

2021 PENSION OBLIGATION BOND FINAL APPROVAL



OCTOBER 19, 2021

National City Pension Obligation Bond

Process Update/Overview

Spring 2020:

Staff began conversations about concept of a UAL Restructuring with its municipal advisor (NHA Advisors)

November

2020: Council approval of basic POB legal documents and initiation of court validation process in San **Diego County**

July 2021: Validation Process completed

September 7, **2021:** Update

presentation to City Council, options comparison, stress testing and recommended

October 19, 2021 (Tonight) -

Final Approval of Financing /Preliminary Official Statement (POS)















structure





October 2020:

Public/Council Workshop held discussing pros/cons and risks of POBs

Spring 2021:

POB market updates and structuring options analysis (NHA/staff)

August 2021:

Refined structuring options discussion based on new **CalPERS** information

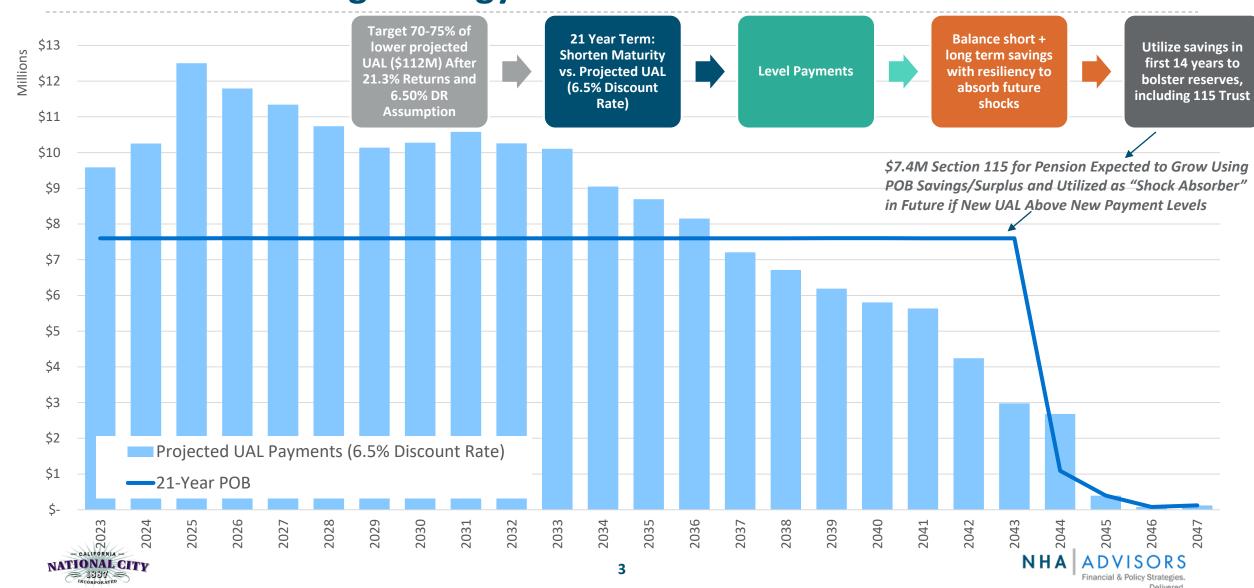
2021 – S&P **Credit Rating** Presentation

October 14, (Results this Thursday)





Final Restructuring Strategy



Estimated Savings

Assumes CalPERS Earns 6.50% On Average Over Next 21 Years

Metrics	21-Year POB
\$ UAL Funded (11/16/21)	\$83,260,000
% UAL Funded (Current Asset Valuations)	70%
Funded Ratio (Current Asset Valuations)	90%
Projected UAL After 6.5% Discount Rate	\$111,650,223
% UAL Funded (Projected After FY 2021 Returns)	75%
Funded Ratio (Projected After FY 2021 Returns)	95%
Maturity	21 Years
Average Life	11.8 Years
Interest Rate	3.10%
Present Value Savings (%)	26.01%
Present Value Savings (\$)	\$23,417,884
Cumulative Savings	\$24,243,835
Savings (2023-2036)	\$37,081,215
Avg. Annual Savings (2023-2036)	\$2,648,658
Avg. Annual Payments Through Maturity (POB + Unrefunded UAL)	\$7,599,759





Revisiting POB Risks: CalPERS Reinvestment Risk Stress Tests to Quantify Downside Risk

CalPERS 5-Year Average Annual Return: 10.5%
CalPERS 10-Year Average Annual Return: 8.8%
CalPERS 20-Year Average Annual Return: 7.4%
CalPERS 30-Year Average Annual Return: 7.5%

- Savings is ultimately dependent on future CalPERS returns, which are unknown at time of issuance
 - ▶ If CalPERS earnings less than 6.5%, savings will be less than shown on previous pages
 - ▶ If CalPERS earns more than 6.5%, savings will be more than shown on previous page
- ▶ Rule of Thumb: Present value savings occur ONLY if PERS earns greater returns than pension bond interest rate (i.e., 3.10% in current market)
 - Near-term losses exacerbate this risk given large lump sum deposit into the market

Estimated UAL Sensitivity (\$83M POB)						
			-5% Market	-15% Market Crash	-24.6% Market	
			Crash (FY 2023	(FY 2023 Returns)	Crash (FY 2023	
	5% Discount Rate	6% Discount Rate	Returns) and	and 6.5%	Returns) and 6.5%	
	/ Earnings	/ Earnings	6.5% Thereafter	Thereafter	Thereafter	
Baseline PV Savings	\$23,417,884	\$23,417,884	\$23,417,884	\$23,417,884	\$23,417,884	
Reduction in PV Savings	\$13,411,302	\$4,771,851	\$8,653,891	\$16,179,013	\$23,417,884	
Net PV Savings (\$)	\$10,006,582	\$18,646,033	\$14,763,993	\$7,238,871	\$0	
Net PV Savings (%)	11.53%	21.48%	17.01%	8.34%	0%	





Next Steps

- October 19
 - Final POS (Preliminary Official Statement) Approval by City Council
- October 21
 - Receive S&P credit rating
- Late October
 - Send POS to investors and begin marketing 2021 POBs
- First Week November
 - Price bonds and lock/set interest rates
- Mid-November
 - Closing financing and wire CalPERS funds to pay-off portion of UAL



