

Memorandum

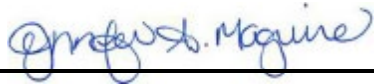
TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Julia H. Cooper

**SUBJECT: UPDATE ON PENSION
OBLIGATION BOND
EXAMINATION**

DATE: August 19, 2021

Approved



Date

8/19/2021

INFORMATION

The information memorandum is provided to update the City Council on staff activities and upcoming meetings related to the continued exploration of Pension Obligation Bonds (“POBs”) as an option for financing the City’s Unfunded Actuarial Liabilities (“UAL”) obligations to the City’s Retirement Plans.

BACKGROUND

At the April 23, 2021 Council Study Session¹, staff presented options evaluated for financing the UAL obligations of the Federated Employees’ Retirement Systems (“Federated Plan”) and the Police and Fire Department Retirement Plan (“Police and Fire Plan”) (collectively, the “Retirement Plans”), including the possibility of issuing POBs as requested by the Mayor and Council in their December 1, 2020 referral. At the Study Session other preparatory work was provided that will assist the City Council in its ability to make a fully informed decision about the merits and risks of UAL financing options including the issuance of POBs. On May 11, 2021², the Council directed the Administration and the Office of the City Attorney to take several actions related to the further exploration of POBs as a funding option for the City’s unfunded accrued liabilities in the Retirement Plans including:

- Proceeding with preparation of bond documents and court validation documents necessary for the issuance of POBs with the expectation staff would return to Council on June 29, 2021 with these documents. This action was delayed.
- Preparation of a POB Funding Policy
- Schedule a joint meeting with Council and Retirement Boards

¹ April 23, 2021 Council Study Session Materials –
<https://sanjose.legistar.com/MeetingDetail.aspx?ID=790194&GUID=6D7FA4D7-1A63-4C08-A8E8-045DE722CC29&Options=info&Search=>

² May 11, 2021 Council Direction related to POBs –
<https://sanjose.legistar.com/LegislationDetail.aspx?ID=4924655&GUID=D19F00AE-4AF8-4E36-9AE3-3B8BC09E0FFB&Options=&Search=>

- Return to Council for approval of POB financing plans and accompanying analysis of risks and benefits after successful validation.

Additionally, Council approved Councilmember Mahan’s memorandum³ which included direction to provide a more detailed analysis to assist the Council in thoroughly understanding the risks involved in issuing POBs along with the benefits.

UPCOMING MEETINGS AND STATUS OF REFERRALS

Below is a summary of upcoming meetings

- Presentation to Boards - *“Discussion of City Staff’s Objectives and Approach to Potential Issuance of Pension Obligation Bonds”*⁴
 - Federated Retirement Board August 19, 2021
 - Police & Fire Retirement Board September 9, 2021
- Council Meeting Approval of Judicial Validation and briefing on presentations made to Retirement Boards September 21, 2021
- Joint Meeting – City Council, Federated Board and Police & Fire Board September 30, 2021
- Council Meeting – POB Policy Adoption and Continued Analysis of POB Scenarios TBD

At the September 21, 2021 Council meeting we will also be providing a timeline for the work and analysis that needs to be completed prior to making a recommendation to Council to move forward with issuance of POBs. We are aware Council has requested additional financial analysis and stress testing which we plan to undertake in early 2022. Because market conditions and interest rate relationships may (and likely will) change during course of the lengthy judicial validation process, we believe it will be important for Council to base decisions on financial analysis closer to the time of the bond sale (when the rates get locked in). This analysis will be presented in advance of any recommendation to proceed with the issuance of POBs.

/s/
JULIA H. COOPER
Director of Finance

For questions, please contact Julia H. Cooper, Director of Finance, via email at julia.cooper@sanjoseca.gov or via phone at (408) 535-7011.

³ Councilmember Mahan memorandum -- <https://sanjose.legistar.com/View.ashx?M=F&ID=9394724&GUID=FA82A06C-282B-4A2D-84AE-74326EBAC5E8>

⁴ City Staff Presentation to Federated Board (August 19, 2021) - <http://sjrs.legistar.com/gateway.aspx?M=F&ID=d4fb8569-c6a8-441c-b281-ca90140ab5c4.pdf> (note – very similar presentation will be made to Police & Fire Board)