

## AGENDA

Garden Grove City  
Council

Monday, February 28,  
2022

5:30 PM



SPECIAL MEETING  
Community Meeting  
Center, 11300 Stanford  
Avenue, Garden Grove,  
CA 92840 or Please click  
the link below to join the  
webinar:  
[https://ggcity.org/pension-  
study](https://ggcity.org/pension-study) Phone +1 669 900  
6833 Webinar ID: 826  
6699 6436

**Steve Jones**  
Mayor  
**Diedre Thu-Ha Nguyen**  
Mayor Pro Tem - District 3  
**George S. Brietigam**  
Council Member - District 1  
**John R. O'Neill**  
Council Member - District 2  
**Patrick Phat Bui**  
Council Member - District 4  
**Stephanie Klopfenstein**  
Council Member - District 5  
**Kim B. Nguyen**  
Council Member - District 6

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**COVID-19 Information:** Members of the public can address the City Council during the public comment portion of the meeting in person or via e-mail. If you plan to attend the meeting in person, masks or face coverings are required to be worn if you are not vaccinated. If you feel ill or are showing symptoms of COVID-19, please consider submitting comments by e-mail. Instructions are available on the City's website at <https://ggcity.org/city-council/meetings-participation>

**Meeting Assistance:** Any person requiring auxiliary aids and services, due to a disability, to address the City Council, should contact the City Clerk's Office 72 hours prior to the meeting to arrange for accommodations. Phone: (714) 741-5040.

**Agenda Item Descriptions:** Are intended to give a brief, general description of the item. The City Council may take legislative action deemed appropriate with respect to the item and is not limited to the recommended action indicated in staff reports or the agenda.

**Documents/Writings:** Any revised or additional documents/writings related to an item on the agenda distributed to all or a majority of the Council Members within 72 hours of a meeting, are made available for public inspection at the same time (1) in the City Clerk's Office at 11222 Acacia Parkway, Garden Grove, CA 92840, during normal business hours; (2) on the City's website as an attachment to the City Council meeting agenda; and (3) at the Council Chamber at the time of the meeting.

**Public Comments:** Members of the public who attend the meeting in-person and would like to address the City Council are requested to complete a pink speaker card indicating their name and address, and identifying the subject matter they wish to address. This card should be given to the City Clerk before the meeting begins. General comments are made during "Oral Communications" and should be limited to matters under consideration and/or what the City Council has jurisdiction over.

Persons wishing to address the City Council regarding a Public Hearing matter will be called to the podium at the time the matter is being considered. Members of the public participating via teleconference should review the instructions on the City's website pertaining to Live Virtual Public Comments at <https://ggcity.org/city-council/meetings-participation>

**Manner of Addressing the City Council:** After being called by the Mayor, you may approach the podium, it is requested that you state your name for the record, and proceed to address the City Council. All remarks and questions should be addressed to the City Council as a whole and not to individual Council Members or staff members. Any person making impertinent, slanderous, or profane remarks or who becomes boisterous while addressing the City Council shall be called to order by the Mayor. If such conduct continues, the Mayor may order the person barred from addressing the City Council any further during that meeting.

**Time Limitation:** When any group of persons wishes to address the City Council on the same subject matter, the Mayor may request a spokesperson be chosen to represent the group, so as to avoid unnecessary repetition. At the City Council's discretion, a limit on the total amount of time for public comments during Oral Communications and/or a further limit on the time allotted to each speaker during Oral Communications may be set.

**PLEASE SILENCE YOUR CELL PHONES DURING THE MEETING.**

### **STUDY SESSION**

ROLL CALL:

COUNCIL MEMBER BRIETIGAM, COUNCIL MEMBER O'NEILL, COUNCIL MEMBER BUI, COUNCIL MEMBER KLOPFENSTEIN, COUNCIL MEMBER K. NGUYEN, MAYOR PRO TEM D. NGUYEN, MAYOR JONES

1. Oral Communications
2. Discussion on Pension Obligation Bonds
3. Adjournment

**City of Garden Grove**

**INTER-DEPARTMENT MEMORANDUM**

To: From:  
Dept.: Dept.:  
Subject: Discussion on Pension Date:  
Obligation Bonds

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**ATTACHMENTS:**

<b>Description</b>	<b>Upload Date</b>	<b>Type</b>	<b>File Name</b>
PowerPoint Presentation	3/1/2022	Backup Material	PowerPoint_Presentation_- _Pension_Liability_Bonds.pdf



# PENSION OBLIGATION BONDS

A TOOL FOR CONSIDERATION FOR MANAGING THE CITY'S UNFUNDED LIABILITY



# BACKGROUND

## CITY'S PENSION PROFILE

# CITY HAS A VERY STRONG CREDIT RATING

BUT PENSION LIABILITY IS A CONCERN

S&P's Rating Categories

AAA

AA+

AA

AA-

A+

A

A-

BBB+

BBB

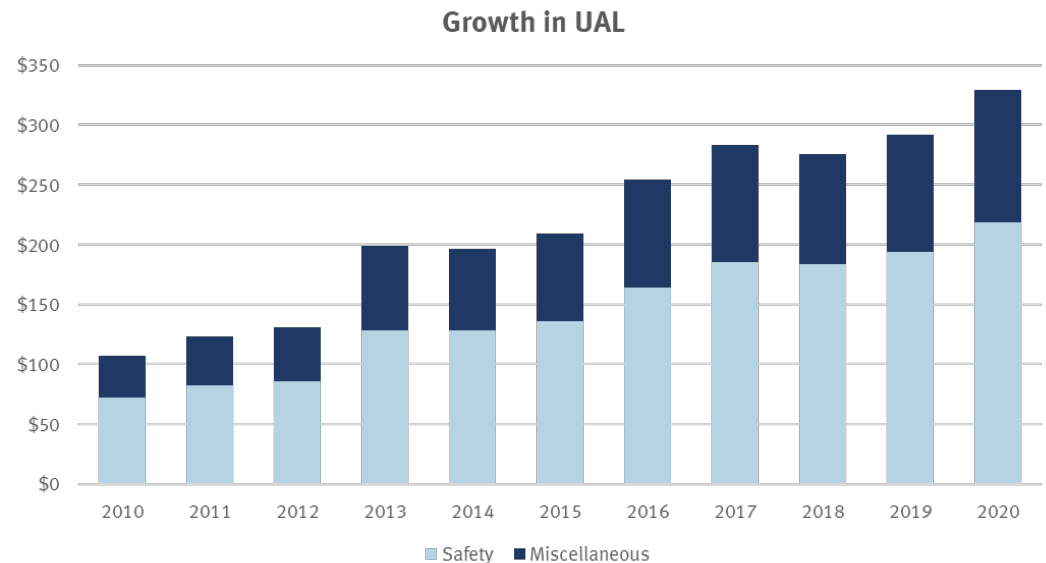
BBB-

- Credit rating agencies provide an independent appraisal of the credit quality of government agencies
- The City has an issuer credit rating from Standard & Poor's ("S&P") of 'AA+'
  - Reflects an upgrade of TWO NOTCHES in September 2021
  - S&P labeled the City '**very strong**' (its highest qualitative category) in the areas of Financial Management, Liquidity, Budgetary Flexibility and Debt & Contingent Liabilities and '**strong**' (second highest category) related to the area's Economy and the City's Budgetary Performance
- S&P noted, however, the City's large pension liability as an area of some concern and a constraint on further upgrade
- Potential enhancement to the City's credit rating when financing the upcoming Civic Center/Police Facility project

# COMPONENTS OF THE CITY'S PENSION COSTS

## OF PRIMARY CONCERN IS THE UAL

- Each year, three amounts are paid to CalPERS; for FY 2023, these are:
  - City normal cost = \$13.1 million
  - Employee normal cost = \$4.7 million
  - Unfunded Accrued Liability (“UAL”) = \$27.6 million
- The primary cost driver is the UAL, which has increased >300% since 2010
  - Represents how much the City needs to have in the future when people actually retire
  - Amortized over time at a discount rate (proxy for CalPERS anticipated earnings rate)



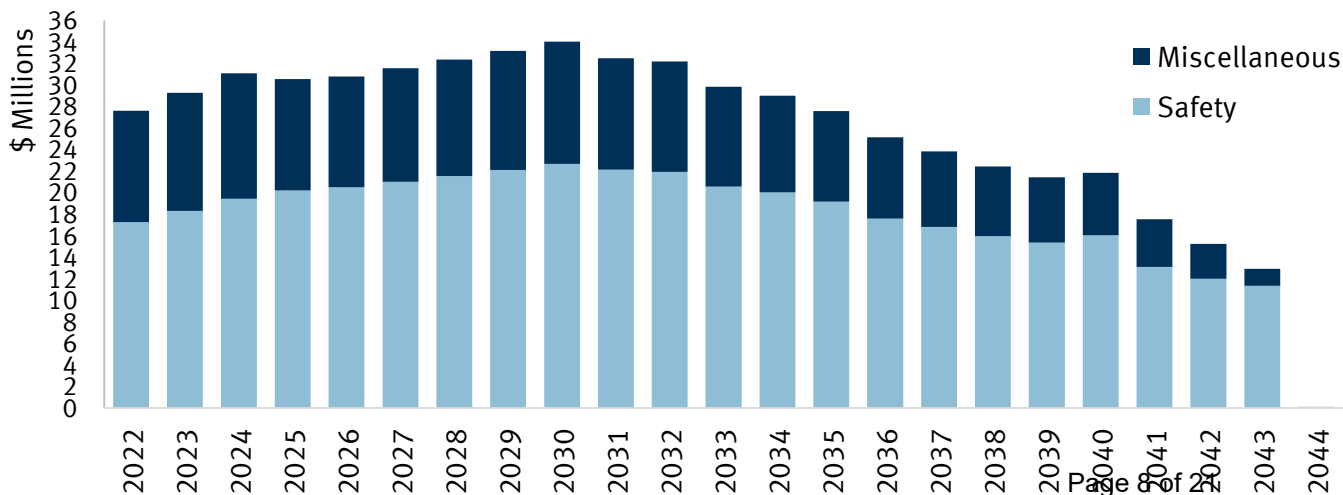
# FUNDED STATUS OVERVIEW

UAL EXCEEDS \$300 MILLION AT MOST RECENT VALUATION

## UAL Calculation Based on CalPERS 6/30/2020 Valuation

		Miscellaneous	Safety	Total
A	Present Value of Projected Benefits	\$394,410,411	\$643,919,219	\$1,038,329,630
B	Entry Age Normal Accrued Liability	\$351,307,306	\$581,960,501	\$933,267,807
C	Market Value of Assets (MVA)	\$240,644,136	\$363,308,360	\$603,952,496
<b>D</b>	<b>Unfunded Accrued Liability (UAL)</b>	<b>B - C</b>	<b>\$218,652,141</b>	<b>\$329,315,311</b>
<b>E</b>	<b>Funded Ratio</b>	<b>C / B</b>	<b>62.4%</b>	<b>64.7%</b>

## Projected Combined UAL Payments



Note: Does not include the net impact from 21.3% return in 2021 and change to 6.8% discount rate. Does not consider funds held in Section 115 Trust.





# PENSION FINANCING

## MANAGING PENSION EXPENSES

# PENSION OBLIGATION BONDS

## A MORE FREQUENT OCCURRENCE FOR CALIFORNIA LOCAL GOVERNMENT AGENCIES

- Over the past 3 years CA cities, counties and special districts have sold \$6.9 billion of pension bonds, ranging in size from \$5 million to \$720 million, and rated between 'AAA' and 'BBB+'
  - For City's rating category and size, the cost of borrowing has ranged from 2.20% to 3.72%

Recently Issued California POB Issues Greater than \$40 Million					
Sale Date	Issuer	Structure	Amount (\$M)	Final Maturity	All-In TIC
<b>AAA Ratings</b>					
12/14/21	Poway	POBs	\$43.83	2048	2.82%
09/02/21	Santa Cruz County	POBs	\$124.20	2047	2.47%
04/28/21	Manhattan Beach	POBs	\$91.28	2043	2.75%
10/27/20	Arcadia	POBs	\$90.00	2040	2.70%
02/05/20	Pasadena	POBs	\$131.81	2038	3.06%
08/22/19	Glendora	POBs	\$64.42	2044	2.85%
<b>AA+/AA Ratings</b>					
09/29/21	Corona	POBs	\$276.71	2034	2.20%
08/26/21	Santa Ana	POBs	\$425.83	2044	2.82%
08/17/21	Buena Park	POBs	\$96.39	2043	2.39%
07/14/21	Covina	POBs	\$62.80	2046	2.64%
05/26/21	El Segundo	POBs	\$144.14	2040	2.59%
03/17/21	Huntington Beach	POBs	\$363.65	2044	2.94%
03/03/21	Orange	POBs	\$286.49	2044	2.75%
02/11/21	Chula Vista	POBs	\$350.03	2045	2.53%
02/09/21	Downey	POBs	\$113.59	2044	2.63%
07/01/21	Redondo Beach	LRBs	\$226.18	2049	2.82%
08/03/21	Whittier	POBs	\$133.90	2046	2.59%
02/02/21	Monterey Park	POBs	\$106.34	2043	2.67%
01/13/21	El Cajon	POBs	\$147.21	2043	2.84%
10/14/20	Torrance	LRBs	\$349.52	2043	3.45%
06/04/20	Riverside	POBs	\$432.17	2045	3.69%
05/12/20	Ontario	POBs	\$236.59	2050	3.72%
04/22/20	Riverside County	POBs	\$720.00	2038	3.53%

Recently Issued California POB Issues Greater than \$40 Million					
Sale Date	Issuer	Structure	Amount (\$M)	Final Maturity	All-In TIC
<b>AA- Ratings</b>					
08/17/21	Commerce	POBs	\$27.88	2041	2.65%
11/19/20	Coachella	POBs	\$17.59	2035	2.99%
11/10/20	Gardena	POBs	\$101.49	2039	3.33%
09/17/20	Azusa	POBs	\$70.08	2040	3.18%
08/13/20	Pomona	POBs	\$219.89	2046	3.52%
06/10/20	Carson	POBs	\$108.02	2050	3.38%
06/02/20	Inglewood	POBs	\$101.62	2050	3.91%
09/24/19	Hawthorne	POBs	\$121.87	2049	3.61%
02/20/19	Baldwin Park	POBs	\$54.09	2044	4.29%
<b>A+/A Ratings</b>					
07/23/20	West Covina	LRBs	\$204.10	2044	3.72%
12/02/20	Ukiah	LRBs	\$49.88	2049	3.92%
06/09/20	El Monte	POBs	\$118.73	2050	3.71%
<b>A- Rating</b>					
05/27/20	Montebello	POBs	\$153.43	2045	4.02%
<b>BBB+ Rating</b>					
10/29/20	Placentia	LRBs	\$52.95	2045	4.25%

# WHAT IS A PENSION OBLIGATION BOND

ESSENTIALLY A LOAN TO PAY OFF DEBT TO CALPERS

## Unfunded Accrued Liability

- City owes \$329 million to CalPERS
- City pays the discount rate (7%, now 6.8%)
- Effective cost is an adjustable rate that increases when earnings targets aren't met
- New UAL can be added if CalPERS' assumptions change or future interest earnings are below the discount rate
- Final payment is 2045

## Pension Obligation Bond

- City would owe \$329 million to investors
- City would pay 3%-3.5% (est.) on the bonds
- Bond rate is a fixed interest rate that does not change for the term of the bonds
- New UAL can be added if CalPERS' assumptions change or future interest earnings are below the discount rate
- City can modify to meet its objectives

# STRUCTURING ALTERNATIVES

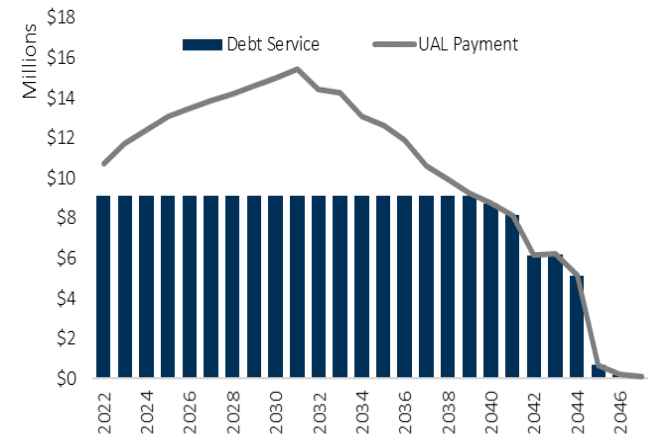
CITIES HAVE TAKEN VARIED APPROACHES

## City of Whittier – 2021 Pension Obligation Bonds

**UAL Funded: \$56.9 million | All-In TIC: 2.60%**

Strategy - Consistent debt payment for easier budgetary control and financial planning

**Whittier**, facing a steep increase in its CalPERS payments, saw POBs as a way to level out its payment obligation. The modified level approach will allow the City to direct cash flow savings into reserves while maintaining level payments in most years and savings in every year.

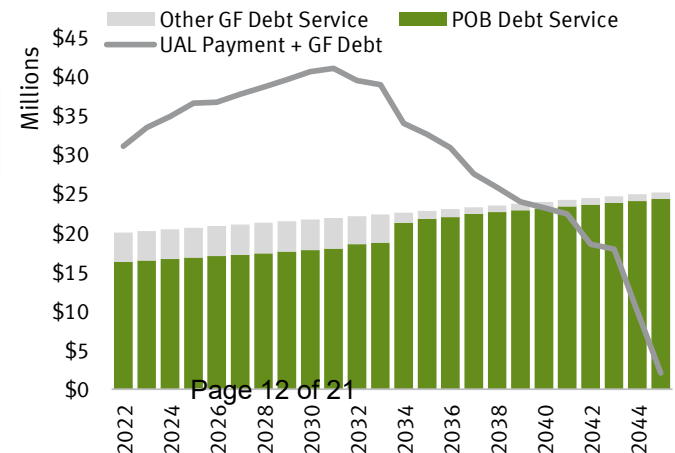


## City of Chula Vista – 2021 Pension Obligation Bonds

**UAL Funded: \$348.2 million | All-In TIC: 2.54%**

Strategy - Building up reserves with cash flow savings

**Chula Vista** structured its POB to wrap around existing General Fund debt service and, in combination, sculpt an aggregate 1% escalating debt service obligation. A pension management policy was adopted to direct early years' savings towards bolstering reserves.



# STRUCTURING ALTERNATIVES

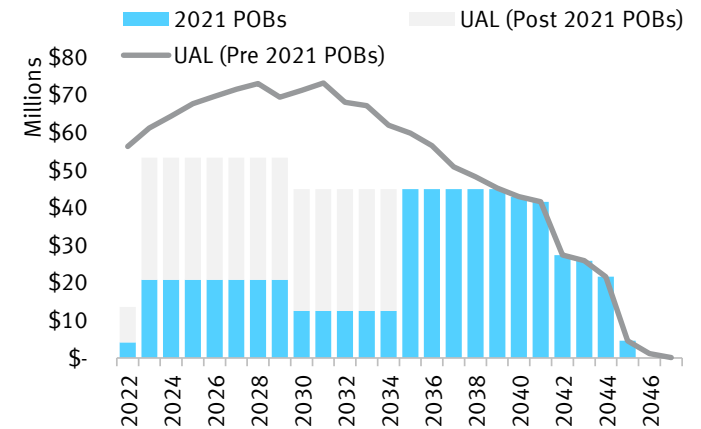
CITIES HAVE TAKEN VARIED APPROACHES

## City of Santa Ana – 2021 Pension Obligation Bonds

**UAL Funded: \$424.6 million | All-In TIC: 2.82%**

Strategy – Staggered POB issuance; alleviate cash flow burden

**Santa Ana** wished to maintain level total pension payments over the next 10-years, then have them decline to a lower level structure. The POBs were sculpted in a way to create an all-in level structure in combination with the unfunded portion of the UAL.

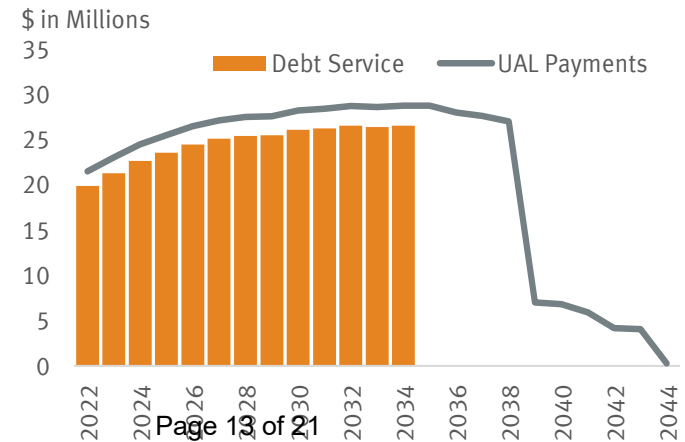


## City of Corona – 2021 Pension Obligation Bonds

**UAL Funded: \$275.6 million | All-In TIC: 2.23%**

Strategy - Match current cash flow, and reduce debt payment period by 10 years to achieve higher savings

**Corona** sought to take its savings in the form of a shorter time period for repayment. This ‘accelerated’ approach has the city repaying its CalPERS liability 10 years earlier than otherwise scheduled.



# ADVANTAGES OF PENSION BONDS

POTENTIAL FOR FASTER PAYOFF AND SUBSTANTIAL SAVINGS

Financially Responsible

Proactively taking steps to get a handle on our pension expenses is the right thing to do

Historic Low Interest Rates

Could reduce our cost of borrowing in half (or more)

Cash Flow Savings

We have an ability to sculpt the payment plan to our needs, either paying off sooner or capturing cash flow savings

Overall Savings

Could reduce our overall costs by 30% (+/-)

# RISKS OF PENSION BONDS

RISKS INCLUDE EXTREME MARKET RETURNS AND SQUANDERED SAVINGS

## Market Risk

If CalPERS' average investment return is less than the bond rate, then the pension bond would not result in savings to the City

## Super-Funded Plan

If CalPERS over-performs, City could end up with its plans more than 100% funded

## Locked In for 10 Years

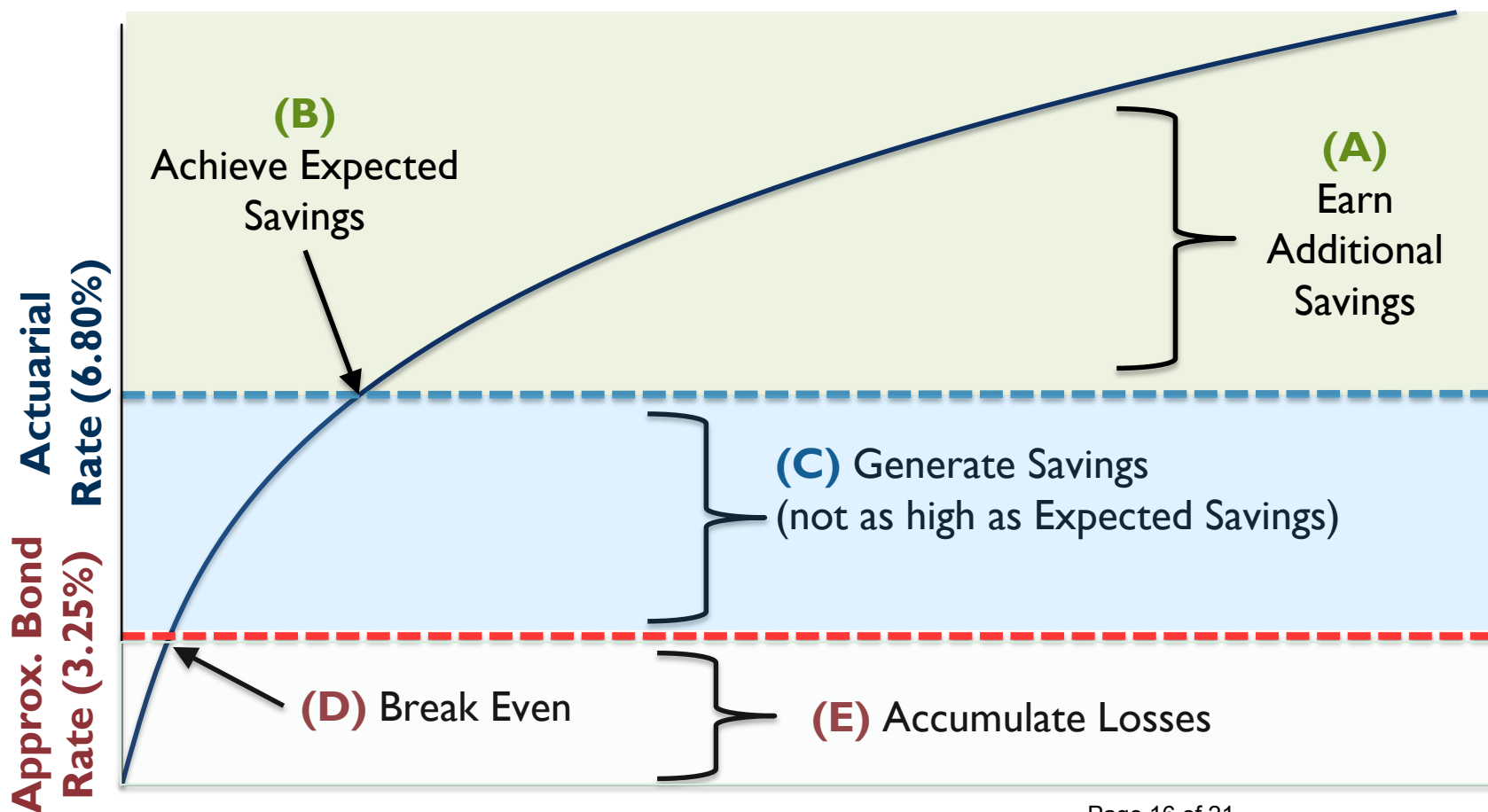
The bonds cannot be paid off for ten years; after the 10 year mark, the bonds can be refinanced or paid down

## Squandered Savings

A future Council could take the savings and spend them on projects/services that don't enhance the City's financial position

# PENSION "SAVINGS" OVERVIEW

IMPACT FROM VARYING INVESTMENT RETURNS

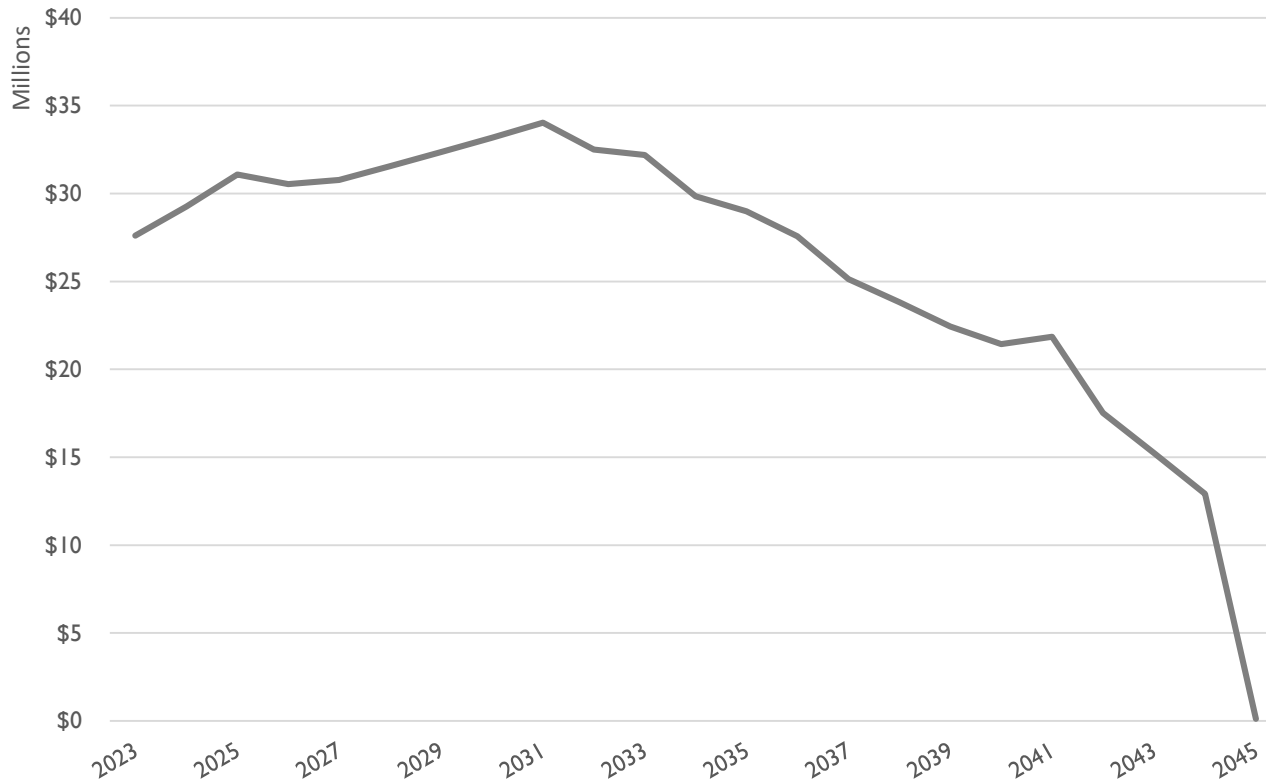




# CURRENT PAYMENT PLAN

CITY IS SCHEDULED TO PAY \$592 MILLION OVER NEXT 23 YEARS

### Scheduled UAL Payments

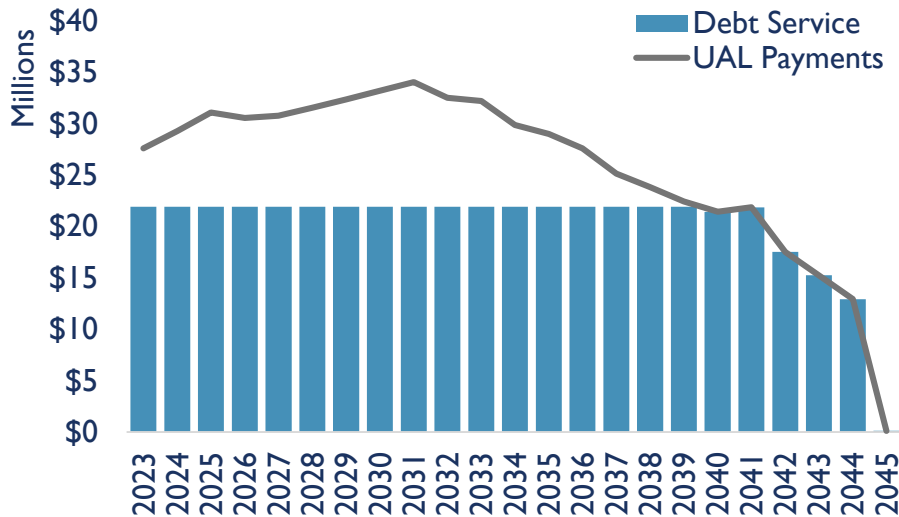


# HYPOTHETICAL PENSION FINANCING

## “MODIFIED LEVEL” STRUCTURING APPROACH

- Analysis assumes a refinancing of 100% of FY20 UAL
- Estimated to generate NPV savings of \$102.6 million

Estimated POB Payments at 100% UAL Funding



FY	UAL Payments	POB Payments	Gross "Savings"
2023	\$27,602,539	\$21,895,195	\$5,529,980
2024	29,260,907	21,897,923	6,912,464
2025	31,087,379	21,896,294	8,360,559
2026	30,538,546	21,897,214	7,616,207
2027	30,770,855	21,896,454	7,578,558
2028	31,551,298	21,896,422	7,988,840
2029	32,353,200	21,897,868	8,382,323
2030	33,177,153	21,897,776	8,761,958
2031	34,023,764	21,897,978	9,126,735
2032	32,492,578	21,893,770	7,729,512
2033	32,183,136	21,893,826	7,270,609
2034	29,849,030	21,893,872	5,446,567
2035	28,989,662	21,894,340	4,706,908
2036	27,574,698	21,898,341	3,648,571
2037	25,125,494	21,893,729	2,012,715
2038	23,824,987	21,897,200	1,163,298
2039	22,435,748	21,896,329	315,390
2040	21,427,846	21,423,820	2,281
2041	21,847,096	21,845,378	943
2042	17,519,760	17,519,593	89
2043	15,236,512	15,235,844	344
2044	12,916,455	12,915,155	649
2045	113,595	108,717	2,360

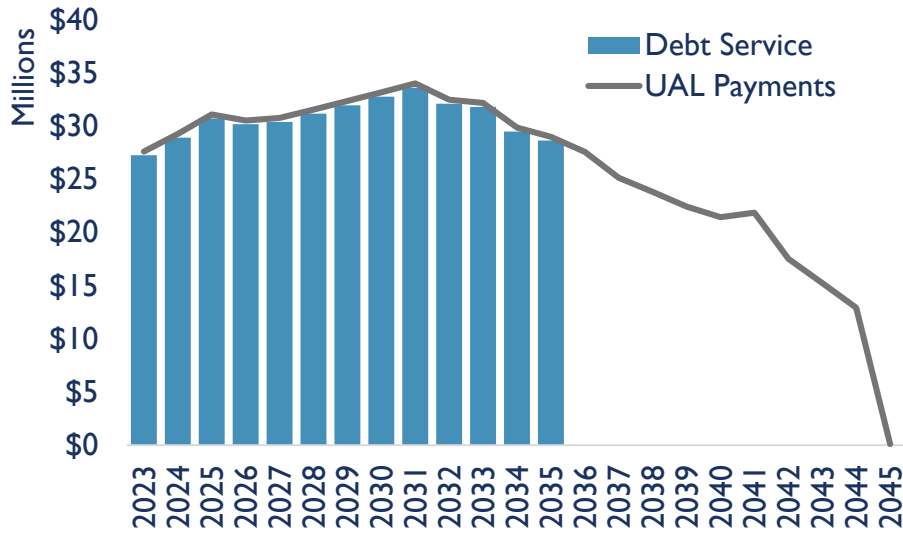
<b>Totals</b>	<b>\$591,902,238</b>	<b>\$461,283,032</b>	<b>\$130,619,207</b>
		<b>NPV Savings (\$)</b>	<b>\$102,557,861</b>
		<b>NPV Savings (%)</b>	<b>31.14%</b>
		<b>All-In TIC</b>	<b>3.24%</b>

# HYPOTHETICAL PENSION FINANCING

## “ACCELERATED” STRUCTURING APPROACH

- Analysis assumes a refinancing of 100% of FY20 UAL
- Estimated to generate NPV savings of \$121.7 million

Estimated POB Payments at 100% UAL Funding



FY	UAL Payments	POB Payments	Gross "Savings"
2023	\$27,602,539	\$27,268,476	\$334,063
2024	29,260,907	28,910,954	349,953
2025	31,087,379	30,714,085	373,294
2026	30,538,546	30,173,789	364,757
2027	30,770,855	30,398,245	372,610
2028	31,551,298	31,169,518	381,780
2029	32,353,200	31,965,177	388,023
2030	33,177,153	32,775,546	401,607
2031	34,023,764	33,611,980	411,784
2032	32,492,578	32,101,745	390,833
2033	32,183,136	31,797,201	385,935
2034	29,849,030	29,488,956	360,074
2035	28,989,662	28,641,164	348,499
2036	27,574,698	-	27,574,698
2037	25,125,494	-	25,125,494
2038	23,824,987	-	23,824,987
2039	22,435,748	-	22,435,748
2040	21,427,846	-	21,427,846
2041	21,847,096	-	21,847,096
2042	17,519,760	-	17,519,760
2043	15,236,512	-	15,236,512
2044	12,916,455	-	12,916,455
2045	113,595	-	113,595

<b>Totals</b>	<b>\$591,902,238</b>	<b>\$399,016,836</b>	<b>\$192,885,403</b>
		<b>NPV Savings (\$)</b>	<b>\$121,699,646</b>
		<b>NPV Savings (%)</b>	<b>36.96%</b>
		<b>All-In TIC</b>	<b>2.83%</b>

# TIMELINE FOR ISSUANCE

## PENSION OBLIGATION BONDS REQUIRE JUDICIAL VALIDATION

### Judicial validation is utilized to begin the POB process

- This would allow the Agency to confirm that the pension liability is an obligation imposed by law and the POBs would be exempt from the Constitutional debt limit

### The process for authorizing the POB would first require a resolution of issuance from the City Council followed by a 12-15 week review by Orange County Superior Court

### Some cities are avoiding the validation process by issuing taxable lease revenue bonds

- This approach requires the use of leased assets

Timeline	Milestone
Week 1	<p>City Council approves financing and authorizes filing of validation action</p> <p>Complaint for validation filed</p> <p>Application to obtain order directing issuance, publication, and service of summons filed</p>
Week 2	<p>Hearing on application to obtain order directing issuance, publication, and service of summons held</p> <p>Special summons issued by Clerk of the Court</p>
Week 3	<p>Special summons published in newspaper for first time</p>
Week 6	<p>Request for entry of default against all persons filed</p>
Week 7	<p>Default entered against all persons by Clerk of the Court</p> <p>Default judgement package filed</p>
Week 8	<p>Hearing to request entry of default judgment of validation</p> <p>Default judgment of validation entered</p> <p>30-day appeal period begins</p>
Week 12	<p>Deadline to appeal default judgment of validation</p>

# STIFEL DISCLOSURES

## MUNICIPAL ADVISOR RULE

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**Pension Risk Disclaimer:** Pension Obligation Bonds (“POBs”) are a source of financing for unfunded actuarial liabilities of pension funds and can serve a valuable function. However, the success of a POB financing is dependent on a number of assumptions proving to be accurate, and the failure of any of these assumptions is a risk that a government issuing POBs should consider.