CalPERS Unfunded Accrued Liability (UAL) Discussion

Cost Management Strategies Including UAL Restructuring Benefits and Risks

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June 28, 2021

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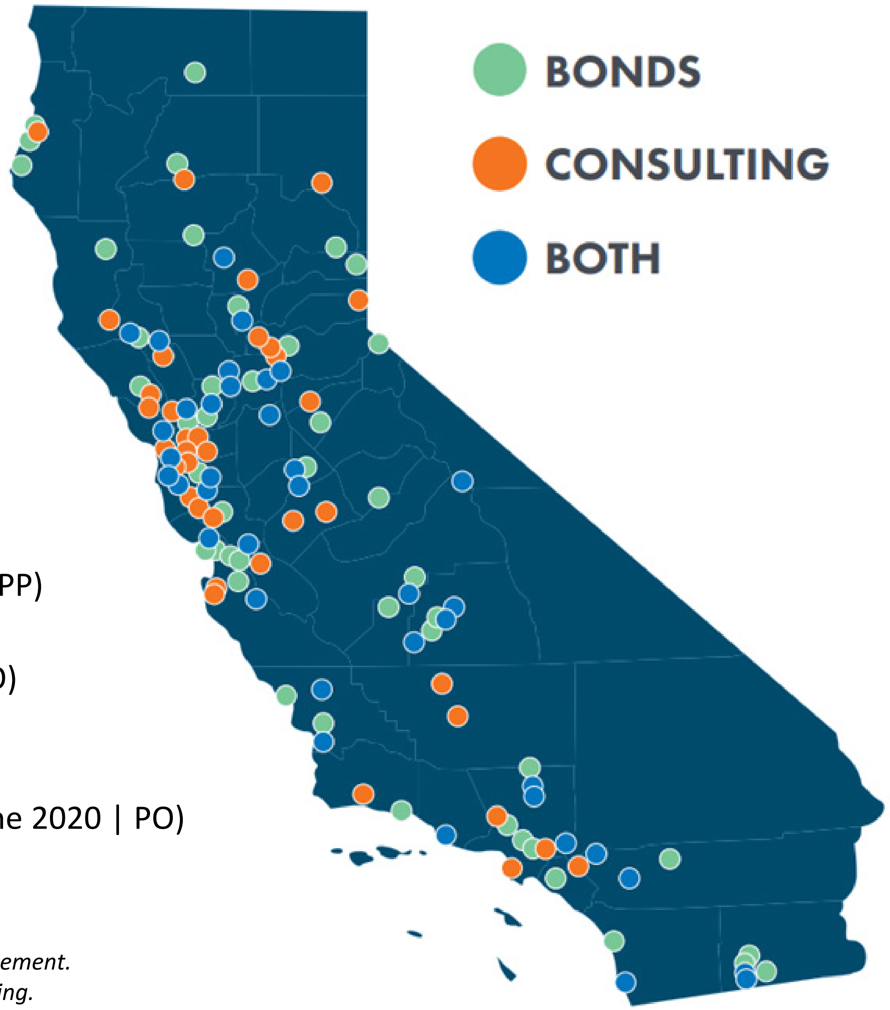
I. Introduction to NHA Advisors

Introduction to NHA Advisors

- Headquartered in San Rafael, CA
- 8 Practice Groups to optimally serve public agencies (Pension/OPEB, Utility, Energy/Climate Change, Policy, Continuing Disclosure, Land Development, etc.)
  - Pension Group has worked with 55+ California entities on (1) CalPERS Education, (2) Cost Management Strategy Evaluation/Implementation and (3) UAL Restructurings

NHA Clients Served



Recent CalPERS Unfunded Accrued Liability (UAL) Restructurings**

- $100M Rialto Lease (In Process)
- $36M Martinez POB (In Validation)
- $8M Lakeport POB (In Validation)
- $120M National City POB (In Validation)
- $20M Auburn POB (June 2021 | PO)
- $18M Corte Madera POB (May 2021 | PO)
- $6M Palos Verdes LD POB (March 2021 | PP)
- $350M Chula Vista POB (Feb 2021 | PO)
- $49M Ukiah Lease (Dec 2020 | PO)
- $6M Novato Sanitary District (Oct 2020 | PP)
- $350M Torrance Lease (Oct 2020 | PO)
- $200M West Covina Lease (July 2020 | PO)
- $432M Riverside POB (June 2020 | PO)
- $120M El Monte POB (June 2020 | PO)
- $20M North County Fire District POB (June 2020 | PO)
- $18M Grass Valley POB (June 2020 | PP)

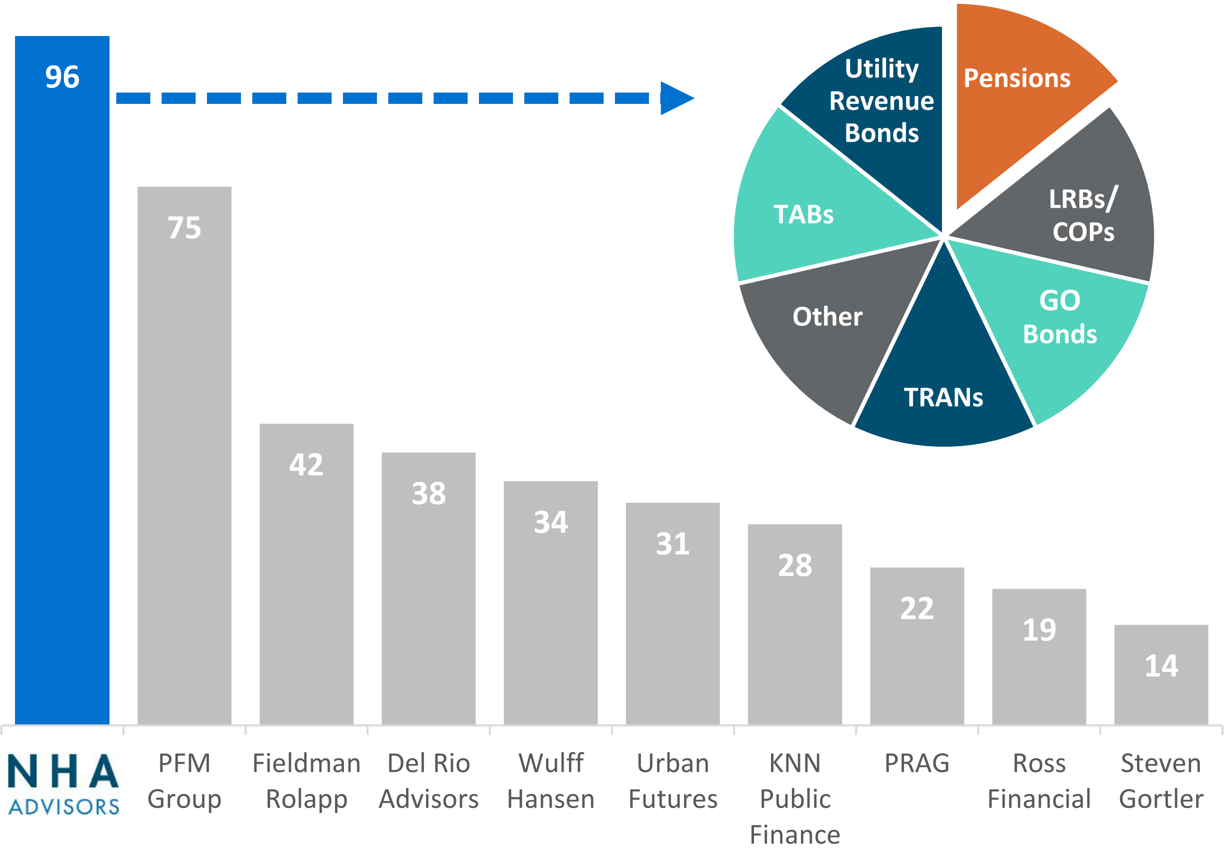
** Source: CDIAC. Includes City-related debt types (Lease revenue, POB, TABs, utility revenue, TRANs, GO Bonds, etc. Excludes land secured financings (CFDs and Assessment Districts).*

*** PP denotes private placement. PO denotes public offering.*

Top-Ranked Advisor to Northern California Cities

- **Top-ranked municipal advisor to Northern California cities**
- **Focus on California local public agencies**, with transactions ranging from less than $1 million to $500 million
- Recent projects completed in:
  - San Francisco, Berkeley, Corte Madera, Napa, Chico, Ukiah, Willits, Novato Sanitary District, Los Altos, San Carlos, Campbell, Hayward, Newark, El Cerrito, Martinez, Gilroy, Morgan Hill, Carmel

MUNICIPAL ADVISOR RANKINGS FOR NORTHERN CALIFORNIA CITIES
Transactions (January 2016 - Present)[1]



[1] *Source: California State Treasurer; sold & pending City transactions north of Kern County as of May 2021.*

NHA's Pension Group

Focused on Education and Translating Complexity

- Pension Practice Group established in 2014
- Served 50+ California public agencies
  - Basic Education (NHA Summary Reports, White Papers & Newsletters, Workshops)
  - Projection Analysis
  - Sensitivity Analysis
  - Section 115 Trusts
  - Selective Amortization Base Pay-Offs
  - UAL Restructuring Options
  - Pension Funding Policies

NHA Pension Group Recent Experience

	CalPERS Education / Budget Workshops	NHA Pension Report (8-Page Report Distilling Historical Actuarial Report Trends)	Cost Management Strategy Evaluation Process / Workshops (Section 115 Trust, ADPs)	POB Workshops / Evaluation Process (Pros/Cons, Options and Risks)	POB (UAL Restructuring)
Alameda, City of					
Arcata, City of					
Auburn, City					
Belmont, City					
Calaveras Cnty. Water Dist.					
Carmel-by-the-Sea, City of					
Chico, City of					
Chula Vista, City of					
Corcoran, City of					
Corte Madera, Town of					
El Cerrito, City of					
El Monte, City of					
Farmersville, City of					
Gilroy, City of					
Grass Valley, City of					
Grover Beach, City of					
Lakeport, City of					
Lancaster, City of					
Lompoc, City of					
Martinez, City of					
Monterey, City of					
National City, City of					
Newark, City of					
North County Fire Prot. Dist.					
Novato Sanitary District					
Oxnard, City of					
Palos Verdes Library District					
Paso Robles, City of					
Rialto, City of					
Riverbank, City of					
Riverside, City of					
San Carlos, City of					
Torrance, City of					
Ukiah, City of					
West Covina, City of					
Winters, City of					

NHA's Fiduciary-First Approach

Fiduciary Focused	Differences	Deal Focused
Fact-based, explores ALL options, including "no deal"	1	Unsolicited opinions and one recommendation
Robust discussion of risks & pro/con	2	Gloss over or dismiss risks
Unbiased compensation structure preference	3	Compensation structure promotes transactions
Comprehensive, holistic, policy driven process	4	Focus upon transactional savings / results of deal

II. Historical CalPERS Cost Trends & Cost Management Strategies

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Background & Presentation Focus

- City of Fort Bragg has a $10.7M Unfunded Accrued Liability (UAL) with CalPERS
  - Represents shortfall between how much the City has vs. how much it needs to service pension benefits
- The City’s UAL has increased from $5.5M in 2014 to $10.7M currently; primarily due to CalPERS assumptions changes (lowering of discount rate to 7%)
  - Rapidly increasing UAL repayment schedule will continue to put pressure on the City’s budgeting and can “crowd out” other community priorities
  - Creating, discussing, and evaluating a CalPERS pension funding plan, with a full array of options reviewed, is essential for long-term fiscal sustainability and, importantly, to meet the needs/priorities of the community
  - Past, present and future cost management strategies must be well understood
    - Past/Present: Annual UAL prepayment, cost-sharing, migration to PEPRA workforce
    - Others Available: Section 115, “ADPs” to CalPERS, and restructuring the UAL
- FY 2021 CalPERS returns are strong (≈18-20%) and are likely to reduce City’s UAL by over 30%
  - However, CalPERS is likely to reduce the discount rate again to absorb some of these strong gains
- Given the complexity, potential risks and ability to secure potentially significant benefits for a public agency, the UAL restructuring strategy will be the focus of this presentation

CalPERS Pension 101

Retirement Plans Overview

- City has 2 primary CalPERS plans
  - Miscellaneous: 152 covered members (retired and active)
  - Safety (Police/Fire): 86 covered members (retired and active)
- Lower cost/benefit PEPRA plans will be helpful to manage long term pension costs for new employees
  - However, approximately 99% of the City's UAL is attributable to Classic (mostly retired/non-active) employees and will not be impacted by the PEPRA reform

Miscellaneous Plans			
Benefit Group	**# of Actives**	**% of Actives**	**Benefit Formula**
Classic Miscellaneous	21	47%	2% @ 55
PEPRA Miscellaneous	22	53%	2% @ 62
Total Active Members	**45**	**100%**	**-**
Total Covered Members	**152**	**-**	**-**

Safety Plans			
Benefit Group	**# of Actives**	**% of Actives**	**Benefit Formula**
Classic Safety Fire	0	0%	-
Classic Safety Police	8	57%	2% @ 50
PEPRA Safety Police	6	43%	2.7% @ 57
Total Active Members	**14**	**100%**	**-**
Total Covered Members	**86**	**-**	**-**

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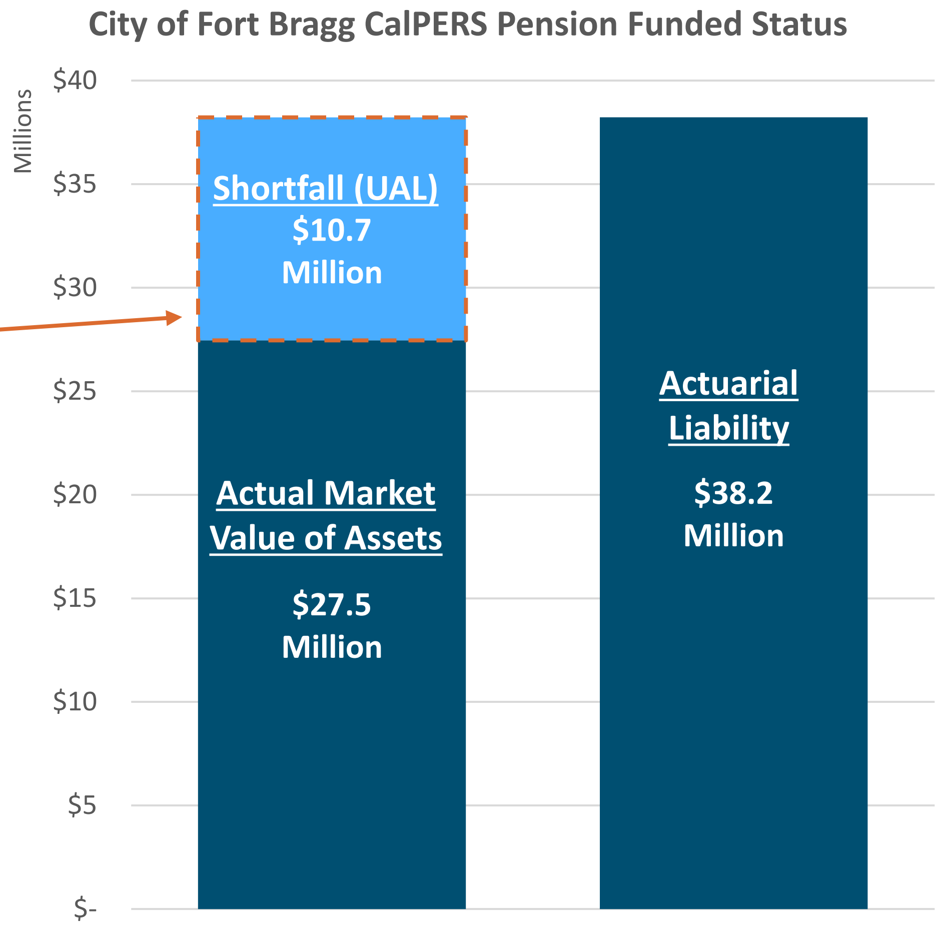
CalPERS Pension 101

Payments Made to CalPERS Annually

- Each year, the City makes two types of payments to PERS:
  - **Normal Cost (NC)** = Annual cost for current employees
  - **Unfunded Accrued Liability (UAL):** Actuarial Liability MINUS Actuarial Value of Assets
    - "How much we currently have vs. how much we need to have in the future when people actually retire"
    - Shortfall not repaid all at once; amortized over a longer period of time with the District paying down a portion each year (principal and interest)
      - ☐ CalPERS currently amortizes this debt at a rate of 7%
      - ☐ Various components (layers or bases) of the UAL with amortization periods ranging from 4 to 29 years – leads to very irregular repayment shape



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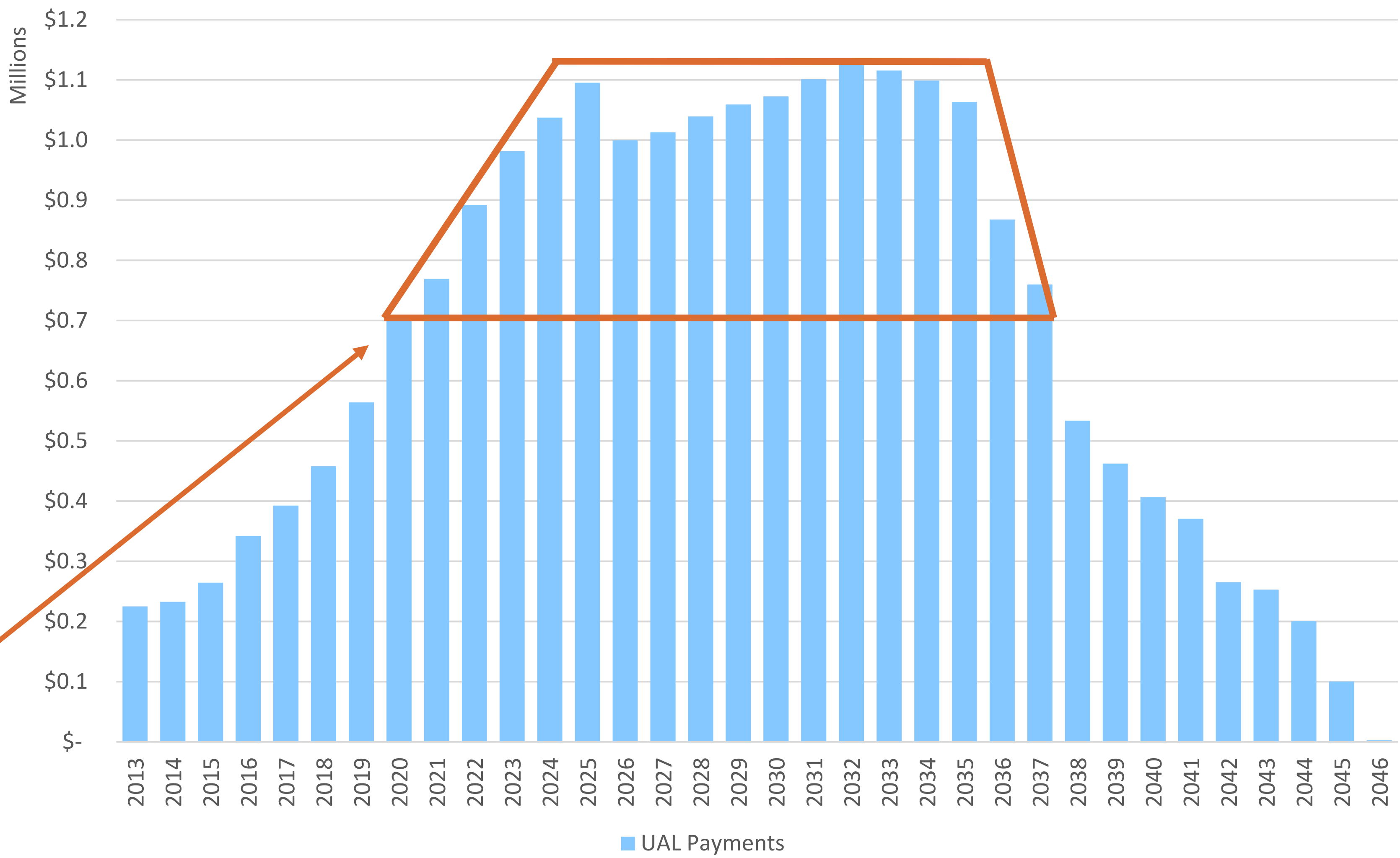
CalPERS Historical and Projected UAL Repayment Schedule

$10.7M UAL @ 7% Interest Rate

- City's UAL has increased 95% ($5.5M → $10.7M) over the last 7 years
  - Rapidly escalating and uneven UAL & debt repayment shape
  - UAL payments front-loaded over the next 10 years
- $5.0M of cumulative payment increases over next 15 years above FY 2020 levels



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Why CalPERS Costs are Trending Higher

Historical PERS Returns
5-Year: 6.3%
10-Year: 8.5%
20-Year: 5.5%
30-Year: 8.0%

Then …

- PERS investment returns were robust (10%+)
  - Retirement plans were "Super-Funded" through the late 1990s
  - Earnings on funds were more than adequate to cover retirement costs
- Super-funded Status induced widespread retirement benefits enhancements

Now …

- Sluggish investment growth (<6%)
- Assumptions are changing
  - Expected returns: 8.25% → 7.75% in 2003; 7.75% → 7.50% in 2013 → 7.00% by 2020
  - Mortality rates (people living longer)
  - Actuarial Valuation → Market Valuation
- Shorter (20 year) UAL amortization periods
- Unfunded liabilities are rapidly growing
  - City's Miscellaneous Plan UAL has grown from $2.7M to $5.6M over last 7 years
  - City's Safety Plan UAL has grown from $3.0M to $5.1M over last 7 years

Strategies to Address Rising Pension Costs
These Strategies are Not Mutually Exclusive

(1) Prepay UAL early in Fiscal Year (≈ 3.4% discount) – City uses this strategy

(2) Negotiate Cost Sharing With Employees – City has completed

- Require employees to pay their share; New employees already governed by lower cost/benefit PEPRA plans

(3) Fresh Start Amortization w/ CalPERS

- Pros: Smooths payment, shortens repayment period; reduces overall interest paid from shorter amortization period
- Cons: New structure "locked-in" (no flexibility) + increased annual payments in near term; still amortized at 7% interest rate

(4) Use Cash Reserves to Pay Extra (two options) – City has used this strategy

- Section 115 Trust - Separate trust solely dedicated to pension/OPEB
  - City maintains Section 115 Trust for OPEB
- Lump Sum Pay Down of UAL – Reduce UAL through ADPs (Additional Discretionary Payments)
  - Choose optimal amortization bases to pay off

(5) Restructure All or Portion of Remaining UAL

- Restructure portion of UAL at lower bond interest rate (i.e. 3.50% vs. 7.0%) and "smooth out" payments for enhanced budget predictability, near and mid term savings, and preservation of cash for other critical projects

The CalPERS Pension Challenge

How Are Other CalPERS Agencies Tackling the Challenge

Using Cash Reserves / Annual Surplus

- **Section 115 Trust:** Increased Earnings + Budgetary Flex
- **ADPs - Additional Discretionary Deposits:** Strategic Pay Down of UAL Layers
- *Note: Can Reappropriate Cash for CIP to UAL; Use Cash for ADP/115 (High-Cost Debt) and Tax-Exempt Bonds for CIP (Low-Cost Debt)*

Restructuring UAL Using Debt

- **Convert 7% Debt to 3.0% - 3.5% Debt** (Current Market)
- **Smooth Payments** for Predictability, Sustainability and Budgetary Savings
- *Note: Can Tailor Repayment Shape Around Other General Fund Liabilities for Holistic Strategy*

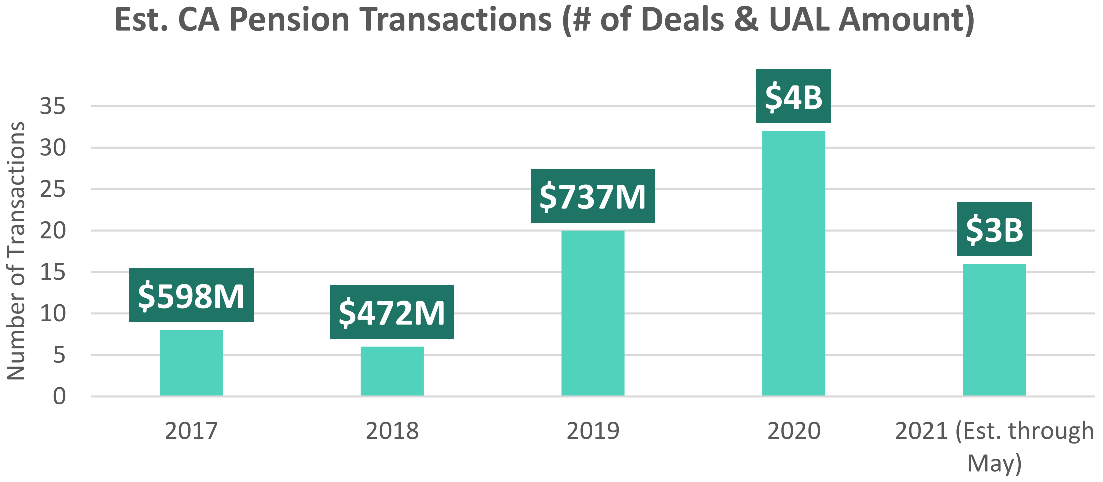
Section 115 Trusts:

300+ Agencies

(≈150 cities)

ADPs:

168 Different Employers for **431 distinct ADPs in 2020**



III. CalPERS UAL Restructuring

Conceptual Overview, Preliminary Analysis, Benefits/Risks, Other Considerations

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Restructuring UAL Debt – Conceptual Overview

- Borrow money to pay off all or a portion of UAL with CalPERS
  - Pension Obligation Bond (POB) is typically utilized
    - Unsecured debt (no collateral required)
    - "Court Validation" to confirm UAL is a "debt" that can be refinanced (typically a 3-to-4-month process)
    - Validation provides foundation to issue POBs now or anytime in the future if approved by City Council at a later date
  - Alternative option is lease revenue bond (common assets: streets, buildings, parks)
- Interest rate paid on a POB significantly lower than the 7% CalPERS charges
  - Current market is 2.75% to 3.75% depending on size, length of term and credit rating
- Restructuring the annual payments into a smoother, predictable schedule is core objective
- **Key risk / consideration: re-investment and market timing risk**

Pension Bond Market Update - Recent Issuances

- Over the last 12 months, about 50 agencies have issued UAL Restructuring Bonds for over $6 billion in UAL funded
  - Interest rates have ranged from 2.54% to about 4.25%
- 9 of last 10 cities to come to market in 2021 have achieved < 3.0% interest rates
  - Chula Vista, El Cajon, El Segundo, Corte Madera, Auburn, Huntington Beach, Orange, Downey, Monterey Park

Auburn	(2021)	$17,165,000	AA+
El Segundo	(2021)	$144,135,000	AA+
Willows	(2021)	$8,510,000	A+
Central Marin Police Authority	(2021)	$26,505,000	AAA
Corte Madera	(2021)	$18,955,000	AAA
Manhattan Beach	(2021)	$91,275,000	AAA
Huntington Beach*	(2021)	$363,645,000	AA+
Orange	(2021)	$286,485,000	AA
Chula Vista	(2021)	$350,025,000	AA
Downey	(2021)	$113,580,000	AA
Monterey Park*	(2021)	$106,335,000	AA
El Cajon	(2021)	$147,210,000	AA
Ukiah	(2020)	$49,875,000	A+
Coachella	(2020)	$17,590,000	AA-
Gardena	(2020)	$100,590,000	AA-
Arcadia	(2020)	$90,000,000	AAA
Placentia	(2020)	$52,950,000	BBB+
Torrance	(2020)	$349,515,000	AA
Novato Sanitary District	(2020)	$6,467,000	Private Placement
Azusa	(2020)	$70,075,000	AA-
Pomona	(2020)	$219,890,000	AA-
West Covina	(2020)	$204,095,000	A+
Grass Valley	(2020)	$18,311,000	Private Placement
North County Fire Protection District	(2020)	$20,305,000	AA-
Carson	(2020)	$108,020,000	AA-
El Monte*	(2020)	$118,725,000	A+ (Ins.)
Riverside	(2020)	$432,165,000	AA

* Secured by pension tax override

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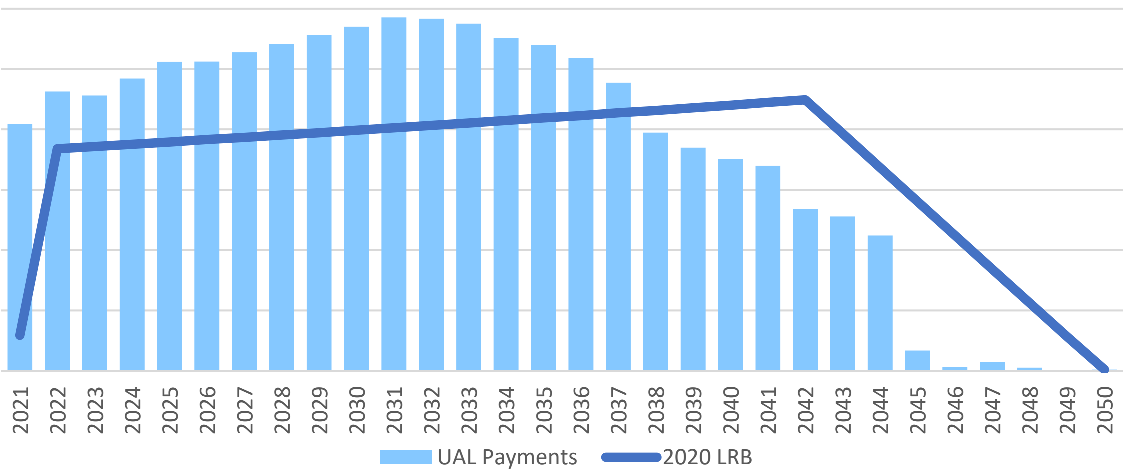
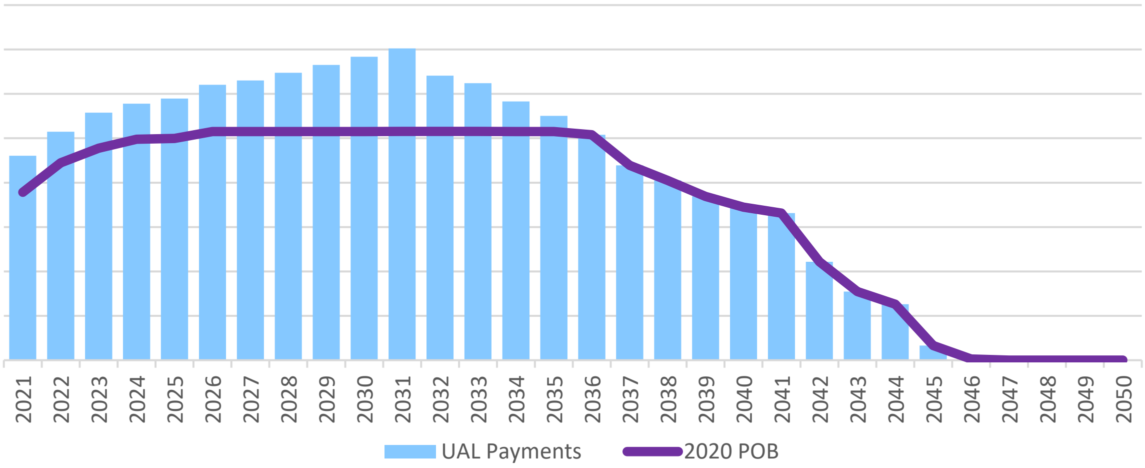
Recent Issuances: Restructuring for Smoothing is a Common Strategy

No One Size Fits All: *Term and Shape of Repayment Unique to Each Issuer*

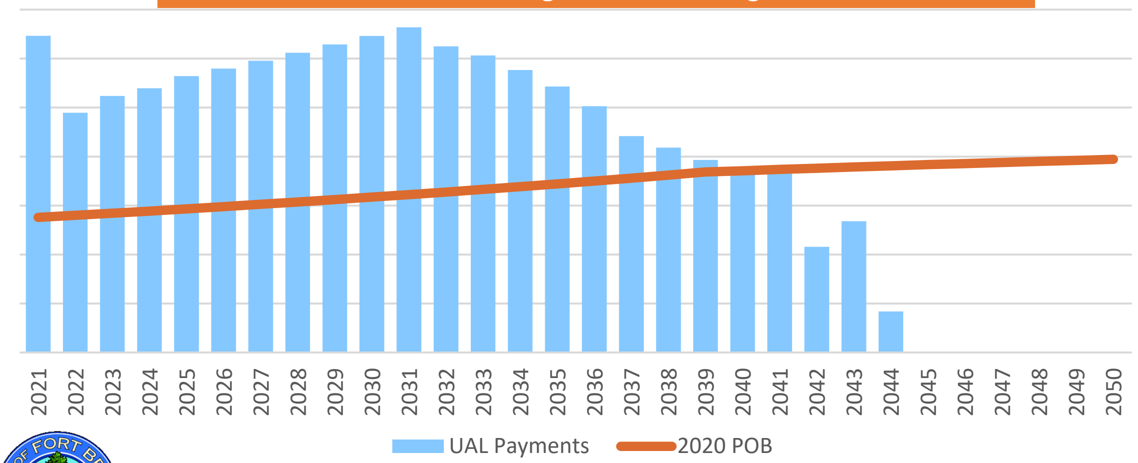
Ukiah: Upfront Relief + 1% Escalating + Linear Decline to 2050



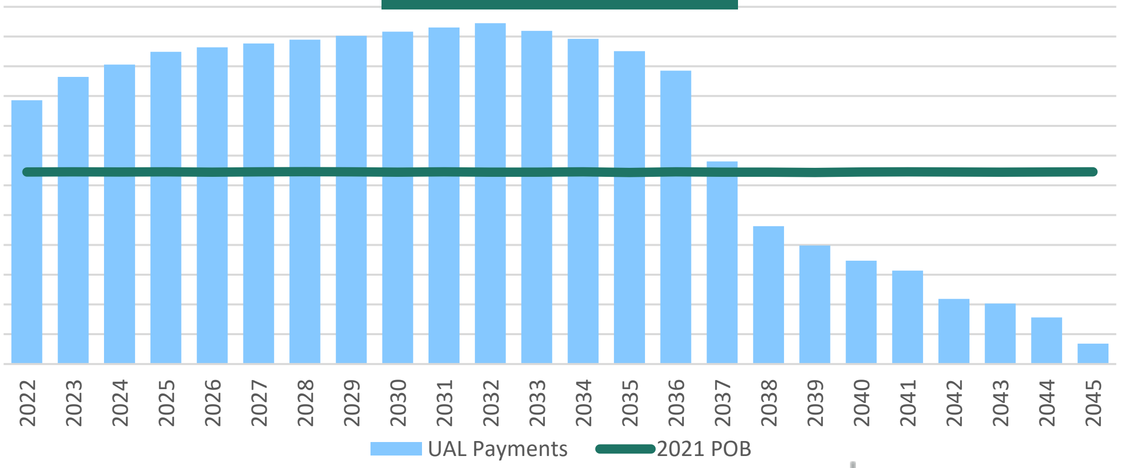
Riverside: Targeted Early Savings + "Chop the Peak" + No Dissavings



El Monte: 30-Year Restructuring Accommodating Pension Tax Override



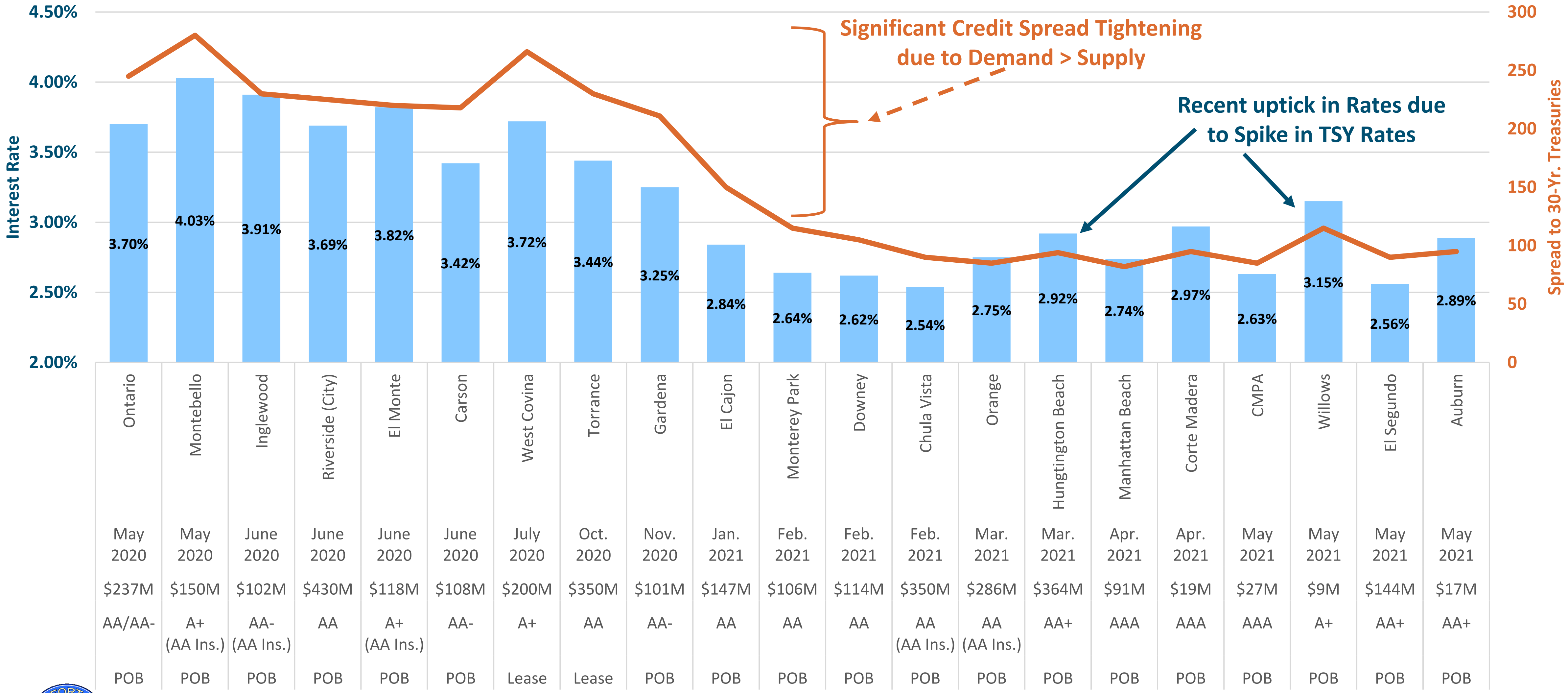
Corte Madera: 24-Year Level



Taxable Interest Rate Trends (30-Year Treasury Rates)

*Interest rates through June 18, 2021.

Pension Bond Market Update: Interest Rates (Blue Bars) Have Dropped Dramatically due to Growing Investor Demand (Orange Line)



Note: Spreads and interest rates should be considered best estimates. Rates reflect estimated TIC or all-in TIC.

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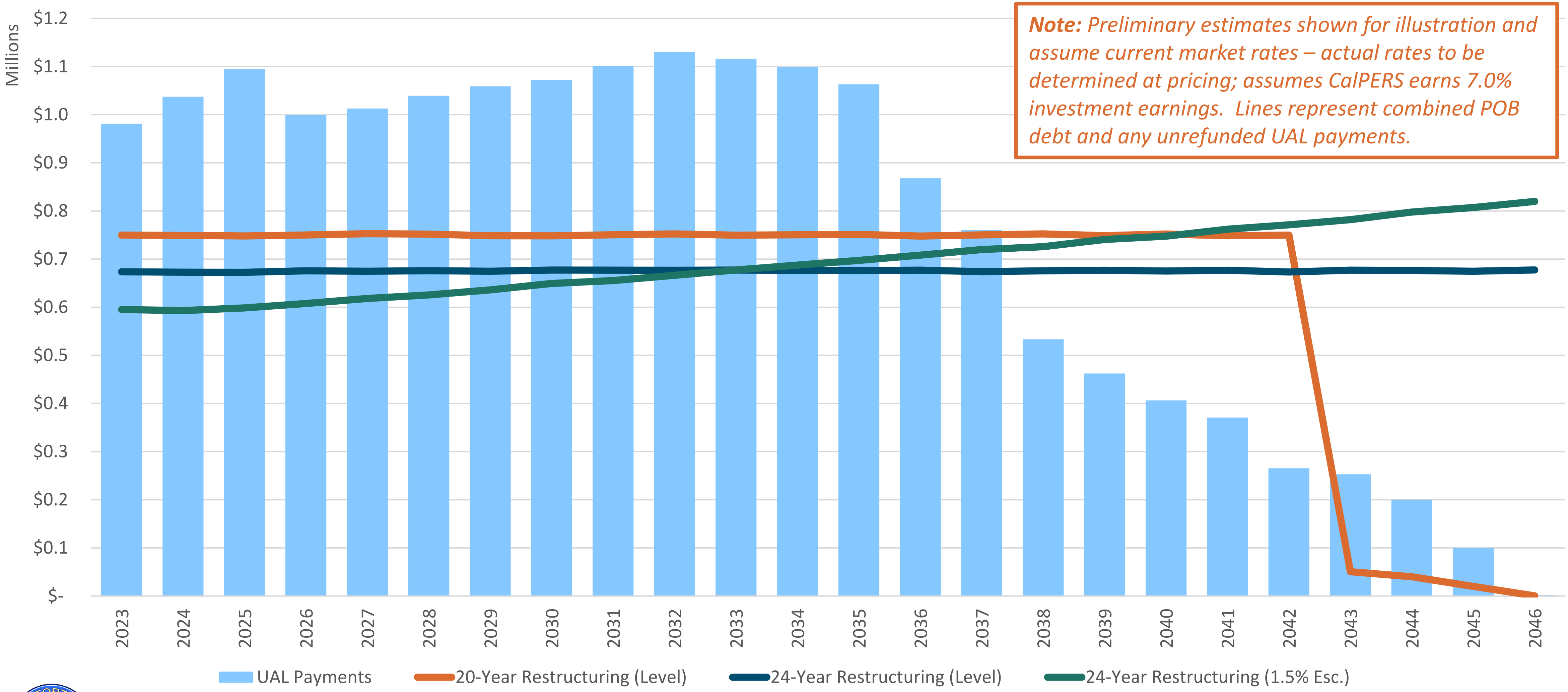
Preliminary UAL Restructuring Options for Fort Bragg

80% of UAL Funded: 20- and 24-Year Maturities



Note: *Preliminary estimates shown for illustration and assume current market rates – actual rates to be determined at pricing; assumes CalPERS earns 7.0% investment earnings. Lines represent combined POB debt and any unrefunded UAL payments.*

Preliminary UAL Restructuring Options: Savings Analysis

- PV savings ranges from $2.3M - $2.5M
  - 27.0% - 29.8% of refunded UAL
- Savings through peak period (FY 2036) estimated at $4.2M - $5.7M
  - $298K - $404K annually on average

Metrics	20-Year Restructuring (Level)	24-Year Restructuring (Level)	24-Year Restructuring (1.5% Esc.)
UAL Funded ($)	$8,414,452	$8,414,452	$8,414,452
UAL Funded (%)	80%	80%	80%
Funded Ratio	94%	94%	94%
Maturity	20 Years	24 Years	24 Years
Average Life	12.1 Years	15.4 Years	16.8 years
All-In Interest Rate	3.40%	3.55%	3.60%
Present Value Savings (%)	29.75%	27.69%	27.01%
Present Value Savings ($)	$2,503,505	$2,329,731	$2,272,508
Cumulative Savings	$2,913,478	$1,812,343	$1,337,158
Savings (2023-2036)	$4,172,496	$5,215,360	$5,657,006
Avg. Annual Savings (2023-2036)	$298,035	$372,526	$404,072

Note: *Preliminary estimates shown for illustration and assume current market rates – actual rates to be determined at pricing; assumes CalPERS earns 7.0% investment earnings.*

Preliminary UAL Restructuring Options - Takeaways

- 3 preliminary options presented for simplicity
  - Many options are available to evaluate (shapes, maturities, sizes, etc.) if more comprehensive evaluation process is initiated – can be tailored to individual objectives, risk/reward tolerance, and financial constraints
  - $8.4M preliminary size? → Takes into account likely reduction in UAL from FY 2021 returns
    - Maximize savings while reducing risk of being "overfunded"
- Tradeoffs between shorter and longer maturities
  - Shorter: More cumulative savings, but less over next 14 years and **less resiliency to handle future economic shocks**, including CalPERS' underperformance
  - Longer: Less Cumulative savings, but more in the next 14 years & **increased long-term resiliency**
- A stress testing process is highly recommended to understand the core risk of a POB, which is **re-investment and market timing risks (see next page)**
  - Quantifies the cash flow impact to the City, with and without a UAL restructuring, under various future CalPERS return scenarios
- A **Pension Funding Policy** should be adopted to provide roadmap for addressing this challenge

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Pension Bonds - Benefits and Risks

BENEFITS

- Enhanced Fiscal Sustainability Budget Predictability through Lower and Smooth Repayment Shape
- Interest Rate / Budgetary Savings
- Increased Funding Ratios of Retirement Plan
- Flexibility to Tailor Duration (Term) and Shape of Repayment to City's Needs
- Enhance Service Levels, Capital Project Funding and/or Reserve Levels using projected savings and increased cash flow

RISKS / CONSIDERATIONS

- Re-investment/Market Timing Risk: Present value (PV) savings is ultimately dependent on future CalPERS returns, which are unknown at time of issuance
  - ***PV savings occur if CalPERS return earns more than POB interest rate over life of debt***
- Future UAL Can Still Appear – Whether a bond is issued or not, the District's UAL can grow (or reappear) in the future based on below average CalPERS investment returns
  - ***Near-term losses may mean new UAL added is higher under a bond scenario than without***

These risks could be quantified through a ***stress testing process*** *to better understand the impacts of potential poor investment performance by CalPERS*

What if CalPERS only earns 5%?

What if there is another 2008-like recession?

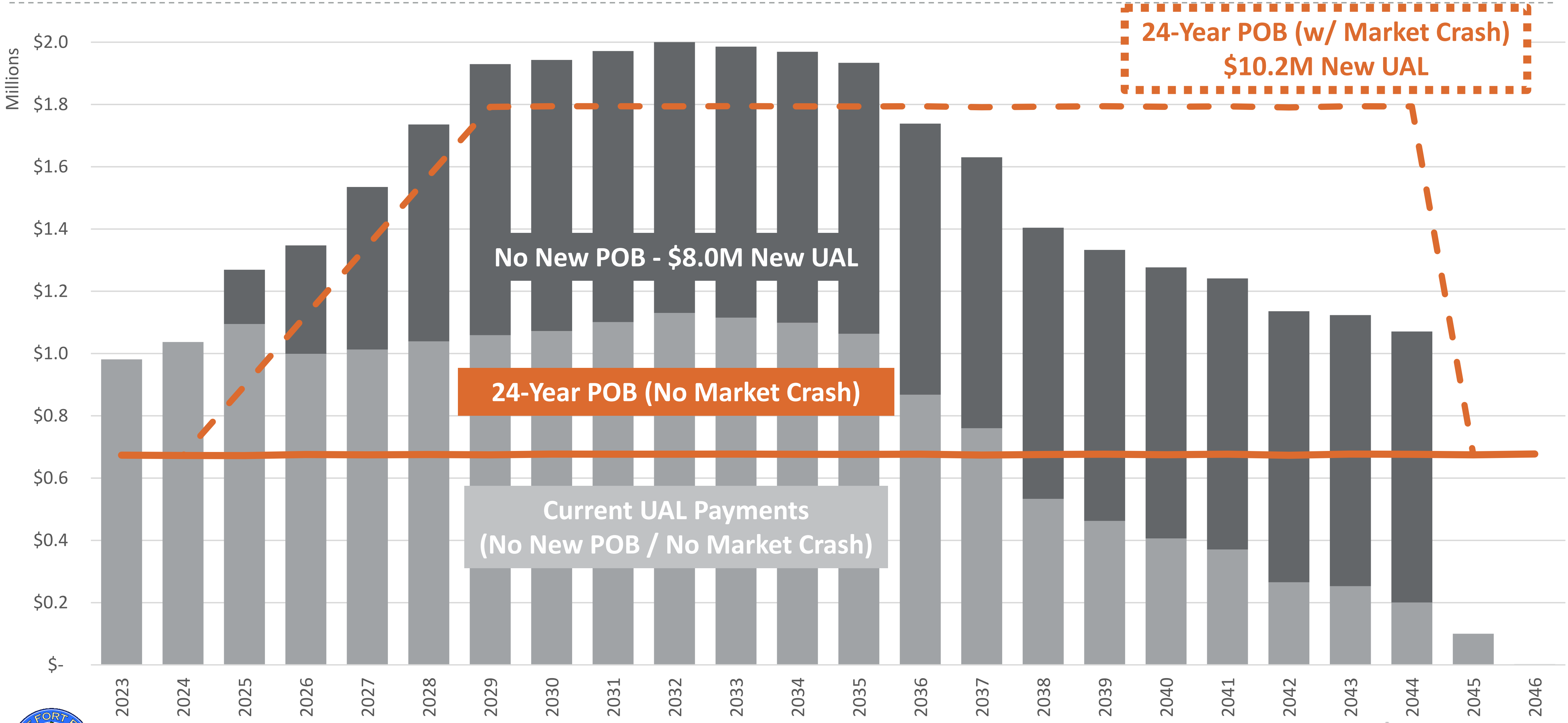
What if discount rate is reduced to 6.50%?

Government Finance Officers Association (GFOA)

GFOA's 2015 POBs Critique and How Current POBs Differ

Invested pension bond proceeds might earn less than the borrowing costs	• **Yes. Instead of CalPERS's expected earnings rate of 7.0%, lower actual returns could occur. The chances of long-term returns being below current < 3.50% borrowing costs are low, but they do exist. A "stress testing" process is often helpful to better quantify this risk (i.e., analysis based on CalPERS earning poor returns in future)**
"Pension bonds are complex instruments that carry considerable risk…and may include swaps or derivatives…"	• No. Current pension bond issuances are fixed rate bonds that typically do not include swaps or derivatives.
"Issuing taxable debt to fund the pension liability increases the jurisdiction's bonded debt burden and potentially uses up debt capacity…"	• No. Pension bonds replace all or a portion of an agency's payments to PERS with debt service on the bond. It is converting one liability for another on the balance sheet at a lower interest rate. A lease bond will reduce asset capacity for future issuances.
Pension bonds are "typically issued without call options" making it more difficult to refund bonds if interest rates fall or a different debt service structure is desired in the future.	• No. Nearly all recent pension bonds are issued with an optional redemption feature, allowing agencies to refinance or accelerate repayment upon them in the future.
"Pension bonds are frequently structured in a manner that defers the principal payments…"	• Not Always. Most of the recent pension bonds amortize principal immediately. Shortening, lengthening, or maintaining the same term of payments is at the discretion of each agency.
"Rating agencies may not view the proposed issuance of Pension bonds as credit positive…"	• Not true if pension bond is prudently structured to increase payment affordability, financial flexibility and resiliency as part of a policy driven reserves and pension funding strategy.

Preliminary Stress Test for Fort Bragg* -22% Negative CalPERS Returns in First Year After Issuance (Savings Reduced to ≈ $0 Breakeven)



** NHA is not an actuary. Analysis should be considered best estimates for presentation purposes.*

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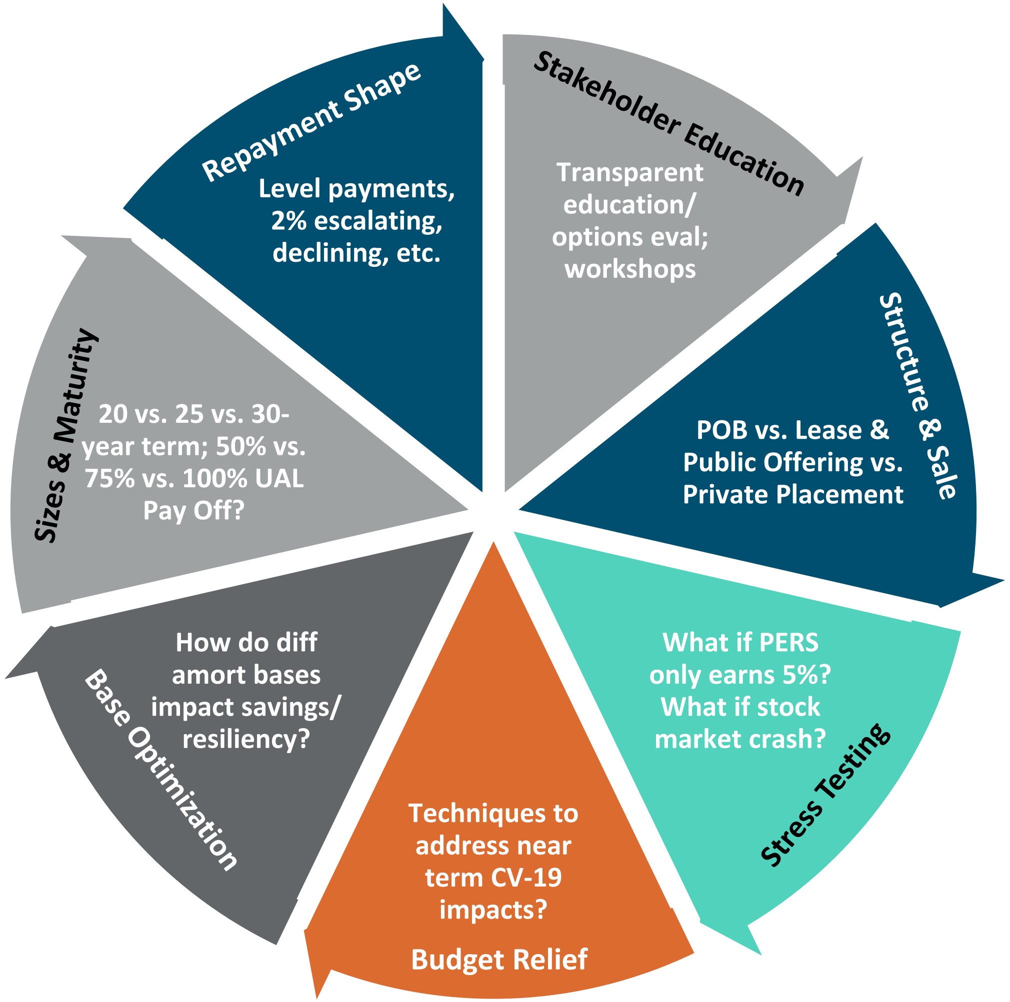
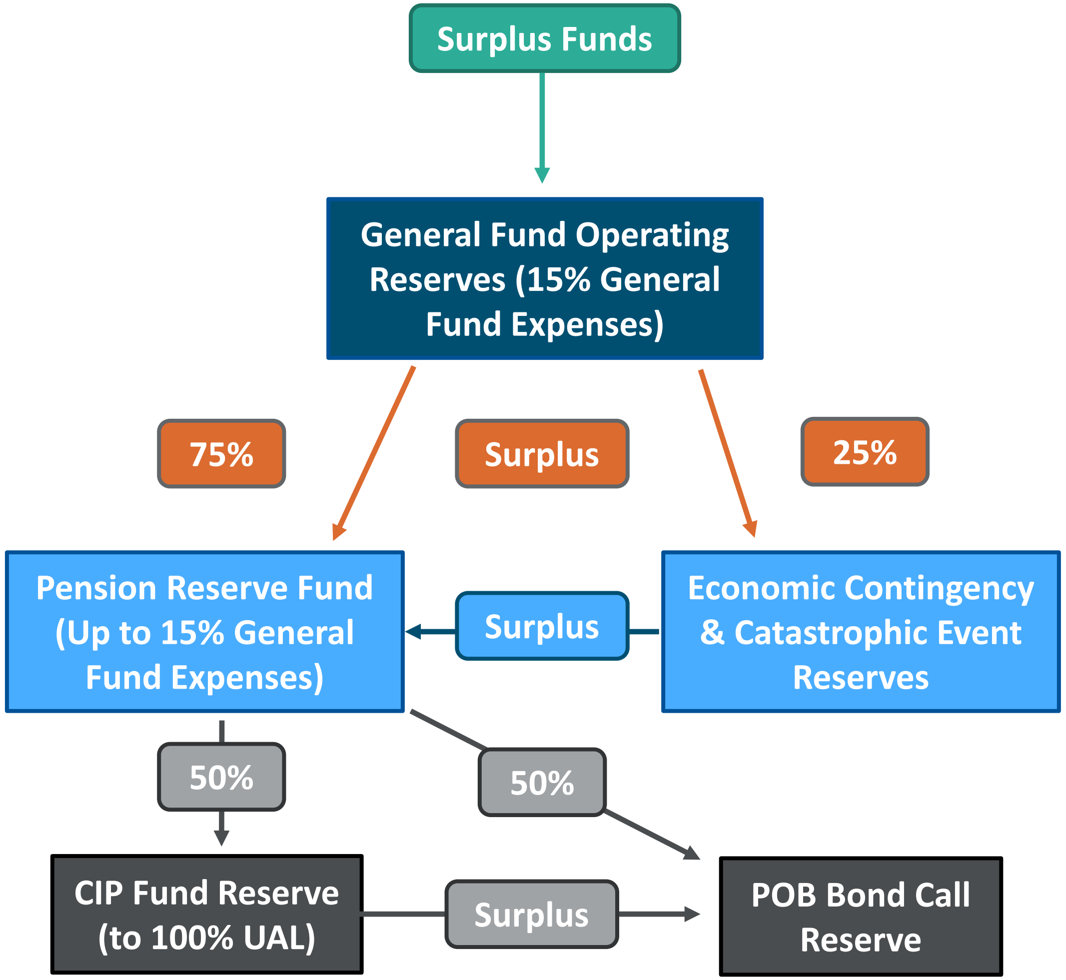
Components of a Thoughtful Evaluation Process

- Proper Stakeholder education
- Full exploration of options
  - Shapes, sizes, durations
  - Tailor to City's financial objectives, risk tolerance and other constraints
- **Stress testing process to quantify risks**
  - Utilize GovInvest, Municipal Advisor and/or Actuary to project cash flow impacts with & without pension bond
- Structuring techniques to optimize savings / resiliency to future PERS volatility
- Market timing of investing proceeds
- Restructuring strategy and use of future savings should be governed by a **Pension Funding Policy (see next page for example)**



Recommendation: Pension Funding Policy (Illustrative Purposes)

- Integrated into a comprehensive reserve policy
  - Provides direction and prioritization to use surplus funds for "filling up" City reserves and other important accounts
- Detailed projections that account for positive pension bond cash flow benefits under different CalPERS performance assumptions can be a very strong planning tool
  - Also, a "credit positive" by rating agencies
- Beyond economic contingency reserves, surpluses may also be targeted towards funding Section 115 Trusts for additional future smoothing, if needed, of pension costs
- Finally, funding an early redemption account of POBs, as well as other priority capital project funds may be considered



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IV. Conclusion

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Conclusion

- The City's Pension Liability is the largest General Fund debt on its balance sheet
  - Debt has grown significantly over the past 7 years
  - During this time annual payments to retire this debt have grown and these annual payments are projected to continue growing over the next decade
- Funding and Restructuring this pension Liability would be a very complex undertaking:
  - The problem, the options and the risks must be translated properly to decision-makers and stakeholders
  - Quantitative aspects require significant iterations to optimize results
  - Risks are quantifiable; but the City must make its own informed decision that weighs the risks vs. rewards
- Given the potential benefits, but also knowing the complexity inherent in such an important decision for the City, it is recommended that a comprehensive evaluation process be pursued to ensure that decision makers and stakeholders understand the pros and cons, including risks, in order to make an informed decision that is in the best interests of the City
- It is highly recommended that a Pension Funding Policy be integrated within the City's robust reserves policy and its long-term forecasting process to create a roadmap for addressing this long-term challenge regardless of whether the UAL is restructured or not

Regulatory Disclosures

NHA Advisors, LLC is registered as a Municipal Advisor with the SEC and Municipal Securities Rulemaking Board (“MSRB”). As such, NHA Advisors, LLC has a Fiduciary duty to the public agency and must provide both a Duty of Care and a Duty of Loyalty that entails the following.

Duty of Care

a) exercise due care in performing its municipal advisory activities;
b) possess the degree of knowledge and expertise needed to provide the public agency with informed advice;
c) make a reasonable inquiry as to the facts that are relevant to the public agency’s determination as to whether to proceed with a course of action or that form the basis for any advice provided to the public agency; and
d) undertake a reasonable investigation to determine that NHA Advisors, LLC is not forming any recommendation on materially inaccurate or incomplete information; NHA Advisors, LLC must have a reasonable basis for:
    i. any advice provided to or on behalf of the public agency;
    ii. any representations made in a certificate that it signs that will be reasonably foreseeably relied upon by the public agency, any other party involved in the municipal securities transaction or municipal financial product, or investors in the public agency securities; and
    iii. any information provided to the public agency or other parties involved in the municipal securities transaction in connection with the preparation of an official statement.

Duty of Loyalty

NHA Advisors, LLC must deal honestly and with the utmost good faith with the public agency and act in the public agency’s best interests without regard to the financial or other interests of NHA Advisors, LLC. NHA Advisors, LLC will eliminate or provide full and fair disclosure (included herein) to Issuer about each material conflict of interest (as applicable). NHA Advisors, LLC will not engage in municipal advisory activities with the public agency as a municipal entity, if it cannot manage or mitigate its conflicts in a manner that will permit it to act in the public agency’s best interests.

POB vs. LRB: Overview Comparison

POB (*most utilized method for UAL Restructure*)	Lease Revenue (*less used, but increased activity recently*)
• Validation Required to confirm UAL as existing "debt" that can be refinanced • Pros – Unsecured / No asset required, same rating as Issuer Credit Rating (1-notch higher than LRB); lower interest rate than LRB (likely 0.10% to 0.20% lower) • Cons – 3- to 5-month timeframe; potential legal challenges; limited direct placement investors	• Recent Assets utilized (buildings, streets, parks) • Pros – no validation process required so about 2 months quicker process than POB; <u>potentially</u> more flexibility with use of proceeds (timing of deposits to CalPERS/115 Trust); efficiencies if new money raised for capital projects (separate tax exempt series) • Cons – using up asset capacity, 1 notch lower rating; 0.10% to 0.20% higher interest rate

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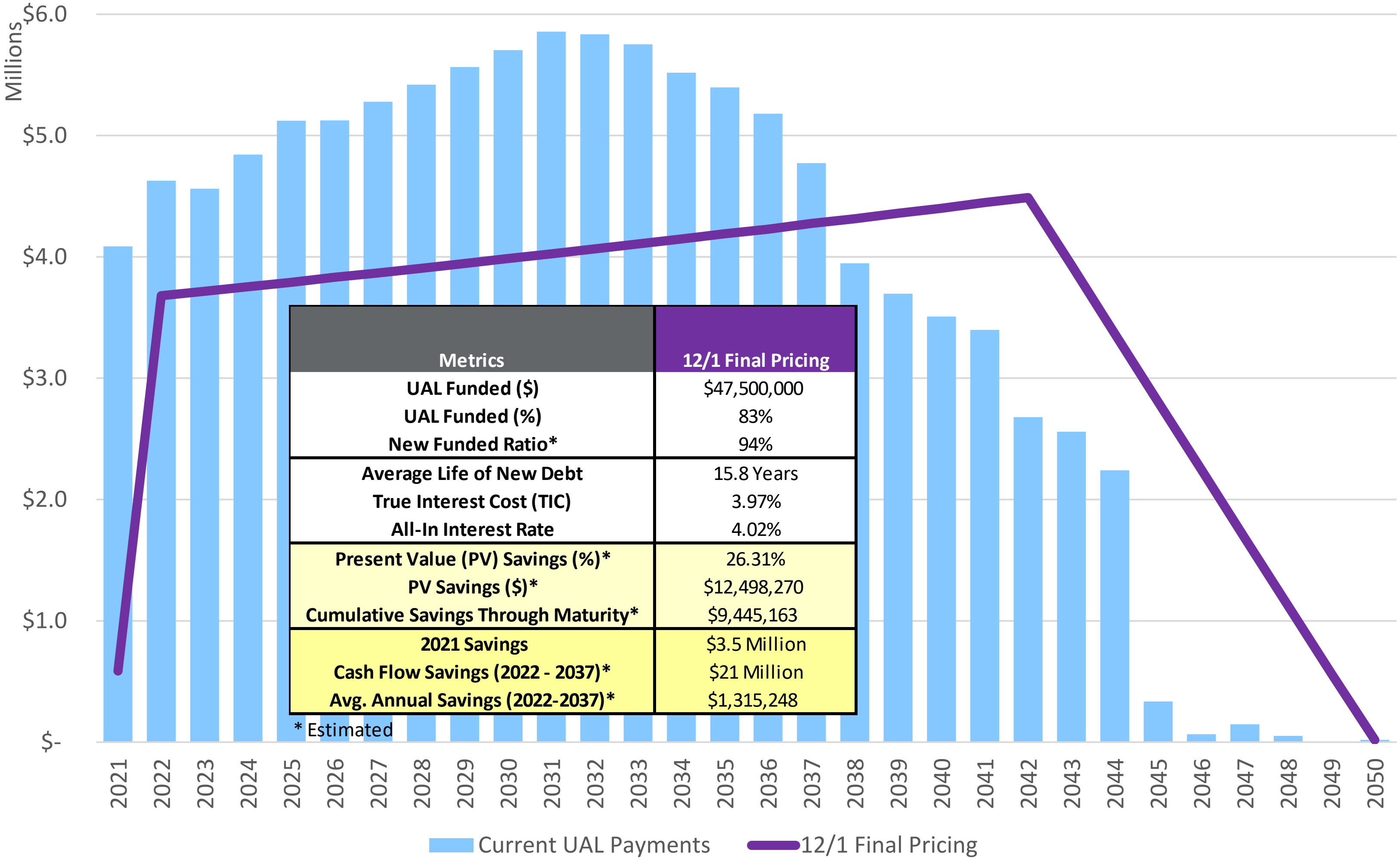
CASE STUDY

City of Ukiah

$47,500,000
City of Ukiah
2020 Taxable Lease Revenue Bonds (LRBs) – "A+" Rated
Sold: December 1, 2020 @ True Interest Cost: 3.97%

- City restructured 83% of its UAL at a 3.97% True Interest Cost
  - **Utilized Lease Revenue Bond**
    - **City streets used as asset**
- Savings - $24.5 million estimated over next 15 years; Present Value of $12.5M (26%)
  - $3.5M of upfront reimbursement in FY 21 to bolster reserves
- Resilience – Enhanced ability of City and taxpayers to absorb future economic downturns
- Increase pension funding ratios of both Safety and Miscellaneous Plans to ≈ 94%
- Engaged and robust stakeholder education process
- Contacts: Sage Sangiacomo (City Manager) and Dan Buffalo (Finance Director)



Metrics	12/1 Final Pricing
UAL Funded ($)	$47,500,000
UAL Funded (%)	83%
New Funded Ratio*	94%
Average Life of New Debt	15.8 Years
True Interest Cost (TIC)	3.97%
All-In Interest Rate	4.02%
Present Value (PV) Savings (%)*	26.31%
PV Savings ($)*	$12,498,270
Cumulative Savings Through Maturity*	$9,445,163
2021 Savings	$3.5 Million
Cash Flow Savings (2022 - 2037)*	$21 Million
Avg. Annual Savings (2022-2037)*	$1,315,248

* Estimated

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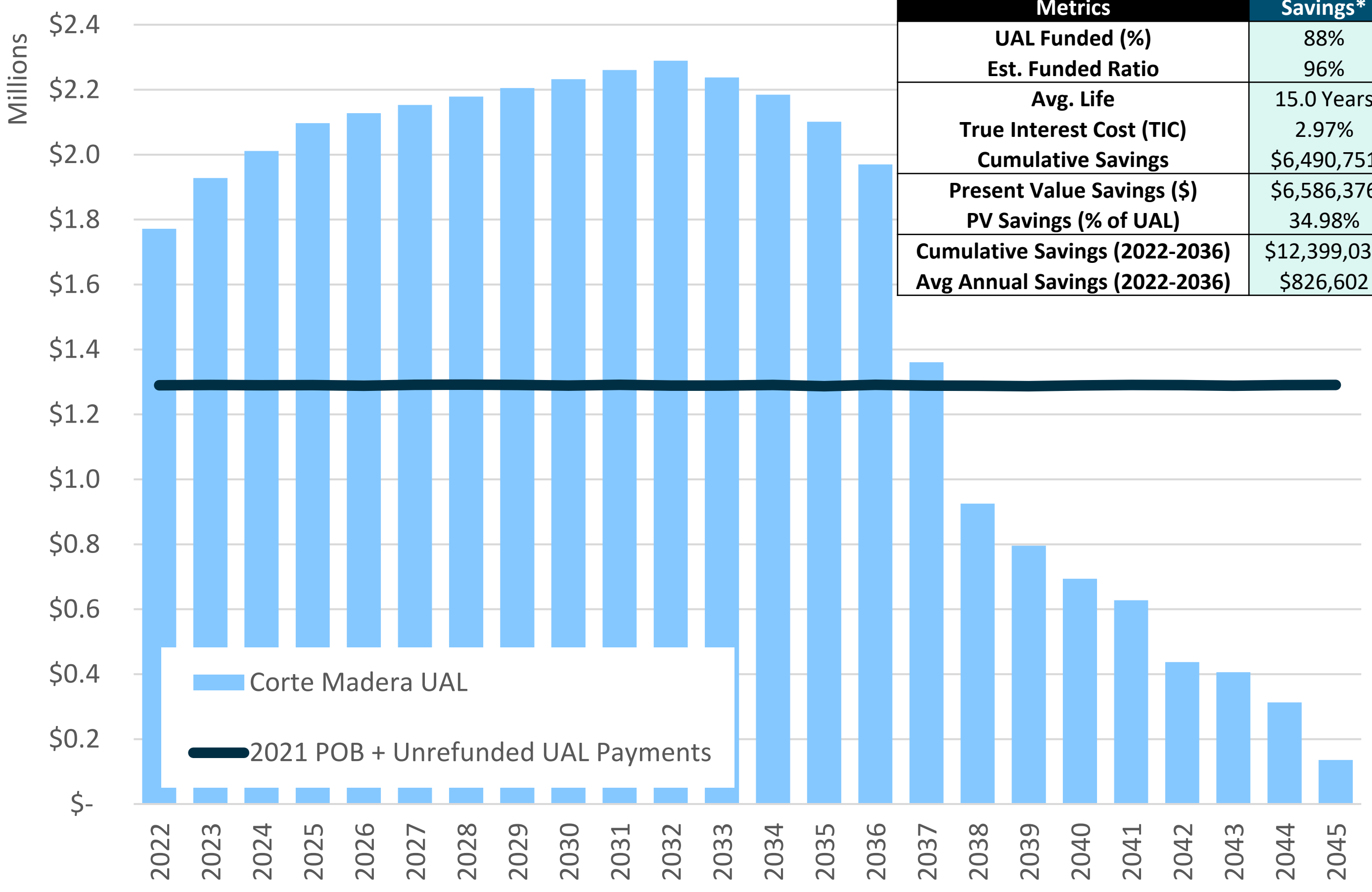
CASE STUDY

$18,955,000
Town of Corte Madera
2021 Pension Obligation Bonds (POBs) – "AAA" Rated
Sold: April 29, 2021 @ True Interest Cost: 2.97%

- **Enhanced Financial __Resiliency:__** Results of *"What-If" stress-testing / risk assessment* demonstrates that Town can now better absorb increased payment shocks from CalPERS underperformance
- **Comprehensive & Inclusive 18-month Evaluation __Process:__** Considered wide array of options, GFOA/stakeholder objections, opportunities and risks
- **Pension Funding __Policy:__** Commits Town towards financial path to address pension challenge
  - Includes dedicating POB savings towards reserves, Section 115, CalPERS ADPs and early POB pay off
- **Credit Rating __Upgrade__ to "AAA"!** Town upgraded from AA+ to AAA based on improved financial performance, new financial policies and multipronged pension funding strategy
- **Savings!** $12,400,000 estimated savings over next 15 years
  - Over $6,500,000 present value (35% of Refunded UAL) savings overall*

Metrics	2021 POB Savings*
UAL Funded (%)	88%
Est. Funded Ratio	96%
Avg. Life	15.0 Years
True Interest Cost (TIC)	2.97%
Cumulative Savings	$6,490,751
Present Value Savings ($)	$6,586,376
PV Savings (% of UAL)	34.98%
Cumulative Savings (2022-2036)	$12,399,032
Avg Annual Savings (2022-2036)	$826,602



** Projected savings assumes CalPERS earns 7.0% investment earnings; navy blue line represents combined POB debt service and unrefunded UAL. UAL figures sourced from 6/30/2019 CalPERS Actuarial Valuation reports.*

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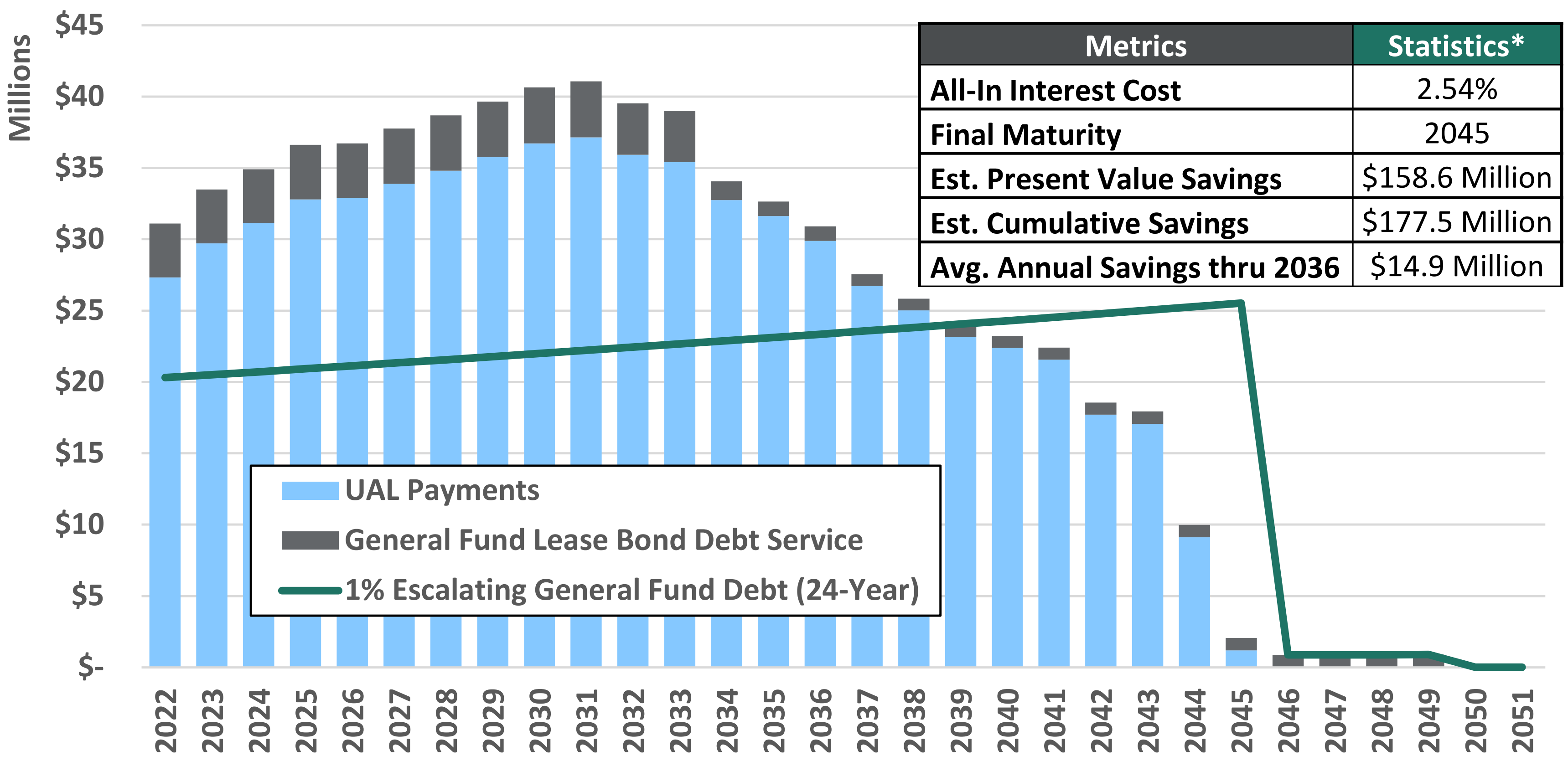
CASE STUDY

$350,025,000
City of Chula Vista
2021 Pension Obligation Bonds (POBs) – "AA" Rated
Sold: February 11, 2021 @ All-In Cost: 2.54%

- **Savings!** $15 million average annual savings over next 15 years; Over $150 million net present value (44% of Refunded UAL)*
- **Enhanced Financial Resiliency**: City can now better absorb increased payment shocks from CalPERS underperformance
- **Inclusive 15-month Evaluation Process**: Considered wide array of options, objections, opportunities and risks
- **Pension Funding Policy:** Commits City towards detailed roadmap to address this challenge; Includes dedicating POB savings towards reserves, Section 115 and early POB payoff

Prior General Fund Payments vs. New Payments After UAL Restructuring



Metrics	Statistics*
All-In Interest Cost	2.54%
Final Maturity	2045
Est. Present Value Savings	$158.6 Million
Est. Cumulative Savings	$177.5 Million
Avg. Annual Savings thru 2036	$14.9 Million

** Projected savings assumes CalPERS earns 7.0% investment earnings; green line represents combined other General Fund debt service + POB debt service*

https://www.chulavistaca.gov/departments/finance/pension-obligation-bonds