CITY OF NATIONAL CITY, CALIFORNIA
COUNCIL AGENDA STATEMENT

MEETING DATE: October 6, 2020 **AGENDA ITEM NO.:** 3

ITEM TITLE:
Pension Funding Workshop – CalPERS Pensions Cost and Unfunded Accrued Liability Restructuring Presentation

PREPARED BY: Mark Roberts, Finance Director **DEPARTMENT:** Finance
PHONE: 619-336-4330 **APPROVED BY:** Mark Roberts

EXPLANATION:
See attached staff report and presentation.

FINANCIAL STATEMENT: **APPROVED:** Mark Roberts **FINANCE**
ACCOUNT NO. **APPROVED:** ______________ **MIS**
See attached staff report.

ENVIRONMENTAL REVIEW:
This is not a project and, therefore, not subject to environmental review.

ORDINANCE: **INTRODUCTION** ☐ **FINAL ADOPTION** ☐

STAFF RECOMMENDATION:
Authorize staff to initiate the process of seeking court validation to issue the bonds, including preparation of the necessary documents for Council approval and engagement of legal counsel for services related to the court validation process for a not-to-exceed cost of $30,000

BOARD / COMMISSION RECOMMENDATION:

ATTACHMENTS:
1. Staff Report
2. Presentation - CalPERS Pension Cost Update – Cost Management Strategies and Unfunded Accrued Liability Restructuring

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City Council Agenda Report

October 6, 2020 Workshop
CalPERS Pension Costs Update and Unfunded Accrued Liability Restructuring

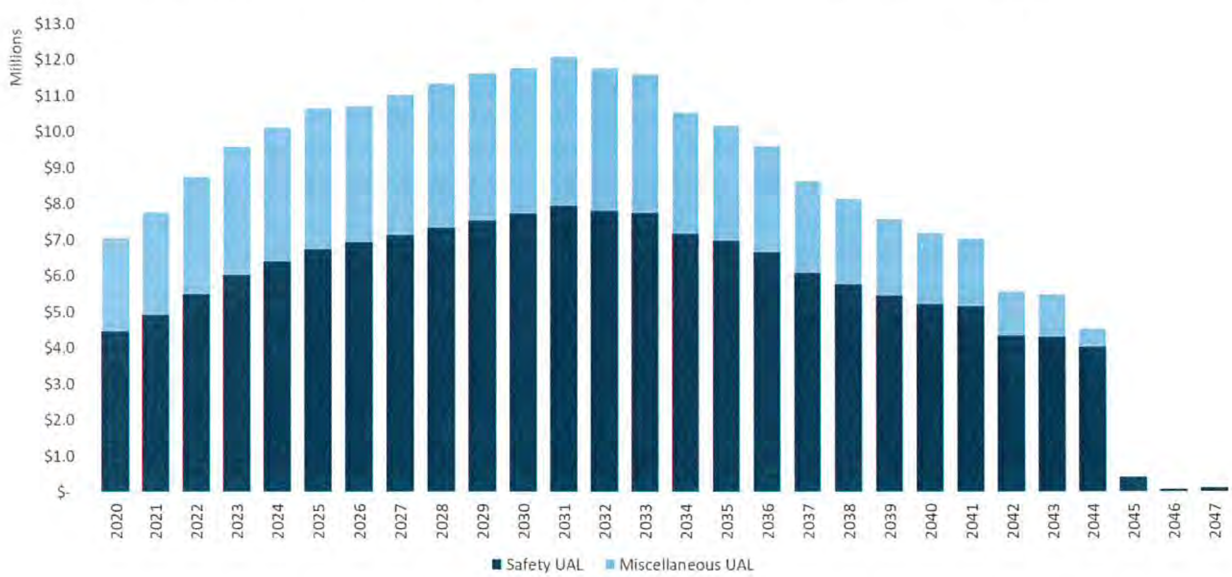
ITEM

The City continues to explore various cost management strategies for its $116 million unfunded accrued liability (UAL) with the California Public Employees Retirement System (CalPERS). At the October 6, 2020 City Council Workshop, the City and its Municipal Advisor (NHA Advisors) will provide a presentation discussing the City's most recent actuarial report released by CalPERS this past July and provide a discussion on alternative repayment strategies, including a restructuring of the UAL. If the City wishes to explore the UAL restructuring concept in more detail, a recommended schedule is provided and includes adopting initial legal documents at the October 20, 2020 City Council meeting in order to initiate a court validation process (which will provide opportunity to City to issue pension obligation bonds at a later date).

BACKGROUND/DISCUSSION

Over the last 7 years, the City of National City's (the "City") UAL for its CalPERS Miscellaneous and Safety Plans has grown 64%, from $70.8 million to about $116 million (6/30/2021 projected valuation). The UAL represents the shortfall/gap between what is needed to pay retiree benefits versus how much in current assets the City actually has in its accounts with CalPERS. Annual payments made to CalPERS to amortize the UAL have grown rapidly: from $3.9M in FY 2016 to $7.8M in FY 2021 and are projected to grow to $10.6M by FY 2025 and $12.1M by FY 2031.

CITY OF NATIONAL CITY – UAL REPAYMENT SCHEDULE



The $116 million UAL is not required to be repaid all at once but is amortized over a longer period (with different components amortized over different time periods, most between 4 and 29 years) at an interest rate of 7%.

Pension cost increases are the largest financial challenge facing most cities throughout the state and are primarily due to factors outside of the cities' control, namely actuarial assumption changes made by CalPERS and below average investment returns.

The attached presentation provides information on cost management strategies including: (1) Requesting a new, shorter amortization with CalPERS (Fresh Start), (2) Using cash reserves to make additional payments to CalPERS or to the City's Section 115 Trust and (3) Restructuring the UAL at a lower interest rate.

As current interest rates are at historically low levels, combined with the fact that the City has exhausted many of its other resources to address rising pension costs, City staff tasked its Municipal Advisor (NHA) to assist them in evaluating the merits (including benefits and risks) of a UAL restructuring. A UAL restructuring (either through a Pension Obligation Bond (POB) or a Lease Revenue Bond) entails converting 7% debt with CalPERS to lower debt on a bond (currently between 3.50% and 4.00%). Some of the potential benefits of a restructuring include:

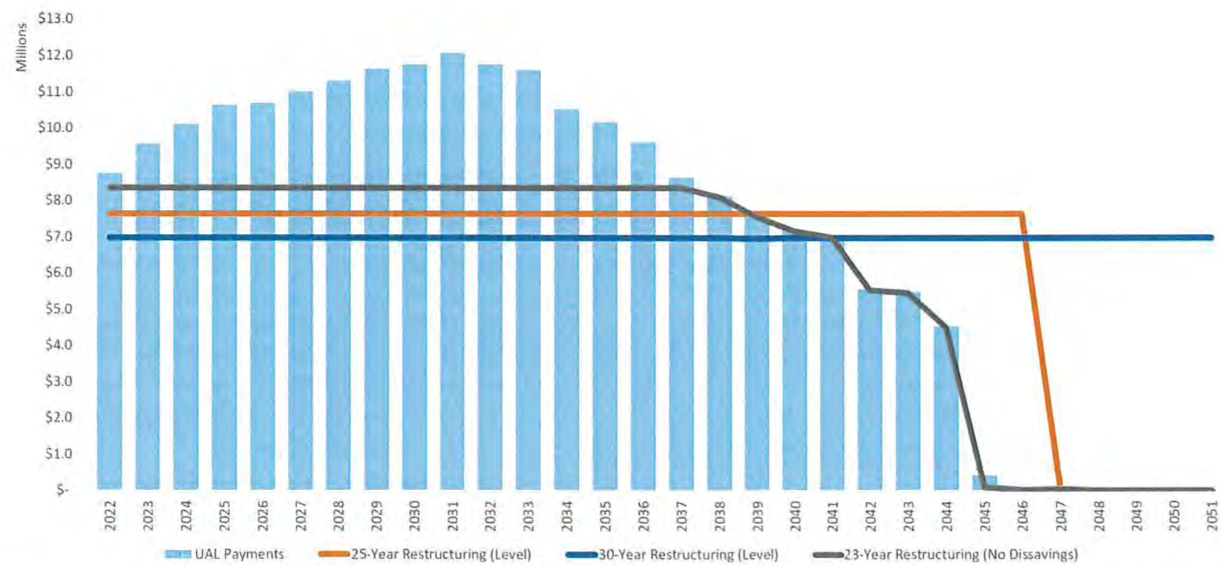
- **Fiscal Sustainability Tool:** Ability to "re-shape" the City's overall pension repayment in a way that creates enhanced long-term fiscal sustainability, budgetary predictability, and enhanced resiliency to future economic shocks
- **Near-Term Budgetary Savings:** By modifying the current near term "peak" in scheduled payments into a more predictable (i.e. level or nearly level) structure, near term cash flow savings are created
- **Interest Rate Savings "Arbitrage":** City can borrow at rates much lower (currently 3.50% – 4.00% depending on term and credit) than those CalPERS is charging on the UAL debt (7%)
- **Increase Funding Ratio:** Current ratios range from 66% (Miscellaneous) to 67.6% (Safety); these could be increased to above 90% through the restructuring
- **Modify Maturity:** Shorten or lengthen repayment period as deemed most fiscally appropriate
- **Leverage Savings through Improved Policies:** The City could consider developing a policy that includes leveraging the savings created through the restructuring to continue funding its separate Section 115 trust to higher levels which will be solely dedicated to pension and OPEB expenses

As shown in the presentation, there are three preliminary UAL restructuring options presented, each of which assumes a partial (75% of total) restructuring of the UAL to bring the City's funding ratios to about 92%. There are literally hundreds of options that can be further explored (different shapes, sizes, terms, etc.) if the City decides to evaluate this strategy in more detail, but in order to not over complicate this initial exploration of the restructuring concept, only three options have been included. Estimated savings (on a present value basis) from these options ranges from about $24.1 million to $27.0 million, or about $2.1 to $3.4 million annually for the next 15 years.

As part of a UAL restructuring, there are also many techniques that can be used to generate additional upfront savings as well if the City needs to address any COVID-19 revenue shortfalls and/or bolster near-term liquidity.

A chart that provides more detail on the "smoothing" strategy of new payments and a summary of estimated savings metrics is presented below.

PRELIMINARY UAL RESTRUCTURING OPTONS
NEW PAYMENTS VS. CURRENT UAL PAYMENTS



Metrics	23-Year Restructuring (No Dissavings)	25-Year Restructuring (Level)	30-Year Restructuring (Level)
UAL Funded ($)	$86,890,319	$86,890,319	$86,890,319
UAL Funded (%)	75%	75%	75%
Funded Ratio	92%	92%	92%
Maturity	23 Years	25 Years	30 Years
Average Life	12.7 Years	16.9 Years	20.7 Years
All-In Interest Rate	3.66%	3.79%	3.95%
Present Value Savings (%)	31.12%	29.68%	27.75%
Present Value Savings ($)	$27,044,238	$25,792,621	$24,113,662
Prior UAL Payments	$223,816,850	$223,816,850	$223,816,850
New Restructuring Payments	$186,927,011	($198,474,731)	($216,917,500)
Cumulative Savings	$36,889,839	$25,342,119	$6,899,350
Savings (2022-2037)	$36,193,355	$47,882,989	$59,525,094
Average Savings (2022-2037)	$2,129,021	$2,816,646	$3,433,253

Numerous cities (Azusa, Larkspur, Marysville, Grass Valley, Riverside, Pomona, West Covina, El Monte, Ontario, Carson, Inglewood, Montebello, Pasadena, Glendora, Monrovia, Hawthorne, La Verne and several others) throughout California have recently refinanced their UAL to restructure the payment pattern and increase the funding of their pension plans. Many others ($2 billion estimated) are scheduled to issue UAL restructuring bonds in the next few months. Other San Diego cities, like El Cajon (recently finished validation process) and Chula Vista (recently started validation process) are also preparing to issue UAL restructuring bonds. Interest rates set on these recent financings ranged from about 3.00% to 4.25%, with rates dictated by market conditions at the time of pricing, credit rating of the issuer, and length of term of the bonds.

Risks and Considerations: Ultimately, actual savings from a UAL restructuring will be dependent on two factors: (1) actual interest rates at the time of pricing the new bond and (2) future CalPERS returns, which is an unknown at the time of bond issuance. The rule of thumb for evaluating the benefit of a UAL restructuring is that the City will be better off (i.e. the UAL refunding will produce positive savings) if CalPERS earns more than the interest rate on the Bonds (currently estimated at 3.75%). While past performance does not guarantee future results, CalPERS' historical 30-year returns are 8.0%, 5.5% for the last 20 years on average, 8.5% for last 10 years and 6.3% for the last 5 years. NHA Advisors has worked on several UAL restructurings recently and will share some information related to how the City can assess and mitigate the impacts from this reinvestment risk through proper actuarial stress testing and structuring so that these risks can be better quantified and ameliorated.

In addition to discussing the benefits and risks of a UAL restructuring, the presentation will also address the steps required if the City were to pursue this type of strategy, as well as the process that would be recommended to ensure a transparent and comprehensive evaluation process.

NEXT STEPS

If the City is interested in continuing to explore a UAL restructuring and positioning itself so that it does have this option if favorable market conditions exist, staff and NHA Advisors recommend that a validation process is initiated. This legal process does not obligate the City to issue a POB, but it does provide authority, if validation is received, for the City to issue the POB (either now or at anytime in the future) and enter into the principal legal documents. The validation process typically takes about 4 months and costs about $25,000 to $30,000 for legal fees. Staff is recommending that the initial legal documents are brought back for City Council approval on October 20, which will allow the validation process to be initiated by the end of October. From November to March, the City can continue to work with NHA Advisors to conduct a thorough evaluation process of all restructuring options and provide comprehensive pro/con analysis so that the City can make a well-informed decision. A stress testing process can also be incorporated so that reinvestment risk is properly quantified. Other traditional aspects of a bond financing (credit rating process, preliminary official statement documentation, etc.) can be executed at the same time the validation process is underway. This will put the City in a position to be able to execute a UAL restructuring next Spring 2021 if it desires to do so.

FISCAL IMPACT

If the City decides to initiate the validation process, there will be $25,000 to $30,000 of non-contingent legal fees for preparation of the validation complaint. These fees could be built into the financing costs if the City does elect to issue pension obligation bonds next spring. If the City does not issue bonds, it will still need to pay these legal costs related to the validation proceedings. If the City does decide to move forward in spring of 2021 with a UAL Restructuring, significant short and long term budgetary savings are expected, which can be quantified in more detail as options get refined.

RECOMMENDATIONS

That City Council receive the presentation on Cost Management Strategies and UAL Restructuring and provide guidance on initiating the validation process. If the City Council wishes to move forward with initiating the validation process (again, this does not lock the City into issuing a POB), staff recommends that the necessary documentation be brought back to City Council for approval on October 20, 2020 This will also require that legal counsel is engaged to draft this documentation.

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CalPERS Pension Costs Update

Cost Management Strategies and UAL Restructuring Discussion

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October 6, 2020

Table of Contents

Executive Summary of Presentation

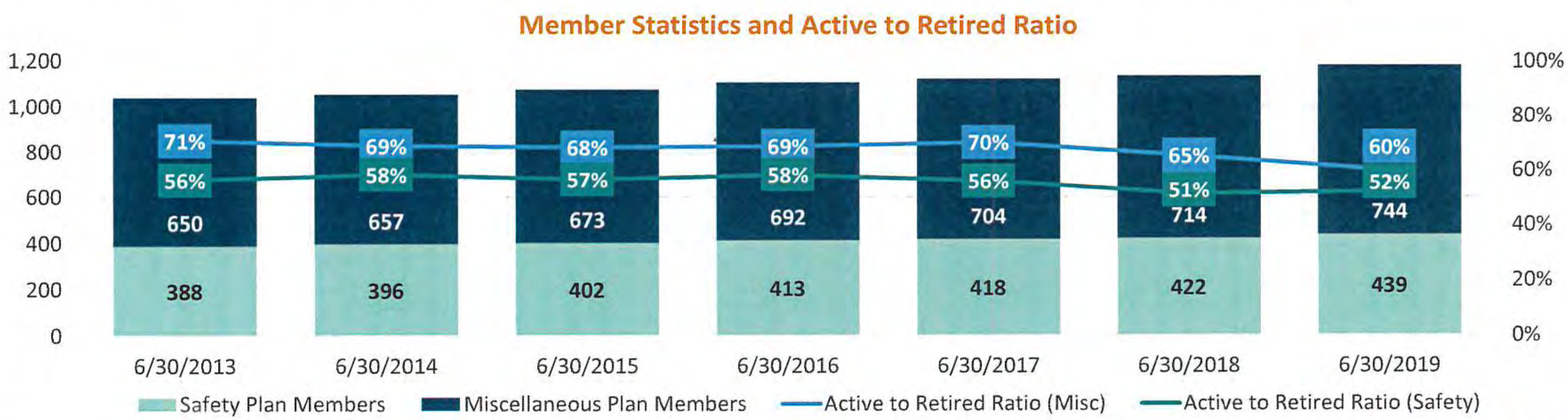
- City of National City has a projected **$115.9M Unfunded Accrued Liability (UAL) for 6/30/2021 with CalPERS**
  - 64% increase (from $70.9M) over last 7 years
  - Annual UAL payments projected to grow from $7.8M (2021) to $10.7M (2026)
- City has approximately $8.1M of other outstanding General Fund debt
- Rapidly increasing (and uneven) repayment shape of UAL is causing added pressure on City's budget
- Planning for, and evaluating options to manage these rising costs are important for budget predictability and fiscal health
  - Last year, options were explored that leveraged City reserves (Section 115 Trust)
  - UAL restructuring option will be discussed in this presentation given historically low interest rates and other budgetary/COVID-19 challenges

I. Background on CALPERS Costs

CalPERS Pension 101

Retirement Plan Overview

- City has 2 primary CalPERS plans
  - Miscellaneous: 744 covered members including 185 active
  - Safety: 439 covered members including 124 active
- Plans include Classic (hired prior to 2013) Plans and PEPRA Plans members
- Active to retired ratios range from 52% (Safety) to 60% (Miscellaneous)



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 City 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

Why CalPERS Costs are Trending Higher

Then …

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

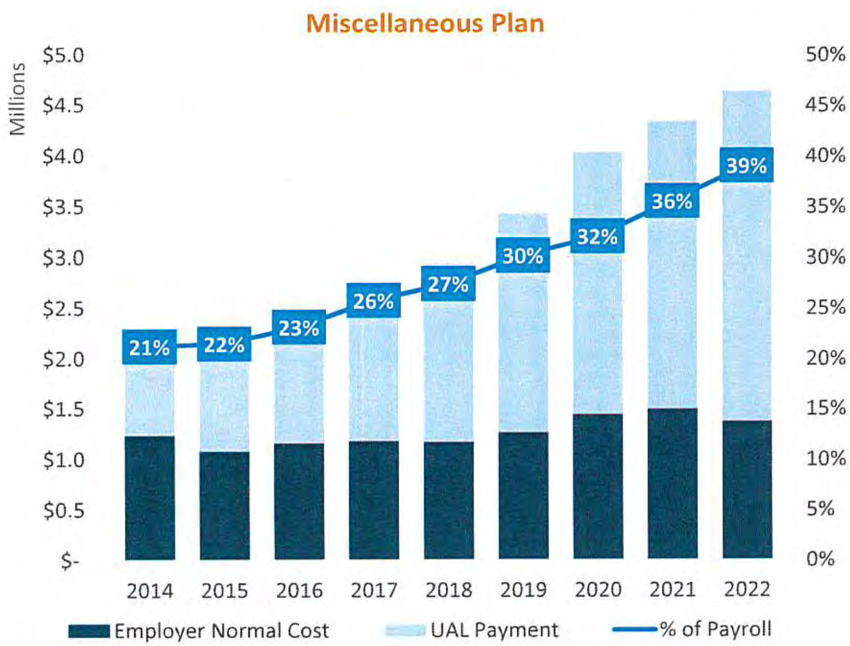
Now …

- 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 $23.3M to $39.3M over last 7 years
  - City's Safety Plan UAL has grown from $47.5M to $75.4M over last 7 years

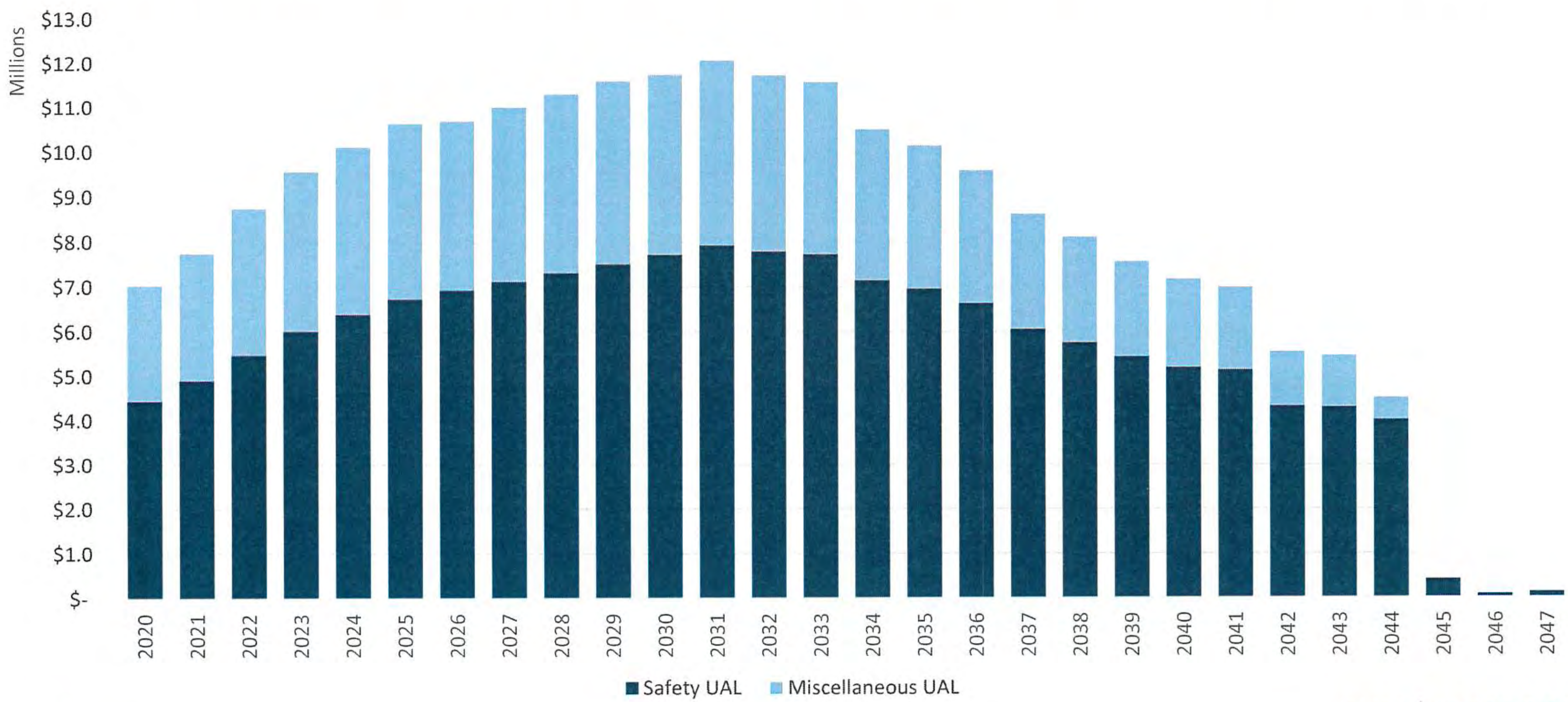
II. Historical and Projected Costs

CalPERS Pension Costs – Historical Trends
Annual UAL and Normal Cost Payments

- Annual pension costs have increased 95.7% since 2014
- As a % of payroll, Miscellaneous costs have escalated to 39%; Safety to 60%



CalPERS Projected UAL Repayment Schedule ($115.9M UAL)



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III. Potential Cost Management Strategies

Potential Strategies to Address Rising Pension Costs

Prepay Annual UAL Payment

- 3.5% discount for paying in beginning of Fiscal Year
- $271,000 savings for FY 2021
- The City currently implements this strategy

Use Cash Reserves to:

- **Contribute to Section 115 Trust** - Separate trust solely dedicated to pension/OPEB
- **Lump Sum Direct Pay Down of UAL** – Reduce UAL with PERS and annual payments

Fresh Start Amortization

- Pros: Shortens repayment period; reduces overall interest paid
- Cons: New structure "locked-in" + increased annual payments in near term

Debt/Bonds

- UAL Restructuring – use bond proceeds to reduce CalPERS UAL
- Restructure payments for enhanced payment smoothing

✓ ← City Currently Utilizing These Strategies → ✓

✗ Not Recommended (see next slide)

Benefits, risks and process discussed on following slides

Primary Strategies to Address Rising Pension Costs

Strategies Are Not Mutually Exclusive

- **Fresh Start Amortization**
  - Pros: Shortens repayment period; reduces overall interest paid
  - Cons: New structure "locked-in" (no flexibility) + increased annual payments in near term
- **Use Cash Reserves to Pay Extra (two options)**
  - Section 115 Trust - Separate trust solely dedicated to pension/OPEB
    - **City currently has ≈$9.8M balance in Section 115 Trust**
  - Lump Sum Pay Down of UAL – Reduce UAL through ADPs (Additional Discretionary Payments)
- **Restructure UAL**
  - Restructure portion of UAL at lower bond interest rate (i.e. 3.75% vs. 7.0%) and "smooth out" payments for enhanced budget predictability, savings, and preservation of cash for other critical projects

Restructuring UAL Debt – Conceptual Overview

- The City can borrow money (bond issued to investors or placed with a bank) and use that money to pay off all or a portion of its debt (UAL) with CalPERS
- Two primary structure alternatives
  - Pension Obligation Bond (POB)
    - Unsecured, validation required
  - Lease Revenue Bond
    - Lease structure using assets (streets, buildings, etc.); no validation required, flexibility in use of proceeds (City reimbursement, timing of deposits with CalPERS, etc.)
- Interest rate paid on the new debt would be significantly lower than the 7% currently being paid on the UAL debt (currently 3.50% to 4.00% depending on length of term)
  - Often, cities utilize the opportunity to restructure its annual payments into a smoother, more predictable/affordable shape; also generate upfront savings to address Covid-19 impacts
- Primary consideration is re-investment/market timing risk

Selected Recent UAL Restructuring Bonds

Near Record Low Interest Rates Have Resulted in Increased Issuance

Recent UAL Restructurings (Interest Rates)

- Larkspur (3.12%)
- Azusa (3.21%)
- North County Fire Protection District (3.28%)
- Carson (3.42%)
- Pomona (3.45%)
- Riverside (3.69%)
- Ontario (3.70%)
- West Covina (3.72%)
- El Monte (3.82%)

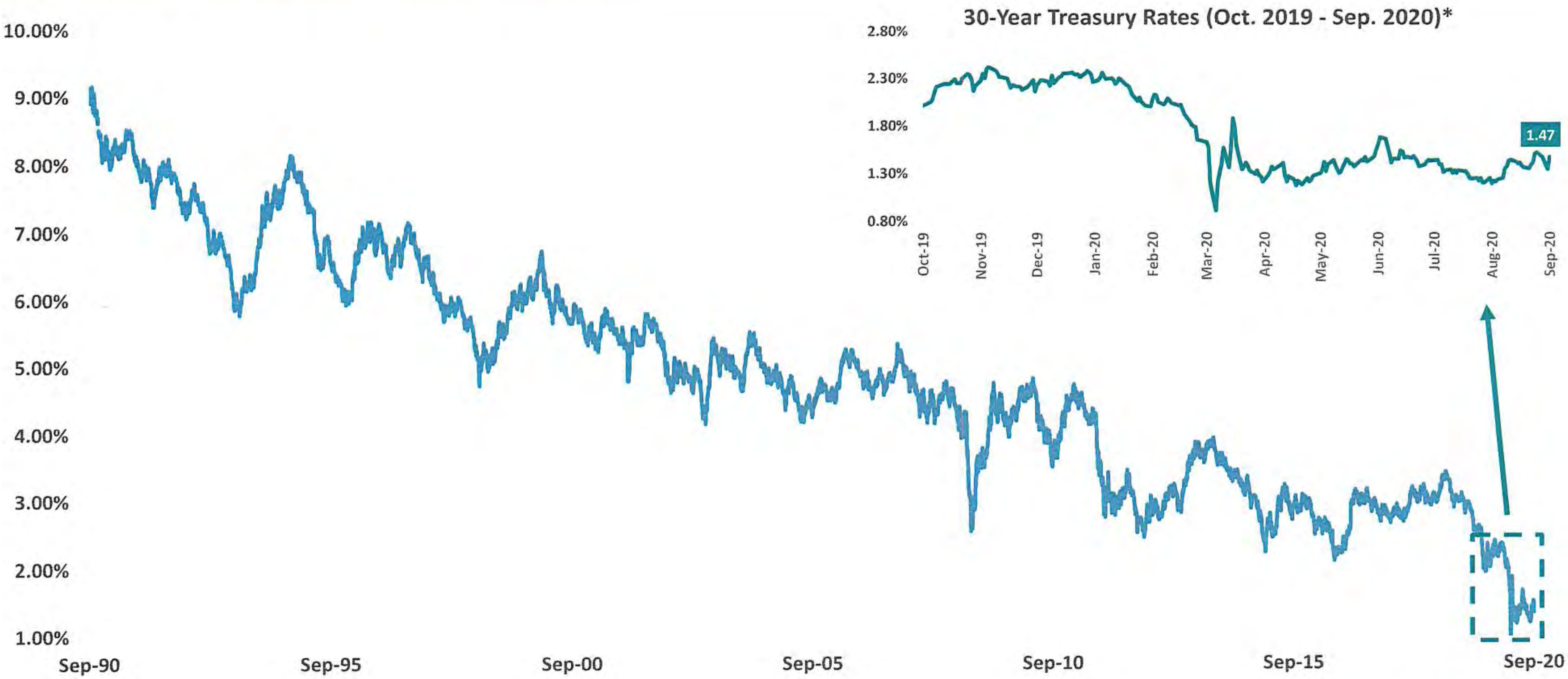
Current UAL Restructurings

- El Cajon – Completed Validation (Aug. 2020)
- Chula Vista – Starting Validation Process (Sept. 2020)
- 10+ others

Pomona	West Covina	North County Fire Protection District	Carson	El Monte	Riverside
(2020)	(2020)	(2020)	(2020)	(2020)	(2020)
AA-	A+	AA-	AA-	A+ (Ins.)	AA

Inglewood	Montebello	Ontario	Larkspur	Riverside County	Pasadena
(2020)	(2020)	(2020)	(2020)	(2020)	(2020)
AA- (Ins.)	A+ (Ins.)	AA	AAA	AA	AAA

Taxable Interest Rate Trends



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*Interest rates through September 4, 2020.

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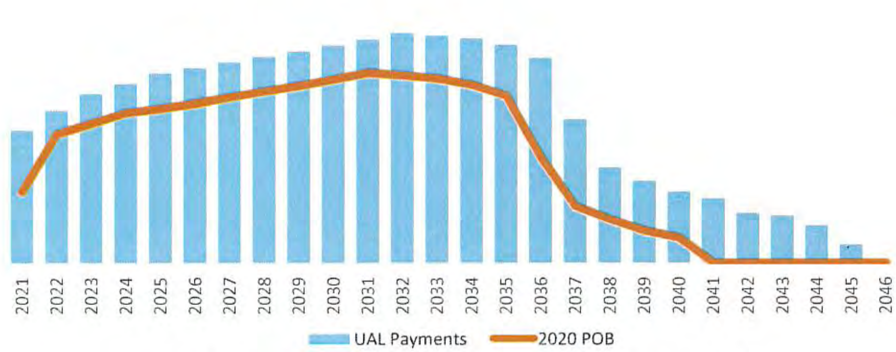
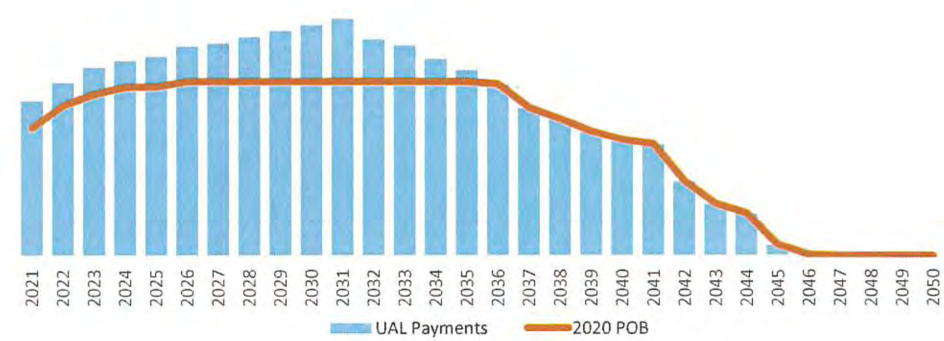
Recent Issuances

Restructuring for Smoothing is a Common Strategy

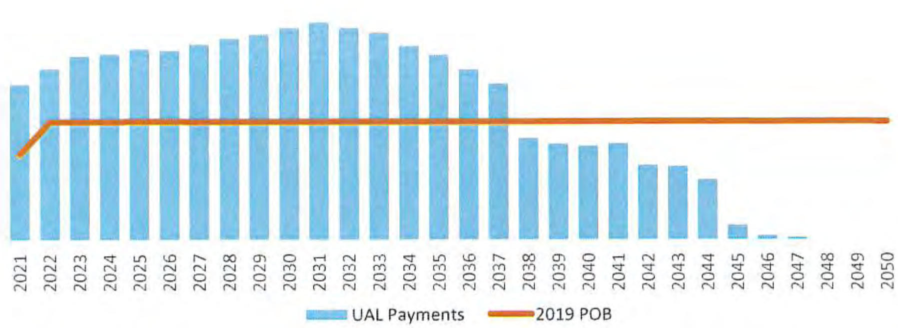
Larkspur $18.3M POB (100% UAL; 3.12% Interest Rate)



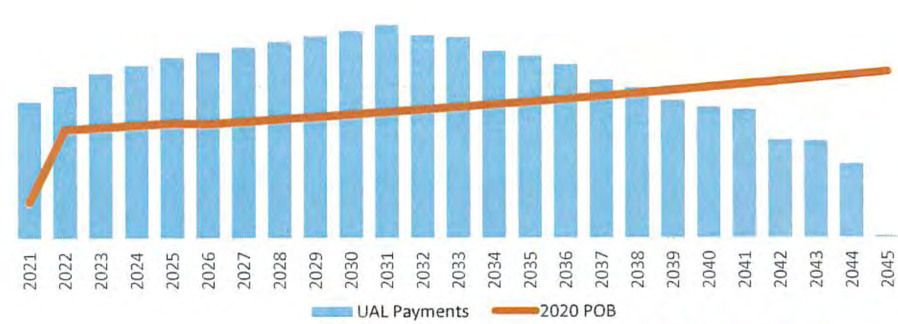
Riverside $432M POB (67% UAL; 3.69% Interest Rate)



Hawthorne $122M POB (100% UAL; 3.61% Interest Rate)



West Covina $204M POB (100% UAL; 3.72% Interest Rate)



Preliminary UAL Restructuring Options

OPTION 1

Smooth Peak + No Dissavings in Out Years

"No Dissavings" means that there are no years with new payments higher than currently projected levels

OPTION 2

25 Year – Level Payments

OPTION 3

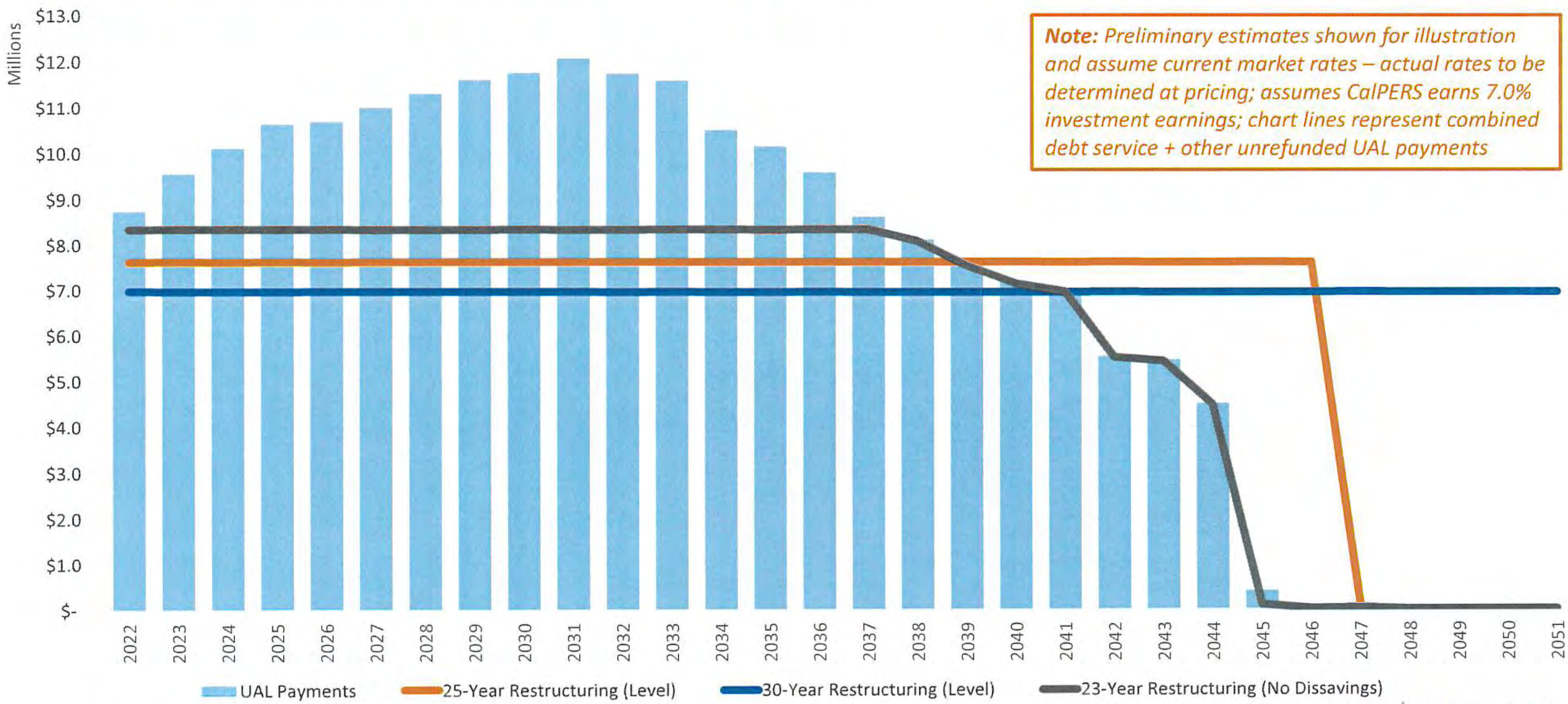
30 Year – Level Payments

Assumptions

- 75% UAL Paid Off (92% Funding Ratio)
- Interest rates from recent A+ rated transaction

UAL Restructuring Analysis (75% of UAL Paid off)

Preliminary Options for National City



Preliminary Savings Analysis

Metrics	23-Year Restructuring (No Dissavings)	25-Year Restructuring (Level)	30-Year Restructuring (Level)
UAL Funded ($)	$86,890,319	$86,890,319	$86,890,319
UAL Funded (%)	75%	75%	75%
Funded Ratio	92%	92%	92%
Maturity	23 Years	25 Years	30 Years
Average Life	12.7 Years	16.9 Years	20.7 Years
All-In Interest Rate	3.66%	3.79%	3.95%
Present Value Savings (%)	31.12%	29.68%	27.75%
Present Value Savings ($)	$27,044,238	$25,792,621	$24,113,662
Prior UAL Payments	$223,816,850	$223,816,850	$223,816,850
New Restructuring Payments	$186,927,011	($198,474,731)	($216,917,500)
Cumulative Savings	$36,889,839	$25,342,119	$6,899,350
Savings (2022-2037)	$36,193,355	$47,882,989	$59,525,094
Average Savings (2022-2037)	$2,129,021	$2,816,646	$3,433,253

Preliminary UAL Restructuring: Detailed Savings Analysis

23-Year Restructuring (No Dissavings)						
FY	Current UAL Payment	Unfunded UAL	Bond Debt Service	Total Payments	Savings	PV Savings
2021	7,761,945	0	0	7,761,945	0	0
2022	8,755,917	2,188,979	6,167,950	8,356,929	398,988	384,887
2023	9,576,337	2,394,084	5,963,901	8,357,986	1,218,351	1,133,756
2024	10,119,816	2,529,954	5,829,151	8,359,105	1,760,711	1,580,551
2025	10,647,386	2,661,847	5,696,899	8,358,745	2,288,641	1,981,854
2026	10,703,431	2,675,858	5,684,908	8,360,766	2,342,665	1,956,941
2027	11,020,073	2,755,018	5,602,007	8,357,025	2,663,048	2,145,952
2028	11,317,172	2,829,293	5,527,440	8,356,733	2,960,439	2,301,286
2029	11,622,446	2,905,612	5,451,467	8,357,079	3,265,367	2,448,612
2030	11,767,654	2,941,914	5,415,716	8,357,629	3,410,025	2,466,715
2031	12,085,311	3,021,328	5,335,175	8,356,502	3,728,809	2,601,987
2032	11,760,102	2,940,026	5,415,966	8,355,992	3,404,110	2,291,459
2033	11,604,141	2,901,035	5,457,812	8,358,848	3,245,293	2,107,346
2034	10,527,426	2,631,857	5,726,337	8,358,193	2,169,233	1,358,819
2035	10,167,406	2,541,852	5,814,089	8,355,941	1,811,465	1,094,609
2036	9,609,837	2,402,459	5,958,048	8,360,507	1,249,330	728,249
2037	8,636,880	2,159,220	6,200,780	8,360,000	276,880	155,692
2038	8,130,210	2,032,553	6,063,171	8,095,723	34,487	18,707
2039	7,589,308	1,897,327	5,658,877	7,556,204	33,104	17,322
2040	7,193,458	1,798,365	5,362,816	7,161,181	32,277	16,293
2041	7,018,369	1,754,592	5,229,368	6,983,960	34,409	16,755
2042	5,567,895	1,391,974	4,144,168	5,536,142	31,753	14,915
2043	5,483,918	1,370,980	4,079,191	5,450,171	33,747	15,292
2044	4,529,189	1,132,297	3,366,101	4,498,398	30,791	13,459
2045	413,303	103,326		103,326	309,977	130,705
2046	82,325	20,581		20,581	61,744	25,115
2047	125,595	31,399		31,399	94,196	36,961
2048	0	0		0	0	0
2049	0	0		0	0	0
2050	0	0		0	0	0
2051	0	0		0	0	0
Total	223,816,850	54,013,726	125,151,340	186,927,011	36,889,839	27,044,238

25-Year Restructuring (Level)						
FY	Current UAL Payment	Unfunded UAL	Bond Debt Service	Total Payments	Savings	PV Savings
2021	7,761,945	0	0	7,761,945	0	0
2022	8,755,917	2,188,979	5,435,825	7,624,804	1,131,113	1,090,268
2023	9,576,337	2,394,084	5,232,499	7,626,583	1,949,754	1,811,484
2024	10,119,816	2,529,954	5,094,649	7,624,603	2,495,213	2,234,548
2025	10,647,386	2,661,847	4,965,816	7,627,663	3,019,723	2,606,613
2026	10,703,431	2,675,858	4,949,421	7,625,279	3,078,152	2,561,102
2027	11,020,073	2,755,018	4,874,120	7,629,139	3,390,934	2,719,465
2028	11,317,172	2,829,293	4,799,680	7,628,973	3,688,199	2,851,056
2029	11,622,446	2,905,612	4,721,498	7,627,109	3,995,337	2,976,954
2030	11,767,654	2,941,914	4,685,853	7,627,766	4,139,888	2,973,272
2031	12,085,311	3,021,328	4,607,357	7,628,685	4,456,626	3,085,173
2032	11,760,102	2,940,026	4,687,194	7,627,220	4,132,882	2,757,743
2033	11,604,141	2,901,035	4,725,304	7,626,339	3,977,802	2,558,417
2034	10,527,426	2,631,857	4,997,544	7,629,400	2,898,026	1,796,626
2035	10,167,406	2,541,852	5,085,762	7,627,613	2,539,793	1,517,683
2036	9,609,837	2,402,459	5,226,869	7,629,329	1,980,508	1,140,740
2037	8,636,880	2,159,220	5,468,622	7,627,842	1,009,038	560,202
2038	8,130,210	2,032,553	5,596,904	7,629,456	500,754	267,972
2039	7,589,308	1,897,327	5,730,456	7,627,783	(38,475)	(19,846)
2040	7,193,458	1,798,365	5,828,718	7,627,083	(433,625)	(215,592)
2041	7,018,369	1,754,592	5,871,167	7,625,760	(607,391)	(291,082)
2042	5,567,895	1,391,974	6,235,444	7,627,417	(2,059,522)	(951,351)
2043	5,483,918	1,370,980	6,253,703	7,624,683	(2,140,765)	(953,170)
2044	4,529,189	1,132,297	6,493,595	7,625,892	(3,096,703)	(1,329,010)
2045	413,303	103,326	7,526,167	7,629,493	(7,216,190)	(2,985,136)
2046	82,325	20,581	7,604,894	7,625,476	(7,543,151)	(3,007,712)
2047	125,595	31,399		31,399	94,196	36,203
2048	0	0		0	0	0
2049	0	0		0	0	0
2050	0	0		0	0	0
2051	0	0		0	0	0
Total	223,816,850	54,013,726	136,699,060	198,474,731	25,342,119	25,792,621

30-Year Restructuring (Level)						
FY	Current UAL Payment	Unfunded UAL	Bond Debt Service	Total Payments	Savings	PV Savings
2021	7,761,945	0	0	7,761,945	0	0
2022	8,755,917	2,188,979	4,785,124	6,974,103	1,781,814	1,714,741
2023	9,576,337	2,394,084	4,576,823	6,970,907	2,605,430	2,412,970
2024	10,119,816	2,529,954	4,440,226	6,970,180	3,149,636	2,807,173
2025	10,647,386	2,661,847	4,309,025	6,970,871	3,676,515	3,153,417
2026	10,703,431	2,675,858	4,297,467	6,973,325	3,730,106	3,078,950
2027	11,020,073	2,755,018	4,218,724	6,973,742	4,046,331	3,214,246
2028	11,317,172	2,829,293	4,143,521	6,972,814	4,344,358	3,321,081
2029	11,622,446	2,905,612	4,067,171	6,972,783	4,649,663	3,420,674
2030	11,767,654	2,941,914	4,030,480	6,972,394	4,795,260	3,394,992
2031	12,085,311	3,021,328	3,952,838	6,974,166	5,111,145	3,482,419
2032	11,760,102	2,940,026	4,030,488	6,970,513	4,789,589	3,140,489
2033	11,604,141	2,901,035	4,073,588	6,974,624	4,629,517	2,921,266
2034	10,527,426	2,631,857	4,337,904	6,969,760	3,557,666	2,160,413
2035	10,167,406	2,541,852	4,430,090	6,971,942	3,195,465	1,867,420
2036	9,609,837	2,402,459	4,571,663	6,974,122	2,635,715	1,482,322
2037	8,636,880	2,159,220	4,810,565	6,969,785	1,667,095	902,279
2038	8,130,210	2,032,553	4,937,867	6,970,419	1,159,791	604,083
2039	7,589,308	1,897,327	5,072,311	6,969,638	619,671	310,609
2040	7,193,458	1,798,365	5,173,335	6,971,699	221,759	106,972
2041	7,018,369	1,754,592	5,217,607	6,972,199	46,170	21,433
2042	5,567,895	1,391,974	5,580,847	6,972,821	(1,404,926)	(627,647)
2043	5,483,918	1,370,980	5,600,406	6,971,385	(1,487,467)	(639,507)
2044	4,529,189	1,132,297	5,838,931	6,971,229	(2,442,040)	(1,010,386)
2045	413,303	103,326	6,867,668	6,970,993	(6,557,690)	(2,611,089)
2046	82,325	20,581	6,950,284	6,970,865	(6,888,540)	(2,639,576)
2047	125,595	31,399	6,941,807	6,973,206	(6,847,611)	(2,525,122)
2048	0	0	6,971,818	6,971,818	(6,971,818)	(2,474,147)
2049	0	0	6,971,319	6,971,319	(6,971,319)	(2,380,843)
2050	0	0	6,971,119	6,971,119	(6,971,119)	(2,291,156)
2051	0	0	6,970,814	6,970,814	(6,970,814)	(2,204,814)
Total	223,816,850	54,013,726	155,141,829	216,917,500	6,899,350	24,113,662

Preliminary Options - Takeaways

- 3 preliminary options shown include paying off 75% of the UAL to bring funding ratios to 92%
  - City has multitude of other options it can evaluate (different maturities, shapes of repayment, sizes, etc)
- Projected Present Value (PV) savings for each preliminary option ranges from $24 - $27 million
- Tradeoffs between shorter and longer maturities
  - **Shorter Maturity:** More cumulative savings, but less over next 20 years and less resiliency to handle future economic shocks, including poor CalPERS returns
    - Example: 23-Year Option: $37M of cumulative savings; all from FY 2022 to FY 2037
  - **Longer Maturity:** Less Cumulative savings, but more in the next 20 years + increased long term resiliency to future economic shocks
    - Example: 30-year option: $7M of cumulative savings; $60M from FY 2022 to FY 2037

Pension Bonds - Benefits and Risks

Primary Benefits

- Fiscal Sustainability Tool: Ability to "re-shape" the City's pension debt payments
- Near-Term Budgetary Savings
- Interest Rate Savings "Arbitrage": City can borrow at rates much lower (currently < 3.75%) than those CalPERS is charging on UAL debt (7%)
- Increase Funding Ratio
- Flexibility to Modify Maturity

Primary Risk: *Reinvestment & Market Timing Risk*

- Savings is ultimately dependent on future CalPERS returns, which are unknown at time of issuance (primary concern of GFOA)
- Present value savings occur if PERS earns greater returns than pension bond interest rate
- Near-term losses exacerbate this risk given large lump sum deposit into the market

The GFOA View (in 2015) vs. How Current Pension Bonds 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 returns below current < 3.5-4.0% borrowing costs are low, but they do exist. City's municipal advisor and actuary and "stress test" options to better quantify this risk.
"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.
"Issuing taxable debt to fund the pension liability increases the jurisdiction's bonded debt burden and potentially uses up debt capacity..."	• No. Pension bonds merely replace a portion of an agency's payments to PERS with debt service. It is converting one debt to another type of debt at a lower interest rate.
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. Current pension bonds are issued with a call feature, allowing agencies to refinance them in the future. NHA would recommend a standard 10-year call feature if the City issued a pension bond.
"Pension bonds are frequently structured in a manner that defers the principal payments..."	• Not Always. The term of pension bonds can be shortened, lengthened, or stay the same. Three hypothetical options presented on Slide 19 all include immediate amortization of principal. We recommend considering the importance of balancing near term vs. cumulative savings, in addition to rating impacts and future resiliency when determining an appropriate maturity.
"Rating agencies may not view the proposed issuance of Pension bonds as credit positive..."	• Not Likely. Rating agencies have generally been viewing pension bonds as neutral to positive and an enhancement to long term affordability. Rating agencies also recognize the implementation of prudent strategies to address pension liabilities.

Refining the Options

Variables That Could be Evaluated During Process

- *What If PERS only Earns 5.5%?*
- *What if the Stock Market crashes?*

Options could be "stress tested" to account for potential recession/market downturn

Different sizes/funding ratios (i.e. 50%, 75%, 100% of UAL)

Different plans (Safety vs. Miscellaneous)

Different maturities (i.e. 20, 25, 30 years)

Different amortization shapes (level payments, 2% escalating, proportional savings, etc.)

Refine solutions after clarifying budgetary challenges/COVID-19 impacts)

UAL Restructuring Process – Hypothetical Timetable

October 6, 2020

City Council workshop, preliminary options evaluation

Engage Bond Counsel

October 20, 2020

City Council approval of basic legal documents

Validation Proceedings initiated in San Diego County Court

- ***Does not lock City into issuing a bonds; starts legal process required to have future ability to issue POB***

November 2020 – February 2021

Engage Underwriter (s)

Legal documents and Preliminary Official Statement (POS) drafted

Stress testing analysis & restructuring options refined

Credit rating process

March – April 2021

Validation proceedings completed (<u>CV-19 may delay process</u>)

City Council approval of POS and preferred option, IF ANY

Sell and close bonds and pay off portion of UAL with CalPERS

Note: A lease revenue bond structure (leased asset required, such as streets or buildings) would avoid validation process and could proceed on quicker schedule

IV. Conclusion and Next Steps

Conclusion and Potential Next Steps

- Rising pension costs are a challenge facing most public agencies
- City should incorporate projected cost increases into budget and planning process
- City can consider various cost management strategies, including:
  - Cash reserves for Section 115 Trust or UAL pay down
  - UAL Restructuring
  - Optimize service levels given projected resources
- Explore new pension funding policy; Policy could provide guidance related to:
  - Targeted funding ratios; UAL restructuring considerations
  - How to apply (1) one-time monies or (2) surplus annual revenue (from pension bond savings) towards Section 115 Trust
- **Provide direction to staff to further evaluate UAL Restructuring or not and whether to initiate validation process to give City future flexibility**
  - **If validation process is recommended, legal counsel will be engaged and documents prepared for October 20, 2020 City Council meeting approval**

Appendix A – Sample Pension Funding Policy

Purpose and Background (Sample)

PURPOSE

The City's Pension Funding Policy documents the method the City will use to determine its actuarially determined contributions to fund the long-term cost of benefits to the plan participants and annuitants. The policy also:

- Provides guidance in making annual budget decisions;
- Demonstrates prudent financial management practices;
- Create sustainable and affordable budgets for pensions;
- Reassures bond rating agencies; and
- Shows employees and the public how pensions will be funded.

BACKGROUND

The City provides defined benefit retirement benefits through the California Public Employees' Retirement System (CalPERS). CalPERS is a multiple-employer public employee defined benefit pension plan.

All full-time and certain part-time City employees are eligible to participate in CalPERS. CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and their beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute.

The financial objective of a defined benefit pension plan is to fund the long-term cost of benefits provided to the plan participants. In order to assure that the plan is financially sustainable, the plan should accumulate adequate resources in a systematic and disciplined manner over the active service life of benefitting employees. This funding policy outlines the method the City will utilize to determine its actuarially determined contributions to fund the long-term cost of benefits to the plan participants and annuitants.

Pension Funding: A Guide for Elected Officials, issued by eleven national groups including the U.S. Conference of Mayors, the International City/County Management Association, and the Government Finance Officers Association, established the following five general policy objectives for a pension funding policy:

- Actuarially Determined Contributions. A pension funding plan should be based upon an actuarially determined contribution (ADC) that incorporates both the cost of benefits in the current year and the amortization of the plan's unfunded actuarial accrued liability.
- Funding Discipline. A commitment to make timely, actuarially determined contributions to the retirement system is needed to ensure that sufficient assets are available for all current and future retirees.
- Intergenerational equity. Annual contributions should be reasonably related to the expected and actual cost of each year of service so that the cost of employee benefits is paid by the generation of taxpayers who receives services from those employees.
- Contributions as a stable percentage of payroll. Contributions should be managed so that employer costs remain consistent as a percentage of payroll over time.
- Accountability and transparency. Clear reporting of pension funding should include an assessment of whether, how, and when the plan sponsor will ensure sufficient assets are available for all current and future retirees.

Policy (Sample)

POLICY

Actuarially Determined Contribution (ADC)

- CalPERS actuaries will determine the City's ADC to CalPERS based on annual actuarial valuations. The ADC will include the normal cost for current service and amortization of any under-funded amount. The normal cost will be calculated using the entry age normal cost method using economic and non-economic assumptions approved by the CalPERS Board of Administration.
- The City will review the CalPERS annual actuarial valuations to validate the completeness and accuracy of the member census data and the reasonableness of the actuarial assumptions.

Additional Discretionary Payment (ADP) Contribution

- The City will consider making ADP contributions with one-time General Fund resources, with the objectives of increasing the plan's funded status, by reducing the unfunded actuarially accrued liability, and reducing ongoing pension costs.

Pension Obligations Bonds

The City will consider pension obligation bonds if: (1) Such bonds have expected savings using borrowing costs and CalPERS' discount rate; (2) At the time issuances, pension bond proceeds plus existing assets at CalPERS and at the City's pension stabilization trust cannot exceed pension liabilities.

- The City and its advisors will discuss and consider the risks of any potential pension obligation bonds.
- Any pension obligation bonds, or refundings of pension obligation bonds, must be voted upon by the City Council.

Pension Stabilization Trust

The City has a Pension Stabilization Trust approved by the City Council in ____. As of ____, there is __ funding in the Trust. City staff will develop a contribution and withdrawal policy to submit to City Council before any money is contributed to the trust.

Contributions as a Manageable Budget Expense.

The City will always make its required annual contributions to CalPERS. Contributions should be stable and a manageable portion of revenue. The City may:

- Make additional discretionary contributions directly to CalPERS;
- Make discretionary contributions to a pension stabilization trust;
- Make discretionary withdrawals from a pension stabilization trust to make payments to CalPERS; and
- Issue, call, or refund pension obligation bonds.

Transparency and Reporting

Funding of the City's pension plans should be transparent to vested parties including plan participants, annuitants, the City Council, and residents. In order to achieve this transparency, the following information shall be available:

- Copies of the annual actuarial valuations for the City's CalPERS plans shall be made available to the City Council.
- The City's Comprehensive Annual Financial Report shall be published on its website. This report includes information on the City's annual contributions to the pension systems and their funded status.
- The City's annual operating budget shall include the City's contributions to CalPERS.

Review of Funding Policy

Funding a defined benefit pension plan requires a long-term horizon. As such, the City will review this policy at least every two years to determine if changes to this policy are needed to ensure adequate resources are being accumulated.

APPENDIX B – RECENT WHITE PAPER ON POBs

PREPARE PROTECT EDUCATE INFORM

Illinois Public Pension Fund Association

Information Bulletin – July 2020

PENSION OBLIGATION BONDS

Introduction. The IPPFA has been researching the issue of Pension Obligation Bonds for the last two years. The goal was to develop a whitepaper and then support dissemination of the information through seminars in cooperation with the Illinois Government Finance Officers Association (IGFOA), the Illinois City Managers Association (IlCMA) and the Illinois Municipal Treasurers Association (IMTA).

The arrival of the health emergency nationwide has resulted in upheaval in each organization's training programs as well as the financial markets which underpin these bonds and the finances of Illinois municipalities. As such, the outreach portion of this effort is on hold. However, IPPFA feels there is merit to releasing our research at this time in order to disseminate this information to support cities and fire district that are considering issuing Pension Obligation Bonds at a time of extremely low borrowing rates and depressed stock market prices.

In 2021, we will work with our other association partners to hopefully move forward with our seminar plans.

Background. Pension funds have unfunded actuarial accrued liability (UAAL) when the present value of the plan's liabilities is in excess of financial assets. Most Illinois fire and police pension plans have an unfunded liability. The funded percentage of all Article 3 and Article 4 plans is 55% ($12 billion in unfunded liabilities). The UAAL can range from a low dollar amount in a small, well-funded plan to tens of millions of dollars in larger plans. For any municipality, the UAAL represents a debt which must be paid.

In effect, the debt is financed at the expected future rate of return on the pension plan's investments. This is because the calculation of the total accrued liability assumes that interest is being earned on the full pension obligation. When the money is *not* in the bank and invested, the UAAL principal must be paid back plus the "missing" interest at the projected future rate or return. The debt is amortized over a number of years determined by state law or the pension plan.

There is an opportunity for this debt to be paid off via the sale of bonds and the deposit of the proceeds into the investment portfolio of the pension fund. When this is done, the financing cost switches from the projected but uncertain future earnings in the pension plan to the set, fixed rate established when the bonds are sold. These bonds are known as Pension Obligation Bonds or POBs. Municipalities issue them on the reasonable prediction that the lower bond interest rate will result in an overall lower financing cost.

Pension bond issuance entails risk and reward. The IPPFA Information Bulletin examines this technique and addresses the probable rewards as well as the risks that are present.

How Does a Pension Obligation Bond Work? A municipality or fire district recognizes that the pension plan UAAL is a debt that is owed by the taxpayers. Instead of financing that debt at the rate governed by the investment markets, a decision is made to issue bonds and pay for all or substantially most of the unfunded liability at one time. Under the Internal Revenue Code, bonds issued for this purpose are *not* exempt from federal taxes. Thus, the bonds are issued at a so-called "taxable" rate, not the tax-exempt municipal rate at which cities and districts often borrow.

A hypothetical case study presented to the Illinois Government Finance Officers Association (IGFOA) in December, 2019 showed bonds issued to replace $20 million police pension UAAL. Estimated costs and savings were:

Debt service on $20 million bonds, 3.12% average interest rate, maturities through 2040.	$29,799,000
Taxation to amortize $20 million in unfunded liabilities to 2040, based on 7% interest assumption and 4% payroll growth assumption, "ramp" financing.	$39,868,000
Predicted Savings:	$10,069,000

This $10 million is a substantial savings, lowering the cost of paying for the unfunded liability by 25%.

Note that in addition to the savings that results from a low bond interest rate, the total savings is enhanced because the common practice of municipalities paying off the unfunded liability as a percentage of payroll is avoided. Such a financing technique leads to the undesirable "ramp" where payments in the later years are much higher. The current low interest rate on Pension Obligation Bonds allows for a more level payback of the obligation, so more debt principal is paid off in earlier years (at increased savings in total interest cost).

How have pension obligation bonds worked out? A reputable analysis of the efficacy of pension obligation bonds is presented in a 2014 whitepaper from the Center for Retirement Research (CRR) at Boston College entitled "An Update on Pension Obligation Bonds," by Alicia H. Munnell, Jean-Pierre Aubry and Mark Cafarelli (available online at no cost). Their analysis found that immediately after the 2008-2009 financial crisis, governments appeared to have lost money on their Pension Obligation Bonds. But four years into the recovery, the effect of the bonds was positive with a net gain of 1.5%. This analysis is not definitive, as the bonds in many cases have a substantial period left until maturity. However, positive investment returns have continued in the six years since the CRR updated analysis, even considering the recent market losses brought on by the Covid-19 situation.

The analysis noted also that the likelihood of success was greater when bonds were issued by financially sound governments who understand the risks and who have a broad pension reform or financing strategy. Conversely, the opposite is true if the bonds are issued by fiscally stressed governments seeking budgetary relief.

What are the risks? The greatest single risk is that the pension fund will earn less than the projected rate of return and that the full savings will not be realized. Moreover, if the pension fund earns less than the interest rate on the bonds, a loss will occur. If either of these events occur, the municipality will have to pay the debt service on the bonds *and* a contribution into the pension fund to cover the increase in the UAAL that results from low investment earnings.

The savings calculation included in the IGFOA presentation hypothetical case study shows substantial savings. Communities that have issued pension obligation bonds predict similar or even higher savings. This type of gain usually carries substantial risk. But in the case of POBs, while there is a risk, there does not appear to be a *substantial* risk. This is because a good portion of the gain comes from (1) the fixed-rate pension bond debt (*vs.* the variable return on a diversified investment portfolio), (2) the credit worthiness of the municipality, (3) the avoidance of "ramp" funding and (4) the current notably low interest rate environment.

Still, there is risk: that the return on the invested assets could fall below the interest rate on the bonds.

The question the municipality or fire district should ask is: will the return on the invested assets be in excess of the currently available rate on taxable municipal bonds? If the answer to this question is a highly probable yes, then a pension bond issue should be thoroughly considered.

Who has issued POBs? There has not been a lot of activity in this area for Illinois police and fire funds. The City of Berwyn has used this financing technique and reports success. The Orland Fire District has also issued these bonds with satisfactory results. Other issuers are Round Lake Park, Bedford Park, and Winnebago County. Outside of metro-Chicago, there have been bond issues in Rantoul, Granite City and Milan. Milan undertook this approach for the added benefit of raising their asset balance above $10 million, which opened up greater investment authority under the pre-consolidation investment limits on Illinois municipal pension plans.

What do the rating agencies think? Standard & Poor's commented as follows in a May 13, 2019 *Credit FAQ*:

As with all credit factors, we will consider pension obligation bonds (POBs) and OPEB obligation bonds (OOBs) holistically within the overall risk factors. As with any added debt, we consider ability to pay, but also as with new debt, we might not always consider POB/OOB issuance to have negative credit implications. However, we will generally view it negatively when one or more of the following conditions exists:

- The bonds are used as a mechanism for short-term budget relief or poor funding structure;
- Issuance is not combined with plan-specific measures to address the long-term liability; or
- The bonds substantially reduce a government's debt capacity.

Moody's position is reflected in their comments for a *Bloomberg.com* article, "Pension Obligation Bonds May Soon Have Their Moment," (October 10, 2019):

> "Our view is the issuance of POBs at the time of the transaction is really credit-neutral," says Tom Aaron, a public pension specialist at the credit-rating company. "But context matters a heck of a lot in terms of whether these things pan out."
>
> In particular, "if the government continues making its full contributions, that's a different story than using the pension bonds as a temporary budget reprieve, because that turns it into an arbitrage play plus deficit financing," Aaron says. Of course, history has shown that's a big "if."

Two major rating agencies essentially say the same thing. If the bonds are issued by a government that will use the proceeds as part of a well-thought out pension financing strategy, the rating agencies are neutral on the issuance. For any one city or fire district, this is a matter for exploration with the government's bond advisor.

What is the National GFOA Position? The national Government Finance Officers Association recommends that state and local governments *do not* issue POBs. In an Advisory report, they state the following objections to POBs. With each objection, IPPFA has provided a response:

#1. The invested POB proceeds might fail to earn more than the interest rate owed over the term of the bonds, leading to increased overall liabilities for the government.

IPPFA RESPONSE: this is a correctly stated risk.

#2. POBs are complex instruments that carry considerable risk. POB structures may incorporate the use of guaranteed investment contracts, swaps, or derivatives, which must be intensively scrutinized as these embedded products can introduce counterparty risk, credit risk and interest rate risk.

IPPFA RESPONSE: municipalities can work with their bond advisors and attorneys to avoid a risky structure.

#3. Issuing taxable debt to fund the pension liability increases the jurisdiction's bonded debt burden and potentially uses up debt capacity that could be used for other purposes. In addition, taxable debt is typically issued without call options or with "make-whole" calls, which can make it more difficult and costly to refund or restructure than traditional tax-exempt debt.

IPPFA RESPONSE: (1) municipalities can work with their bond advisors to be sure that their overall debt capacity is properly used, (2) if call options have to be forgone, this will not necessarily alter the overall financial benefit of a pension bond.

#4. POBs are frequently structured in a manner that defers the principal payments or extends repayment over a period longer than the actuarial amortization period, thereby increasing the sponsor's overall costs.

IPPFA RESPONSE: the issuing government should generally limit the bond maturity to the amortization period allowable under law; however, the very low interest rates now available do not make a slightly longer maturity ill-advised, especially if it can reduce or maintain the current taxation, which may be at the low end of the undesirable "ramp."

#5. Rating agencies may not view the proposed issuance of POBs as credit positive, particularly if the issuance is not part of a more comprehensive plan to address pension funding shortfalls.

IPPFA RESPONSE: as discussed, issuing government should seek to comply with the practices that the rating agencies will find acceptable.

Is this a good time for POB issuance? IPPFA cannot identify if the current environment is good or bad for issuance of Pension Obligation Bonds. The volatility in the investment markets experienced in 2020 certainly makes one cautious. But at the same time, borrowing rates are at an extremely low level. Is your pension fund (especially with investments managed by the new Consolidated Fund) going to earn more than 3% to 3-1/2% on its investments over the next several decades? If the answer to this question is a highly probably yes, then it is reasonable for a pension bond issuance to be explored with professional advisors.

What is the Impact of Consolidation on this Financing Technique? The new consolidation plan aggregates funds for investment but measures the valuation of each pension plan separately. Consolidation does not impact the funded status of any one fire or police plan. A local government that wishes to use pension obligation bonds to reduce taxation for unfunded liabilities may do so under the consolidated structure.

If bonds are issued during the Transition Period and deposited in the local pension fund, then more assets will be transferred to the Consolidated Fund. After the asset transition takes place, a government could still issue bonds and turn the proceeds over to the Consolidated Fund for credit to the specific police or fire fund. An example is the Winnebago County issuance of Pension Obligation Bonds and subsequent payment of the proceeds to the county's account at the Illinois Municipal Retirement Fund (IMRF).

An argument can be made that consolidation improves the likelihood that a Pension Obligation Bond will be successful. This is because the opportunities for investment performance are expanded and investment costs reduced.

Other Information. See "Pension Obligation Bonds May Soon Have Their Moment," by Brian Chappatta, *Bloomberg.com*, October 10, 2019. This article highlights the opportunity for well-run governments to take advantage of the current interest rate market to finance their unfunded liabilities via pension obligation bonds.

Should Your Government Issue Pension Obligation Bonds? IPPFA does not recommend or not recommend this financing technique. But we do recommend that pension trustees, finance officers, treasurers, municipal managers and key elected officials discuss this option with their bond and legal advisors now, especially given the opportunities made available by the current interest rate environment. An important piece of information in this review is the projected taxation needed to amortize the UAAL through 2040 under the communities current funding methods and projections.

We do feel comfortable opining on what a pension obligation bond issue is NOT:

> A POB is not a government "kicking the can down the road." Unless the proceeds are used in place of the appropriate normal cost contribution, POBs are the exact opposite of "kicking the can down the road." These bonds create a permanent financing of unfunded liabilities, today.
>
> A POB is not like "paying off one credit card with another," although it is a financing of a debt at a lower interest rate.
>
> A POB is not a "risky arbitrage bet." It is a well thought out financing technique in which the responsible parties examine the risk and the probability of substantially lower taxes being needed to meet pension obligations.

Good luck with your review of this opportunity and feel free to contact us for additional information.

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