

CITY OF FORT BRAGG

2021 LRB & CALPERS UNFUNDED ACCRUED LIABILITY (UAL)

UPDATE



NHA | ADVISORS
Financial & Policy Strategies.
Delivered.

MARCH 27, 2023

Presentation Objectives

- ▶ Recap of 2021 Financing Project
- ▶ Credit Rating Highlights
- ▶ Recent Changes
 - ▶ \$3.5M Bond Redemption
 - ▶ CalPERS Underperformance
- ▶ Strategies for Continued CalPERS UAL Cost Management



Recap of 2021 Lease Bond Objectives & CalPERS UAL Trends

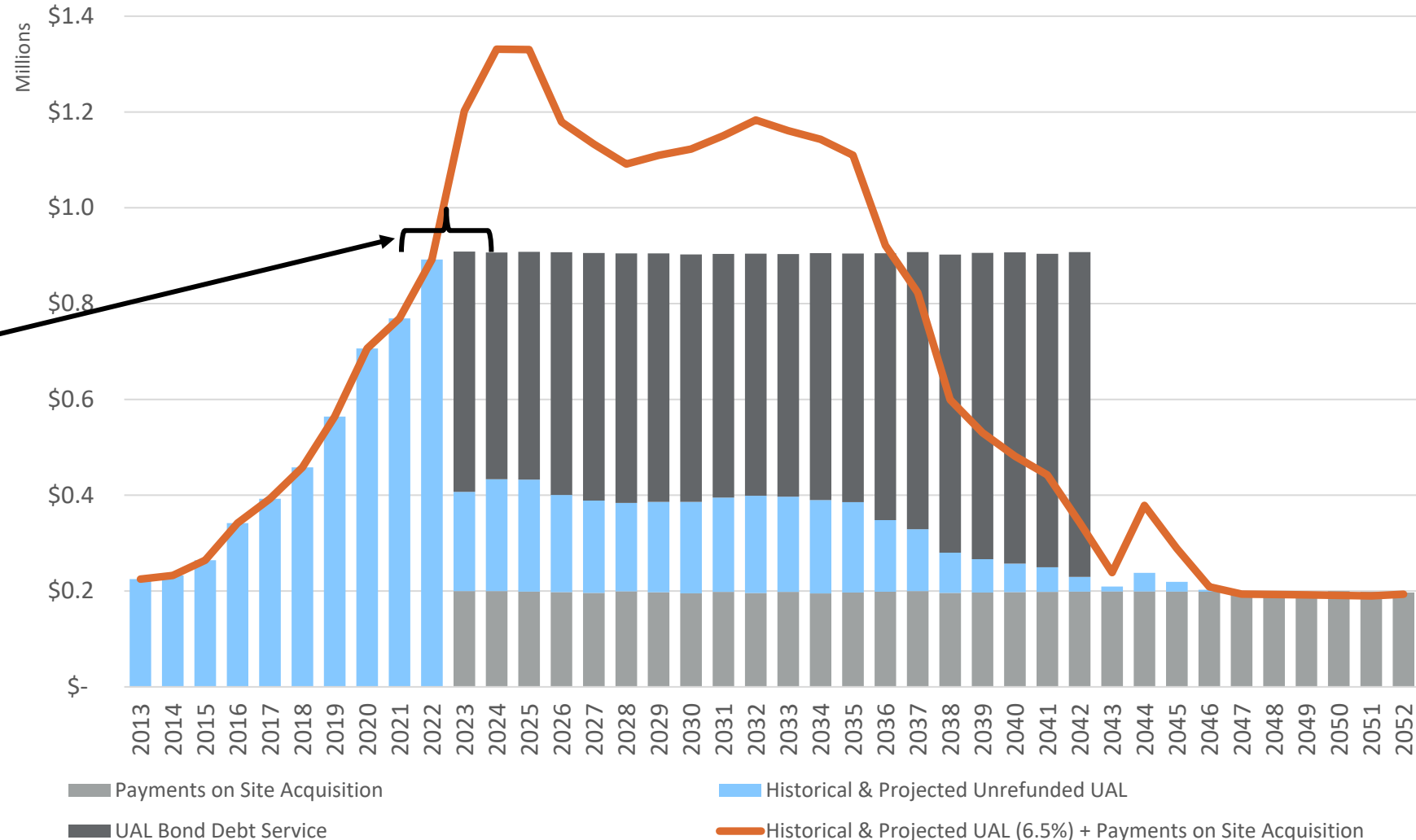
- ▶ The City's UAL had grown rapidly (like all other agencies in California) from \$5.5M in 2014 to about \$11.4M in 2021
 - ▶ UAL was projected to drop to between \$8.2M and \$9.9M after strong CalPERS investment returns of 21.3% in FY 2021 and discount rate reduction (was unknown at time of issuance)
- ▶ City also wanted to fund \$3.5M Mill Site Project while preserving cash/reserves
- ▶ In the Fall of 2021, the City issued \$11.4M of Lease Revenue Bonds to (1) refinance/restructure close to 100% of the projected UAL and (2) fund Mill Site Project
 - ▶ Mill Site Project portion of bond had "full flexibility" to pay off early at no penalty
 - ▶ City also achieved a strong inaugural credit rating with S&P Global Ratings ("AA-" Issuer Credit Rating)
- ▶ **Key Changes Since Fall 2021**
 - ▶ Discount rate reduced to 6.8% from 7.0%
 - ▶ City used \$3.5M of unspent bond proceeds to pay off debt
 - ▶ In FY 2022, CalPERS posted a -7.5% investment loss and is currently at 0% returns; could drive UAL back to \$8.4M
- ▶ Looking forward, it is important for the City to develop a holistic strategy for managing its debt liabilities (CalPERS UAL & 2021 LRB) while maintaining strong reserves and financial resiliency
 - ▶ City prudently maintains a Section 115 Trust for pensions with an approximate \$1.6M balance



STRATEGY AT ISSUANCE

UAL Restructuring Strategy & CIP Funding to Minimize Budgetary Impact

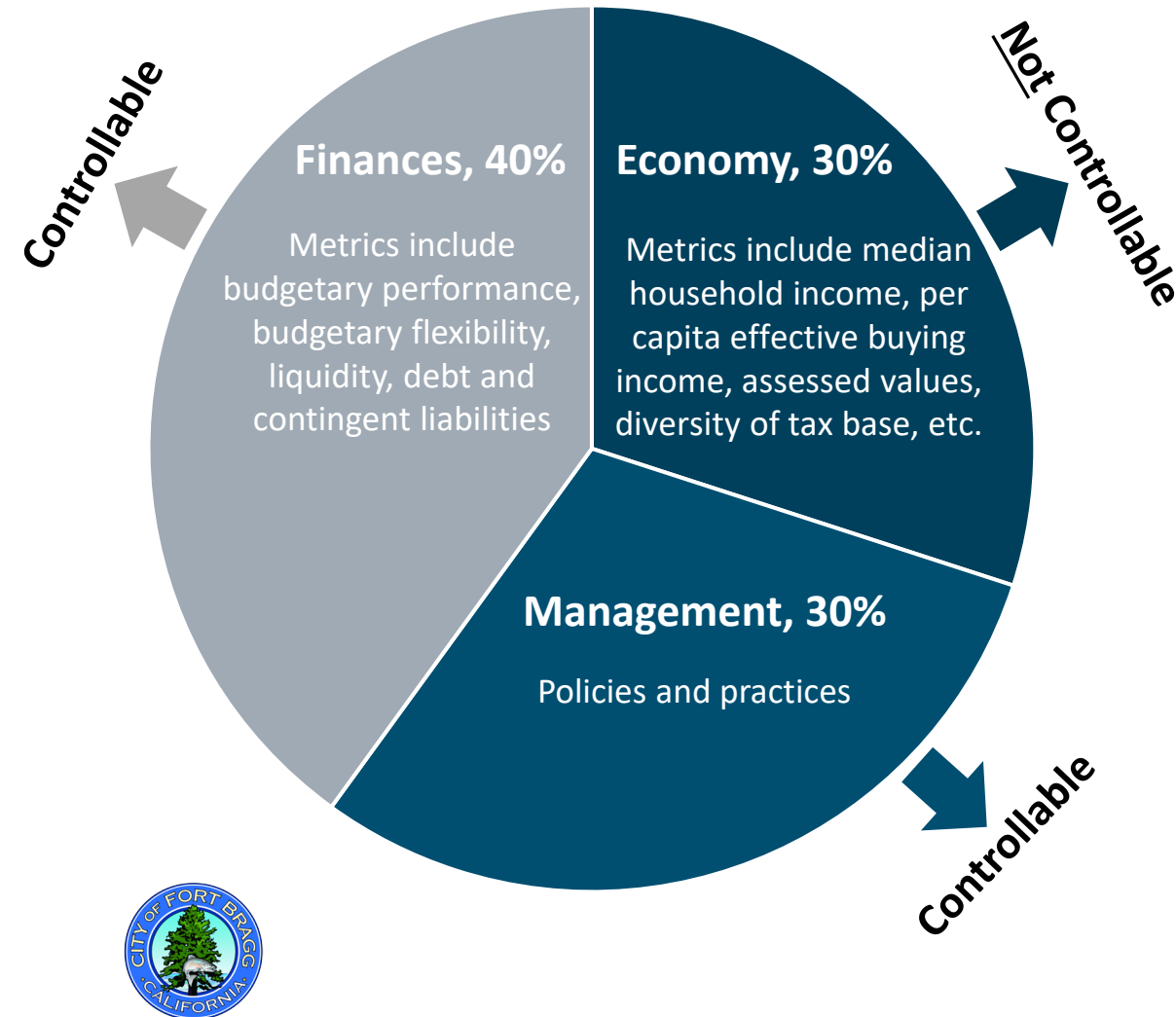
- ▶ ≈70% of UAL refinanced (dark grey bars) to create overall lower/smoother debt payments for General Fund
 - ▶ Effectively 100% of UAL once CalPERS adjusted UAL for 21.3% returns and discount rate reduction
- ▶ No budgetary impact even with \$3.5M Mill Site Portion (light grey Bars) of debt payments
 - ▶ Financing team built in full flexibility to pay down this portion of debt early if not needed for Mill Site Project
- ▶ **\$1.5M of projected savings (present value) from refinancing UAL from 6.8% down to 3.6%**



Note: Estimated UAL payments sourced from CalPERS Outlook Tool

“AA-” Issuer Credit Rating and “A+” Lease Bond Rating Criteria and Highlights

Core Metrics of Fiscal Sustainability



2021 LRB – “A+” Credit Rating Highlights

Economy:

- ▶ Adequate; below average wealth/income levels
- ▶ Stable property tax base

Finances:

- ▶ Very strong budgetary flexibility
- ▶ Very strong liquidity
- ▶ Adequate debt burden

Management:

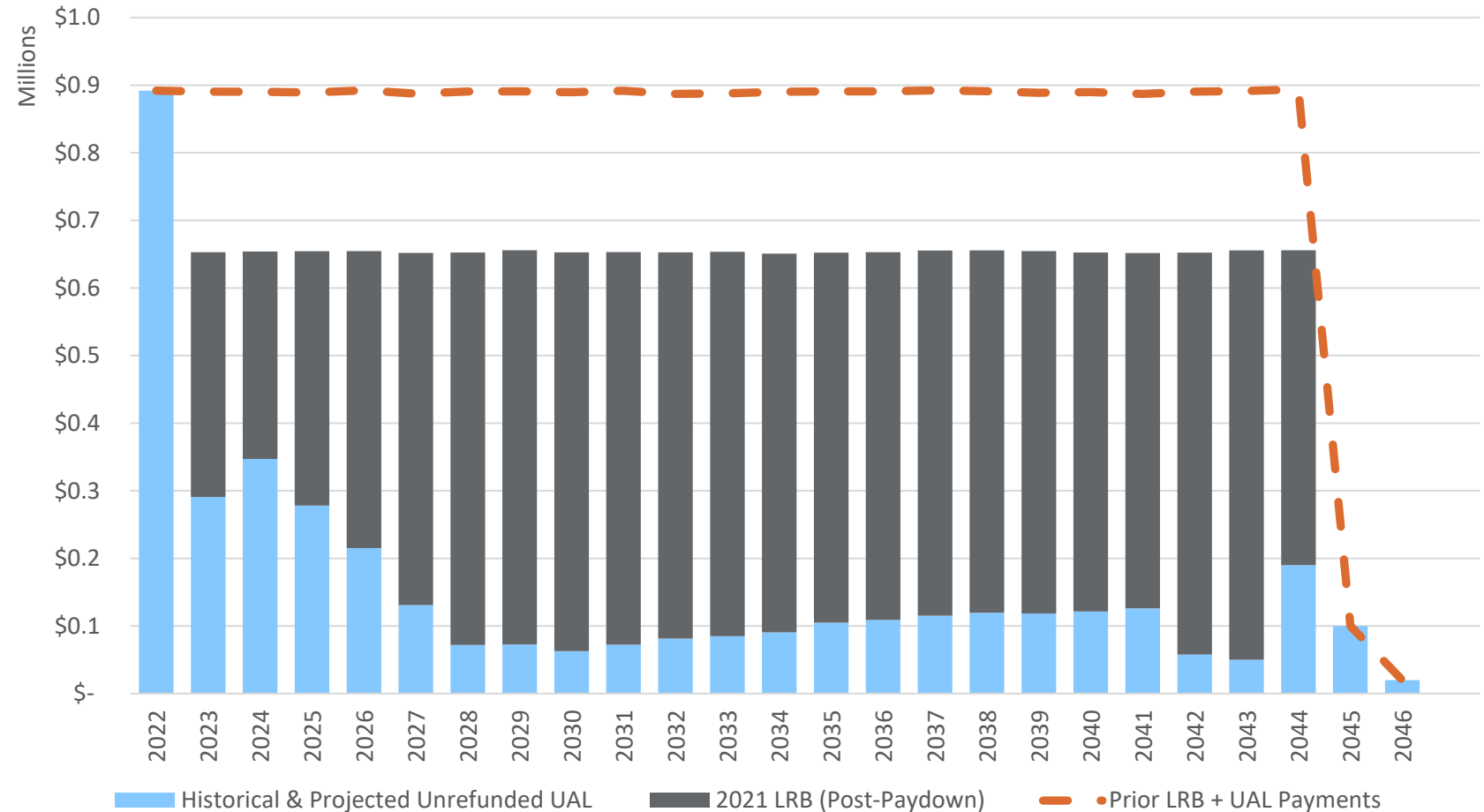
- ▶ Strong management, with good financial policies and practices
- ▶ Use of historical trend analysis in budget process and regular quarterly budget and investment portfolio reviews with city council
- ▶ Strong Institutional framework



Key Update #1

\$3.5M Unspent Bond Proceeds Used to Pay Down Bonds in August 2022

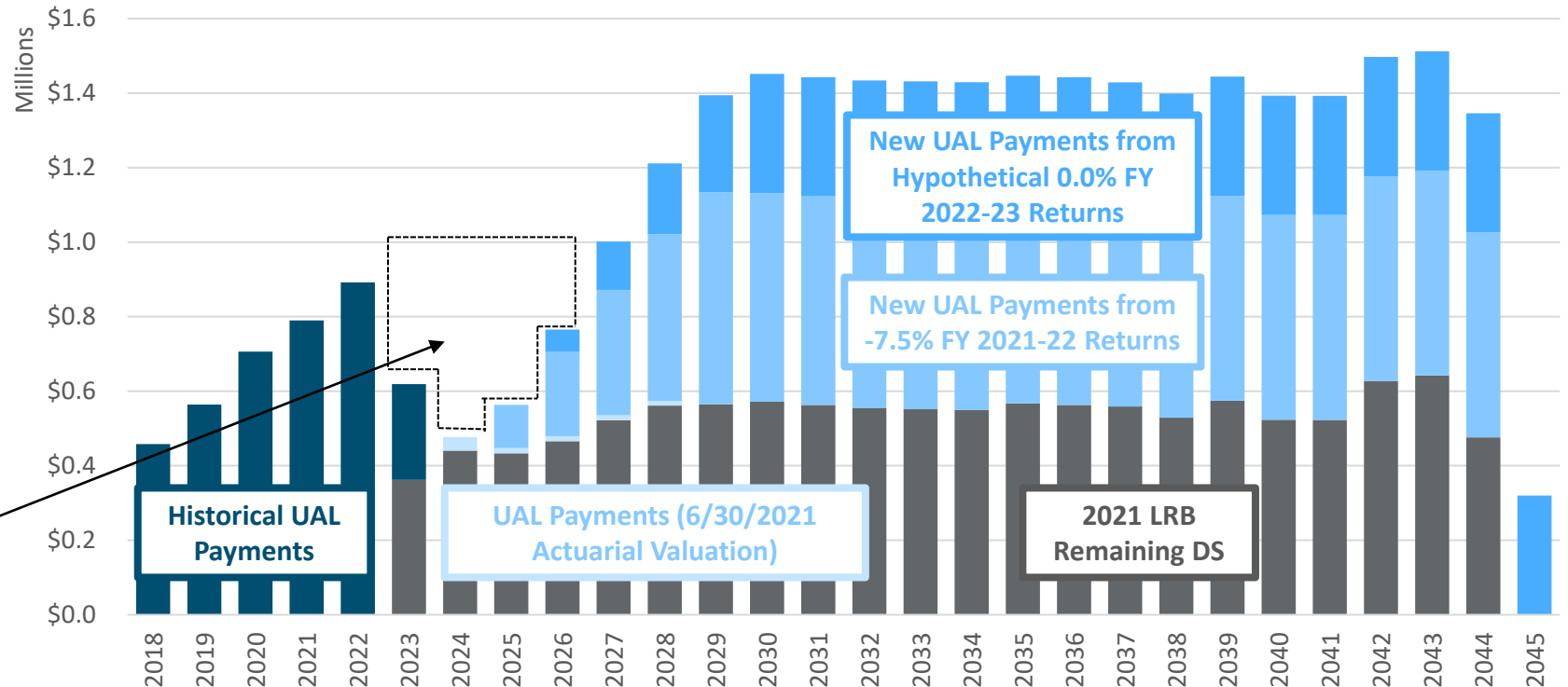
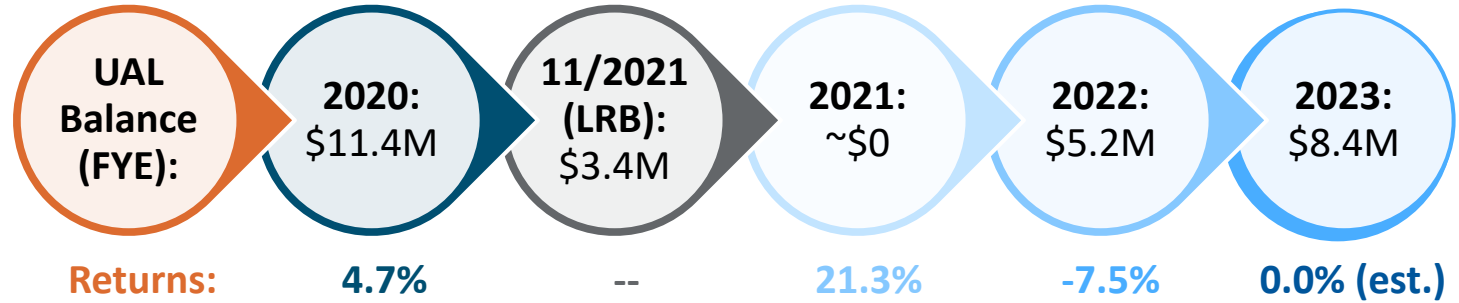
- ▶ 2021 LRBs maintained an **extraordinary mandatory redemption feature** for unexpended & surplus bond proceeds
- ▶ In August 2022, the City paid down \$3.5M of bonds
- ▶ **Paydown saves the City \$1.7M in interest payments through 2044**



Key Update #2

CalPERS Returned -7.5% in FY 2022 and Currently at 0% for FY 2023

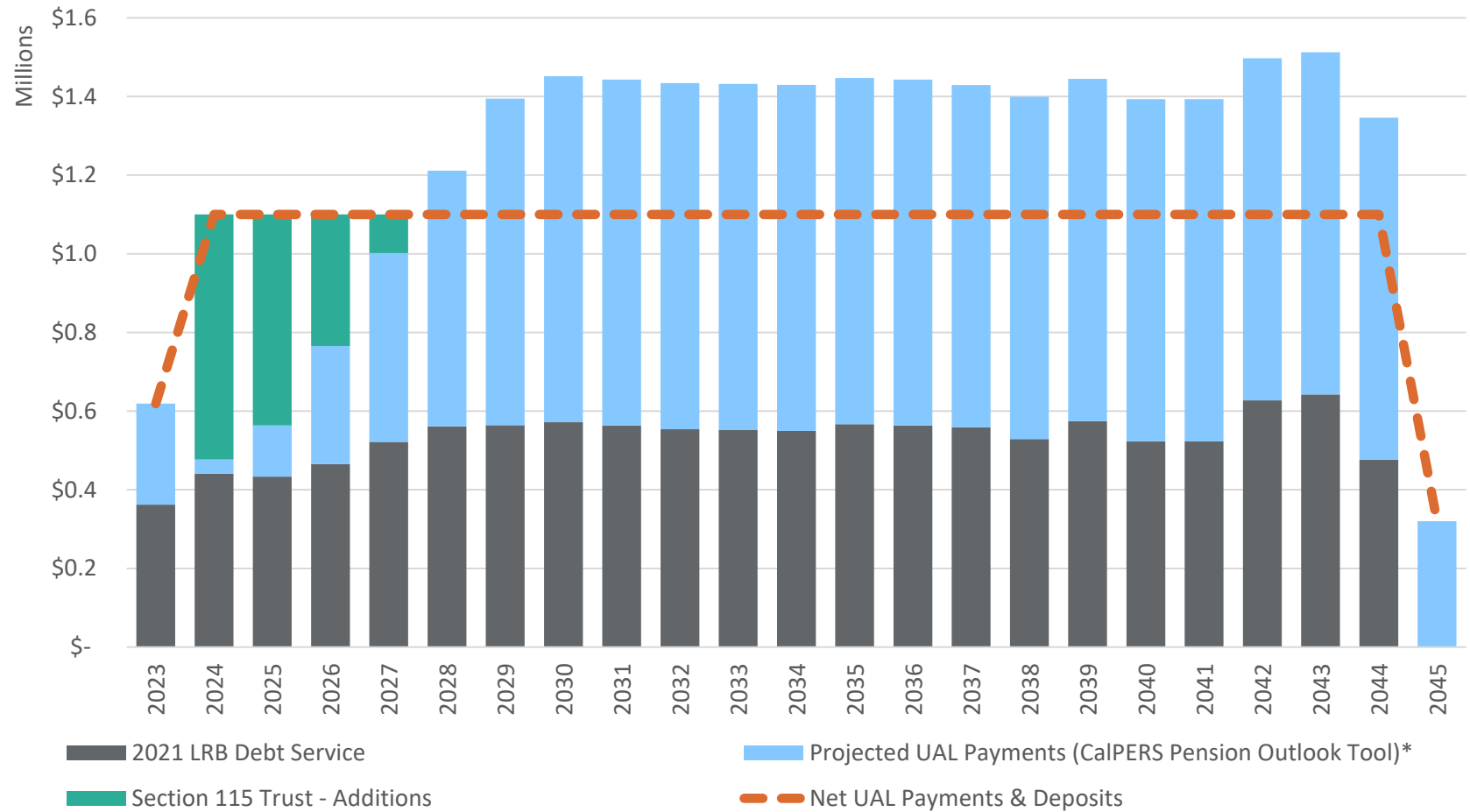
- ▶ City's UAL payments had grown to \$900K by FY 2022
- ▶ With the remaining 2021 LRB, total LRB + UAL payments will reduce to under \$620K through FY 2025
- ▶ However, the -7.5% returns from CalPERS in FY 2022 projects to increase the UAL back to \$5.2M and payments to over \$1.1M
- ▶ At currently estimated 0% returns for FY 2023, the City's UAL would increase to \$8.4M and payments to over \$1.4M
- ▶ City should have budgetary capacity to set aside funds into Section 115 Trust to get ahead of rising costs



RECOMMENDATION

Use 115 Trust to Smooth Out Future Peak in Payments

- ▶ \$1.6M current balance in Section 115 Trust in FY 2023
- ▶ Assuming an additional **\$1.6M is contributed over the next four years @ 5.00% returns rate (green bars)**, funds could be withdrawn from the Section 115 Trust during higher payment years to stabilize net impact to the General Fund
 - ▶ Annual contributions + debt payments total \$1.1M
- ▶ From 2028 – 2044, the City could use grown Section 115 Trust funds to continue **maintaining net UAL payments at \$1.1M**
- ▶ Generates \$2.2M of net savings
- ▶ Increased earnings potential vs. current General Fund investments





QUESTIONS?