

# **BLUE FOLDER ITEM**

*Blue folder items are additional back up material to administrative reports and/or public comments received after the printing and distribution of the agenda packet for receive and file.*

## **CITY COUNCIL MEETING JUNE 8, 2021**

**N.2 DISCUSSION AND POSSIBLE ACTION  
REGARDING REFINANCING THE CITY'S  
CALPERS UNFUNDED ACCRUED LIABILITY  
WITH TAXABLE BONDS**

**CONTACT: MARNI RUHLAND, FINANCE DIRECTOR**

PowerPoint Presentations

# Proposed UAL Refinancing

## Plan Funding, Bond Sizing, & Repayment Options



CITY COUNCIL PRESENTATION  
CITY OF REDONDO BEACH, CA  
JUNE 8, 2021

Presented by:

**Larry J. Kosmont, CRE®**, President | Kosmont Transactions Services | [lkosmont@KosmontTransactions.com](mailto:lkosmont@KosmontTransactions.com)

**Dan Massiello, Sr.VP & Chief Compliance Officer** | Kosmont Transactions Services | [dmassiello@KosmontTransactions.com](mailto:dmassiello@KosmontTransactions.com)



1601 N. Sepulveda Blvd., #382  
Manhattan Beach, CA 90266  
TEL: 424-297-1070 | URL: [www.KosmontTransactions.com](http://www.KosmontTransactions.com)

# INTRODUCTION/BACKGROUND

City Staff and City's Municipal Advisor, Kosmont Transactions Services (KTS), have been working on developing options to refinance the City's Unfunded Accrued Liability ("UAL") with CalPERS to produce substantial pension cost savings for the City.

- Presented concept to Budget and Finance Commission ("Commission") and City Council ("Council") in late January and mid-February, respectively
  - Council accepted Commission's recommendation to proceed; directed Staff/KTS to explore UAL refinancing options and assemble Finance Team
- Staff/KTS solicited Statements of Qualifications from Bond Underwriters and presented results to the Commission and Council in late April and early May, respectively
  - Council accepted Commission's recommendation and directed Staff/KTS to work with Stifel and Ramirez
- We are here tonight to answer Council's questions about the financing process and sizing analyses performed, and to determine/confirm Council's preferred direction

# CITY'S UNFUNDED ACCRUED LIABILITY (“UAL”)

- **Projected UAL at 6/30/2021<sup>1</sup>: \$211,769,876**
- UAL payments starting next year (FY22) are based on projected 6/30/2021 amount
- Most recently available actuarial data for Miscellaneous and Safety Retirement Plans is as of 6/30/2019<sup>1</sup>:
  - Required Combined Balance: \$612,790,806
  - Market Value of Assets: 404,075,277
  - Amount Underfunded (UAL): \$208,715,529
- City made \$13,697,415 UAL payment in FY21, scheduled to pay \$15,552,745 in FY22 - a 13.6% increase
- CalPERS 4.7% investment returns in FY20 expected to produce new UAL of approximately \$10-\$15 million in very near future (excludes demographic changes)

# TYPES OF REPAYMENT STRUCTURES

- **“Hybrid”**: establishes “level” payments in early years that taper off to mimic current anticipated UAL repayment schedule
  - Generates up-front savings, but less than “Level” or “Ascending” options
  - Does not increase payments beyond currently anticipated levels in the future
  - Least expensive over life of bonds compared to “level” or “increasing” options
- **Level**: substantially same annual payment each year until end of existing amortization term
  - Produces significant up-front savings
  - Adds future additional payments
- **Ascending**: payments start out low then gradually increase over time
  - Produces maximum near-term savings
  - Aligns repayments with anticipate gradual revenue increases over time
  - Adds future additional payments
  - Most expensive compared to “Level” or “Ascending” options

# SUMMARY/STATUS OF EVALUATION

- Reviewed efficiency and timing of POBs vs LRB
  - LRB has no court validation required and faster to market
  - KTS has determined that City possesses adequate property values in certain City streets
    - City can fully fund UAL refinancing without inhibiting ability to finance future capital projects
  - Presented options to Commission on May 27; recommendation for LRB
- Evaluated preferred repayment approach
  - Considered Level, Hybrid and Ascending debt service approaches
  - Commission recommended Hybrid repayment approach

# SUMMARY/STATUS OF EVALUATION (CONT.)

- Thoroughly analyzed Pension Plan funding levels / Bond Sizing
  - How much should City's Pension Plan be Funded (e.g. 80%, 90%, 100%)?
  - 65.9% Combined Funding Level at 6/30/2019<sup>1</sup>:
    - Miscellaneous Plan: 70.6%; Safety Plan: 63.2%
- What if CalPERS underperforms? Overperforms? Ramirez Analysis to Commission Considered:
  - 80%, 90%, 100% funding levels of total liability to members (i.e. required plan balance)
  - Probability of “over-funding” (i.e. plan balance in excess of 115% of requirement) at various funding levels
  - How different bond sizes (funding levels) impact savings
- Commission recommended Plan Funding level of 95%-100% with preference closer to 100%

***Ramirez will now present their comprehensive analyses***

# NEXT STEPS AND COUNCIL DIRECTION

- Tonight: Council to provide direction to Staff and Finance Team regarding:
  - Security type (LRB or POB)
  - Repayment structure (Hybrid, Level, Ascending)
  - Preferred funding level for City's Retirement Plan(s)
- Commission voted on May 27 to recommend the following to Council:
  - Issue Lease Revenue Bonds (LRBs)
  - Utilize Hybrid repayment structure
  - Fund City's Retirement Plan at 95%-100%, with preference closer to 100%

# PRELIMINARY FINANCING SCHEDULE (LRB)

**June 11:** Credit presentation to Standard & Poor's

**June 15:** City Council to consider approval of Bond financing and all related documents

**June 16:** Request UAL payoff amount from CalPERS

**July 1:** Price Bonds

**July 15:** Bond closing; pay off/down UAL

# THANK YOU – ANY QUESTIONS?



**CITY COUNCIL PRESENTATION**  
**CITY OF REDONDO BEACH, CA**  
**JUNE 8, 2021**

## PRESENTED BY:

**LARRY J. KOSMONT**

CHAIRMAN & CEO

LKosmont@KosmontTransactions.com

**DAN MASSIELLO**

SR. V.P. & CHIEF COMPLIANCE OFFICER

DMassiello@KosmontTransactions.com



1601 N. Sepulveda Blvd., #382

Manhattan Beach, CA 90266

TEL: 424-297-1070 | URL: [www.KosmontTransactions.com](http://www.KosmontTransactions.com)

*Kosmont Transactions Services, Inc. (KTS) is an Independent Registered Municipal Advisor with the SEC and the MSRB. KTS does not provide accounting, tax or legal advice. Information included in this presentation is provided for discussion purposes only. Such information reflects KTS's views as of the date hereof (unless otherwise noted) and is subject to change without notice. Any terms and conditions discussed herein are preliminary until confirmed in a definitive written agreement.*

# EXHIBIT 1: LEASE REVENUE VS. PENSION OBLIGATION BONDS

- City must have a means to legally repay bondholders
  - Options limited to “General Obligation” or “Lease Revenue”
- General Obligation Bonds can only be authorized by voters or a validation by the Court
  - Validation applies to refinancing of a debt that already exists, such as the UAL
  - Validation process takes approximately 3-5 months
- Lease Revenue Bonds pledge rent payments received from a lease to repay investors
  - City leases assets to RB Community Financing Authority then leases them back; rent = bond payments
  - Bond payments must represent “fair rental value”; asset value  $\geq$  Bond amount is used in this determination
- KTS has been evaluating the City’s assets and has determined:
  - City has adequate assets to lease/lease back to cover anticipated bond size
  - City will have ample unencumbered assets remaining to finance future capital projects, if needed
- Interest rate differential between LRB and POB are estimated to be de minimus
- LRBs anticipated to close in mid-July; POBs could not close before mid-Fall



# City of Redondo Beach

Structuring Analysis

Ramirez & Co., Inc.

June 8, 2021

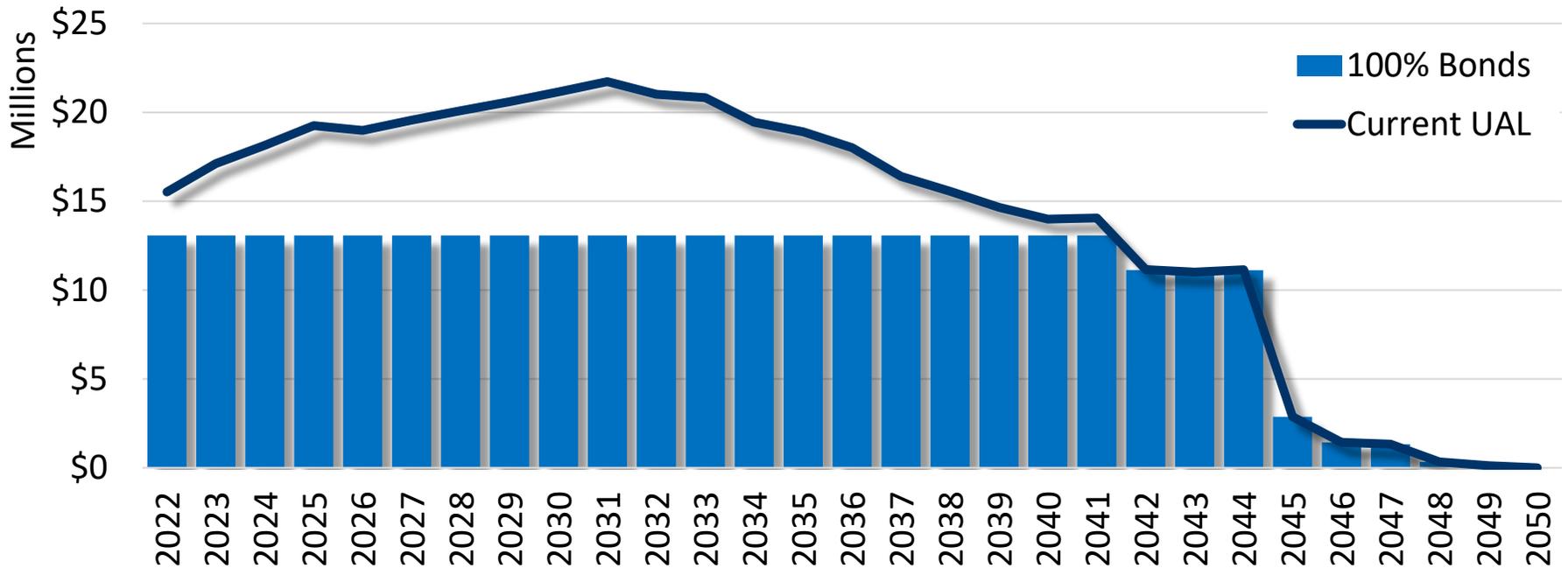
# Budget and Finance Commission Update

---

- The City's executive staff and the financing team presented a comprehensive structuring analysis to the Budget and Finance Commission on May 27<sup>th</sup>
- Analysis included:
  - ✓ Broad range of funding levels using three structuring options
  - ✓ All scenarios were optimized for maximum savings
  - ✓ Monte Carlo Simulation analysis (1,000 scenarios) was used to evaluate CalPERS projected returns and the risk of overfunding
- Commission's recommendation
  - ✓ Hybrid structure with lease revenue bonds
  - ✓ Target 95% to 100% CalPERS funding level, with preference for higher end of that range

# Hybrid Structure Overview

## Sample Hybrid Structure vs. Current UAL Amortization



- Key features of Hybrid structure

- ✓ Upfront cash flow relief with predictable level debt service through 2041 (preserves capacity for future UALs)
- ✓ No negative savings

# Funding Level Options

## Funding Option Summary – Hybrid Structure

Option	Target Funding Level	Funding Detail		All-in TIC	PV Savings		Cash Flow Savings
					\$	%	
1	100%	UAL Payoff	\$211.7	3.19%	\$77.3	37%	\$102.6
		Est. Remaining UAL	\$0.0				
2	98%	UAL Payoff	\$196.9	3.20%	\$71.7	36%	\$95.1
		Est. Remaining UAL	\$14.8				
3	95%	UAL Payoff	\$178.0	3.21%	\$64.6	36%	\$85.5
		Est. Remaining UAL	\$33.6				

# Savings Detail (Hybrid Structure 95%, 98% and 100%)

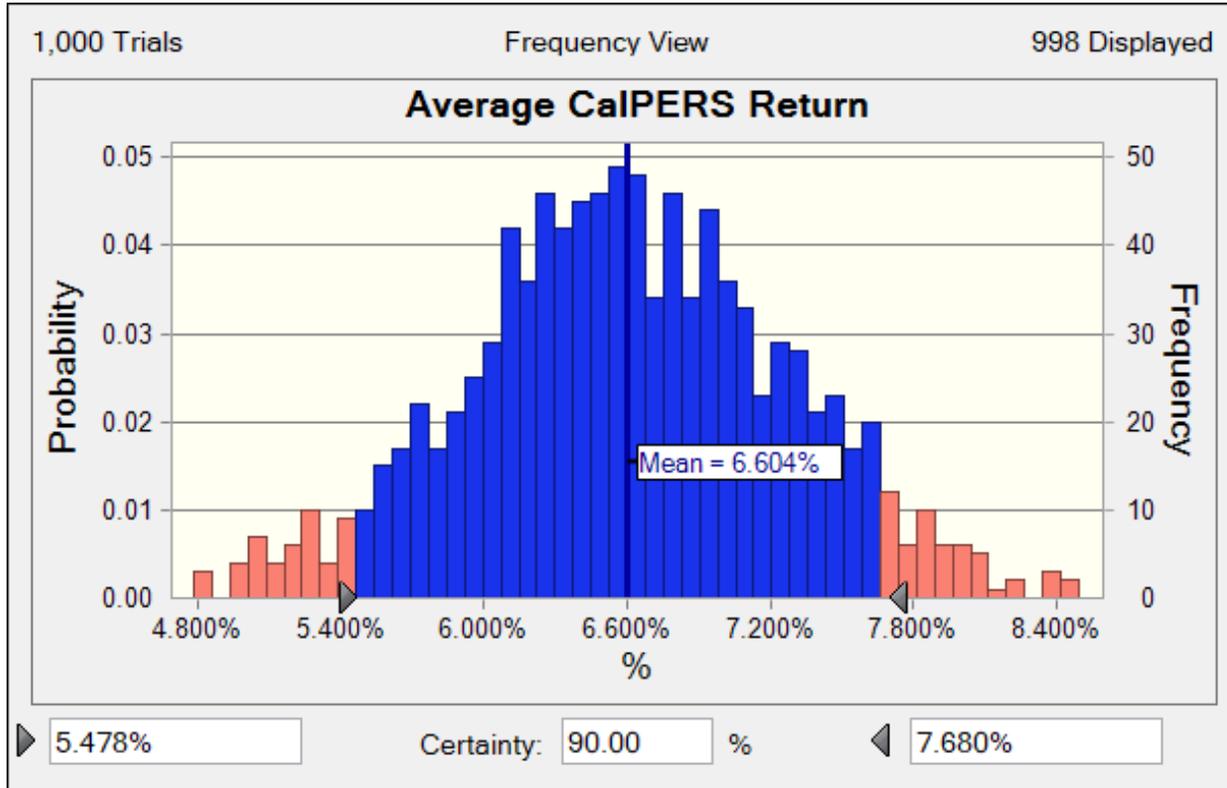
Current UAL		Hybrid Structures					
Year	Amort	95% Target Funding		98% Target Funding		100% Target Funding	
		Bonds + UAL	Savings	Bonds + UAL	Savings	Bonds	Savings
2022	15,522,745	13,984,920	1,537,825	13,500,458	2,022,287	13,121,422	2,401,323
2023	17,117,571	13,982,569	3,135,002	13,501,931	3,615,640	13,123,345	3,994,226
2024	18,148,405	13,982,352	4,166,053	13,501,169	4,647,236	13,122,527	5,025,879
2025	19,251,678	13,982,505	5,269,173	13,496,966	5,754,712	13,121,343	6,130,336
2026	18,985,124	13,986,055	4,999,069	13,499,923	5,485,201	13,120,535	5,864,590
2027	19,563,069	13,982,839	5,580,230	13,498,841	6,064,228	13,120,013	6,443,057
2028	20,094,428	13,984,478	6,109,950	13,498,546	6,595,882	13,121,023	6,973,406
2029	20,594,228	13,985,226	6,609,002	13,497,034	7,097,194	13,120,493	7,473,735
2030	21,153,945	13,985,277	7,168,668	13,501,241	7,652,704	13,118,860	8,035,085
2031	21,729,055	13,982,342	7,746,713	13,497,978	8,231,077	13,121,444	8,607,612
2032	21,016,805	13,983,194	7,033,611	13,499,786	7,517,019	13,121,364	7,895,442
2033	20,825,073	13,984,190	6,840,883	13,499,751	7,325,322	13,122,590	7,702,484
2034	19,442,869	13,983,440	5,459,429	13,497,132	5,945,737	13,122,992	6,319,878
2035	18,903,074	13,985,331	4,917,743	13,498,756	5,404,318	13,119,832	5,783,243
2036	18,013,865	13,984,255	4,029,610	13,498,249	4,515,616	13,118,889	4,894,976
2037	16,400,015	13,982,606	2,417,409	13,497,455	2,902,560	13,118,964	3,281,051
2038	15,557,889	13,982,972	1,574,917	13,497,454	2,060,435	13,122,794	2,435,096
2039	14,657,237	13,984,362	672,875	13,500,399	1,156,838	13,119,859	1,537,379
2040	13,995,771	13,983,294	12,477	13,501,447	494,324	13,119,989	875,783
2041	14,055,842	13,982,363	73,479	13,499,533	556,309	13,122,672	933,170
2042	11,154,979	11,104,076	50,903	11,133,248	21,731	11,132,398	22,582
2043	11,012,111	10,962,645	49,466	10,992,329	19,782	10,986,916	25,196
2044	11,145,274	11,093,902	51,372	11,123,791	21,483	11,119,136	26,139
2045	2,874,326	2,863,417	10,909	2,870,766	3,560	2,868,912	5,415
2046	1,436,201	1,430,037	6,164	1,431,810	4,391	1,434,038	2,164
2047	1,334,702	1,329,372	5,330	1,330,917	3,785	1,331,868	2,835
2048	331,511	330,885	626	327,623	3,888	330,513	999
2049	118,071	117,253	818	117,097	974	114,015	4,056
<b>Total</b>	<b>404,435,863</b>	<b>318,906,155</b>	<b>85,529,708</b>	<b>309,311,631</b>	<b>95,124,232</b>	<b>301,738,736</b>	<b>102,697,127</b>
<b>UAL Payoff Amount</b>		<b>178,075,989</b>		<b>196,945,985</b>		<b>211,769,876</b>	
<b>All-in TIC</b>		<b>3.21%</b>		<b>3.20%</b>		<b>3.19%</b>	
<b>PV Savings (\$)</b>		<b>64,683,887</b>		<b>71,760,244</b>		<b>77,328,869</b>	
<b>PV Savings (%)</b>		<b>36.32%</b>		<b>36.44%</b>		<b>36.52%</b>	

# Savings Optimization Process Evaluated all UAL Bases

Current UAL Balance - \$211.8 million							
Reason	Year	Ramp	Amort Period	Balance 6/30/2021	Savings		
					PV (\$)	PV (%)	Cash Flow
<b>Miscellaneous</b>							
Assump Change	2003	None	4	2,744,358	310,976	11%	319,351
Method Change	2004	None	5	(243,554)	-	-	-
Benefit Change	2007	None	7	229,589	37,673	16%	40,176
Assump Change	2009	None	10	2,747,070	656,923	24%	737,790
(Gain)/Loss	2009	None	20	4,056,950	1,576,107	39%	2,143,600
(Gain)/Loss	2010	None	21	817,281	323,943	40%	450,663
Assump Change	2011	None	12	2,875,905	785,438	27%	914,649
(Gain)/Loss	2011	None	22	(2,019,302)	-	-	-
(Gain)/Loss	2012	None	23	615,923	261,279	42%	377,292
(Gain)/Loss	2012	None	23	4,584,706	1,954,533	43%	2,818,810
(Gain)/Loss	2013	100%	24	23,742,393	9,945,096	42%	14,432,073
Assump Change	2014	100%	15	9,270,221	2,736,173	30%	3,316,733
(Gain)/Loss	2014	100%	25	(15,754,284)	-	-	-
(Gain)/Loss	2015	100%	26	8,734,371	3,882,422	44%	5,858,549
Assump Change	2016	80%	17	3,700,867	1,221,947	33%	1,542,554
(Gain)/Loss	2016	80%	27	13,125,242	6,082,158	46%	9,371,227
Assump Change	2017	60%	18	4,216,944	1,488,505	35%	1,918,268
(Gain)/Loss	2017	60%	28	(7,191,695)	-	-	-
Method Change	2018	40%	19	2,303,498	877,152	38%	1,166,687
Assump Change	2018	40%	19	7,012,288	2,671,518	38%	3,552,366
(Gain)/Loss	2018	40%	29	549,396	281,216	51%	468,704
Non-Inv (Gain)/Loss	2019	None	20	(1,185,758)	-	-	-
Inv (Gain)/Loss	2019	20%	20	898,061	367,475	41%	510,637
<b>Safety</b>							
FS 30-Yr Amort	2008	None	19	(3,272,823)	-	-	-
Assump Change	2009	None	10	5,310,838	1,271,128	24%	1,428,670
(Gain)/Loss	2009	None	20	8,249,762	3,201,518	39%	4,353,183
(Gain)/Loss	2010	None	21	(1,391,771)	-	-	-
Assump Change	2011	None	12	5,004,895	1,366,887	27%	1,591,628
(Gain)/Loss	2011	None	22	(5,391,331)	-	-	-
(Gain)/Loss	2012	None	23	1,745,223	741,747	43%	1,069,791
(Gain)/Loss	2012	None	23	45,694,515	19,478,024	43%	28,101,768
(Gain)/Loss	2013	100%	24	37,691,299	15,789,445	42%	22,911,426
Assump Change	2014	100%	15	18,883,033	5,578,591	30%	6,763,873
(Gain)/Loss	2014	100%	25	(25,596,487)	-	-	-
(Gain)/Loss	2015	100%	26	15,001,019	6,668,789	44%	10,061,831
Assump Change	2016	80%	17	6,317,529	2,086,080	33%	2,632,028
(Gain)/Loss	2016	80%	27	18,945,064	8,780,480	46%	13,529,372
Assump Change	2017	60%	18	7,286,133	2,578,023	35%	3,322,518
(Gain)/Loss	2017	60%	28	(10,948,842)	-	-	-
Method Change	2018	40%	19	2,221,015	842,672	38%	1,120,649
Assump Change	2018	40%	19	12,619,456	4,810,278	38%	6,394,302
(Gain)/Loss	2018	40%	29	5,087,961	2,627,955	52%	4,370,716
(Gain)/Loss	2019	None	20	1,136,947	406,338	36%	548,215
Inv (Gain)/Loss	2019	20%	20	1,345,971	552,640	41%	769,437

- Optimal combination of UAL bases is impacted by funding level and overall target pension structure
- Each UAL base is ranked on term, cash flow and PV savings
- Longest and largest bases rank highest
- To optimize, long bases are strategically replaced with select short bases for higher savings and lower borrowing cost

# Monte Carlo Simulation Used to Evaluate Funding Analysis



## CalPERS Model Assumptions

- ✓ Current asset allocation
- ✓ Portfolio rebalancing to account for disparity in future earnings among various asset classes
- ✓ Reversion to mean in investment returns
- ✓ Standard deviation of 12%

- Ramirez & Co. built a Monte Carlo Simulation model that evaluates 1,000 possible scenarios (each scenario generates different annual returns)
- CalPERS is projected to earn 6.60% over the life of the bonds
  - ✓ 90% probability that CalPERS will earn between 5.47% and 7.68%

# Observations

---

## ■ Structure

- ✓ Hybrid structure maximizes savings, generates no negative savings and provides upfront cash flow relief

## ■ Target 100% UAL Funding Level

- ✓ CalPERS projected annual average return of 6.60%
- ✓ Monte Carlo Simulation indicates probability that CalPERS will outperform the City's bond rate
- ✓ 100% funding achieves strong level of savings in FY2022 (\$2.4 million) with no negative savings
- ✓ CalPERS will generate a new UAL in its upcoming valuation report
- ✓ CalPERS is likely to reduce its discount rate in the next 12-18 months
- ✓ Interest rates are currently near all-time lows and expected to increase with rising inflation

# Disclaimer

---

Ramirez & Co., Inc. (“Ramirez”) has prepared this material and any accompanying information exclusively for the resolution to whom it is directly addressed and delivered in anticipation of serving as an underwriter to you. As part of our services as underwriter, Ramirez may provide advice concerning the structure, timing, terms, and other similar matters concerning potential financings Ramirez proposed to underwrite. This presentation is not complete and should only be viewed in conjunction with any oral briefing provided and any related subsequent material and/or presentation.

This presentation is for discussion purposes only. The information provided is based on information, market conditions, laws, opinions, and forecasts, all of which are subject to change. Ramirez is not obligated to update material to reflect subsequent changes. In preparing this presentation, information contained herein has been obtained from sources considered reliable, but Ramirez has not verified this information and does not represent that this material is accurate, current, or complete and it should not be relied upon as such. This presentation does not constitute a commitment by Ramirez to underwrite, subscribe for or place any securities or to extend or arrange credit or to provide any other services.

This material is not research and does not constitute tax or legal advice. Unless otherwise stated, any views or opinions expressed herein are solely the opinions of the author but not necessarily those of Ramirez and such opinions are subject to change without notice. The material contained herein is not a product of a research department and is not a research report. In accordance with IRS Circular Disclosure 230: Ramirez does not provide tax advice. Accordingly, any discussion of U.S. tax matters included herein is not intended or written to be used, and cannot be used, in connection with the promotion, marketing, or recommendation by anyone not affiliated with Ramirez of any of the matters addressed herein or for the purpose of avoiding US tax related penalties. Additionally, Ramirez does not provide legal advice. Questions concerning tax or legal implications of materials should be discussed with your tax advisors and/or legal counsel.

Ramirez is not acting as a financial advisor or Municipal Advisor. Ramirez is not acting as your financial advisor or Municipal Advisor (as defined in Section 15B of the Securities Exchange Act of 1934, as amended), and will not have a fiduciary duty to you, in connection with the matters contemplated by these materials. You should consult your own financial advisors to the extent you deem it appropriate. Any information and/or analysis contemplated by these materials is provided by Ramirez in our capacity as either an underwriter or potential underwriter of securities.

Responsibilities of Ramirez as an underwriter. As an underwriter, Ramirez is required to deal fairly at all times with both municipal issuers and investors. Ramirez must purchase securities with a view to distributing securities in an arm’s-length commercial transaction with the issuer and has financial and other interests that differ from those of the issuer. Ramirez has a duty to purchase securities from issuers at a fair and reasonable price, but must balance that duty with its duty to sell them to investors at prices that are fair and reasonable.