City of Brisbane
Agenda Report

To: City Council via City Manager

From: Stuart Schillinger, Administrative Services Director

Subject: Pension Obligation Bonds/Lease Revenue Bonds

Date: March 18, 2013

Purpose:

To reduce the short-term payment of existing pension debt of the City without increasing future costs to the City or increasing the length of time needed to pay off the City's unfunded pension obligations.

Recommendation:

Direct staff to develop the required documents to sell pension obligation bonds with the savings spread out over the life of the bond.

Background:

The City has a $1,533,433 obligation to the California Public Employee Retirement System (PERS) at an interest rate of 7.5%. This obligation was created when the City increased the benefit for non-safety employees in 2008 from 2%@55 retirement system to the 2.7%@55 retirement system.

During those negotiations the employees agreed to a number of longer-term changes to their contracts;

1) went from a defined benefit to a defined contribution retiree health plan,
2) for employees hired after July 2008 went to a 2%@60 retirement plan, and
3) gave up 1% pay increase for each of 2 years to assist the City in paying for the new retirement plan. Savings from going to the 2%@60 retirement plan is 7.199% of payroll.

The overall payroll for the City retirement is calculated on for non-safety employees is about $4,500,000. In the long-term this one change will save the City about $323,000 a year.

Discussion:

By selling Bonds the City has the opportunity of saving about $450,000 - $500,000 over the life of the debt. The reason for this is the City can borrow money at an interest rate lower than the 7.5% the City is being charged by PERS. Depending on the type of repayment schedule the City can achieve and which financial institutions bid on the bonds the interest rates would vary.

The City sold Pension Obligation Bonds in 2006 to pay off the side fund created when Brisbane was put into pools for small employers. At that time the City had $4,745,000 in debt. This was caused by the downturn in the stock market in the early 2000's. The City sold a bond which front loaded the savings and mirrored our payment schedule to PERS in the later years. $3,439,000 of this debt is paid off in Fiscal Year 20017/18 reducing our annual payment by $500,000 and the remaining amount is paid off in 2020/21 eliminating the remaining $170,000 payment.

Due to the current financial situation in the State (San Bernardino refusing to pay it required retirement payment) we would not be able to find a buyer for a pure Pension Obligation Bond as we did in 2006. However, we could sell a Lease Revenue Bond (using our existing Water Tanks as collateral) whose proceeds could be used to pay PERS early and thereby reduce the overall debt of the City.

The City could structure the debt deal where we would have annual savings until FY 2020/21 when the last of the older Pension Obligation Bond is paid off. Then pay slightly more each year ($30,000 in FY 2021/22 down to $10,000 more in FY 2025/26) and have it paid off two years earlier than we would have if we continue to pay PERS. This would save the City over $200,000 a year in FY 2026/27 and FY 2027/28. As an alternative the City could structure the bonds to be paid off in 10 years. The benefit of the 10-year deal in addition to slightly more savings throughout the life of the bond is there may be more financial institutions willing to bid on the deal and therefore we may get a slightly lower rate.

The process from this point is to seek a private placement of the bonds. This saves the City money in rating agency fees and document production costs. After we receive the proposals for the sale of the bond staff would bring the proper documents back to a future Council meeting for review and final approval of the sale.

Fiscal Impact:

Staff asked the City's Financial Advisor (JNA Consulting Group) to look at what could be saved by selling Pension Obligation Bonds. Attachment 1 shows a potential payoff schedule.

Attachments:

Potential debt service schedule for the pension obligation bond

Administrative Services Director
Stuart Schillinger

City Manager
Clay Holstine

Potential Repayment Schedules for the City's Pension Obligation Debt

Fiscal Year	PERS Amortization Schedule	13-year Amortization Schedule	10-year Amortization Schedule	Savings for 13-year Schedule	Savings for 10 year Schedule
13/14	$ 140,569	$ 104,379	$ 104,400	$ 36,190	$ 36,169
14/15	$ 144,786	$ 113,731	$ 112,800	$ 31,055	$ 31,986
15/16	$ 149,130	$ 122,801	$ 120,800	$ 26,329	$ 28,330
16/17	$ 153,604	$ 131,331	$ 128,400	$ 22,273	$ 25,204
17/18	$ 158,212	$ 139,301	$ 135,600	$ 18,911	$ 22,612
18/19	$ 162,958	$ 147,141	$ 217,400	$ 15,817	$ (54,442)
19/20	$ 167,847	$ 154,261	$ 235,800	$ 13,586	$ (67,953)
20/21	$ 172,882	$ 160,811	$ 253,200	$ 12,071	$ (80,318)
21/22	$ 175,069	$ 206,741	$ 374,600	$ (31,672)	$ (199,531)
22/23	$ 183,411	$ 208,965	$ 410,800	$ (25,554)	$ (227,389)
23/24	$ 188,913	$ 210,363	$ -	$ (21,450)	$ 188,913
24/25	$ 194,581	$ 211,075	$ -	$ (16,494)	$ 194,581
25/26	$ 200,418	$ 210,954	$ -	$ (10,536)	$ 200,418
26/27	$ 206,430	$ -	$ -	$ 206,430	$ 206,430
27/28	$ 212,623	$ -	$ -	$ 212,623	$ 212,623
Total cost	**$ 2,611,433**	**$ 2,121,854**	**$ 2,093,800**	**$ 489,579**	**$ 517,633**

PERS Interest Rate 7.5% a year increasing payout schedule to mirror PERS anticipated increase in City payroll

13-year Amortization Schedule varying interest rate based on length of debt ranging from 1.62%-5.5%. Higher payments in the future to coincide with previous pension obligation payoff.

10-year Amortization Schedule fixed interest rate of 4%. Higher payments in the future to coincide with previous pension obligation payoff.