



## CITY OF FULLERTON LEGISLATIVE BODY MEETING PARTICIPATION

Zoom Meeting Details: [www.zoom.us/join](http://www.zoom.us/join)

Meeting ID: 870 2461 0601 Telephone Option: 1-669-900-9128

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**PUBLIC PARTICIPATION:** Members of the public can attend meetings in person or access meetings streamed live online at <https://fullerton.legistar.com>, on Spectrum Cable Channel 3 and AT&T U-Verse Channel 99.

The Council Chamber will have seating available on a first-come, first-served basis for members of the public to attend the meeting in person. All persons visiting City facilities shall observe decorum and health and safety protocols.

**PUBLIC COMMENTS:** The public may address the legislative body in person or provide public comments remotely by following the *Instructions for Public Comment Using Zoom*.

**CORRESPONDENCE:** The public can send correspondence to the legislative body regarding items on the agenda by emailing [ASD-Finance@cityoffullerton.com](mailto:ASD-Finance@cityoffullerton.com) with the subject line "Fiscal Sustainability Ad Hoc Committee MEETING CORRESPONDENCE - ITEM #" (insert the item number relevant to your comment), "Fiscal Sustainability Ad Hoc Committee MEETING CORRESPONDENCE NON-AGENDA ITEM" or by clicking on the eComment link accompanying the agenda posted online at <https://fullerton.legistar.com>. Staff will forward correspondence received to the legislative body. Correspondence is not read at the meeting; however, all correspondence becomes part of the official record of the meeting. Staff posts correspondence online with the meeting's supplemental materials. Contact [ASD-Finance@cityoffullerton.com](mailto:ASD-Finance@cityoffullerton.com) or call (714)-738-6565 in Administrative Services Department with any questions.

**ACCESSIBILITY:** If requested, staff will make the agenda and backup materials available in appropriate alternative formats to persons with a disability, as required by Section 202 of the Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12132) and the federal rules and regulations adopted in implementation thereof. Any person who requires a disability-related modification or accommodation in order to observe and/or offer public comment may request such reasonable modification, accommodation, aid or service by contacting [ASD-Finance@cityoffullerton.com](mailto:ASD-Finance@cityoffullerton.com) or call (714)-738-6565 no later than 48 hours before the meeting.

# **INSTRUCTIONS FOR PUBLIC COMMENTS USING ZOOM**

The public may remotely participate in the meeting to make oral public comment via computer, smart device or telephone.

Please log on or call in as early as possible to address any technical issues that may occur and ensure you do not miss the time to speak on the desired item.

**Follow these steps to log into Zoom from your computer or smart device** (Your device must have audio capability to participate.):

**Go To:** [www.zoom.us/join](http://www.zoom.us/join)

**Enter Meeting ID:** 870 2461 0601

**Follow these steps to call into Zoom from your telephone:**

**Dial** 1-669-900-9128 and press pound (#)

**Enter Meeting ID:** 870 2461 0601 and press pound (#)

Optional: You may enter your name when prompted, but this is not required to participate. Staff will remove anyone entering names that violate community standards.

- 1. Use the “raise hand” function to join the queue to speak on the current agenda item** when the Chair calls the item for discussion.

Computer / Smart Device Users: You can find the raise hand option under your participant name.

Telephone Users: Press star-nine (\*9) on your phone to raise your hand. Press star-six (\*6) to unmute when it is your turn to address City Council.

Lower your hand if you choose not to speak or after you have made your comments by unchecking the raise hand option online.

- 2.** Staff will call your name or the last four digits of your phone number when it is your time to speak.
- 3.** You may state your name and city of residence at the beginning of your remarks for the minutes.
- 4.** Speakers will have up to three minutes to make their remarks.
- 5.** You may log off or hang up after making your comments.

**DISCLAIMER:** Participant names and/or phone numbers may be visible to all participants. The City records all public meetings.



# CITY OF FULLERTON FISCAL SUSTAINABILITY AD HOC COMMITTEE

**Regular Meeting Agenda**  
**Thursday, January 9, 2025, 5:00 p.m.**  
Fullerton City Hall - Council Chamber  
303 West Commonwealth Avenue  
Fullerton, California

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**Public Comment:** Public comments are allowed on items on this agenda at the time each item is considered.

Persons addressing the Committee shall be limited to 3 minutes unless an extension of time is granted by the Chair subject to approval of the Committee. When any group of persons wishes to address the Committee, it shall be proper for the Chair to request that a spokesman be chosen to represent the group.

Public comments are allowed on items NOT on the agenda but within the subject matter jurisdiction of the Committee. However, NO action may be taken on off-agenda items except as provided by law.

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## **CALL TO ORDER**

## **ROLL CALL**

## **PUBLIC COMMENTS**

Public comments will be allowed on matters not appearing on the agenda but within the Committee's jurisdiction.

## **ACTION OR DISCUSSION ITEMS**

1. Presentation on Committee requests from 12/12/2024 Ad Hoc Committee meeting.
2. Input on future topic(s) for next and future Fiscal Sustainability Ad Hoc Committee meetings.
3. Establish and set meeting date(s) and time(s) for Fiscal Sustainability Ad Hoc Committee.

## **ADJOURNMENT**

Adjourn to the next scheduled meeting at the next or established regular meeting date and time of the Fiscal Sustainability Ad Hoc Committee.

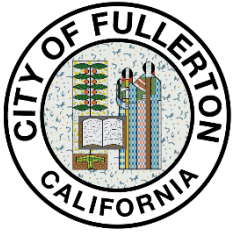


# Fiscal Sustainability Ad Hoc Committee

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**Committee Meeting #3 ~ January 9, 2025**

City of Fullerton, CA



# Agenda

- ❖ Sales Tax Ballot Measure Data
- ❖ Memorandum of Agreements' (MOAs) Salary Increases
- ❖ Business Improvement District (BID) Information
- ❖ Police Department (PD) Grant Funding
- ❖ Future Meetings' Discussion Topics

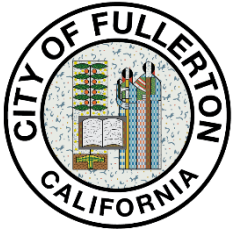


# Sales Tax Ballot Measure Data

- Sales Tax Ballot Data Additional Information
  - ‘Special Purpose Sales Tax’ descriptions provided in Agenda Packet.

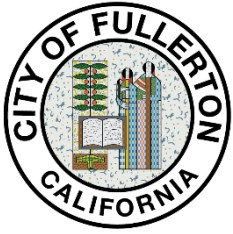
Sales Tax by Type	FY 24-25 Adopted / Current	Current + 1% Add-On Tax	Current + 0.50% Add-On Tax	Current + 0.25% Add-On Tax
Sales and Use Bradley Burns Sales Ta	30,500,000	30,500,000	30,500,000	30,500,000
<b>Add-On Transaction &amp; Use Tax *</b>	<b>-</b>	<b>30,500,000</b>	<b>15,250,000</b>	<b>7,625,000</b>
<b>Total Annual Sales Tax Revenues</b>	<b>\$30,500,000</b>	<b>\$61,000,000</b>	<b>\$45,750,000</b>	<b>\$38,125,000</b>

\* Add-On sales tax are estimated and ballpark figures for context.



# Memorandum of Agreement (MOA) Salary Increases

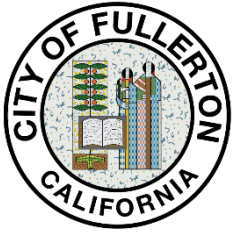
Bargaining Unit	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Fullerton Firefighter's Association (FFA)	8%	4%	4%	3%	3%	
Fullerton Fire Management Association (FFMA)	8%	4%	4%	3%	3%	
Fullerton Municipal Employees Federation (FMEF)	n/a	8%	4%	4%	3%	
Fullerton Management Association (FMA)	n/a	8%	4%	4%	3%	
Fullerton Police Officers' Association-Safety (FPOA-S)	n/a	8%	0%	4%	4%	4%
Fullerton Police Officers' Association-Dispatch (FPOA-D)	n/a	8%	0%	4%	4%	4%
Fullerton Police Management Association (FPMA)	n/a	8%	0%	4%	4%	4%
Confidential	n/a	8%	4%	4%	3%	
Executive	n/a	8%	4%	4%	3%	



# Police Dept. FY2024-25 Grant Funding

Granting Agency	Agency Level	Grant Program	Amount	Grant Uses
Dept. of Alcoholic Beverage Control (ABC)	State	ABC Grant FY24-25	\$99,000	ABC operations and enforcement
Congressional Community Project Funding	Federal	FY24- Congressman Lou Correa	\$2,500,000	Renovations and restoration to PD historic building.
County of Orange	Federal - Pass through to County	Pilot PD Behavioral Health Clinician Program	\$1,000,000	2-year pilot program for 2 Behavioral Health Clinicians
Board of State & Community Corrections (BSCC)	State	Officer Wellness & Mental Health FY2023-25	\$79,335	Mental and physical wellness-related activities and equipment
California Highway Patrol (CHP)	State	Cannabis Tax Fund FY24-25	\$499,998	DRE/ARIDE/SFST training for DUI-D enforcement
Department of Justice (DOJ)	Federal - Pass through sub-grantee of OC Sheriff's Department	Justice Assistance Grant (JAG) 2024	\$27,070	Walk-in DNA evidence storage freezer
Office of Traffic Safety (OTS)	State	Selective Traffic Enforcement Program (STEP) FY24-25	\$285,000	DUI checkpoints & patrol, traffic safety enforcement, public education
County of Orange	County	Prop. 69- DNA Grant 2024	\$79,300	CSI- evidence freezer, scene barriers, cameras, blood evidence training
CA Department of Justice (DOJ)	State	Prop. 56- Tobacco Grant FY24-25	\$291,079	Tobacco sale operations and enforcement
<b>Grand Total for FY 2024-25</b>			<b>\$4,860,782</b>	



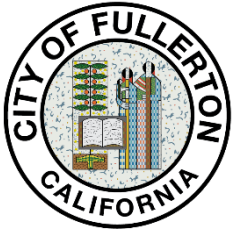


# Asset Forfeiture Permissible Uses

Use of Asset Forfeiture funds is governed by the Department of Justice's (DOJ) Equitable Sharing Guide and must be expended in compliance with state and City of Fullerton purchasing guidelines and policies. Further, all Asset Forfeiture funds received and expended are reported to the DOJ at the conclusion of the fiscal year.

From the Equitable Sharing Guide (March 2024):

- Equitably shared funds must be used to increase or supplement the resources of the receiving state, local, or tribal law enforcement agency. Shared funds shall not be used to replace or supplant the agency's appropriated resources.
  - Example of Improper Supplantation: A police department receives \$100,000 in federal equitable sharing only to have its budget cut \$100,000 by the city council. In this instance, the police department has received no direct benefit from equitable sharing whatsoever. Rather, the city as a whole has received the benefit of the sharing.
- Except as noted in this Guide, Program participants shall use equitably shared funds for law enforcement purposes only ("permissible uses"). Agencies may use equitably shared funds for any permissible agency expenditure, and both sworn and non-sworn law enforcement personnel may use them.



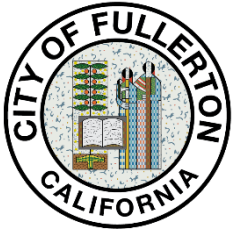
# Asset Forfeiture Permissible Uses Cont.

## [Permissible Uses \(Page 17 of Equitable Sharing Guide\):](#)

1. Law Enforcement Administrative Costs
2. Law Enforcement Training and Education
3. Law Enforcement, public safety, and detention facilities
4. Law Enforcement equipment
5. Joint Law Enforcement and public safety operations
6. Contracts for Services
7. Law Enforcement travel and per diem
8. Law Enforcement awards and memorials
9. Drug, gang, and other prevention or awareness programs
10. Law Enforcement initiatives that further investigations
11. Overtime
12. Salaries (officer assigned to federal task force)

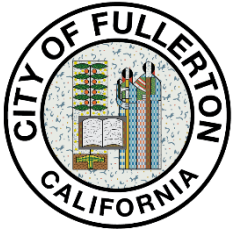
## [Impermissible Uses \(Page 20 of Equitable Sharing Guide\):](#)

1. Use by non-law enforcement personnel/agencies
2. Creation of endowments, scholarships, grants
3. Uses contrary to state, local, or tribal laws
4. Personal or political use of shared assets
5. Purchase of food and beverages
6. Extravagant or wasteful expenditures and entertainment
7. Cash on hand
8. Transfers to other agencies
9. Purchase of items for other agencies
10. Payment of expenses for employees of other agencies
11. Costs related to lawsuits
12. Loans and reimbursements
13. Construction projects (Treasury funds can be used for these project, but not Justice funds)
14. Donations to community-based organizations
15. Buy or flash money and informant payments
16. Money laundering operations
17. Salaries (of sworn/non-sworn personnel except as noted in Sections V.B.1k or V.B.1l)



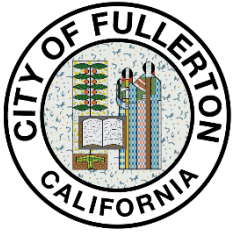
# Police Department – Downtown Patrol Costs

- Fullerton ECHO Unit (Salary & Benefits Total \$675,506)
  - 1 Sergeant (50%) - \$193,860
  - 2 Police Officers (100%) - \$481,646
- Overtime Costs (January 1, 2024 – December 23, 2024) \$86,118



# Business Improvement Districts (BIDs)

- A **Business Improvement District (BID)** is a public-private partnership in which a special benefit assessment district is formed to raise funds to benefit assessed businesses within a specific geographic area, typically a downtown or business area.
  - Tool to revitalize and improve commercial areas of businesses, economic development purposes, services within a business area, and/or services above and beyond those provided by local government.
  - Financed and funding generated through special assessment on real property, businesses, or a combination of both.
- **How is a BID Formed?** A city must adopt a Resolution of Intent with appropriate public noticing and public hearings held.
  - Subject to Prop 218 Process and BID will be formed if less than 50% **Written Protests** are received.



# Future Discussion Topics

- Next meeting date: Proposed [Monday 1/20/25 at 5pm](#)
- Bring approaches to Budget Balancing Options:
  - Current strategies
  - Further expense reduction options
  - Revenue enhancement options
  - Looking at current restrictions that contribute to the General Fund

Attachment 1 - Sales Tax Ballot Data (CA)

**Dedicated Special Purpose Sales Tax Measures**

Ballot Measure	County	Jurisdiction	Yes	No	Outcome	Amount	Length	Purpose (summarized)	Election date	Purpose (directly from ballot measure language)
Measure BB	Orange	San Clemente	64.62	35.38	Defeated	0.50%		Beach Maintenance	5-Nov-24	Shall the measure restoring/keeping sand on the beach, maintaining beach access for residents, reducing beach erosion; protecting ocean water quality, surfing/ocean swimming locations; restoring/maintaining beach trail, pier and lifeguard lifesaving equipment, helping protect San Clemente's local beach economy, by establishing a dedicated 1/2¢ sales tax providing approximately \$6,750,000 annually until ended by voters; requiring public spending disclosure, independent audits, all funds used locally and cannot be taken for other purposes, be adopted
Measure K	Amador	Amador City	85.56	14.44	Approved	0.25%	10 years	Transportation	5-Mar-24	For the sole purpose of transportation improvements in Amador City, and to qualify for funding from the California Department of Transportation's Local Partnership Formulaic Program
Measure E	Fresno	Fresno	42.74	57.26	Defeated	0.25%	25 years	University facility	5-Mar-24	expanding access in nursing, agriculture, criminology, science, engineering, other fields; repairing/upgrading campus facilities; providing safe drinking water; making campus more accessible for people with disabilities; providing scholarships for local students, veterans
Measure A	Los Angeles	Los Angeles	57.78	42.22	Approved			Homeless Initiative	5-Nov-24	create affordable housing, support home ownership, provide rental assistance, increase mental health and addiction treatment, reduce and prevent homelessness; and provide services for children, families, veterans, domestic violence survivors, seniors, and disabled people experiencing homelessness
Measure C	Nevada	Nevada City	69.2	30.8	Approved	0.50%	5 years	Wildfire mitigation	5-Mar-24	Exclusively to fund a locally controlled Wildfire Prevention and Mitigation Program that includes the reduction of flammable vegetation throughout Nevada City; the improvement and maintenance of emergency communications/early warning system, evacuation routes, and temporary refuge areas; the implementation of community oriented defensible space practices; and other activities and services
Measure B	Placer	Placer	63.83	36.17	Defeated	\$0.01		Transportation	5-Nov-24	reduce traffic congestion and build transportation projects in Roseville, Rocklin, and Lincoln-including widening Highway 65; fixing the 80/65 Interchange bottleneck; funding local road repair; guaranteeing more State transportation matching funds; and authorizing bond financing
Measure A	Plumas	Plumas	59.5	40.5	Defeated	0.75%		Sheriff services	5-Mar-24	solely for purpose of providing the citizens with Sheriff services
Measure P	San Diego	Chula Vista	73.4	26.6	Approved			Streets, sidewalks, infrastructure	5-Nov-24	services including fixing potholes; keeping streets, sidewalks, infrastructure, parks, public facilities safe, clean, well-maintained; repairing aging storm drains; managing traffic congestion; and removing trash/graffiti from public spaces
Measure S	San Diego	Santee	47.7	52.3	Defeated				5-Nov-24	fire protection and emergency response facilities and services
Measure I	Sonoma	Sonoma	62.81	37.19	Approved	0.25%		Childcare initiative	5-Nov-24	Increasing access to child care and early childhood education to start kindergarten ready; increasing access to vital children's preventive health care and mental health services; preventing child abuse/neglect; and prioritizing children impacted by homelessness and trauma
Measure W	Sonoma	Sonoma	68.08	31.92	Approved	0.13%		Library	5-Nov-24	County Library services such as: children's/teen books, summer reading programs, and homework help; career services/computer labs; book/digital/historical collections; keeping qualified librarians; senior services; disabled access; and maintaining hours seven days a week
Measure R	Tehama	Red Bluff	65.74	34.26	Defeated	0.75%	20 years	Transportation	5-Nov-24	fix potholes; maintain and repair deteriorating local streets and roads; reduce expensive future repairs; improve safety for drivers, pedestrians, disabled residents, including safe routes to children's school; and make the City eligible for state/ federal matching funds

**General Purpose Sales Tax Measure**

Ballot Measure	County	Jurisdiction	Yes	No	Outcome	Amount	Length	Purpose (summarized)	Election date	Purpose (directly from ballot measure language)
Measure R	Orange	Buena Park	74.71	25.29	Approved	1%		Essential services	5-Nov-24	quality of life/ essential services, such as 911 response, preventing crime including property crimes; keeping public areas safe/ clean; protecting local drinking water; fire protection/ prevention; providing safe places to play; retaining/ attracting police officers; repairing streets/ potholes
Measure V	Orange	La Habra	68.92	31.08	Approved	1%		General	5-Nov-24	prevent additional cuts to firefighter/paramedic 911 response services; police staffing/ ambulance services; maintain street repairs; protect groundwater supplies, parks/open space; address homelessness; remove hazardous waste; gang prevention; and general City services
Measure Z	Orange	Orange	49.57	50.43	Defeated	0.50%	10 years	General	5-Nov-24	maintaining 911 response, fire/ police protection/paramedic services; recruiting/retaining well-trained police/firefighters; preventing property crimes/ thefts; addressing homelessness; keeping public areas/parks safe/clean; maintaining safe routes to school; repairing streets/potholes

Attachment 1 - Sales Tax Ballot Data (CA)

General Purpose Sales Tax Measure

Ballot Measure	County	Jurisdiction	Yes	No	Outcome	Amount	Length	Purpose (summarized)	Election date	Purpose (directly from ballot measure language)
Measure GG	Orange	Seal Beach	68.25	31.75	Approved	0.50%		General	5-Nov-24	maintaining 911 medical emergency/police/ fire response, helping prevent property crimes/retail thefts; keeping public areas/beaches safe/clean; helping protect local water quality; reducing risk of flooding; retaining/supporting local businesses; addressing homelessness; repairing streets/potholes
Measure E	Orange	Westminster	61.61	38.39	Approved	0.50%		General	5-Mar-24	long-term financial stability, restore/prevent future cuts to services including 911 emergency response, police, neighborhood patrols, drug/gang/domestic violence/human trafficking units, firefighters, paramedics; keep parks/public areas safe/clean; address homelessness; protect local drinking water supplies; retain local businesses
Measure K1	Alameda	Hayward	83.13	16.87	Approved	\$0.01	20 years	Essential services	5-Nov-24	firefighting, emergency-medical response, police protection, pothole repair, street improvements, general City maintenance, and modernization of aging City facilities, including for police, public works, and South Hayward community and library services
Measure PP	Alameda	Pleasanton	45.82	54.18	Defeated	\$0.01	10 years	City services	5-Nov-24	To maintain city services and minimize cuts, such as police and fire protection; 911 emergency response; disaster preparedness; pedestrian safety; park maintenance; pothole repair and street maintenance; recreation programs; open space preservation; and other general government uses
Measure H	Butte	Butte	67.7	32.3	Approved			Governance	5-Nov-24	maintaining emergency 911 response times; preparing for/responding to and recovering from wildfires/natural disasters; protecting abused/neglected children; addressing homelessness, mental health challenges; retaining/attracting qualified firefighters/EMTs/sheriff's deputies; preventing thefts/property crimes; supporting libraries services and for general government use
Measure A	Calaveras	Calaveras	55.04	44.96	Approved	1%		sales tax	5-Mar-24	To fund local fire districts and the City of Angels Camp Fire Department for staffing, training, equipment, and other costs
Measure W	Colusa	Williams	50.78	49.22	Defeated	0.50%		City services	5-Nov-24	specific City services, with 80% to fund road repair, 10% to fund parks and recreation, and 10% to fund fire protection services
Measure G	Contra Costa	El Cerrito	81.03	18.97	Approved	1%		General	5-Nov-24	To continue to maintain and prevent cuts to City services, without increasing taxes, such as fire prevention/emergency response times, neighborhood police patrols; wildfire prevention; crime prevention/investigation; after-school programs; library hours; senior services; open space, parks/ playgrounds; for general government use, shall El Cerrito's measure extending the existing voter approved 1¢ sales tax
Measure H	Contra Costa	Lafayette	64.81	35.19	Approved	0.50%	7 years	General	5-Nov-24	maintain City services, including public streets, storm drains, pothole repairs, wildfire preparedness, number of police officers, traffic safety, senior and youth programs, and other general city services
Measure I	Contra Costa	Pinole	67.81	32.19	Approved	0.50%		General	5-Nov-24	fiscal stability, prevent cuts, provide essential City services such as: maintaining 911 emergency response times/fire prevention; preventing property crimes; keeping public areas/parks safe and clean; providing clean water; repairing potholes/streets; retaining/attracting local businesses; other general services
Measure N	Contra Costa	San Ramon	56.21	43.79	Approved	1%	10 years	General	5-Nov-24	To provide local funding to maintain City of San Ramon programs, services and facilities, including: public safety and police services; neighborhood crime prevention; traffic enforcement and road safety; street and road improvements and maintenance; library and recreation services; park maintenance; youth, senior, and cultural programs; and other city services and facilities
Measure Y	Fresno	Clovis	66.92	33.08	Approved	1%		Public safety, city services	5-Nov-24	maintaining 9-1-1 emergency medical/police/fire/paramedic response, fire protection, police patrols; keeping public areas safe/clean; retaining local small businesses/jobs; protecting local drinking water sources; accelerating repairs to streets/roads; addressing homelessness; maintaining youth, parks programs; and other general services
Measure J	Fresno	Coalinga	48.23	51.77	Defeated	1%	14 years	General	5-Nov-24	measure, which extends the already-adopted general-purpose, one-percent sales tax
Measure R	Fresno	Sanger	74.97	25.03	Approved	0.75%		Public safety	5-Nov-24	the measure maintaining 9-1-1 emergency response, fire protection; funding protective breathing equipment/clothing for firefighters, investigating/preventing crimes, including against children, gang prevention; maintaining paramedics for life support/advanced medical care
Measure J	Imperial	Brawley	65.46	34.54	Approved	1%		General	5-Nov-24	maintaining 911 emergency response, fire protection, firefighter paramedics, neighborhood police patrols, gang/drug prevention; keeping parks/public areas safe/clean, addressing homelessness; repairing streets/roads, potholes; retaining/attracting local small businesses; upgrading local water infrastructure, general government use
Measure AAA	Los Angeles	Artesia	68.43	31.57	Approved	0.75%		Public safety, city services	5-Nov-24	General services such as maintaining 911 emergency response, crime prevention programs involving thefts/burglaries, neighborhood sheriff patrols; repairing streets/potholes/sidewalks; cleaning/maintaining public areas; maintaining safe routes to schools programs, youth gang prevention programs and street lighting

Attachment 1 - Sales Tax Ballot Data (CA)

General Purpose Sales Tax Measure

Ballot Measure	County	Jurisdiction	Yes	No	Outcome	Amount	Length	Purpose (summarized)	Election date	Purpose (directly from ballot measure language)
Measure ZZ	Los Angeles	Azusa	67.5	32.5	Approved	0.25%		Public safety, city services	5-Nov-24	Public Safety, Community Services, Local Control/ Accountability Measure. Shall the measure to maintain locally-generated funding for police, firefighter/ paramedic/ 911 response services; clean up encampments/ address homelessness; fix potholes/ streets; maintain gang enforcement, neighborhood patrols, clean water, parks, community centers, senior services, afterschool programs and other general City services
Measure I	Los Angeles	Bell	46.92	53.08	Defeated	0.75%		General	5-Mar-24	Public Safety (Police and Fire); Youth and Seniors Recreation Programs and Services; and for general government use
Measure D	Los Angeles	Downey	67.28	32.72	Approved	0.25%		Public safety, city services	5-Nov-24	To maintain Downey's long-term financial stability and general city services such as 911 response and fire/police protection; prevent crimes/thefts; recruit/retain well-trained firefighters/police officers; help ensure children have safe places to play; repair streets/potholes
Measure EM	Los Angeles	El Monte	55.23	44.77	Approved	0.75%		General	5-Nov-24	To preserve funding for various City services and goals like fire protection; graffiti removal; street and sidewalk repair; park maintenance and enhancements; youth and senior programs; building "rainy day" reserves and any other general governmental purpose
Measure Z	Los Angeles	Glendora	57.66	42.34	Approved	0.25%		City services	5-Nov-24	To maintain and enhance existing City services including public safety, homelessness, roads/streets, and quality of life issues, shall the City's Measure be adopted approving an ordinance that replaces Los Angeles County's Measure H upon its sunset or repeal
Measure HB	Los Angeles	Hermosa Beach	42.63	57.37	Defeated	0.75%	20 years	General	5-Nov-24	protecting essential services such as police, crime prevention, parks, streets and sidewalks, beaches, cleaning of public areas, addressing homelessness, schools, supporting local businesses, and for other general governmental use
Measure IR	Los Angeles	Irwindale	67.9	32.1	Approved	0.25%		General	5-Nov-24	maintain locally-generated funding for police, emergency/ disaster response, senior citizens/ parks/ transportation/ recreation/ library/ aquatics, and economic/ job development; fix potholes/ streets; clean up encampments/ address homelessness; and other general City services
Measure LCF	Los Angeles	La Cañada Flintridge	59.01	40.99	Approved	0.75%		General	5-Mar-24	neighborhood Sheriff patrols; preparing for and responding to wildfires/natural disasters; repaving and repairing streets/potholes; keeping public spaces safe and clean; maintaining parks and community programs for youth and seniors; and for general government use
Measure YM	Los Angeles	Lancaster	52.19	47.81	Approved			General	5-Nov-24	financial stability; maintaining essential services; maintaining 911 response; retaining businesses; maintaining veterans, senior, mental health, and homelessness community programs
Measure MMB	Los Angeles	Manhattan Beach	57.4	42.6	Approved	0.50%		General	5-Nov-24	general city services in Manhattan Beach, including keeping local streets, sidewalks, infrastructure, and parks safe, clean, and well maintained; repairing/upgrading aging community facilities; fixing potholes; and improving parking availability and traffic safety
Measure PD	Los Angeles	Palmdale	54.99	45.01	Approved			General	5-Nov-24	financial stability; maintaining essential services; maintaining 911 response; retaining businesses; maintaining veterans, senior, mental health, and homelessness community programs
Measure X	Los Angeles	Pomona	54.79	45.21	Approved	-0.25%		General	5-Mar-24	reducing the rate of the City's Transactions and Use Tax from 0.75% to 0.50% and extending the term of the Transactions and Use Tax
Measure P	Los Angeles	Pomona	60.09	39.91	Approved	0.75%		General government use	5-Mar-24	maintain City services such as 911 emergency response, police, fire, crime prevention, youth/recreation, library, park and road maintenance, homelessness services, and other City programs
Measure SEM	Los Angeles	South El Monte	62.28	37.72	Approved	0.25%		General	5-Nov-24	General services such as public safety, housing programs, parks/recreation, homelessness prevention, and road repairs
Measure WH	Los Angeles	West Hollywood	82.03	17.97	Approved	0.25%		General	5-Nov-24	general services, including keeping public areas safe/clean; preventing/responding to crime; retaining/attracting local businesses; addressing homelessness; by redirecting to West Hollywood a ¼¢ sales tax if a future district sales tax within the County qualifies for a ballot and is enacted
Measure L	Marin	Mill Valley	77.33	22.67	Approved	\$0.01	10 years	City services	5-Nov-24	maintain city services and facilities, including: wildfire prevention and public safety; roads, bridges, and emergency routes; storm drains; library, recreation, and parks, and general government use
Measure M	Marin	Novato	57.92	42.08	Approved	\$0.01		City services	5-Nov-24	fixing potholes/ streets; maintaining 9-1-1 emergency response, crime/ gang prevention; attracting/ retaining small businesses; maintaining parks/ recreation facilities; enhancing wildfire prevention; and repair aging storm drains
Measure T	Mendocino	Fort Bragg	68.34	31.66	Approved	0.375% sales tax		General	5-Nov-24	city services, such police and fire protection; 911 emergency medical response; natural disaster preparation; providing affordable workforce housing; addressing homelessness; storm drain maintenance for clean water; recreation programs; and general government services
Measure X	Mendocino	Point Arena	78.77	21.23	Approved	0.88%		General	5-Nov-24	city services, such as public safety, pier operations, and general government services
Measure C	Merced	Merced	68.52	31.48	Approved	0.50%	20 years	Fire and police	5-Mar-24	95% of tax proceeds to be used only for police protection and fire protection and 5% to be used for road and street maintenance and improvement
Measure S	Monterey	Gonzales	44.62	55.38	Defeated	1.50%		General	5-Nov-24	general government purposes such as maintenance of infrastructure and improvements (Fire House, streets, roads and sidewalks, parks)



Attachment 1 - Sales Tax Ballot Data (CA)

General Purpose Sales Tax Measure

Ballot Measure	County	Jurisdiction	Yes	No	Outcome	Amount	Length	Purpose (summarized)	Election date	Purpose (directly from ballot measure language)
Measure T	Monterey	King City	43.94	56.06	Defeated	1.50%		General	5-Nov-24	general government uses (such as public safety, street improvements, park and facility maintenance, and emergency reserves)
Measure AA	Monterey	Monterey	53.33	46.67	Approved			General	5-Nov-24	maintain general Town services such as 911 emergency response, community programs and events, parks, public safety, recreational youth and adult programs, respond to property crimes/thefts/burglaries, and retain/attract local businesses
Measure B	Nevada	Grass Valley	50.24	49.76	Approved	0.38%	7 years	General	5-Mar-24	general governmental uses such as reducing the risk of catastrophic wildfire and extreme weather by funding additional firefighters, vegetation management, and emergency evacuation planning
Measure C	Placer	Loomis	71.4	28.6	Approved	0.25%		General	5-Nov-24	general government use including keeping the Loomis Library and Community Learning Center open and continuing to provide library/learning center services and access to computers and technology
Measure G	Sacramento	Folsom	37.77	62.23	Defeated	1%		General	5-Nov-24	20% - police services, 20% - fire protection, 15% - parks/trail improvement, 15% - traffic/street maintenance, 15% - community enhancement/economic development, and 15% - major capital improvement projects
Measure V	San Bernardino	Chino	60.17	39.83	Approved	\$0.01		Public safety, roads, essential services	5-Mar-24	Public Safety, Roads, Essential Services Measure Shall the measure providing Chino funding for general government use, such as maintaining 911 response, police/fire protection; recruiting/retaining well-trained police officers; preventing crime; repairing streets/potholes; protecting local drinking water sources; addressing homelessness; maintaining veterans/senior/youth/after-school programs
Measure G	San Diego	San Diego	49.54	50.46	Defeated			General	5-Nov-24	To repair/upgrade roads, bridges, storm drains, rail lines, and prevent railway bluff collapse; reduce traffic congestion; improve pedestrian, bicyclist, and driver safety; improve public transit; protect wildlife habitat/air quality; and fill potholes
Measure E	San Diego	San Diego	49.69	50.31	Defeated	1.00%		Public services	5-Nov-24	neighborhood upgrades which can include fixing potholes, repairing streets, sidewalks, and streetlights, improving parks and libraries, updating police, fire, paramedic, and 9-1-1 response, and providing infrastructure and delivering general services across San Diego neighborhoods
Measure Q	San Diego	San Marcos	60.44	39.56	Approved			General	5-Nov-24	city services, such as fixing potholes, maintaining streets/public infrastructure; reducing traffic congestion; keeping local parks, trails, playgrounds and community facilities safe, and well maintained; providing fire protection, paramedic, crime prevention, and 911 emergency responses
Measure AA	San Mateo	Colma	82.1	17.9	Approved			General	5-Nov-24	general Town services such as 911 emergency response, community programs and events, parks, public safety, recreational youth and adult programs, respond to property crimes/thefts/burglaries, and retain/attract local businesses
Measure R	San Mateo	Half Moon Bay	64.59	35.41	Approved			General	5-Nov-24	maintain financial stability and essential services, such as maintaining 911 emergency response times, sheriff patrols, and disaster/emergency preparedness; keeping public places safe, healthy, and clean; reducing traffic congestion; and maintaining youth and recreation programs
Measure K	Santa Clara	Campbell	72.05	27.95	Approved	\$0.01		General	5-Nov-24	fiscal stability and general government services, such as: police/fire protection; 911 emergency medical response; road and storm drain repairs; disaster preparation; homeless services; recreation programs; keeping public spaces and parks safe/clean
Measure C	Santa Clara	Gilroy	60.5	39.5	Defeated	0.25%		Public safety	5-Nov-24	To generate funding that cannot be seized by the State, but stays in Gilroy and is dedicated to public safety (police, fire and ambulance) services and public safety infrastructure projects
Measure J	Santa Clara	Milpitas	80.15	19.85	Approved	\$0.00	8 years	Essential services	5-Nov-24	maintain fiscal stability and essential City services, including 911 emergency response, police and fire protection; repairing streets/fixing potholes; tracking/investigating crime; addressing homeless encampments/affordable housing needs; natural disaster/emergency preparation; maintaining neighborhood parks/public infrastructure
Measure Y	Santa Cruz	Capitola	67.47	32.53	Approved	0.25%	10 years	General	5-Nov-24	To protect essential city services including public safety and emergency services; repair potholes, maintain streets, sidewalks, bike lanes, beaches, the new wharf, and recreation programs for youth; improve traffic safety; and support local businesses
Measure K	Santa Cruz	Santa Cruz	54.61	45.39	Approved	0.50%		General purposes	5-Mar-24	Essential County services, including wildfire response/prevention/recovery; affordable housing to support working families and frontline workers including nurses, emergency responders, and educators; mental health crisis programs for children/vulnerable populations; substance abuse programs; improved public safety, road maintenance/pothole repair, parks/recreation; and programs to reduce homelessness
Measure L	Santa Cruz	Santa Cruz	61.78	38.22	Approved	0.50%		General purposes	5-Mar-24	Essential services including homelessness response/prevention, emergency shelters, case management/connection to services; cleaning up/addressing the impacts of encampments; keeping pollution out of local rivers, creeks, and streams; supporting local food programs; preparing for wildfires; maintaining/repairing streets/potholes; and improving/maintaining neighborhood parks, beaches, and public safety

Attachment 1 - Sales Tax Ballot Data (CA)

General Purpose Sales Tax Measure

Ballot Measure	County	Jurisdiction	Yes	No	Outcome	Amount	Length	Purpose (summarized)	Election date	Purpose (directly from ballot measure language)
Measure B	Siskiyou	Mount Shasta	49.31	50.69	Defeated	1%		Police and fire services	5-Nov-24	Police and Fire Protection
Measure V	Siskiyou	Yreka	53.16	46.84	Approved	1%		Public safety services	5-Nov-24	To maintain and improve essential city services, including local firefighting and emergency medical response; hire and train firefighters; upgrade/replace aging firefighting safety equipment, life-saving tools and an outdated fire station
Measure B	Solano	Benicia	72.17	27.83	Approved	0.75%		General purposes	5-Mar-24	To protect Benicia's essential public safety, city services, and facilities including:maintaining police services, protecting 911 and fire emergency response times, maintaining local parks, preserving recreation and library services,sustaining other vital city programs.
Measure DD	Sonoma	Cloverdale	57.02	42.98	Approved	0.75%		General	5-Nov-24	street and sidewalk repair and maintenance, improve public safety infrastructure, enhance park facilities and open spaces, make health, safety, and security improvements, and for general government use
Measure U	Sonoma	Sebastopol	72.07	27.93	Approved	0.50%	12 years	General	5-Nov-24	City services such as 911 emergency medical/police/fire response, wildfire/emergency preparedness, maintenance of streets/roads, parks/trails, library, youth and senior services, retaining/attracting local businesses; and for general government use
Measure T	Sonoma	Sonoma	58.5	41.5	Approved	0.50%		General	5-Nov-24	essential city services, such as public safety, prompt emergency response times/ safe evacuation routes; improving traffic safety for pedestrians; maintaining streets/ sidewalks; enhancing youth recreation and parks; and funding affordable housing programs
Measure H	Sonoma	Sonoma	61.71	38.29	Approved	\$0.01		Fire prevention and disaster response	5-Mar-24	To improve and enhance local fire prevention, protection, emergency paramedic services and disaster response throughout Sonoma County by: improving vegetation management to prevent wildfire spread; attracting and retaining qualified, local firefighters; improving response times; and updating firefighting facilities and equipment
Measure D	Sutter	Yuba City	46.07	53.93	Defeated	1%		Public services	5-Nov-24	road repairs; increasing police and fire protection; protecting 911 emergency response times; addressing homelessness; and funding other general services and essential activity
Measure Z	Tuolumne	Tuolumne	43.02	56.98	Defeated	1%	20 years	General	5-Nov-24	essential Tuolumne County services including law enforcement, fire services, and road maintenance, shall the measure increasing the Sales Tax (Transactions and Use Tax) rate
Measure R	Ventura	Santa Paula	60.03	39.97	Approved	1%		General	5-Nov-24	services such as accelerating repair of streets/potholes; preventing sinkholes; repairing sidewalks; maintaining 911 response; retaining local businesses; cleaning up public areas; maintaining storm drains/clean drinking water sources; offering youth programs; and for general government use
Measure Q	Yolo	Davis	64.2	35.8	Approved			General	5-Nov-24	To support essential City services, such as public safety and emergency response; crime prevention; pothole repair; parks, road, sidewalk, and bike path maintenance; and addressing homelessness, affordable housing, and climate change
Measure O	Yolo	West Sacramento	53.34	46.66	Approved				5-Nov-24	To rebuild roads and repair potholes, increase police and fire protection, recruit and retain public safety personnel, maintain parks and trails, address homelessness, and keep public spaces safe and clean
Measure S	Yolo	Winters	60.34	39.66	Approved			General	5-Nov-24	911 emergency response, parks, trails, youth programs; respond to property crimes/thefts/burglaries; retain/attract local businesses; and for general government use
Measure U	Yolo	Woodland	46.89	53.11	Defeated			General	5-Nov-24	To keep Woodland safe, clean and well-maintained by increasing police and fire protection, reducing emergency response times, repairing roads and sidewalks, addressing homelessness, improving and maintaining parks, enhancing programs for children and youth, and for general government use



## CITY OF FULLERTON

Administrative Services Department

### MEMORANDUM

**To:** Ad Hoc Fiscal Sustainability Committee

**From:** Ellis Chang, Director of Administrative Services

**Prepared by:** Ellis Chang, Director of Administrative Services  
Urban Futures, Inc., City Consultant

**Date:** January 9, 2025

**Subject:** Pension Obligation Bonds (POBs) – A Potential Strategy for Addressing CalPERS Pension Liability Prepared in December 2021

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The attached documents were prepared in December 2021 and while outdated provide a preliminary examination of Pension Obligation Bonds (POBs). In December 2021, Staff in conjunction with the City's municipal advisory firm, Urban Futures, Inc., prepared this overview of pension liabilities and potential funding options, specifically focusing on pension obligation bonds.

Prior market conditions made pension obligation bonds a potentially favorable funding option to address the City's pension liabilities. As an example, Attachment 3, demonstrates that if the City issued \$284,670,000 in POBs to cover the full amount of the then unfunded pension liability at the previous low interest rates, and apply a 22-year hybrid structure, the City could have potentially achieve annual budgetary savings of ~\$3.7 million over each of the first 15 years of debt service payments. The City Manager and Administrative Services Director anticipate that the savings are substantially lower currently, but believe this is a tool that we should continue to monitor to be prepared to use at a time that it would provide savings to the City.

There are risks associated with issuing POBs which are also addressed in Attachment 3. The primary risk is market timing as the net financial impact from a POB will not be fully known until the bonds have been paid off. Market timing risk is the inability to assess whether the impact of making a significant onetime payment was the better course of action rather than simply paying down the Unfunded Accrued Liability (UAL) over time per CalPERS required payment schedule at CalPERS established interest rates.

While the figures presented are outdated, Attachments 1 (Pension Liabilities), 2 (UAL Funding Options), and 3 (Pension Obligation Bonds) provide background and analysis on use of POBs to refinance the City's UAL.

**Attachments:**

Attachment 1 – Pension Liabilities

Attachment 2 – Funding Options

Attachment 3 – Funding Option – Pension Obligation Bonds Financing Approach

# ATTACHMENT 1

## OVERVIEW OF PENSION LIABILITIES

This attachment provides City Council with an overview of pension liabilities.

### **KEY TAKEAWAYS**

Pension Liabilities are made up of two components: Normal Cost and Unfunded Accrued Liability (UAL). The Normal Cost is the amount the City and active employees contribute for their *future* retirement benefits, similar to Employer and Employee contributions for Social Security. As the UAL is a liability as of a valuation point in time for all *past* accrued benefits earned to date by current employees and retirees, the outstanding liability owed to CalPERS is increased or decreased each time changes are made to current and retired employees' pensionable compensation based on CalPERS factors such as discount rate, inflation, mortality, wage growth. As such, the UAL is dynamic in that the amount of liability fluctuates year over year with the addition of new pension amortization bases to reflect changes in CalPERS factors which increase or decrease the outstanding liability. This ongoing addition of new bases enables CalPERS to ensure member agencies are sufficiently funding retiree pension benefits.

The City of Fullerton has two pension plans – one for public safety and one for miscellaneous employees. The City also has three benefit tier structures within each pension plan: Classic, Tier 2, and PEPRA.

Miscellaneous - The Classic pension formula is 2% @ 55 (age); the Tier 2 pension formula is 2% @ 55; the PEPRA pension formula is 2% @ 62 age.

Safety - The Classic pension formula is 3% @ 50 (age); the Tier 2 pension formula is 3% @ 55; the PEPRA pension formula is 2.7% @ 57 age.

The issuance of POBs would be in essence a refinancing of the City of Fullerton's UAL which as of June 30, 2020 is \$282,857,335 (\$82,907,321 for the miscellaneous plan and \$199,950,014 for safety plan).

Four key factors drive pension liabilities and impact both the Normal Cost and the UAL. These factors are: Investment Returns on the CalPERS pension funds, cost of living adjustments, the increase in life expectancy, and CalPERS contribution policies. As these factors change, Fullerton's Normal Cost impacts are calculated and budgeted annually and are remitted to CalPERS as a percentage of payroll. Periodic factor changes to the UAL result in the formation of a new amortization base that is amortized and spread over twenty years with increases or decreases being applied to the member agency's UAL.

### **UAL HISTORY**

Prior to the State legislature's introduction of significantly enhanced retirement plans in 1999 and 2001, many CalPERS member agencies were considered "super funded", meaning that they had over 100% of their respective CalPERS plans funded. Unfortunately, these enhanced retirement plans not only allowed future retirees to capture a higher benefit level based on prior service with a current employer, it also allowed for the enhanced benefit to be retroactively applied to past service years without requiring employees to contribute toward the enhancement. As such, this

retroactive portion was unfunded and immediately created severe liabilities in most, if not all pension plans, upon adoption.

The severity of the impact of these enhanced retirement plans eventually resulted in the State legislature’s adoption of the Public Employees’ Pension Reform Act (PEPRA) in January 2013, which eliminated the ability to provide any new enhanced benefits.

**PENSION PLAN COST OVERVIEW**

As previously stated, the City has two employee plans: Miscellaneous Plan and Safety Plan with three benefit tiers within each plan: Classic, 2<sup>nd</sup> Tier, and PEPRA.

The City’s annual pension liability is comprised of two primary components: 1) Normal Costs and 2) Unfunded Accrued Liability (UAL) Payments.

**Normal Costs**

*Normal Costs* - represent the pension benefits accrued by current employees during the year. Normal Costs are set by CalPERS as a percentage of payroll. CalPERS estimates the City’s payroll is equal to approximately \$43.2 million, with the Normal Costs expected to be approximately **\$5.9 million** in FY 22-23.

	#	Estimated Payroll	Normal Rate	Employee Share	City Share	\$ Annual Normal Cost
<b>MISCELLANEOUS PLAN</b>	332	\$ 21,855,733	16.37%	7.00%	9.37%	\$ 2,048,174
<b>SAFETY PLAN</b>	191	\$ 21,360,403	28.44%	10.20%	18.24%	\$ 3,896,231
<b>TOTAL</b>	523	\$ 43,216,136	22.34%	8.58%	13.76%	\$ 5,944,405

Normal Costs are driven primarily by the number of active employees in each Plan and Benefit Tier. Normal Cost contribution rates are projected to remain relatively stable over the next several years.

Approximately 60% of the City’s employee pool (523 active employees) is comprised of “Classic” and “Tier 2” employees; about 40% are in the less expensive PEPRA plan. As employees retire, all new employees will be placed in the PEPRA plan. The City’s current forecast assumes a 5% shift from Classic to PEPRA per year. With the June 30, 2020 CalPERS valuation report, it is estimated that City pension liability costs will continue to rise through 2031, and then will begin to decline.

**Unfunded Accrued Liability (UAL)**

The Unfunded Accrued Liability (UAL) is the annual dollar amount needed to fund past service credit pension compensation earned for (active or retired) members, as of the current valuation date. The UAL is equal to the difference between the present value of retirement benefits earned to date by employees, less the amount the City has contributed to and earned on its contributions (called the Market Value of Assets). The difference (or UAL) is the amount CalPERS deems as being owed by the City to fully fund the pension liability as of a point in time. The percentages at the bottom of the chart on the next page are the funded ratio the City has paid in (Funded Ratio = MVA / AL) as of the June 30, 2020 CalPERS valuation report. So, for example, the City has funded 74% of the pension obligation to Miscellaneous employees, 63% of the pension obligation

to Safety employees; and 67% of the pension obligation to a combination of both Miscellaneous and Safety employees.

<b>Unfunded Accrued Liability (UAL) JUNE 30,2020</b>			
	<b>MISCELLANEOUS</b>	<b>SAFETY</b>	<b>COMBINED</b>
<b>Accrued Liability (AL)</b>	\$ 313,306,092	\$ 534,395,244	\$ 847,701,336
<b>Market Value Assets (MVA)</b>	230,398,771	334,445,230	564,844,001
<b>UAL = AL-MVA</b>	\$ 82,907,321	\$ 199,950,014	\$ 282,857,335
	<b>74%</b>	<b>63%</b>	<b>67%</b>

*CalPERS provides a consolidated report for each plan, which includes the UAL for the Classic, 2<sup>nd</sup> Tier and PEPRA employees. The majority of City's UAL is based on the unfunded liability for "classic" employees, which typically constitutes more than 95% of the City's UAL. The reason classic employees (at this time) constitute the majority of the City's UAL is because the UAL was established when there were only classic employees. Tier 2 and PEPRA were created later.*

## Amortization Bases

The City's \$282.9 million UAL is comprised of the cumulative amount of amortization bases that form every time a change is made to pension plan cost inputs (i.e., investment performance, discount rate, inflation, mortality, wage growth).

Prior to 2018, the amortization period varied by the type of assumption change (e.g., investment gains and losses were amortized over 30 years while non-investment gains and losses were amortized over 20 years). Since 2019, CalPERS changed the amortization period for the majority of its assumption changes to 20 years with a 5-year ramp up applied to investment gains and losses.

The City currently has 48 amortization bases: 25 for the Miscellaneous Plan and 23 for the Safety Plan.

Amortization bases are effectively loans at 7.0% (the current discount rate/CalPERS expected return target) with their own term and repayment schedule.

Each year, CalPERS marks to market (records and reflects unrealized gains/losses in financial results) the City's UAL and measures the fair value of the plan's assets and liabilities, taking into account changes in underlying assumptions and investment performance. In response, new "bases" are added each year, depending on the outcome of the investment performance/policy changes. New bases can either add to the City's UAL, or result in a "credit," which reduces the overall UAL. Credits are shown as negative numbers in the chart to the right. In order to normalize UAL payments, CalPERS amortizes each new base over a specified period of time.

For example, in 2020, CALPERS reported a 4.7% investment return, which was 2.3% or ~13.0 million below the discount rate/expected return of 7.0%. Based on this investment performance, a new base of \$5.47 million was added to the Miscellaneous Plan, and \$7.9 million was added to the Safety Plan. These bases will be amortized over 20 years with an initial 5-year ramp up as an addition to the City's overall UAL payments.

## CITY'S UAL PAYMENT SCHEDULE

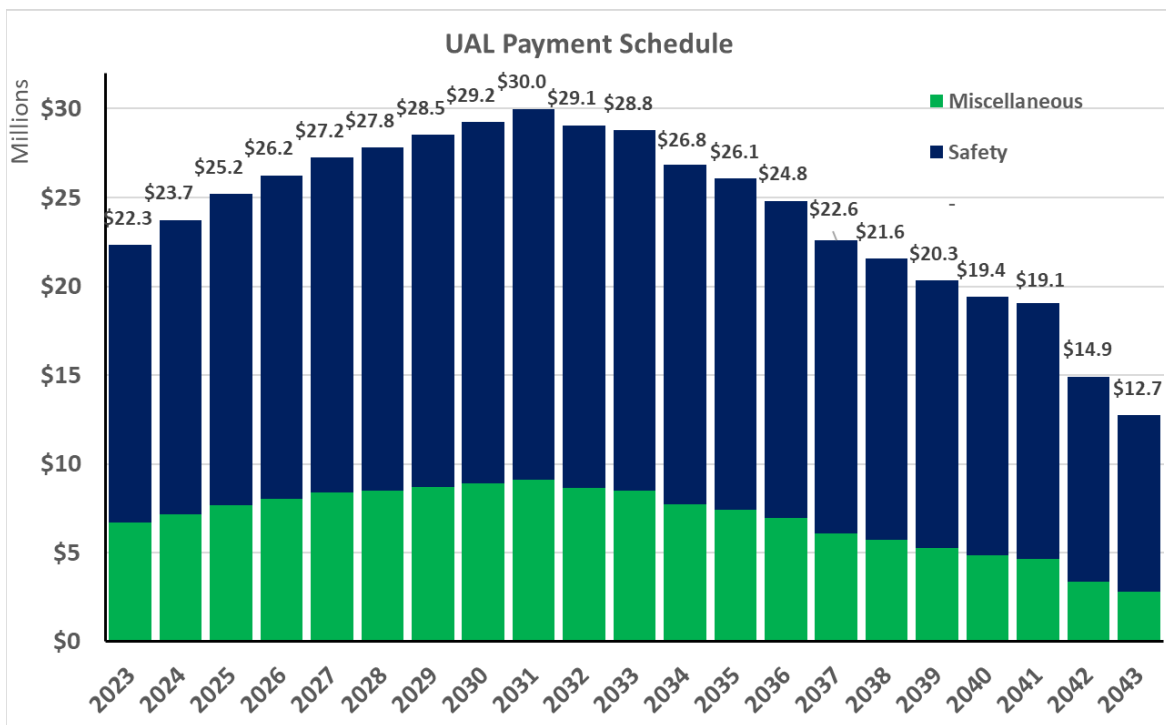
The City's Annual UAL Payment covers the payment schedules for each of its respective 48 Amortization Bases. Looking ahead to FY 22-23, the City's fixed dollar UAL payment is projected to be \$22.3 million, an increase of \$2,821,517 from the FY 21-22 CalPERS contribution. This

MISCELLANEOUS PLAN			SAFETY PLAN				
Year	Term	Balance	Year	Term	Balance		
1	2005	15	(844,845)	1	2008	18	(1,165,392)
2	2006	6	35,642	2	2009	9	6,197,613
3	2006	5	525,191	3	2009	19	11,915,605
4	2009	9	4,660,522	4	2010	20	2,226,319
5	2009	19	2,745,785	5	2011	11	7,002,307
6	2010	20	(425,444)	6	2011	21	3,835,117
7	2011	11	4,461,995	7	2012	22	859,067
8	2011	21	(483,676)	8	2012	22	50,110,120
9	2012	22	144,981	9	2013	23	53,695,960
10	2012	22	13,154,139	10	2014	14	25,468,141
11	2013	23	35,831,038	11	2014	24	(37,843,123)
12	2014	14	13,358,132	12	2015	25	20,692,765
13	2014	24	(28,172,972)	13	2016	16	8,846,684
14	2015	25	11,124,405	14	2016	26	23,819,146
15	2016	16	5,145,198	15	2017	17	9,749,089
16	2016	26	15,832,210	16	2017	27	(12,321,643)
17	2017	17	5,095,748	17	2018	18	2,515,648
18	2017	27	(10,041,698)	18	2018	18	16,599,531
19	2018	18	1,944,175	19	2018	28	(6,193,992)
20	2018	18	9,128,440	20	2019	19	2,518,349
21	2018	28	(5,571,237)	21	2019	19	1,526,936
22	2019	19	367,103	22	2020	20	1,992,192
23	2019	19	1,151,072	23	2020	20	7,903,575
24	2020	20	(1,732,069)			<b>FY 21-22</b>	<b>\$ 199,950,014</b>
25	2020	20	5,473,486			<b>TOTAL UAL</b>	<b>\$ 282,857,335</b>
		<b>FY21-22</b>	<b>\$ 82,907,321</b>				

increasing trend will continue until FY 30-31, when the City’s payment peaks at \$30.0 million, which is summarized in the chart below.

The reason for the escalating increase in early years (see chart below which depicts a peak in UAL in 2031) is how CalPERS applies investment gains and losses. As mentioned earlier, investment gains and losses (since 2019) are amortized over 20 years. However, the amortization (spread) of the investment gains and losses are not evenly distributed over the 20 years. CalPERS established a Smoothing Policy specific to investment gains and losses which applies the investment gains and losses as a percentage of base payment in the following manner (5-year ramp up).

- Year 1: 20% of base payment
- Year 2: 40% of base payment
- Year 3: 60% of base payment
- Year 4: 80% of base payment
- Years 5 through 20: base payment



**UAL AS A DYNAMIC LIABILITY**

As discussed above, each year CalPERS adjusts the UAL to account for investment performance, change in assumptions or methodology, and demographic performance – actual changes in retirement, death, disability, and payroll/salary adjustments. Because of these annual CalPERS adjustments (and the subsequent establishment of new amortization bases), the City should anticipate that its UAL will fluctuate from year to year. This requires the City to actively monitor and manage its UAL on a continual basis.



## PENSION PLAN COST UPDATE

In mid-November 2021, the CalPERS board adopted actuarial assumptions for their June 30, 2021 actuarial valuation which will take effect in FY 2023-24. These assumption changes include the reduction of the discount rate from 7.0% to 6.8%, reduction of the inflation assumption from 2.5% to 2.3%, increase to the wage growth assumption from 2.75% to 2.8%, and other minor demographic adjustments to mortality, terminations, and disability. These actuarial assumption changes will offset CalPERS investment gains experienced in FY 20-21.

The impact of this new amortization base will result in a net “credit” (reduction) to the City’s UAL as investment gains are amortized over 20 years with an initial 5-year ramp up per the CalPERS Smoothing Policy. The net impact is an estimated Net Credit of \$69 million dollars which will be added as an amortization base in the June 30, 2021 CalPERS actuarial valuation effective FY 23-24.

### FY 2020-21 Projected New Bases

*CalPERS Funding Risk Mitigation Policy* – This policy seeks to reduce CalPERS’ funding risk over time, taking an integrated view of assets and liabilities – actively managing risk through an asset/liability framework. It establishes a mechanism whereby CalPERS investment performance that significantly outperforms the discount rate triggers adjustments to the discount rate, expected investment return, and strategic asset allocation targets.

When CalPERS significantly outperforms its target (Discount Rate), the policy automatically triggers adjustments to the Discount Rate as well as the Expected Investment Return and Strategic Asset Allocation. CalPERS announced a 21.3% return for the 2021 fiscal year (period June 30, 2021). The excess return prompted the automatic reduction of the Discount Rate to 6.8% in accord with CalPERS’ Funding Risk Mitigation Policy (see chart below).

<b>Return Exceeds Discount Rate</b>	<b>Reduction Discount Rate</b>	<b>Reduction Expected Investment Return</b>
2.00%	0.05%	0.05%
7.00%	0.10%	0.10%
10.00%	0.15%	0.15%
<b>13.00%</b>	<b>0.20%</b>	<b>0.20%</b>
17.00%	0.25%	0.25%

In November 2021 CalPERS Asset Liability Management (ALM) Committee made the final determination to reduce the Discount Rate to 6.8% and other changes in assumptions. Based on the discount rate/policy changes, the City will receive a Net Credit of \$69 million (based on a credit of approximately \$85.6 million for the 21.3% investment return, less \$16 million for lowering the Discount Rate to 6.8% and an adjustment to the price inflator). This Net Credit will be amortized over 20 years effective with the June 30, 2021 valuation beginning in FY 23-24 (done two years in arrears). Unfortunately, lowering the Discount Rate will also add approximately \$253,000 per year to the City’s Normal Costs. The net impact to the City’s UAL is shown in the chart below.

This represents a current estimate. The precise impact of the policy changes will not be known until the June 30, 2021 CalPERS actuarial reports are available, which is currently anticipated in August 2022.

		Current UAL Payments	CalPERS FY21 Return	Discount Rate & Price Inflator	Net Credit	Net UAL Payments
1	2023	22,330,989	-	-	-	22,330,989
2	2024	23,300,257	(1,968,383)	1,567,783	(400,600)	22,899,657
3	2025	24,753,271	(3,936,766)	1,567,783	(2,368,982)	22,384,289
4	2026	25,794,026	(5,905,149)	1,567,783	(4,337,365)	21,456,660
5	2027	26,791,335	(7,873,531)	1,567,783	(6,305,748)	20,485,586
6	2028	27,373,128	(9,841,914)	1,567,783	(8,274,131)	19,098,997
7	2029	28,069,822	(9,841,914)	1,567,783	(8,274,131)	19,795,691
8	2030	28,792,560	(9,841,914)	1,567,783	(8,274,131)	20,518,428
9	2031	29,535,534	(9,841,914)	1,567,783	(8,274,131)	21,261,402
10	2032	28,639,182	(9,841,914)	1,567,783	(8,274,131)	20,365,051
11	2033	28,365,047	(9,841,914)	1,567,783	(8,274,131)	20,090,916
12	2034	26,431,358	(9,841,914)	1,567,783	(8,274,131)	18,157,227
13	2035	25,670,529	(9,841,914)	1,567,783	(8,274,131)	17,396,398
14	2036	24,445,982	(9,841,914)	1,567,783	(8,274,131)	16,171,850
15	2037	22,275,821	(9,841,914)	1,567,783	(8,274,131)	14,001,690
16	2038	21,238,981	(9,841,914)	1,567,783	(8,274,131)	12,964,850
17	2039	20,015,848	(9,841,914)	1,567,783	(8,274,131)	11,741,717
18	2040	19,131,095	(9,841,914)	1,567,783	(8,274,131)	10,856,964
19	2041	18,791,234	(9,841,914)	1,567,783	(8,274,131)	10,517,103
20	2042	14,713,579	(9,841,914)	1,567,783	(8,274,131)	6,439,448
21	2043	12,567,841	(9,841,914)	1,567,783	(8,274,131)	4,293,710
22	2044	9,021,977	-	-	-	9,021,977
<b>Total UAL Payments</b>		<b>\$ 508,049,394</b>	<b>\$ (177,154,458)</b>	<b>\$ 31,355,665</b>	<b>\$ (145,798,793)</b>	<b>\$ 362,250,601</b>
<b>UAL</b>		<b>\$ 283,400,445</b>	<b>\$ (85,661,982)</b>	<b>\$ 16,311,384</b>	<b>\$ (69,350,598)</b>	<b>\$ 214,049,847</b>
<b>Normal Costs</b>						<b>\$ 253,462</b>

## ATTACHMENT 2

### NON-POB FUNDING OPTIONS (BUDGET AND FINANCING APPROACHES)

#### **KEY TAKEAWAYS**

This section provides an overview of budget approaches that have been considered by the City as well as to inform City Council of financing approaches other than POBs should future opportunities become available. POBs are addressed separately in Attachment 3 - Pension Obligation Bonds Financing Approach.

The purpose of evaluating budget and financing approaches is to identify money that can be applied to make Additional Discretionary Payments (ADPs) to CalPERS. This is similar to making prepayments on a mortgage as ADPs reduce the outstanding interest owed on the UAL.

Unfortunately, the City's budget constraints leave little capacity for direct funding to address pension liabilities at the present time.

#### **CALPERS FUNDING OPTIONS**

There are two categories of approaches to fund ADPs. ADPs are monies paid to CalPERS similar to an advanced principal payment which results in interest savings. The following funding approaches are briefly evaluated to provide background and assess their viability to address the City's unfunded pension liability:

##### Budgeting Approaches

1. Allocation Amount Funds (Implemented)
2. Use of Excess Reserves & One-Time Monies (Implemented by the City to establish 115 Trusts – Pension (\$487,000) & OPEB (\$50,000)
3. 115 Trust (Pension Stabilization Fund) (Established, but no budgeted recurring contributions)

##### Financing Approaches

4. Leveraged Refunding
5. Tax-Exempt Exchange
6. Pension Obligation Bonds

Before discussing these budgeting and financing approaches, a brief overview of how ADPs are applied is provided below as "targeting strategies."

#### **TARGETING STRATEGIES**

This strategy is based on using the amount of money available for making an ADP and targeting those funds toward specific Amortization Bases, as CalPERS requires each agency to specify the Amortization Bases to which the ADP will apply.

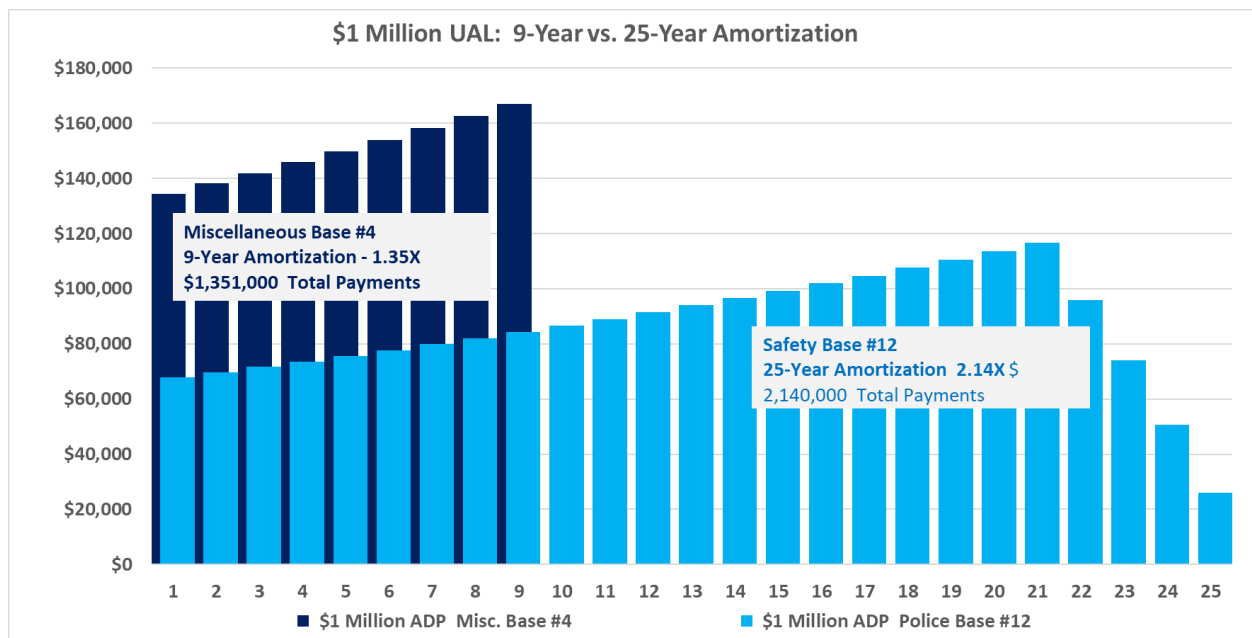
The City has a total of 48 Amortization Bases (totaling \$282.9 million UAL), with terms ranging from 5 years to 27 years. By modeling the City’s amortization bases, the City can best understand the financial implications of selecting which specific amortization base(s) to apply available ADPs. Depending on the specific bases selected, the City would be able to meet a variety of objectives: maximize savings, budgetary impact, or reshape UAL payments.

The concept of amortization base selection follows 2 axioms:

1. Shorter term bases have higher annual UAL payments. Refinancing shorter bases results in greater cash flow impact (i.e., greater short to mid-term annual budgetary savings).
2. Longer term bases have lower annual UAL payments. Refinancing long-term bases results in greater total savings (i.e. lower annual budgetary savings but greater overall total savings).

Each amortization base can be thought of as an individual loan with its own payment term. As such applying the ADP to a shorter or longer amortization base results in a refinancing of the “individual loan” the ADP is applied to. If a shorter amortization base is refinanced at a lower interest rate, there will be increased budgetary savings for the amortization period (payment term) that was refinanced.

The chart below provides an illustration of the impact of selecting between two different amortization bases when making an ADP to CalPERS: comparing the impact of making a \$1.0 million ADP and applying to a short-term base (Misc. Base #4 – 9 years) versus a long-term base (Safety Base #12 – 25 years). Applying the \$1.0 million ADP to the short base #4 results in total savings of \$1.35 million, or \$150,000 on average annually, whereas targeting the longer base (#12) results in total savings of \$2.14 million, or \$85,000 annually. Targeting a short base (#4), the City would achieve greater immediate annual cash flow savings, but lower overall savings. Targeting a longer base (#12) results in greater overall savings, but lower annual cash flow savings.



Thus, the application of ADP to amortization bases with shorter terms would result in the City achieving greater annual budgetary savings versus applying an ADP to an amortization base with a longer remaining term which would result in greater overall (interest payment) savings. The City will need to determine its policy objectives for a potential POB issuance, and whether it intends to achieve greater budgetary savings or greater overall (interest payment) savings.

## **BUDGETING APPROACHES TO PAYING DOWN UAL**

### **Allocation Amount Funds: Use of Excess Reserves & One Time Monies for ADPs**

The City's UAL is comprised of 48 Amortization Bases, which are effectively loan payments to CalPERS at 7.0%. Evaluation of using a budgeting approach to pay down the UAL should be made as an "opportunity cost" decision of whether budgeted funds are best used to fund/increase reserves or pay down the UAL.

Currently, the City's pension liability is accruing at 7.0% rate, while the City's investments earned 4.24% on its 1-3 Year Portfolio and 5.37% on its 1-5 Year Portfolio in FY 19-20 and in FY 20-21 the respective portfolios earned 0.22% and -0.10%. City Investments are highly regulated primarily to fixed income investments and as such returns are not anticipated to return the same level of earnings going forward. Under these investment parameters, consideration of pre-paying the UAL if excess reserves or one-time monies become available is another competing use of available funds to be evaluated.

This approach, however, is not financially feasible at this point in time. Based on the City's recent structural budget deficits, and capital needs of the enterprise funds, excess reserves or one-time funds are not currently available. Going forward, any future use of reserves to pay CalPERS obligations should be assessed in the context of the City's financial policies as well as any impact on the general fund credit ratings. The City's General Fund Reserve Policy requires a minimum contingency reserve of 10% of General Fund expenditures and strives to increase the reserve level to 17%. It is recommended that the City strive to increase the reserve level to 17% to maintain budgetary flexibility and avoid any negative impacts to its credit rating.

### **115 Trust (Pension Stabilization Fund)**

The use of a 115 Trust helps the City set aside funds for ADPs. These funds, as they accumulate, can be utilized to help ease budgetary pressures from spikes in unfunded actuarial liabilities in the future. In FY 20-21, the City transferred \$487,000 into the City's IRS Section 115 Pension Trust using one-time savings from the Police Department salaries and benefits.

As the amount contributed to the 115 Trust – Pension is minimal compared to the outstanding pension liability and as regular recurring contributions have not been designated by City Council, the Investment Advisory Committee designated the 115 Trust be invested in a capital appreciation portfolio with annual returns presented below. The City has only been invested since 2020.

<b>ANNUAL RETURNS</b>	
(Gross of Investment Management Fees, but Net of Embedded Fund Fees)	
Consolidated Composite	
2008	N/A
2009	23.77%
2010	12.95%
2011	-1.35%
2012	13.87%
2013	20.33%
2014	6.05%
2015	-0.27%
2016	8.81%
2017	16.72%
2018	-5.82%
2019	22.62%
2020	14.50%

*PARS Diversified Portfolio – Capital Appreciation Q2 2021*

## **FINANCING APPROACHES TO PAYING DOWN THE UAL**

### **Leveraged Refunding**

When the City is presented with an opportunity to refund its outstanding bonds, a “Leveraged Refunding” may be considered. A leveraged refunding structures the refunding bonds with “upfront” savings in the first few years, then applies these savings to pay for a portion of the City’s UAL. When applied to a long-term amortization base, the saving from the bond refunding could possibly be leveraged in 2.0 – 2.5X times greater pension cost savings.

Staff actively monitors the City’s debt portfolio for refunding opportunities in coordination with the municipal advisor. At this time, there are no refunding opportunities for the City’s general fund or enterprise fund debt through which the City could leverage the savings. However, staff will continue to actively monitor the existing debt portfolio for such opportunities.

### **Tax-Exempt Exchange**

Making cash payments to CalPERS provides the greatest interest cost savings. Because tax exempt interest rates are well below the CalPERS discount rate (3% versus 7%), the City can leverage its cash by financing its capital projects and reallocating cash budgeted for capital projects to the higher interest cost of the CalPERS UAL. This concept is known as a tax-exempt exchange and can provide significant savings. The Tax-Exempt Exchange requires a 4-step process:

1. Identify capital projects to be funded with accumulated cash balances
2. Issue tax-exempt bonds to finance these projects, instead of paying cash
3. Select Amortization Bases to pre-pay, using the cash originally planned for the capital project
4. The City would use its budgeted expenditures to pay the debt service on bonds issued for capital projects, instead of making payments to CalPERS.

A tax-exempt exchange can be viewed as an alternative to ADPs from reserves and is best suited as a strategy to manage future pension liabilities, especially in the enterprise funds. As evidenced

by the City's recent financing of energy efficiency projects, there is limited accumulated cash available to leverage a tax-exempt exchange to address pensions.

#### Pension Obligation Bonds

Pension obligation bonds are discussed in Attachment 3.

## ATTACHMENT 3

### FUNDING OPTION: PENSION OBLIGATION BONDS FINANCING APPROACH

#### **KEY TAKEAWAYS**

A Pension Obligation Bond (POB) is a taxable bond issued to fund (make an ADP) all or a portion of the UAL at a lower “interest rate” than the City is currently obligated to pay CalPERS.

Should City Council be interested in evaluating the issuance of POBs, it is recommended that the court validation proceedings be requested and initiated. The window of low interest rates in the taxable municipal bond market may close as market conditions change.

The 100% POB refinancing example below shows potential (under certain conditions) annual budgetary savings of ~\$3.7 million per year for each of the first 15 years of debt service. It is important to note that as new amortization bases are added, even if the City fully funds the UAL with issuance of 100% POBs, the UAL may increase or decrease with the City responsible for both the debt service and the new bases.

The risks associated with POBs are addressed below. While some risks can be mitigated by the structure of the POB, the most significant risk – Market Timing Risk – cannot be mitigated. Marketing Timing Risk is the inability to assess whether the impact of making a significant onetime payment was the better course of action rather than simply paying down the Unfunded Accrued Liability (UAL) over time per CalPERS required payment schedule at CalPERS established interest rates. As such, whether the decision to issue POBs benefitted the issuing agency cannot not be known until the bonds have matured and a lookback be performed.

#### **GENERAL POB INFORMATION**

Due to historic interest rate lows in the taxable municipal bond market, POBs have become a more prominent option to municipal bond investors. Since 2017, there have been 91 new money and refunding POBs with a total par amount of \$7.6 billion issued in California, including several Orange County cities and agencies. A list of POB transactions is provided in Appendix A with Orange County cities highlighted in yellow.

The fundamental economics behind pension obligation bonds (POBs) is that POBs refinance the existing 7.0% fixed dollar UAL payments at a lower interest rate (e.g., 3.5%). Instead of sending annual UAL payments to CalPERS as the POBs will pay off the current UAL, the City will send lower annual bond payment to investors.

*100% POB Refinancing* – Depicted below is a basic POB structure to help frame the discussion regarding POB issuance. Specifically, refinancing 100% of the UAL establishes a benchmark of the potential savings, using a 22-year ‘hybrid’ structure, resulting in lower level debt service

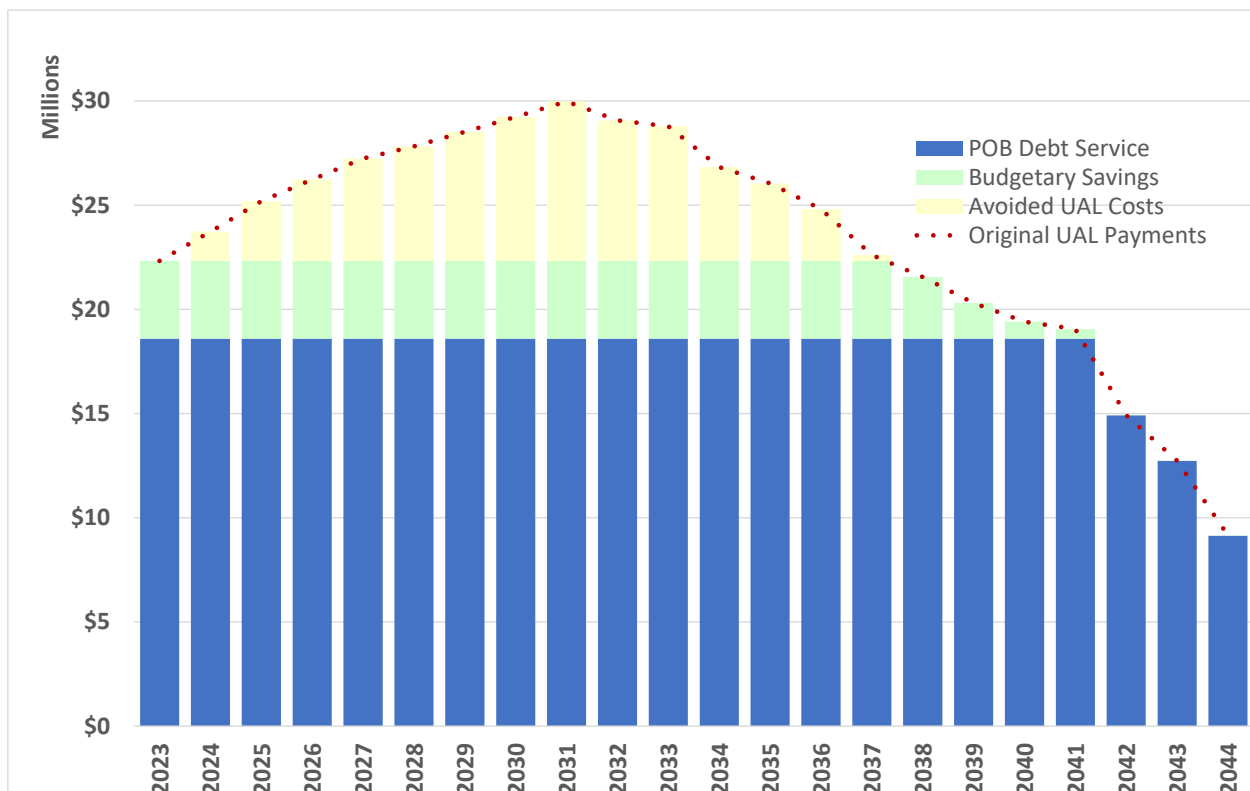


payments for the first 19 years, and a match of the UAL payment schedule thereafter. Applying a 22-year hybrid structure would result in level debt service for the first 19 years (i.e., same monthly payments with no annual escalation) versus the current annually increasing UAL during this period. After 19 years the annual debt service payments would be tapered or reduced annually similar to the current UAL payment schedule. The POBs will be structured with a standard 10-year call feature, so the City will have the option to restructure its payments, including a refinancing for interest rate savings, after 10 years.

The 22-year hybrid structure provides the greatest amount of annual budgetary savings of ~\$3.7 million each year during the first 15 years. The average annual debt service payment is estimated at \$15.59 million with an estimated borrowing rate of 3.08%. This option provides net present value (NPV) savings of \$96.9 million or 34%.

The chart below provides a visual view of the refinancing reflecting the difference between the current UAL payment forecast (red dotted line) and the lower-level debt service payments resulting for a potential POB issuance (blue bars). The green bars are estimated annual budget savings. This figure represents the difference between the City's FY 21-22 UAL payment and future forecasted UAL payments provided by CalPERS.

<b>100% UAL: 22-Year Hybrid POB</b>	
<b>Par Value</b>	<b>\$ 284,670,000</b>
Total Debt Service	390,074,459
Term (years)	<b>22</b>
Avg. Annual DS	18,596,000
<b>Annual Budget Savings</b>	<b>3,737,741</b>
Avoided UAL Costs	63,507,358
<b>Total UAL Savings</b>	<b>125,536,219</b>
NPV Savings	96,919,715
% Savings of UAL	<b>34%</b>
<b>TIC%</b>	<b>3.08%</b>



## Pension Plan Cost Update

As mentioned in Attachment 1, in November 2021, the CalPERS board adopted actuarial assumptions for their June 30, 2021 actuarial valuation which will take effect in FY 23-24. These assumption changes are a reduction of the discount rate from 7.0% to 6.8%, reduction of the inflation assumption from 2.5% to 2.3%, increase to the wage growth assumption from 2.75% to 2.8%, and other minor demographic adjustments to mortality, terminations, and disability. Further, CalPERS reported an investment return of 21.3%. The net impact is an estimated Net Credit of \$69 million which will be added as an amortization base in the June 30, 2021 CalPERS actuarial valuation effective FY 23-24, and amortized over 20 years. The net credit is expected to reduce the City's overall UAL to approximately \$214 million.

## **POB RISK ANALYSIS**

POBs are not without risk, primarily the market timing risk of making a significant one-time payment to CalPERS, which is then subject to fluctuations in investment return. Although the cash flow savings from a POB are known upfront, the full financial impact of a POB cannot be determined until the bonds have matured since it also depends on CalPERS' market performance over the life of the issue.

The financial impact of POBs is dependent upon two variables: 1) Borrowing rate on the Bonds and 2) CalPERS investment performance. POBs provide savings by refinancing UAL payments at a taxable fixed rate that is below the discount rate. However, invested POB proceeds may lose value if the market declines soon after issuance. A market loss in the first few years would mean the City would not be able to take advantage of the power of compounding and could lose a significant portion of estimated savings.

Interest rate stress testing should be conducted as part of the process to evaluate and consider POBs and to determine a "break-even" point. Based on initial analysis, the City would "break-even", if CalPERS were to either lose 20% in the first two years or for CalPERS to have a market return 5.0%, on average, below its discount rate (7.0% as of June 20, 2020 and reduced to 6.8% as of June 30, 2021). Stress testing provides a helpful framework for understanding the City's risk parameters, but it is limited by running simple analyses.

Listed to the right are the Government Finance Officers Association's (GFOA) 5 key points of concern advising against the issuance of POBs. While the GFOA points out several issues all agencies should adhere to when issuing POBs, it should be noted that the GFOA's POB general advisory was drafted 10 years ago under different market conditions and in response to bad historical practices. Since that time, pension reforms, policy changes by CalPERS, as well as adaptation in the POB market, have occurred, and address many of these concerns. For example, in today's market, POBs are issued as plain vanilla fixed rate bonds, without the use of derivatives, and are structured with 10-year optional

### **GFOA POB Advisory**

POBs are complex instruments that carry considerable risk...

1. Increase debt burden/reduce bonding capacity (flexibility)
2. Make-Whole Calls
3. Financing of Normal Costs or extension repayment period
4. Turning a "Soft" Liability into a "Hard" Liability
5. Invested POB proceeds may fail to earn more than the interest rate on the bonds

redemption features. Listed below are the GFOA advisory points, along with mitigating considerations and examples in italics.

1. POBs are complex instruments, which incorporate the use of Guaranteed Investment Contracts (GICs), swaps, or derivatives.

*POBs should only be issued as plain vanilla fixed-rate bonds. The structure assumed in the analysis does not include GIC's, swaps or derivatives. Fixed rate bonds will enable the City to have future budget certainty by locking in a debt service payment schedule at closing. In addition, the current historically low interest rate environment makes it advantageous for issuers to sell long-term fixed rate bonds.*

2. POBs are structured with "make-whole" calls, which make it more costly or difficult to refund in the future (than traditional tax-exempt debt).

*POBs are now structured with standard optional redemption features like traditional tax-exempt bonds. The analysis above is based on a standard 10-year optional redemption feature. A 10-year optional redemption feature means the City will have flexibility to prepay the Bonds after 10 years at no penalty. This ensures flexibility should the City wish to refinance at lower interest rates in the future.*

3. POBs have been structured to incorporate annual normal costs, or in a manner that defers principal payments or extends principal payments over a longer period than the actuarial amortization period.

*POBs should not include normal costs (except for annual pre-pay amount), nor be structured with an extended repayment schedule - final maturity. The POB analysis above is limited to the City's UAL only, and assumes a final maturity in 2044, which is the same as the final term of the City's current UAL bases.*

4. POBs increase a municipality's bonding capacity or turn a soft liability into a hard liability.

*An agency's CalPERS UAL liability is considered "debt" by the courts in California and GASB 68. Moreover, UAL payments are fixed dollar payments, like a traditional loan, financed at a discount rate of 7.0%. POBs "refinance" the CalPERS liability at a lower rate. In the POB analysis presented, the true interest cost is 3.08%, which is well below the current discount rate of 7.0%.*

5. Invested POB proceeds might fail to earn more than the interest rate over the term of the bonds, leading to increased liability for the government.

*The financial impact of POBs is dependent upon two variables: 1) Borrowing rate on the Bonds and 2) CalPERS investment performance.*

*POBs provide savings by refinancing UAL payments at a taxable fixed rate, as opposed to blended rate for a portfolio of assets (50% equities / 22% fixed income / 12% real estate / 8% private equity / 6% inflation assets / 3% liquidity). Invested POBs may lose value if the market declines soon after issuance.*

*Additionally, if CalPERS underperforms its target rate, the City's UAL will increase, regardless if bonds are issued. However, the issuance of bonds may reduce the annual financial impact of losses from investment returns or policy changes made by the CalPERS Board. It is*

*recommended that interest rate stress testing be conducted as part of the process to evaluate and consider risks associated with POBs.*

## **POB VALIDATION PROCEEDINGS**

If a public entity chooses to move forward to issue POBs, this requires the initiation of Validation Proceedings. Validation Proceedings are the process by which a court “validates” pension obligation bonds as a refunding of an existing debt. This is required for POBs because under the California Constitution, UAL payments are not considered bonded debt by default. Without validation, refunding a City’s UAL with POBs would be considered a new debt obligation, thus requiring voter approval. Once a POB issue has completed validation, however, the UAL payments to CalPERS are treated as obligations by law and therefore can be refunded by POBs under the local agency refunding law.

In order to obtain authorization to issue POBs, the City is required to file a validation action with the Orange County Superior Court. Unless challenged, the judicial validation proceedings are an administrative matter managed by Validation Counsel.

In order to file a validation action, the City must first adopt a resolution: 1) authorizing the City to issue POBs to refund its CalPERS UAL; and 2) authorizing judicial validation proceedings related to the issuance of such POBs.

### **Validation Procedures**

The validation proceedings require an 8-step sequential process, which can take 90-120 days in Orange County. The process and estimated timeline are outlined below:

1. City Council passes a resolution authorizing its intention to sale pension obligation bonds\*\*
2. File Validation Action with Orange County Superior Court
3. Receive Order for Publication of Summons from the Court – 1-2 weeks
4. Publication in the Orange County Register for 21 consecutive days
5. Waiting period to file petition – minimum of 10 days, typically 2-3 weeks for Orange County
6. Clerk enters hearing for a default judgement, schedules a hearing in 15 days
7. Hearing for default judgement
8. 30-day Appeal Period

\*\*Legal documents must be in substantially final form and the City must determine a not-to-exceed par value. Bonds can be sold after the 30-day Appeal Period has ended and the City Council approves the Official Statement for the Bonds and the final structure. The above-described schedule is subject to potential delays due to the pandemic’s effects on the Court system.

Should the City Council decide to move forward with the judicial validation action, a subsequent City Council action is required to approve a Preliminary Official Statement for the Bonds and to provide City Staff and the financing team direction on the desired structure (such as the 22-year hybrid structure example provided above) of the POB refunding. The ultimate bond issuance structure will be developed based on City Council’s direction as to a number of factors such as the amount of debt to be issued, whether level or hybrid debt service payments are desired, the final term of the bonds, etc.

The judicial proceedings are an administrative matter, which is usually handled by a bond counsel firm acting as validation counsel. Fees typically range between \$25,000 to \$35,000, plus court

filing fees (additional \$3,000 to \$5,000). These fees are non-contingent and are due regardless if bonds are issued. If the validation is challenged, and the City elects to defend the validation, the fixed fee cost would therefore convert to an hourly basis ranging from \$500 to \$750 per hour based on actual costs to complete the validation.

To date, staff is aware of a few validation challenges, and zero being defended. Most challenges have resulted in potential POB issuers restructuring the transaction to a Lease structure requiring collateral or have abandoned the process all together.

*Required Legal Documents* - Before the validation action is filed, the City Council must first adopt a resolution: 1) authorizing the City to issue Pension Obligation Bonds (POBs) to refund its CalPERS Unfunded Accrued Liability (UAL); and 2) authorizing judicial validation proceedings related the issuance of such POBs. The authorizing resolution must also establish a not-to-exceed par value and maximum interest rate. As part of its approval, the City Council will approve two key legal documents, in substantially final form: Trust Indenture and Bond Purchase Agreement. The Preliminary Official Statement (POS) will be drafted and approved by the City Council, after the validation is approved.

The POS is the offering document with respect to the POBs and, if the POBs will be sold by public offering, the POS must contain all material information to enable investors to determine whether to purchase POBs. Bonds cannot be issued without the City Council approving a POS at a public meeting.

## **Additional POB Considerations**

### **Council Education & Stakeholder Communication**

Addressing rising retirement costs will be one of the most significant financial issues that most municipal employees and elected officials will face in their careers. This problem is complex and involves many financial and legal/administrative intricacies. As such, this issue requires significant education process before buy-in can be achieved for a recommended solution or plan.

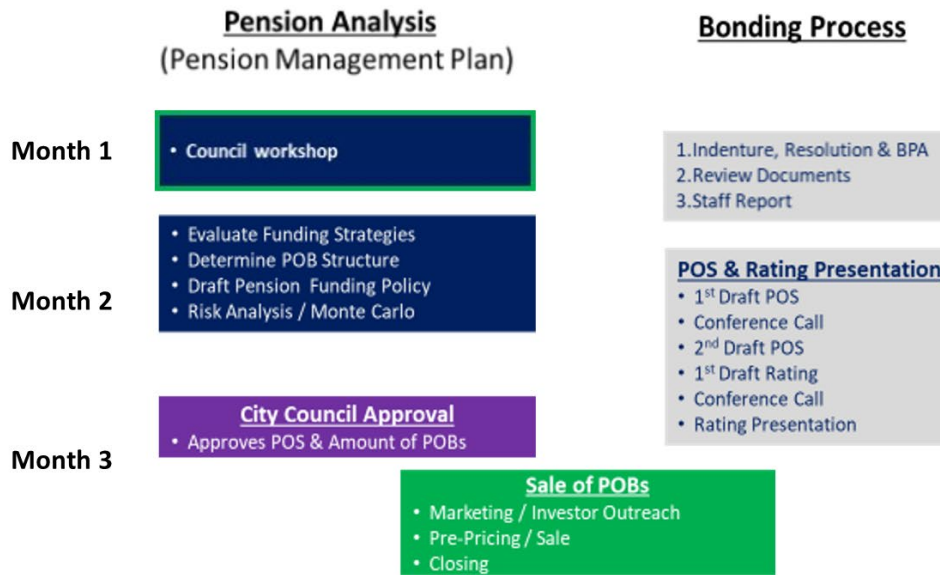
To the extent necessary, staff and the City's municipal advisor can meet with City Council to help to address any concerns. Additionally, the City's municipal advisor has experience conducting City Council Workshops on this topic including the following: 1) to explain the pension liabilities, 2) to present potential strategies to address these costs as well as implementation requirements, and 3) to discuss potential risks of POBs.

### **Pension Management Plan & Recommendations**

As part of the process to analyze pension liability funding options, the City should consider the development and adoption of a Pension Funding Policy. A Pension Funding Policy would outline the City's policy objectives regarding funding its pension liability and strategies that it will implement – it also provides guidelines for issuing POBs. The rating agencies have responded positively to agencies that have adopted such policies. Should the City Council desire to move forward with addressing pension liabilities, staff will work with Urban Futures to develop a Pension (and/or OPEB) Funding Policy for City Council consideration.

The City's municipal advisor can be retained to assist the City in implementing each selected strategy. A sample schedule and a discussion of the required steps to issuing POBs is provided below. In addition, the municipal advisor is able to meet with council members to discuss

information in the memo, address questions, and discuss potential next steps should the City desire to explore this topic further.



## Appendix A

CA Pension Obligation Bonds: 2017-2021				
	Agency	Date	Rating	Par Value
1	National City	11/1/2021	AA-	83,895,000
2	Oroville	10/25/2021	AA-	19,225,000
3	Bellflower	10/18/2021	AA-	13,030,000
4	Montclair	10/13/2021	AA-	62,190,000
5	Rancho Adobe Fire	10/4/2021	AA	5,610,000
6	Lakeport	10/4/2021	AA	7,920,000
7	Stanislaus Consolidated Fire	9/27/2021	AA-	11,635,000
8	Corona	9/27/2021	AA+	276,710,000
9	San Anselmo	9/15/2021	AAA	9,285,000
10	County of Santa Cruz	9/2/2021	AAA	124,195,000
11	Santa Ana	8/25/2021	AA	425,830,000
12	Commerce	8/24/2021	AA-	27,875,000
13	Buena Park	8/17/2021	AA	96,385,000
14	Sanger	8/10/2021	A+	19,450,000
15	San Fernando	8/5/2021	AA/A+	36,525,000
16	Whittier	8/3/2021	AA	133,895,000
17	Covina	7/28/2021	AA	62,795,000
18	Redondo Beach	7/15/2021	AA	226,180,000
19	Red Bluff	7/15/2021	A+	18,540,000
20	Livermore	7/29/2021	AA	12,875,000
21	Placer Hills FD	6/24/2021	NR	1,000,000
22	Turlock Mosquito Abate	6/22/2021	NR	1,100,000
23	El Segundo	6/9/2021	AA+	144,135,000
24	Montecito FD	6/7/2021	NR	8,263,240
25	Auburn	6/3/2021	AA+	17,165,000
26	Oceano CSD	6/1/2021	NR	906,000
27	Willows	5/27/2021	A+	8,510,000
28	Central Marin Police Auth	5/11/2021	AAA	26,505,000
29	Corte Madera	4/29/2021	AAA	18,955,000
30	Manhattan Beach	4/28/2021	AAA	91,275,000
31	San Benito County WD	4/1/2021	NR	3,016,000
32	Palos Verdes Library Dist	4/1/2021	NR	5,924,000
33	Huntington Beach	3/17/2021	AA+	363,645,000
34	Orange	3/3/2021	AA	285,770,000
35	Chula Vista	2/11/20/21	AA	350,025,000
36	Downey	2/9/2021	AA	113,585,000
37	Monterey Park	2/2/2021	AA	106,335,000
38	Bonita Sunnyside FD	2/1/2021	NR	5,127,000
39	El Cajon	1/13/2021	AA	147,210,000
40	Lake Valley FD	1/1/2021	NR	10,952,522



41	Ukiah	12/17/2020	A+	49,875,000
42	Coachella	12/8/2020	AA-	17,590,000
43	Penn Valley FD	12/1/2020	NR	1,037,884
44	Gardena	11/24/2020	AA-	101,490,000
45	Placentia	11/12/2020	BBB+	52,950,000
46	Arcadia	10/27/2020	AAA	90,000,000
47	Novato Sanitary Dist	10/13/2020	NR	6,467,000
48	Torrance	10/12/2020	AA	349,515,000
49	Belvedere	10/1/2020	NR	2,323,000
50	Borrego Springs Fire	10/1/2020	NR	1,874,111
51	Azusa	9/30/2020	AA-	70,075,000
52	Town of Fairfax	9/16/2020	NR	9,402,000
53	Pomona	8/20/2020	AA-	219,890,000
54	West Covina	7/30/2020	A+	204,095,000
55	San Bernardino	7/23/2020	NR	5,945,000
56	San Bernardino	7/23/2020	NR	13,905,000
57	El Monte	6/30/2020	AA/A+	21,000,000
58	Carson	6/18/2020	AA-	108,020,000
59	El Monte	6/18/2020	AA/A+	118,725,000
60	North Co FD	6/18/2020	AA-	20,305,000
61	Kensington Police	6/18/2020	NR	4,544,000
62	Inglewood	6/17/2020	AA/AA-	101,620,000
63	Riverside	6/11/2020	AA	432,165,000
64	Montebello	6/10/2020	AA/A+	153,425,000
65	Fort Ord	6/10/2020	AA/BBB+	30,405,000
66	Grass Valley	6/1/2020	NR	18,311,000
67	Ontario	5/21/2020	AA	236,585,000
68	Larkspur	5/14/2020	AAA	18,295,000
69	County of Riverside	5/6/2020	AA	719,995,000
70	Carpinteria Valley WD	4/7/2020	AA-	23,145,000
71	Richardson Bay SD	2/28/2020	NR	2,383,000
72	Pasadena	2/26/2020	AAA	131,805,000
73	Orange USD	12/19/2019	AA	33,595,000
74	Monterey Co Reg FD	12/5/2019	AA-	20,250,000
75	Pacifica	10/23/2019	AA+	9,685,000
76	Hawthorne	10/8/2019	AA-	121,865,000
77	Marysville	9/24/2019	A	15,000,000
78	Glendora	9/5/2019	AAA	64,420,000
79	Chowchilla	3/21/2019	A+	10,500,000
80	Baldwin Park	3/6/2019	AA-	54,085,000
81	Calaveras County WD	2/1/2019	NR	5,665,000
82	Ridgecrest	12/18/2018	AA/A	19,955,000
83	La Verne	8/15/2018	AA+	54,265,000
84	County of Tulare	6/25/2018	AA-	251,220,000
85	Monrovia	12/13/2017	AA-	111,545,000



86	Inglewood	11/14/2017	AA	52,795,000
87	Belvedere	8/25/2017	NR	2,655,000
88	Brawley	7/20/2017	A-	16,310,000
89	Pomona	6/29/2017	AA/A+	50,475,000
90	Riverside	5/31/2017	AA-	31,960,000
91	Town of Fairfax	1/1/2017	NR	3,860,000
<b>Total</b>				<b>7,650,715,757</b>

**Rating Scale**

