

# Proposed 2021 UAL Refinancing

## Lease Revenue Bonds



**CITY COUNCIL PRESENTATION**  
**CITY OF REDONDO BEACH, CA**  
**JUNE 15, 2021**

Presented by:

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# INTRODUCTION/BACKGROUND

City Staff and City's Finance Team have been working on a bond transaction to refinance the City's Unfunded Accrued Liability ("UAL") with CalPERS to produce substantial pension cost savings.

- Multiple presentations to the Budget and Finance Commission ("Commission") and City Council ("Council") have been made since late January
- On June 8 Council directed the preparation of a Lease Revenue Bond ("LRB") transaction designed to refinance the City's UAL and accomplish the following objectives:
  - Bring City's CalPERS Plan Balance up to 100% of requirement (i.e. refinance entire UAL)
  - Structure annual Bond repayments that are initially "level" and later decline like the current CalPERS UAL repayment schedule
- Tonight, Council will be presented with the following:
  - Specific bond structuring options in line with prior directives
  - Resolutions of the City and Community Financing Authority ("CFA") authorizing the issuance of the Bonds and approving related legal documents

# CITY'S UNFUNDED ACCRUED LIABILITY ("UAL") MISCELLANEOUS AND SAFETY PLANS COMBINED

- CalPERS takes about one (1) year to calculate Plan data
- Most recent Plan data was provided to City in August of 2020<sup>1</sup>
  - Required Combined Balance @ 6/30/2019: \$612,790,806
  - Market Value of Assets @ 6/30/2019: 404,075,277
  - Amount Underfunded (UAL) @ 6/20/2019: \$208,715,529
- UAL balance projected by CalPERS at 6/30/2021 (current UAL): \$211,769,876<sup>2</sup>
- Estimated UAL balance at 6/30/2022: \$224,269,876 (current UAL + \$12.5 million)
  - Amount used in Bond sizing estimates; anticipated receipt of actual/new data is August of 2021
- Current annual UAL repayment amounts (without bond financing):
  - FY2021: ~\$13.7 million (paid in July 2020)
  - FY2022: ~\$15.5 million (required in FY2022 Budget)

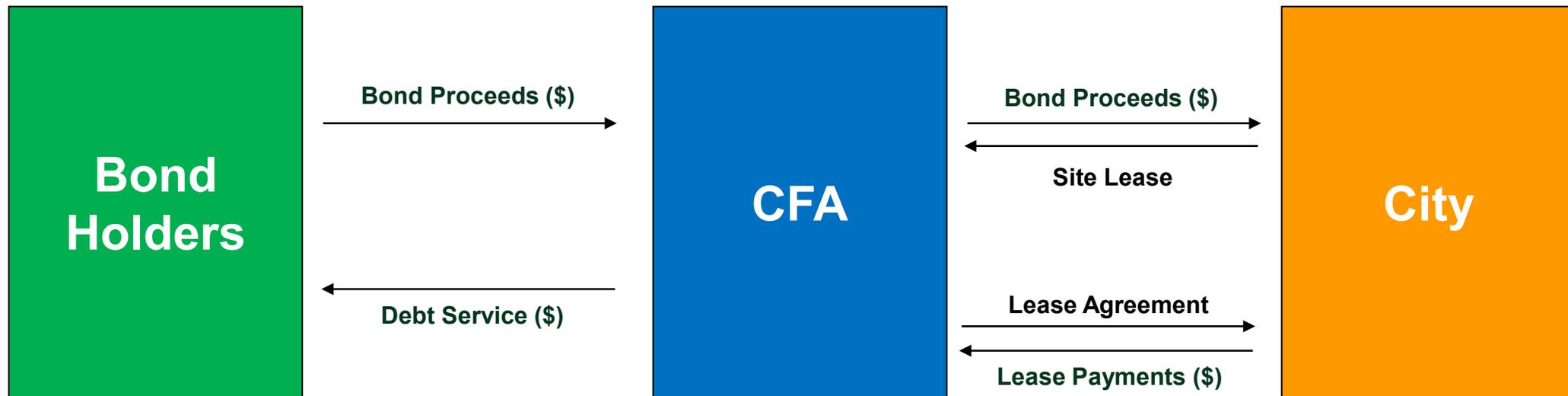
<sup>1</sup> Source: CalPERS

<sup>2</sup> CalPERS' UAL repayment schedule starting in FY2022 based on projected 6/30/2021 UAL balance

# LEGAL STRUCTURE

- City will enter agreements with the CFA to lease and lease-back City certain City real property assets, creating revenue stream enabling the issuance of LRBs
  - Site and Facility Lease – City transfers control of property to CFA in consideration of Bond Proceeds
  - Lease Agreement – City leases property back from CFA and pays rent in amount equal to debt service
- CFA sells LRBs to the public capital markets
  - Credit = City's (General Fund) promise to make Lease Payments to CFA
- Leased Property consists of approximately 1.8 million aggregate square feet of multiple sections of certain City streets
  - No right to relet or foreclose

# LEGAL STRUCTURE ILLUSTRATED



# REPAYMENT STRUCTURES

- Hybrid
  - Level annual payments from beginning of amortization
  - Annual payments never exceed projected CalPERS repayment schedule
  - Results in higher early annual payments with sharp reduction after year 23
- Hybrid-Modified
  - Similar to Hybrid, but allows for payments in later years to exceed projected CalPERS UAL payments
  - Payments still decline in approximately year 20 after level period ends, but more gradually
  - Create lower payment amounts during level period, dependent upon how rapidly latter payments decline
- Debt service in FY 2022 is adjustable in all Scenarios
  - Lower FY 2022 payment results in higher annual payments thereafter
  - Recommendation to make, at a minimum, FY2022 interest payment from City budget (~\$5.1 million)

# FINANCING STRUCTURE OPTIONS

**Estimated Bond Size (Par): \$225,790,000**

**UAL Payoff<sup>1</sup>: \$224,269,876**

	<u>Scenario 1</u>	<u>Scenario 2</u>	<u>Scenario 3</u>	<u>Scenario 4</u>	<u>Scenario 5</u>
Repayment Structure	Hybrid	Hybrid-Modified	Hybrid-Modified	Hybrid-Modified	Hybrid-Modified
FY 2021-22 Payment	\$12,498,776	\$12,499,045	\$5,012,202	\$5,123,959	\$9,097,034
Avg. Annual “Level” Payment <sup>2</sup>	\$13,788,000	\$13,496,627	\$13,496,925	\$12,997,541	\$12,996,988
All-in True Interest Cost (AIC)	3.09%	3.12%	3.16%	3.22%	3.20%
Total Debt Service <sup>3</sup>	\$315,223,010	\$320,756,852	\$331,748,224	\$340,265,790	\$334,311,800

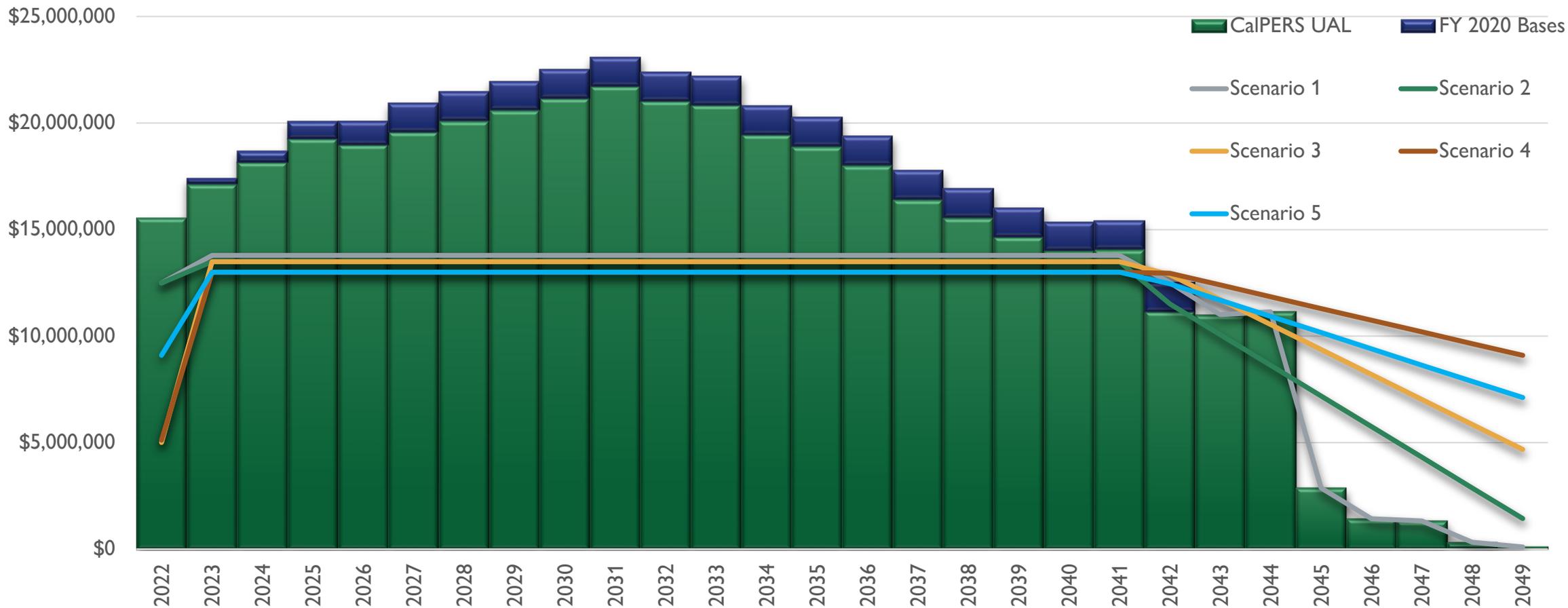
<sup>1</sup> Estimated; includes combined UAL of \$211.8 million per CalPERS and the anticipated FY 2020 bases estimated to be \$12.5 million

<sup>2</sup> Represents the average annual payment when the debt service structure is level in years 2023 through 2041

<sup>3</sup> Currently scheduled CalPERS UAL repayments (Current + estimated 2020 UAL) = \$429,032,839

Source: Stifel and KS

# FINANCING STRUCTURE OPTIONS - ILLUSTRATED



Source: Stifel and KTS

# APPROVAL PROCESS

- Confirm Hybrid-Modified approach, with particulars dependent upon outcome of Budget process
- Approve Resolutions of the City Council and CFA Board which authorize and/or approve:
  - The issuance of the Bonds, empowering Staff to take certain actions to complete transaction
  - “Not-to-exceed” values:
    - All-inclusive True Interest Cost: 3.75%
    - Issuance (Par) amount: \$240 million
    - Underwriter’s discount: \$4.50 per \$1,000 (0.45%) of Par
  - Preliminary Official Statement (disclosure document for investors to use in consideration of buying the Bonds)
  - Site and Facility Lease (City leasing properties to CFA)
  - Lease Agreement (City leasing properties back from CFA)
  - Indenture (agreement between CFA/Trustee on behalf of investors; establishes terms of the Bonds)
  - Assignment Agreement (CFA assigns lease payments from City to Trustee)
  - Bond Purchase Agreement (agreement between Underwriters and CFA for purchase of the Bonds)
  - Continuing Disclosure Agreement (agreement by City to provide ongoing disclosure per SEC regulations)

# FINANCING SCHEDULE (LRB)

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

**June 24:** Receive Bond rating

**July 1:** Price Bonds

**July 15:** Bond closing (receive Bond proceeds)  
Pay off current portion of UAL

**August:** Receive new UAL data from CalPERS  
Pay new UAL with balance of Bond Proceeds

# THANK YOU – ANY QUESTIONS?



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