From:	Jacob Patterson
To:	Munoz, Cristal
Cc:	Lemos, June
Subject:	Public Comment -- 5/24/21 CC mtg., Item No. 8A, Budget
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Attachments:	To pay $79 million owed to retirement fund, Montclair turns to pension bonds – Daily Bulletin.pdf

I remain concerned about a lack of concrete progress paying down our unfunded pension liability and sticking it to the taxpayers in the form of dramatically larger overall expenses by sticking to our current course of action. What happened to the option of issuing bonds at current low interest rates to pay down the unfunded pension liability that was discussed at a Finance & Admin Committee meeting? That would be ideal since we would then actually budget the bond payments into the annual budgets and get these debts paid down more quickly for less money overall instead of continually kissing the can down the road in favor of more "fun" expenditures that cater to narrow interest groups or the current political whims of the City Council and staff.

See the attached article concerning a SoCal city going with that option.

LOCAL NEWS • News

To pay $79 million owed to retirement fund, Montclair turns to pension bonds

In August, the City Council will meet to issue the bonds

By **STEVE SCAUZILLO** | sscauzillo@scng.com | San Gabriel Valley Tribune

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Like many cities, Montclair's skyrocketing employee pension payments threaten to whittle away at the general fund and curtail future city services such as police, fire, street maintenance, recreation and many others.

Last week, after considering the move for more than three years, the City Council voted unanimously to begin the process of issuing pension obligation bonds, a financing method that lowers the interest rate on the amount back-owed to the California Public Employees' Retirement System, while saving the city $30 million over the next 25 years.

The financial reshuffling of the city's accrued and unfunded pension liability, which amounts to about $79 million, switches the payee from CalPERS to the bond holders. In one scenario outlined by city staff, payments from 2022 through 2047 would be made at a lowered interest rate.

For example, the city would issue $85 million in bonds and lower the unfunded obligation to CalPERS from $5.4 million to $4.6 million annually, reported City Manager Ed Starr. If the city does nothing, experts estimate the city would owe $141,653,510 to CalPERS through 2047 at 7% interest. With bonds issued under the favored scenario — at around 4% interest — the payment total would drop to $111,741,590 over 24 years, Starr reported.

While the numbers are not set in stone, the example given by Starr is close to what could actually happen, despite fluctuations in the bond market between May and August, when the bonds would be issued, Starr said. In August, the City Council will meet to issue bonds.

FILE PHOTO: Montclair City Hall on Tuesday, July 10, 2019. Montclair City Council voted on May 3, 2021 to start the process of issuing pension obligation bonds. The final vote could come in August. (FILE photo by Watchara Phomicinda, The Press-Enterprise/SCNG)

"This sounds like the solution to this long-term problem," said Mayor John Dutrey. "This will allow us to stabilize (our yearly payments) and in fact, we may be able to reduce them."

Mayor Pro-Tem Bill Ruh said many cities in the San Gabriel Valley and in San Bernardino County have used this financing method recently to lower pension obligation debts.

"It seems to be working well for those communities," he said.

Ontario issued POBs in 2020 and arranged internal borrowing — moves the city said are projected to save $170 million over the next 30 years. As a result, Ontario's annual payments for unfunded liabilities are slated to drop from $15.3 million in 2019 to $1.7 million in 2022. Monrovia and Glendora issued POBs that have lowered their CalPERS payments.

Stanford University's Pension Tracker says if investments at CalPERS earn returns of 7%, unfunded liabilities are at $352.5 billion statewide, or the equivalent of $27,187 per household. If investment rates drop to 3.25%, unfunded liabilities could jump to nearly $1.1 trillion, or $81,634 per household.

Montclair places No. 203 on the university's pensiontracker.org list for a debt of $22,043 per household (based on 2018). Los Angeles ranks 51st ($32,471 debt per household) and San Bernardino is No. 244 ($20,857 per household).

Upland owes back pension costs for police and other employees of about $120 million to CalPERS and is also considering issuing bonds.

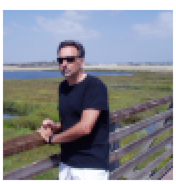
Using June 2019 data, Montclair estimates 59% of its unfunded pension obligation is related to public safety, namely police and fire employees, while 41% is related to non-safety employees.

Cities are subject to rising costs because CalPERS is still trying to make up for huge losses during the Great Recession, Starr said. Also, because many experts say CalPERS will no longer gain 7% in interest on its fund, the money lost if interest income drops would be passed on to public agencies, such as cities and school districts, increasing their costs.

"Projected CalPERS increases have the potential to impact the City Council's ability to adopt annual balanced budgets, thereby impacting the high level of services provided to the residents and businesses of the City of Montclair," the staff report stated.

The annual pension cost for the city has increased by $6 million since 2010, Dutrey said.

Tags: city-government, Foothill Cities, government, Inland Empire, pensions, Top Stories IVDB



Steve Scauzillo | Reporter

Steve Scauzillo has been a journalist for more than 40 years, had has worked as a beat reporter, assistant city editor, Opinion Pages Editor, general assignment and transportation/environment writer. Steve loves to explore the outdoors by hiking the Angeles National Forest and is an amateur bird watcher. Steve is on the board of the San Gabriel

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