 100% of the total accrued liability and no less than 80%, whenever possible
  - Lays out an example of parameters for paying off / funding the UAL in a designated amount of time, based on the amount of the UAL:

New Unfunded Accrued Liability (Any new liability incurred after the June 30, 2018 valuation report)	Payoff / Funding Time Period
$0 to $5,000,000	Within 1 to 5 years
$5,000,001 to $10,000,000	Within 6 to 10 years
$10,000,001 to $15,000,000	Within 11 to 15 years
Over $15,000,0001	Within 16 to 20 years

  - A funding plan will utilize prepayment discounts, a Section 115 Trust, additional discretionary payments, allocated reserves, and POBs
  - Dedicate a percentage of savings to be used to offset any future UAL costs that arise and using the remaining savings to offset General Fund expenditures
    - The City may consider a range of 40-60% to offset any future UAL costs
  - No offers of any enhanced pension benefits to City employees while POBs are outstanding

Save the Savings! – Your UAL Funding Policy

- **Acknowledge the need to plan for and manage future possible UAL costs**
  - Pension fund experts have articulated that you need to be at least 120% funded to guard against possible market volatility
- **To provide the City Council with assurances that we would more actively manage pension debt, we developed a series of robust UAL funding policies that were implemented as part of the refinancing plan**
  - Even if we refinanced 100% of our existing pension debt, it was likely we would have new UAL growth at some point in the future
  - The policies developed sought to embed allocation of funding for future UAL payment needs into the City's base budgeting process

UAL Pension Funding Policy (1)

- **Mandated increased savings amounts for future pension costs**
  - Required annual min. contribution of $1M the City's Section 115 Trust
  - 50% of the value of the first year POB savings (determined when comparing first year POB payment + UAL costs against prior year audited total UAL payment amount) would be set-aside annually in perpetuity, with an annual CPI increase added to the set-aside amount annually
  - 50% of any annual General Fund surplus amount would be allocated to a fund that could only pay for UAL costs
- **No offer to enhance retirement benefits to employees while the POBs are outstanding**

UAL Pension Funding Policy (2)

- **Accelerated repayment plans for any future UAL growth that develops**

New Unfunded Accrued Liability	Payoff Time Period
$0 to $5,000,000	Within 1 and 5 years
$5,000,001 to $10,000,000	Within 5 and 7 years
$10,000,001 to $15,000,000	Within 7 and 9 years
$15,000,001 to $20,000,000	Within 9 and 10 years
$20,000,001 or more	Within 10 and 15 years

- **POB issuance guidelines**: (1) no more than 100% of UAL, (2) no term extension, (3) minimum gap between POB interest rate vs. discount rate
- **Only allow changes through a supermajority vote of the City Council**
  - 6/7 vote of our City Council

100% Refinancing Vs. Less Than 100%

HUNTINGTON BEACH

= 85% of UAL Refinanced with POBs

90% POB Funding (Not Shortened)

		90% Safety UAL POB	10% Safety UAL Fresh Start		TIC		90% Misc. UAL POB	10% Misc. UAL Fresh Start		TIC		90% Total UAL POB	10% Total UAL Fresh Start		TIC	
		239,035,248	27,470,151		3.543%		138,229,798	15,885,496		3.543%		377,265,046	43,355,647		3.543%	
Fiscal Year	Current Payment	POB Payments	23-Yr Fresh Start Pymts	Total Savings	PV Savings	Current Payment	POB Payments	21-Yr Fresh Start Pymts	Total Savings	PV Savings	Current UAL Payment	New POB Payments	Remaining UAL Payments (10%)	Total Savings	PV Savings	10% UAL + POB
6/30/22	20,222,418	15,740,608	2,355,923	2,125,888	2,053,146	14,692,509	9,573,884	1,417,290	3,701,335	3,574,686	34,914,927	25,314,492	3,773,212	5,827,223	5,627,833	29,087,704
6/30/23	21,874,535	15,740,552	2,355,923	3,778,061	3,523,937	15,844,159	9,575,730	1,417,290	4,851,139	4,524,836	37,718,694	25,316,282	3,773,212	8,629,200	8,048,773	29,089,494
6/30/24	22,957,325	15,741,610	2,355,923	4,859,793	4,377,806	16,539,303	9,574,142	1,417,290	5,547,871	4,997,641	39,496,628	25,315,752	3,773,212	10,407,664	9,375,447	29,088,964
6/30/25	24,087,195	15,739,578	2,355,923	5,991,695	5,212,763	17,372,807	9,575,686	1,417,290	6,379,831	5,550,441	41,460,002	25,315,264	3,773,212	12,371,526	10,763,204	29,088,476
6/30/26	24,812,725	15,741,872	2,355,923	6,714,931	5,642,082	15,865,820	9,575,153	1,417,290	4,873,377	4,094,755	40,678,545	25,317,025	3,773,212	11,588,308	9,736,837	29,090,237
6/30/27	25,499,764	15,737,024	2,355,923	7,406,817	6,010,479	16,346,534	9,571,796	1,417,290	5,357,449	4,347,459	41,846,298	25,308,820	3,773,212	12,764,266	10,357,938	29,082,032
6/30/28	26,205,694	15,737,064	2,355,923	8,112,707	6,358,034	16,806,315	9,571,916	1,417,290	5,817,110	4,558,944	43,012,009	25,308,980	3,773,212	13,929,817	10,916,978	29,082,192
6/30/29	26,931,038	15,737,945	2,355,923	8,837,170	6,688,825	16,114,706	9,576,135	1,417,290	5,121,282	3,876,281	43,045,744	25,314,080	3,773,212	13,958,452	10,565,106	29,087,292
6/30/30	27,676,328	15,739,338	2,355,923	9,581,068	7,003,741	16,568,115	9,572,428	1,417,290	5,578,398	4,077,797	44,244,443	25,311,765	3,773,212	15,159,466	11,081,539	29,084,977
6/30/31	28,442,117	15,739,580	2,355,923	10,346,614	7,304,559	17,033,987	9,573,219	1,417,290	6,043,479	4,266,608	45,476,104	25,312,799	3,773,212	16,390,093	11,571,167	29,086,011
6/30/32	27,728,804	15,737,982	2,355,923	9,634,899	6,569,352	14,490,428	9,574,620	1,417,290	3,498,519	2,385,391	42,219,232	25,312,602	3,773,212	13,133,418	8,954,742	29,085,814
6/30/33	27,542,912	15,738,002	2,355,923	9,448,987	6,222,146	14,204,570	9,573,848	1,417,290	3,213,433	2,116,041	41,747,482	25,311,850	3,773,212	12,662,420	8,338,187	29,085,062
6/30/34	25,940,857	15,738,426	2,355,923	7,846,508	4,990,119	12,732,575	9,575,201	1,417,290	1,740,085	1,106,636	38,673,432	25,313,627	3,773,212	9,586,593	6,096,755	29,086,839
6/30/35	25,298,458	15,737,980	2,355,923	7,204,555	4,425,081	12,094,028	9,572,781	1,417,290	1,103,958	678,057	37,392,486	25,310,761	3,773,212	8,308,513	5,103,139	29,083,973
6/30/36	24,192,561	15,740,330	2,355,923	6,096,308	3,616,268	11,136,523	9,575,816	1,417,290	143,418	85,074	35,329,084	25,316,146	3,773,212	6,239,726	3,701,341	29,089,358
6/30/37	22,154,662	15,739,986	2,355,923	4,058,753	2,325,230	9,487,188	9,572,532	1,417,290	-1,502,633	-860,848	31,641,850	25,312,518	3,773,212	2,556,120	1,464,382	29,085,730
6/30/38	21,077,834	15,738,001	2,355,923	2,983,910	1,650,968	8,533,937	9,573,412	1,417,290	-2,456,764	-1,359,303	29,611,771	25,311,413	3,773,212	527,146	291,665	29,084,625
6/30/39	19,924,899	15,738,795	2,355,923	1,830,182	977,972	7,520,805	9,572,875	1,417,290	-3,469,360	-1,853,880	27,445,704	25,311,670	3,773,212	-1,639,178	-875,908	29,084,882
6/30/40	19,098,135	15,741,593	2,355,923	1,000,620	516,394	6,749,421	9,575,535	1,417,290	-4,243,404	-2,189,910	25,847,556	25,317,128	3,773,212	-3,242,784	-1,673,516	29,090,340
6/30/41	19,134,196	15,740,621	2,355,923	1,037,652	517,182	6,243,363	9,575,811	1,417,290	-4,749,738	-2,367,343	25,377,559	25,316,432	3,773,212	-3,712,085	-1,850,161	29,089,644
6/30/42	15,611,232	15,740,132	2,355,923	-2,484,823	-1,196,097	2,913,862	9,575,041	1,417,290	-8,078,469	-3,888,661	18,525,094	25,315,173	3,773,212	-10,563,291	-5,084,759	29,088,385
6/30/43	15,003,435	15,737,935	2,355,923	-3,090,423	-1,436,708	0	0	0	0	0	15,003,435	15,737,935	2,355,923	-3,090,423	-1,436,708	18,093,858
6/30/44	9,725,348	15,738,226	2,355,923	-8,368,801	-3,757,452	0	0	0	0	0	9,725,348	15,738,226	2,355,923	-8,368,801	-3,757,452	18,094,149
6/30/45	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6/30/46	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6/30/47	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6/30/48	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	**521,142,472**	**362,003,176**	**54,186,218**	**104,953,078**	**79,595,827**	**269,290,955**	**201,057,555**	**29,763,088**	**38,470,311**	**37,720,702**	**790,433,427**	**563,060,731**	**83,949,307**	**143,423,389**	**117,316,530**	**647,010,038**
																31%

Source: Calpers, July 2020, Annual Valuation Reports as of June 30, 2019.

	Total UAL at Closing	POB Financing	% of Payoff
Safety	266,505,399	239,035,248	90%
Misc.	154,115,293	138,229,798	90%
	420,620,692	**377,265,046**	**90%**

90% POB Funding (Shortened by 2 Years)

		90% Safety UAL POB	10% Safety UAL Fresh Start		TIC		90% Misc. UAL POB	10% Misc. UAL Fresh Start		TIC		90% Total UAL POB	10% Total UAL Fresh Start		TIC	
		239,035,248	27,470,151		3.479%		138,229,798	15,885,496		3.479%		377,265,045	43,355,647		3.479%	
Fiscal Year	Current Payment	POB Payments	21-Yr Fresh Start Pymts	Total Savings	PV Savings	Current Payment	POB Payments	21-Yr Fresh Start Pymts	Total Savings	PV Savings	Current UAL Payment	New POB Payments	Remaining UAL Payments (10%)	Annual Savings	PV Savings	10% UAL + POB
6/30/22	20,222,418	16,556,645	2,450,863	1,214,911	1,174,067	14,692,509	9,573,884	1,417,290	3,701,335	3,576,901	34,914,927	$26,130,529	3,868,153	4,916,246	4,750,968	29,998,681
6/30/23	21,874,535	16,554,630	2,450,863	2,869,042	2,679,379	15,844,159	9,575,730	1,417,290	4,851,139	4,530,445	37,718,694	26,130,360	3,868,153	7,720,181	7,209,824	29,998,513
6/30/24	22,957,325	16,553,606	2,450,863	3,952,856	3,567,440	16,539,303	9,574,142	1,417,290	5,547,871	5,006,936	39,496,628	26,127,748	3,868,153	9,500,727	8,574,377	29,995,901
6/30/25	24,087,195	16,557,038	2,450,863	5,079,294	4,429,938	17,372,807	9,575,686	1,417,290	6,379,831	5,564,209	41,460,002	26,132,724	3,868,153	11,459,125	9,994,147	30,000,877
6/30/26	24,812,725	16,558,221	2,450,863	5,803,641	4,891,515	15,865,820	9,575,153	1,417,290	4,873,377	4,107,455	40,678,545	26,133,374	3,868,153	10,677,018	8,998,970	30,001,527
6/30/27	25,499,764	16,558,541	2,450,863	6,490,360	5,286,402	16,346,534	9,571,796	1,417,290	5,357,449	4,363,645	41,846,298	26,130,337	3,868,153	11,847,809	9,650,047	29,998,489
6/30/28	26,205,694	16,555,141	2,450,863	7,199,690	5,667,007	16,806,315	9,571,916	1,417,290	5,817,110	4,578,753	43,012,009	26,127,057	3,868,153	13,016,800	10,245,760	29,995,209
6/30/29	26,931,038	16,554,320	2,450,863	7,925,855	6,028,853	16,114,706	9,576,135	1,417,290	5,121,282	3,895,536	43,045,744	26,130,455	3,868,153	13,047,137	9,924,388	29,998,607
6/30/30	27,676,328	16,556,365	2,450,863	8,669,101	6,372,519	16,568,115	9,572,428	1,417,290	5,578,398	4,100,592	44,244,443	26,128,792	3,868,153	14,247,498	10,473,111	29,996,945
6/30/31	28,442,117	16,555,015	2,450,863	9,436,240	6,703,238	17,033,987	9,573,219	1,417,290	6,043,479	4,293,116	45,476,104	26,128,233	3,868,153	15,479,718	10,996,354	29,996,386
6/30/32	27,728,804	16,553,855	2,450,863	8,724,087	5,988,999	14,490,428	9,574,620	1,417,290	3,498,519	2,401,698	42,219,232	26,128,474	3,868,153	12,222,605	8,390,697	29,996,627
6/30/33	27,542,912	16,556,755	2,450,863	8,535,295	5,662,410	14,204,570	9,573,848	1,417,290	3,213,433	2,131,827	41,747,482	26,130,602	3,868,153	11,748,727	7,794,237	29,998,755
6/30/34	25,940,857	16,557,260	2,450,863	6,932,735	4,444,633	12,732,575	9,575,201	1,417,290	1,740,085	1,115,583	38,673,432	26,132,460	3,868,153	8,672,819	5,560,216	30,000,613
6/30/35	25,298,458	16,554,006	2,450,863	6,293,590	3,899,226	12,094,028	9,572,781	1,417,290	1,103,958	683,963	37,392,486	26,126,786	3,868,153	7,397,547	4,583,188	29,994,939
6/30/36	24,192,561	16,555,569	2,450,863	5,186,130	3,105,073	11,136,523	9,575,816	1,417,290	143,418	85,868	35,329,084	26,131,384	3,868,153	5,329,547	3,190,941	29,999,537
6/30/37	22,154,662	16,555,820	2,450,863	3,147,979	1,821,415	9,487,188	9,572,532	1,417,290	-1,502,633	-869,421	31,641,850	26,128,352	3,868,153	1,645,346	951,994	29,996,504
6/30/38	21,077,834	16,557,109	2,450,863	2,069,863	1,157,357	8,533,937	9,573,412	1,417,290	-2,456,764	-1,373,691	29,611,771	26,130,520	3,868,153	-386,902	-216,335	29,998,673
6/30/39	19,924,899	16,553,660	2,450,863	920,376	497,324	7,520,805	9,572,875	1,417,290	-3,469,360	-1,874,664	27,445,704	26,126,535	3,868,153	-2,548,984	-1,377,340	29,994,688
6/30/40	19,098,135	16,554,894	2,450,863	92,378	48,238	6,749,421	9,575,535	1,417,290	-4,243,404	-2,215,834	25,847,556	26,130,429	3,868,153	-4,151,026	-2,167,595	29,998,582
6/30/41	19,134,196	16,554,843	2,450,863	128,490	64,840	6,243,363	9,575,811	1,417,290	-4,749,738	-2,396,851	25,377,559	26,130,654	3,868,153	-4,621,248	-2,332,011	29,998,807
6/30/42	15,611,232	16,554,783	2,450,863	-3,394,414	-1,655,330	2,913,862	9,575,041	1,417,290	-8,078,469	-3,939,571	18,525,094	26,129,824	3,868,153	-11,472,883	-5,594,901	29,997,977
6/30/43	15,003,435	0	0	15,003,435	7,070,647	0	0	0	0	0	15,003,435	0	0	15,003,435	7,070,647	0
6/30/44	9,725,348	0	0	9,725,348	4,429,168	0	0	0	0	0	9,725,348	0	0	9,725,348	4,429,168	0
6/30/45	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6/30/46	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6/30/47	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6/30/48	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	**521,142,472**	**347,668,072**	**51,468,116**	**122,006,285**	**83,334,360**	**269,290,955**	**201,057,555**	**29,763,088**	**38,470,311**	**37,766,495**	**790,433,427**	**548,725,627**	**81,231,204**	**160,476,596**	**121,100,854**	**629,956,831**
															32.10%	

Source: Calpers, July 2020, Annual Valuation Reports as of June 30, 2019.

	Total UAL at Closing	POB Financing	% of Payoff
Safety	266,505,399	239,035,248	90%
Misc.	154,115,293	138,229,798	90%
	420,620,692	**377,265,045**	**90%**

85% POB Funding (Not Shortened)

		85% Safety UAL POB	15% Safety UAL Fresh Start		TIC		85% Misc. UAL POB	15% Misc. UAL Fresh Start		TIC		85% Total UAL POB	15% Total UAL Fresh Start		TIC	
		229,635,810	41,205,227		2.925%		132,794,272	23,828,244		2.925%		362,430,082	65,033,471		2.925%	
Fiscal Year	Current Payment	POB Payments	23-Yr Fresh Start Pymts	Total Savings	PV Savings	Current Payment	POB Payments	21-Yr Fresh Start Pymts	Total Savings	PV Savings	Current UAL Payment	New POB Payments	Remaining UAL Payments (15%)	Annual Savings	PV Savings	15% UAL + POB
6/30/22	20,222,418	14,008,482	3,533,883	2,680,053	2,603,890	14,692,509	8,563,412	2,125,935	4,003,162	3,889,398	34,914,927	22,571,894	5,659,818	6,683,215	6,493,287	28,231,712
6/30/23	21,874,535	14,007,127	3,533,883	4,333,525	4,090,719	15,844,159	8,564,238	2,125,935	5,153,986	4,865,210	37,718,694	22,571,364	5,659,818	9,487,512	8,955,930	28,231,182
6/30/24	22,957,325	14,005,961	3,533,883	5,417,481	4,968,610	16,539,303	8,563,873	2,125,935	5,849,495	5,364,829	39,496,628	22,569,834	5,659,818	11,266,976	10,333,439	28,229,652
6/30/25	24,087,195	14,010,305	3,533,883	6,543,007	5,830,343	17,372,807	8,565,771	2,125,935	6,681,101	5,953,395	41,460,002	22,576,076	5,659,818	13,224,108	11,783,738	28,235,894
6/30/26	24,812,725	14,006,539	3,533,883	7,272,303	6,296,045	15,865,820	8,562,775	2,125,935	5,177,110	4,482,118	40,678,545	22,569,314	5,659,818	12,449,413	10,778,163	28,229,132
6/30/27	25,499,764	14,009,315	3,533,883	7,956,566	6,692,690	16,346,534	8,564,460	2,125,935	5,656,139	4,757,679	41,846,298	22,573,775	5,659,818	13,612,705	11,450,369	28,233,593
6/30/28	26,205,694	14,007,018	3,533,883	8,664,793	7,081,290	16,806,315	8,561,501	2,125,935	6,118,879	5,000,646	43,012,009	22,568,519	5,659,818	14,783,672	12,081,936	28,228,337
6/30/29	26,931,038	14,007,577	3,533,883	9,389,578	7,455,546	16,114,706	8,564,103	2,125,935	5,424,669	4,307,315	43,045,744	22,571,679	5,659,818	14,814,247	11,762,861	28,231,497
6/30/30	27,676,328	14,006,128	3,533,883	10,136,317	7,819,748	16,568,115	8,564,017	2,125,935	5,878,163	4,534,759	44,244,443	22,570,144	5,659,818	16,014,481	12,354,507	28,229,962
6/30/31	28,442,117	14,007,987	3,533,883	10,900,247	8,170,113	17,033,987	8,563,005	2,125,935	6,345,047	4,755,833	45,476,104	22,570,992	5,659,818	17,245,294	12,925,946	28,230,810
6/30/32	27,728,804	14,008,047	3,533,883	10,186,874	7,418,427	14,490,428	8,566,070	2,125,935	3,798,423	2,766,140	42,219,232	22,574,117	5,659,818	13,985,297	10,184,568	28,233,935
6/30/33	27,542,912	14,007,253	3,533,883	10,001,776	7,076,642	14,204,570	8,563,702	2,125,935	3,514,933	2,486,950	41,747,482	22,570,955	5,659,818	13,516,709	9,563,592	28,230,773
6/30/34	25,940,857	14,005,855	3,533,883	8,401,119	5,775,191	12,732,575	8,562,919	2,125,935	2,043,721	1,404,918	38,673,432	22,568,774	5,659,818	10,444,840	7,180,109	28,228,592
6/30/35	25,298,458	14,007,509	3,533,883	7,757,066	5,180,908	12,094,028	8,561,058	2,125,935	1,407,035	939,752	37,392,486	22,568,567	5,659,818	9,164,101	6,120,660	28,228,385
6/30/36	24,192,561	14,006,111	3,533,883	6,652,567	4,316,948	11,136,523	8,562,489	2,125,935	448,099	290,778	35,329,084	22,568,601	5,659,818	7,100,665	4,607,726	28,228,419
6/30/37	22,154,662	14,005,885	3,533,883	4,614,894	2,909,568	9,487,188	8,564,820	2,125,935	-1,203,567	-758,817	31,641,850	22,570,705	5,659,818	3,411,327	2,150,751	28,230,523
6/30/38	21,077,834	14,007,732	3,533,883	3,536,219	2,166,133	8,533,937	8,564,026	2,125,935	-2,156,024	-1,320,686	29,611,771	22,571,758	5,659,818	1,380,195	845,447	28,231,576
6/30/39	19,924,899	14,007,950	3,533,883	2,383,066	1,418,278	7,520,805	8,565,697	2,125,935	-3,170,827	-1,887,112	27,445,704	22,573,647	5,659,818	-787,761	-468,834	28,233,465
6/30/40	19,098,135	14,006,210	3,533,883	1,558,042	900,914	6,749,421	8,564,506	2,125,935	-3,941,020	-2,278,835	25,847,556	22,570,715	5,659,818	-2,382,977	-1,377,921	28,230,533
6/30/41	19,134,196	14,007,185	3,533,883	1,593,128	895,023	6,243,363	8,565,288	2,125,935	-4,447,860	-2,498,818	25,377,559	22,572,473	5,659,818	-2,854,732	-1,603,795	28,232,291
6/30/42	15,611,232	14,008,118	3,533,883	-1,930,769	-1,053,885	2,913,862	8,564,702	2,125,935	-7,776,775	-4,244,848	18,525,094	22,572,820	5,659,818	-9,707,544	-5,298,733	28,232,638
6/30/43	15,003,435	14,010,042	3,533,883	-2,540,490	-1,347,284	0	0	0	0	0	15,003,435	14,010,042	3,533,883	-2,540,490	-1,347,284	17,543,925
6/30/44	9,725,348	14,007,448	3,533,883	-7,815,983	-4,027,213	0	0	0	0	0	9,725,348	14,007,448	3,533,883	-7,815,983	-4,027,213	17,541,331
6/30/45	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6/30/46	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6/30/47	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6/30/48	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	**521,142,472**	**322,171,783**	**81,279,309**	**117,691,380**	**92,638,645**	**269,290,955**	**179,842,431**	**44,644,635**	**44,803,889**	**42,810,603**	**790,433,427**	**502,014,215**	**125,923,944**	**162,495,268**	**135,449,248**	**627,938,159**
															37.4%	

Source: CalPERS, July 2020, Annual Valuation Reports as of June 30, 2019.

	Total UAL at Closing	POB Financing	% of Payoff
Safety	270,841,037	229,635,810	85%
Misc.	156,622,516	132,794,272	85%
	427,463,553	**362,430,082**	**85%**

Dollar Cost Averaging Approach - Issuing POBs More Than Once

Using Analytical Tools
To Track Future UAL Changes

CalPERS

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Pension Outlook Overview

Pension Outlook is a tool to help plan and budget pension costs into the future with easy to understand results and charts.

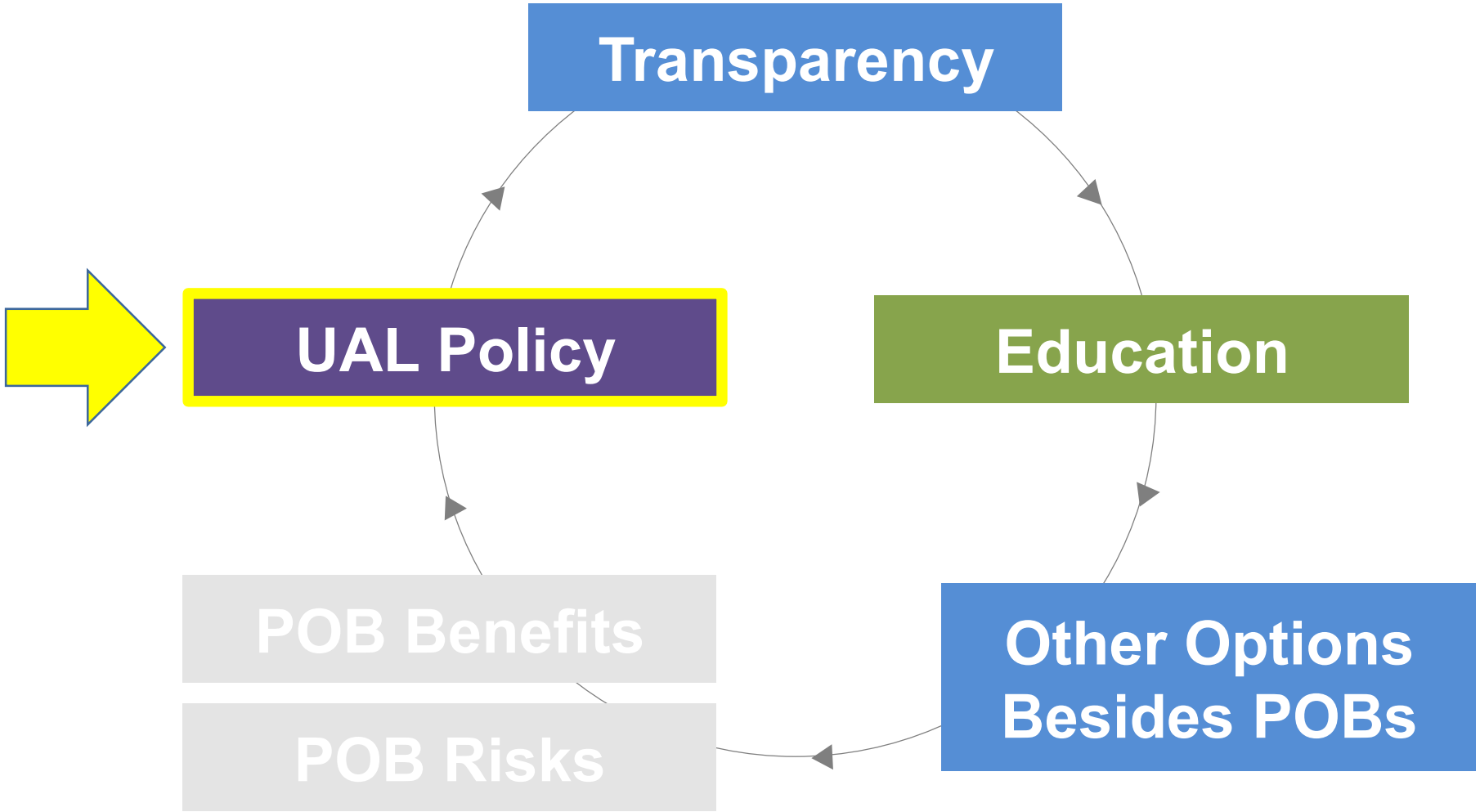
You will be able to view the projected funded status and required employer contributions for pension plans in different potential scenarios for up to 30 years into the future — which will make budgeting more predictable. While Pension Outlook can't predict the future, it can provide valuable planning information based on a variety of possible future scenarios that you select.

Pension Outlook can help you answer specific questions about your plans, including:

Fiscal Year Cost (in $M)

27 - Miscellaneous Plan	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Baseline	6/30/2020	6/30/2021	6/30/2022	6/30/2023	6/30/2024	6/30/2025
Accrued Liability	$126.31	$130.07	$133.95	$137.96	$142.10	$146.38
Market Value of Assets	$89.78	$100.71	$105.30	$110.26	$115.43	$120.82
UAL - Scenario	$36.53	$29.36	$28.65	$27.70	$26.68	$25.56
Funded Ratio	71.08%	77.43%	78.61%	79.92%	81.23%	82.54%
Scenario - 100% UAL POB issuance @ 7% discount rate						
Accrued Liability	$126.31	$130.07	$133.95	$137.96	$142.10	$146.38
Market Value of Assets	$89.78	$137.49	$141.94	$146.58	$151.36	$156.33
UAL - Scenario	$36.53	($7.42)	($7.99)	($8.61)	($9.26)	($9.95)
Funded Ratio	71.08%	105.71%	105.96%	106.24%	106.52%	106.80%
Scenario - 95% UAL POB issuance @ 7% discount rate						
Accrued Liability	$126.31	$130.07	$133.95	$137.96	$142.10	$146.38
Market Value of Assets	$89.78	$135.65	$140.02	$144.67	$149.32	$154.15
UAL - Scenario	$36.53	($5.58)	($6.07)	($6.70)	($7.22)	($7.77)
Funded Ratio	71.08%	104.29%	104.53%	104.86%	105.08%	105.31%
Scenario - 100% UAL POB issuance @ 6.75% discount rate						
Accrued Liability	$126.31	$130.07	$133.95	$137.96	$142.10	$146.38
Market Value of Assets	$89.78	$137.49	$141.60	$145.87	$150.25	$154.77
UAL - Scenario	$36.53	($7.42)	($7.65)	($7.90)	($8.14)	($8.39)
Funded Ratio	71.08%	105.71%	105.71%	105.73%	105.73%	105.73%
Scenario - 95% UAL POB issuance @ 6.75% discount rate						
Accrued Liability	$126.31	$130.07	$133.95	$137.96	$142.10	$146.38
Market Value of Assets	$89.78	$135.65	$139.69	$143.97	$148.22	$152.60
UAL - Scenario	$36.53	($5.58)	($5.73)	($6.00)	($6.12)	($6.23)
Funded Ratio	71.08%	104.29%	104.28%	104.35%	104.30%	104.25%
Scenario - 100% UAL POB issuance @ 6.5% discount rate						
Accrued Liability	$126.31	$130.07	$133.95	$137.96	$142.10	$146.38
Market Value of Assets	$89.78	$137.49	$141.26	$145.16	$149.13	$153.21
UAL - Scenario	$36.53	($7.42)	($7.31)	($7.20)	($7.03)	($6.84)
Funded Ratio	71.08%	105.71%	105.46%	105.22%	104.95%	104.67%
Scenario - 95% UAL POB issuance @ 6.5% discount rate						
Accrued Liability	$126.31	$130.07	$133.95	$137.96	$142.10	$146.38
Market Value of Assets	$89.78	$135.65	$139.35	$143.27	$147.12	$151.07
UAL - Scenario	$36.53	($5.58)	($5.40)	($5.31)	($5.02)	($4.69)
Funded Ratio	71.08%	104.29%	104.03%	103.85%	103.53%	103.21%

Your UAL Pension Funding Policy Is Key



What We Achieved

- **FY 2021/22, our pre-POB situation called for us to pay $34.84M in UAL costs**
- **With the refinance in place, our all-in POB / UAL costs totaled $28.27M**
  - Year 1 savings: **$6.57M**
  - The City chose level payments ($22.57 M for the next 23 year period) to match the existing UAL payoff term
- **FY 2020-21, CalPERS 21.3% return has resulted in the City's remaining 15% UAL balance being completely paid off, starting in FY 2022-23**
  - This projection holds true even with CalPERS implementing their Risk Mitigation Strategy and lowering the future discount rate to 6.8%

QUESTIONS?

Don Field

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Donald Field is a partner in Orrick's Public Finance Group and the co-chair of Orrick's School and Community College Finance/General Obligation Bonds Practice Group.

He is also a member of Orrick's Leasing Practice Group, Assessment/Mello-Roos Practice Group, and Revenue Practice Group. Don has extensive experience, as bond counsel, disclosure counsel and underwriter's counsel, in the financing techniques used by school and community college districts, cities and counties in California. His practice focuses on local governmental infrastructure financing, including general obligation bond financing, municipal lease financing, and land-secured financing, as well as tax and revenue anticipation note (TRAN), pension obligation and other post-employment benefit (OPEB) obligation financings. Don serves as the lead lawyer for the California School Boards Association's annual tax and revenue anticipation note pool.

Oliver Chi

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Oliver has over two decades of local and state government experience, and currently serves as City Manager for the City of Huntington Beach, one of the premier beach communities on the west coast. Previously, he has served in a variety of management and staff positions with the cities of Monrovia, Barstow, Rosemead, Claremont, and Arcadia, along with time in the California State Legislature. A fervent believer in the notion that healthy, people-focused organizations can make inspired positive change, Oliver has dedicated his professional career to helping build better communities through improved municipal operations. Oliver earned a bachelor's degree in political science from the University of California, Los Angeles, and holds a master's degree in public administration from the University of Southern California.

Mark Young

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Mark joined KNN Public Finance as Managing Director in June 2014 and opened KNN's Los Angeles office. Mr. Young brings over 35 years of experience serving municipalities and has worked on over $35 billion in short and long-term debt. Mr. Young's experience includes serving both as financial advisor and investment banker, most recently as a Managing Director and Co-Head of the Western Region for Loop Capital Markets. Prior to Loop, he was a Principal at the financial advisory firm of Gardner, Underwood & Bacon LLC.

Mark has advised or led financings for just about every type of municipal credit, including: general obligation, lease revenue, pension obligation, tax allocation/increment, special tax/assessments, port revenue, water/sewer revenue, and school district general obligation. The depth and diversity of his experience provides important value in approaching client engagements.

His clients have included the counties of Los Angeles, San Bernardino and San Diego, the cities of Los Angeles, Huntington Beach, San Diego, Long Beach, Manhattan Beach, Redondo Beach, Newport Beach, Rolling Hills Estate and Phoenix, San Diego and Los Angeles Unified School Districts, Long Beach Airport, the Port of Los Angeles, the Los Angeles Department of Water and Power and the Metropolitan Water District of Southern California.

Mr. Young has a B.A. in Economics with departmental honors from the University of California, Berkeley. Mark currently serves as the Vice Chairman of the City of Palos Verdes Estates Finance Advisory Committee. Mark holds Series 50 and Series 54 Municipal Advisor Licenses.

John Kim

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John Kim co-leads management of Stifel's California general government practice group and is a member of the Firm's Executive Committee that runs Stifel's national public finance department. Mr. Kim has completed billions of dollars of pension/OPEB financings for public agencies. In 2021 alone he's completed 6 transactions as lead or co-lead banker for about $1.175 billion of pension obligation bonds.

Mr. Kim received the Bond Buyer Regional Deal of the Year Award in 2008 for his innovations in financing street infrastructure. He was also led the finance team that helped develop and implement the Alternative Retiree Medical Program for the City of Beverly Hills which won an innovation award from the League of California Cities in 2011.

Mr. Kim earned Bachelor's degrees in Rhetoric and History and a minor in Ethnic Studies from University of California, Berkeley. Mr. Kim received a commendation in 1997 from the City of Berkeley for contributions to the Commission on the Status of Women. He was a former history teacher at Berkeley High School and taught science and history courses at UC Berkeley and Laney College (Oakland, CA). Mr. Kim currently maintains Series 7, 50, 53, 54 and 63 FINRA licenses.

Kevin Hale

Kevin Hale is resident in the Los Angeles office and a member of the firm's Public Finance Department. Kevin has more than 25 years of experience working as bond counsel and disclosure counsel on tax-exempt bond financings including certificates of participation and lease revenue financings, tax increment redevelopment financings, Mello-Roos district financings, assessment district financings, single- and multi-family housing financings, transportation and capital improvement revenue financings, both pooled and stand-alone Marks-Roos financings and general obligation bonds.

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