



CITY OF MARTINEZ

**CITY COUNCIL AGENDA
October 19, 2011**

TO: Mayor and City Council
FROM: Alan Shear, Assistant City Manager
Cathy Spinella, Finance Manager
SUBJECT: Pension Obligation Bonds
DATE: October 11, 2011

RECOMMENDATION:

Staff recommends the City Council adopt a resolution directing staff to take actions related to the issuance of pension obligation bonds to refinance the outstanding side fund obligations of the City to the California Public Employees' Retirement System.

BACKGROUND:

The City has a CalPERS "Side Fund" obligation of \$6.8 million for its existing safety employee pension benefits. The City has an opportunity to reduce the annual cost for its CalPERS Side Fund obligation. If the City chooses to use this opportunity, it would issue taxable pension obligation bonds ("POB") to prepay its CalPERS Side Fund obligation. Under current bond market conditions, estimated annual debt service on the Side Fund POB would be significantly less than the annual payments scheduled to be paid to CalPERS for this same purpose. The proposed transaction would refinance an existing obligation to take advantage of low bond market rates. It would not change the benefits owed to existing or prior City employees.

In January 2004 the City increased pension benefits for safety employees through a "3% at 50" plan, as did many other cities in California. Because of the increased liability that agencies were assuming with the enhanced retirement formulas, CalPERS combined the retirement plans for all public agencies with "small" plans (less than 100 employees) to reduce the volatility of employer contribution rates. CalPERS also created for each member agency a so-called "Side Fund" to amortize each agency's unfunded liability over a fixed term at a fixed interest rate of 7.75%.

DISCUSSION and FISCAL IMPACT:

Over the last 9 months, the bond market has provided interest rates for pension obligation bonds much lower than the 7.75% that CalPERS is charging on its Side Fund. The City's Side Fund obligation currently has a term of 10 ½ years. Due to the current interest rate environment, the City can shorten the term to approximately 9 years and payoff the Side Fund obligation more quickly without an increase in its annual debt service. Based on today's interest rates, the City can realize savings of approximately \$1.6 million, just over \$1million in net present value savings. While the industry standard for a refunding is 3% net present value savings, the City could realize net present value savings of 15.45%.

Attached is the summary of the refunding analysis.

Financing Team Participants

In order to proceed with the financing it is necessary that the City hire the expert consultants to perform the technical work associated with this type of financial transaction. Included in the Resolution that Council is being asked to adopt is the authorization from Council for Staff to enter into agreements for consulting services with the following firms in the following capacities:

<u>Name of Firm</u>	<u>Role</u>
Jones Hall	Bond Counsel
Brandis Tallman LLC	Placement Agent
	Trustee

All fees associated with this financing will be paid from Bond proceeds.

Financing Schedule

The following is the tentative financing schedule:

<u>Date</u>	<u>Action Item</u>	
Week 1	Council approval to proceed with refunding	Oct. 19
Week 2	Distribution of 1st draft of loan documents	Oct. 26
Week 3	Comments due on loan documents 2nd draft of loan documents due	Oct. 31
Week 4	Comments due on loan documents; loan documents due for council meeting agenda deadline	Nov. 7
Week 5	City Council meeting to approve loan documents and authorize refunding	Nov. 16
Weeks 6-11	Court validation process	Nov. 20
Week 12	Validation Judgment 30-day appeal process begins	Jan. 2
Week 16	Appeal period ends, validation complete close transaction	Jan. 30

ACTION:

Motion approving a resolution directing staff to take actions related to the issuance of pension obligation bonds to refinance the outstanding side fund obligations of the City to the California Public Employees’ Retirement System.

APPROVED BY: 
City Manager

City of Martinez, California Side Fund Refunding Bonds Series 2011

Costs of Issuance

Bond Counsel	52,500.00
Placement Agent	47,500.00
Investor Counsel	25,000.00
Trustee	5,000.00
Miscellaneous	7,500.00
Rounding Adjustment	685.00
Total	138,185.00

**City of Martinez, California
Side Fund Refunding Bonds
Series 2011**

Summary Statistics

Arbitrage Yield	3.87500 %
TIC	3.87500 %
"All-In" TIC	4.32044 %
Average Coupon	3.87500 %
Net Interest Cost (NIC)	3.87500 %
Average Life	5.248 Years

City of Martinez, California
Side Fund Refunding Bonds
Series 2011

Gross Debt Service Schedule and Savings Calculation (NPV Basis) - (Safety)

Date	Principal	Rate	Interest	Periodic Debt Service	Annual Debt Service	Annual Side Fund Payments	Annual (Savings) / Cost	3.87500 Present Value
12/30/2011								
6/30/2012	263,000	3.875	132,389.38	395,389.38	395,389.38	395,892.50	(503.13)	(493.56)
12/30/2012	281,000	3.875	127,293.75	408,293.75				392,920.58
6/30/2013	287,000	3.875	121,849.38	408,849.38	817,143.13	817,518.00	(374.88)	(385,806.34)
12/30/2013	306,000	3.875	116,288.75	422,288.75				391,087.20
6/30/2014	311,000	3.875	110,360.00	421,360.00	843,648.75	844,087.00	(438.25)	(384,052.06)
12/30/2014	331,000	3.875	104,334.38	435,334.38				387,988.71
6/30/2015	338,000	3.875	97,921.25	435,921.25	871,255.63	871,520.00	(264.38)	(380,845.45)
12/30/2015	358,000	3.875	91,372.50	449,372.50				385,420.37
6/30/2016	366,000	3.875	84,436.25	450,436.25	899,808.75	899,844.00	(35.25)	(378,124.44)
12/30/2016	387,000	3.875	77,345.00	464,345.00				383,266.61
6/30/2017	394,000	3.875	69,846.88	463,846.88	928,191.88	929,089.00	(897.13)	(376,708.37)
12/30/2017	417,000	3.875	62,213.13	479,213.13				380,645.73
6/30/2018	425,000	3.875	54,133.75	479,133.75	958,346.88	959,284.00	(937.13)	(374,141.12)
12/30/2018	449,000	3.875	45,899.38	494,899.38				378,304.24
6/30/2019	458,000	3.875	37,200.00	495,200.00	990,099.38	990,461.00	(361.63)	(371,385.08)
12/30/2019	483,000	3.875	28,326.25	511,326.25				376,144.26
6/30/2020	492,000	3.875	18,968.13	510,968.13	1,022,294.38	1,022,651.00	(356.63)	(369,252.33)
12/30/2020	487,000	3.875	9,435.63	496,435.63				351,440.11
6/30/2021	-	-	-	-	496,435.63	1,055,887.00	(559,451.38)	(733,283.40)
12/30/2021	-	-	-	-				-
6/30/2022	-	-	-	-	-	1,090,204.00	(1,090,204.00)	(728,608.49)
Totals	6,833,000		1,389,613.75	8,222,613.75	8,222,613.75	9,876,437.50	(1,653,823.75)	(1,055,482.84)
						Savings % New Issue		15.45%

RESOLUTION NO. -11

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARTINEZ
DIRECTING IMPLEMENTATION OF PROCEEDINGS FOR THE REFINANCING OF
ITS CALPERS SIDE FUND OBLIGATIONS RELATING TO THE
CITY'S SAFETY PLAN

WHEREAS, the City Council of the City of Martinez (the "City") is considering the issuance of its 2012 Taxable Pension Obligation Bonds (the "Bonds") in the approximate principal amount of \$7,000,000 in order to achieve interest savings through the refinancing of its CalPERS side fund obligations under its CalPERS Safety Plan; and

WHEREAS, as a condition precedent to the issuance of the Bonds, the validity of the Bonds must be confirmed by a judicial validation action pursuant to the provisions of Sections 860 *et seq.* of the California Code of Civil Procedure; and

WHEREAS, the City Council desires that the following act with respect to the proposed Bonds: namely, that Brandis Tallman LLC act as placement agent with respect to the private placement of the Bonds (the "Placement Agent"), and that Jones Hall, A Professional Law Corporation, act as bond counsel with respect to the proceedings for the judicial validation of the Bonds and for the issuance, sale and delivery of the Bonds (the "Bond Counsel").

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Martinez, as follows:

Section 1. Implementation of Financing. The City Staff with the assistance of the Placement Agent and the Bond Counsel shall prepare proceedings for the issuance of the Bonds. All such proceedings shall, upon preparation, be submitted to the City Council for final approval.

Section 2. Placement Agent and Bond Counsel. the City Council hereby appoints Brandis Tallman LLC as Placement Agent for the Bonds and Jones Hall, A Professional Law Corporation, as Bond Counsel. Fees and expenses to be paid to the foregoing for services shall be as provided in engagement letters or agreements provided by the foregoing for approval by the City prior to the delivery of the Bonds.

Section 3. Effective Date. This Resolution shall take effect from and after the date of its passage and adoption.

* * * * *

I HEREBY CERTIFY that the foregoing is a true and correct copy of a resolution duly adopted by the City Council of the City of Martinez at a Regular Meeting of said Council held on the 19th day of October, 2011, by the following vote:

AYES:

NOES:

ABSENT:

ROB SCHRODER, MAYOR
CITY OF MARTINEZ

(SEAL)

ATTEST:

By: _____
Deputy City Clerk

APPROVED AS TO FORM:

City Attorney