



City of Santa Ana
20 Civic Center Plaza, Santa Ana, CA 92701
Staff Report
September 21, 2021

TOPIC: Pension Debt Refinancing Update

AGENDA TITLE:

Pension Debt Refinancing Update

RECOMMENDED ACTION

Receive and file.

DISCUSSION

Background

On August 17, 2021, the City Council took the final action necessary to authorize issuance of bonds to refinance the City's pension debt. The purpose of this report is to provide the final bond numbers and detail the next steps in the overall strategy to achieve long-term pension debt savings.

On August 25, 2021, the City sold bonds to refinance a portion of its debt to the California Public Employee Retirement System (CalPERS) for both the miscellaneous and safety employee pension plans. The financing team's analysis to maximize savings and minimize risk determined the appropriate amount of bonds to sell.

Final Bond Numbers

Bonds Sold (par amount)	\$425,830,000
All-In True Interest Cost	2.816%
Net Present Value Savings	\$138,021,023
Costs of Issuance (paid from bond proceeds)	\$1,198,983
First Semi-Annual Bond Payment Date	February 1, 2022
First Bond Payment Amount	\$4,372,062
Final Bond Maturity	August 1, 2044
Portion of Existing Debt Refinanced	75%

The transaction closed on September 8, 2021 and CalPERS received the bond proceeds, net of the costs of issuance. In compliance with the City Council adopted *Unfunded Employee Pension Liability Cost Reduction Policy*, the City applied the bond proceeds to the layers of pension debt with the longest amortization periods to maximize savings.

Exhibit 1 includes the following items:

- Sources and Uses of Funds
- Final bond pricing (transaction summary statistics)
- Debt service schedule.

Next Steps in the Overall Strategy

The CalPERS Board will meet in November 2021 to set the discount rate for the next four years. The discount rate is CalPERS investment earnings assumption and the interest rate charged on employer pension debt. CalPERS recently decreased its discount rate from 7.0% to 6.8% due to the FY20-21 investment return of 21.3%, in accordance with CalPERS policy. In November 2021, the Board could choose to reset the discount rate back to 7.00%, leave it at 6.80%, or reduce it to 6.75% or 6.50%.

Prior to issuing refinancing bonds, the estimated debt to CalPERS was \$570,011,000, based upon the new 6.80% discount rate. After sending the bond proceeds, the estimated debt to CalPERS decreased to \$145,379,983. If CalPERS reduces the discount rate below 6.80% in November, the City's debt to CalPERS will grow.

As reported on August 17, 2021, after the CalPERS Board makes its decision in November 2021, the financing team will analyze the best way to apply the remaining \$40,604,672, currently held in the City's Section 115 trust, of current-year spending authorization to the CalPERS debt and request a Fresh Start to pay-off the remaining debt faster.

The analysis and Fresh Start process may take a couple months to complete. Therefore, staff expects to provide an estimate of long-term savings and introduce a future budget strategy to the City Council with the February 15, 2022 City Council meeting agenda, along with a final housekeeping adjustment to move the current-year spending authorization into the correct accounts to reflect the first bond payment.

FISCAL IMPACT

Estimated net present value savings from the overall strategy including the refinanced bonds is \$138,021,063. Additional savings will be generated from the \$40,604,672 payment and request to CalPERS for a Fresh Start on the City's existing liability after November 2021. Approximately 86% or \$118,698,000 is attributable to the General Fund.

EXHIBIT(S)

1. Bond Final Pricing Numbers: Sources and Uses of Funds; Final Bond Pricing and Debt Service Schedule

Submitted By: Kathryn Downs, Executive Director Finance and Management Services
Approved By: Kristine Ridge, City Manager