



CITY OF

*Richmond* CALIFORNIA

# 2022 POB RESTRUCTURING WAYS TO ACHIEVE MULTIPLE CITY POLICY GOALS

**NHA | ADVISORS**  
Financial & Policy Strategies.  
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# Table of Contents

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- ▶ Financing Schedule
- ▶ Outstanding Bond and Swaps
- ▶ Policy Goals
- ▶ Pension Tax Override Education

# Refinancing the City's Pension Debt and Eliminating the Interest Rate Swaps

## Summary

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### ▶ The Schedule

- ▶ Approve the issuance, but not the sale, of refunding bonds at the June 21 or June 28 Council meeting
  - ▶ Early approval 60 days before bond sale provides extra legal protection for City's refunding bonds
- ▶ Final City Council approval of refunding bonds and related documents on July 19<sup>th</sup>
- ▶ Sell refinancing bonds in late August

### ▶ Key policy goals

- ▶ Eliminate interest rate swaps
  - ▶ Per budget policies adopted by Council on April 20, 2021
- ▶ Traditional fixed rate financing
  - ▶ Eliminates interest rate risk
- ▶ Simplify and improve cash flow impact of pension bonds on City's General Fund

# Current Financing Schedule (4 Parallel Tracks)

Date	PTO/Term Extension Track	Discussions on Swap Termination Process Track	Private Placement Track	Public Offering Track
Tuesday, June 7	<b>Presentation to City Council on Pension Tax Override Revenues, Huntington Beach Decision and Potential Term Extension</b>	<b>Update to Council on Swap Termination Process</b>	<b>Update to Council on Bond Refinancing</b>	<b>Update to Council on Bond Refinancing</b>
Friday, June 10			Preliminary Bank Placement Bids Received	
Monday, June 13	Actuarial Report Released			
Friday, June 17			Team Reviews Bids and Makes Decision on Private Placement	
Tuesday, June 21			<b>Presentation to Council on Private Placement vs. Public Offering Sale</b>	<b>Presentation to Council on Private Placement vs. Public Offering Sale</b>
			<b>Council Approval of Issuance of Refunding Bonds</b>	<b>Council Approval of Issuance of Refunding Bonds</b>
			Initiate 60-Day Passive Validation Process	Initiate 60-Day Passive Validation Process
Wednesday, June 29			Deadline for Receipt of Bank Bids	

# Current Financing Schedule (4 Parallel Tracks; cont.)

Date	PTO/Term Extension Track	Discussions on Swap Termination Process Track	Private Placement Track	Public Offering Track
Friday, July 1			Finance Team makes Recommendation on Bank Placement vs. Public Offering	
Friday, July 15			Winning Bidder Completes Formal Credit Review	
Tuesday, July 19		<b>Presentation to Council on Outcome of Discussions on Swap Termination Process</b>		<b>Final Council Approval of Refunding Bonds and Bond Documents, Including POS</b>
Friday, August 12				Posting of POS
Monday, August 15		Termination Payment Amount Finalized		
Tuesday, August 23				Bond Sale Provide Notice to 2005 B-1 Bond Holders
Wednesday, August 24			Bond Closing	Fund Escrow Account for 2005 B-2 Bonds (Redeemed on 8/1/23)
Thursday, September 8				Bond Closing Redemption of 2005 B-1 Bonds

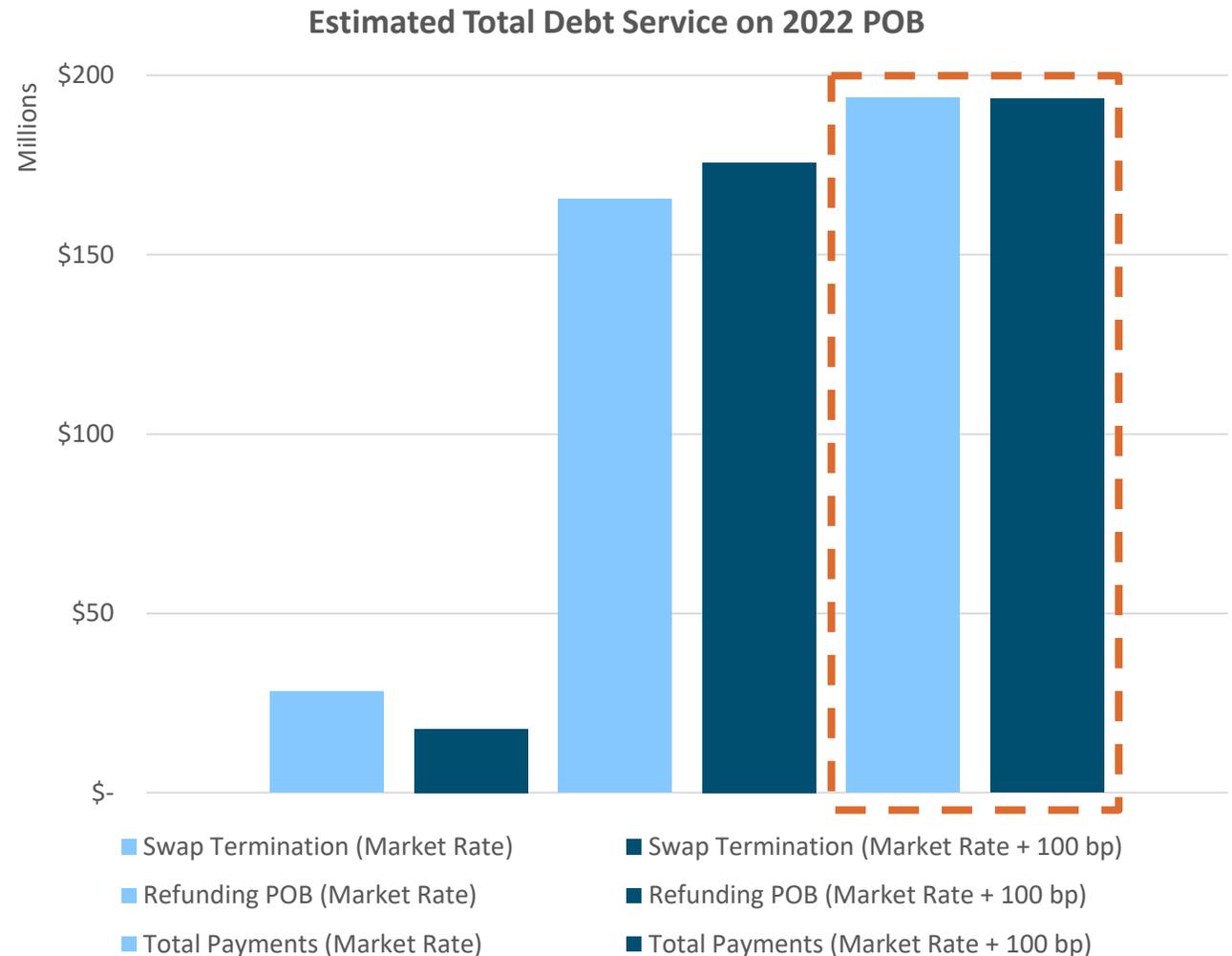
# The Interest Rate Swap on the 2005 B-2 Bonds

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- ▶ The swap goes into effect on August 1, 2023
- ▶ The swap also expires on August 1, 2023
  - ▶ This means that the financial impact of the swap is solely the calculation of a termination payment on or before August 1, 2023
- ▶ The amount of the termination payment due from the City goes up if interest rates go down
- ▶ The amount of the termination payment due from the City goes down if interest rates go up
  - ▶ If rates rise about 3% over current levels, RBC, the City's swap counterparty, would owe the City money through the termination payment calculation
  - ▶ Unanticipated that interest rates will rise 3% by the time the termination payment is due; payment likely owed
- ▶ This means that the swap is a hedge against rising interest rates on a refinancing of the 2005 B-2 bonds
  - ▶ At current interest rates, the termination payment from the City to RBC is about \$22 million
  - ▶ But, any changes in the termination payment amount is closely matched by increases or decreases in debt service costs on the refinancing of the 2005 B-2 bonds

# Preliminary Interest Rate Swap Sensitivity Analysis

- ▶ Based on preliminary analysis, estimated total debt service on refunding POBs is not highly sensitive to interest rate movements
  - ▶ **Interest rates increase:** swap termination payment decreases, offsets interest rate rise
  - ▶ **Interest rates decrease:** swap termination payment increases, offsets interest rate fall



# Policy Goal: Simplify and Improve Cash Flow Impact on General Fund

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- ▶ Current bond structure has covenants that the City's finance team believes are no longer required:
  - ▶ Debt service paid over 12 months in advance of when it is due
  - ▶ PTO and property tax revenue transferred directly from County to bond trustee
- ▶ These covenants can be eliminated by including the 1999 and the 2005 B-1's in the overall refinancing plan
  - ▶ The 1999 Bonds may need to be prepaid at the time of refinancing of the 2005 Bonds; the cost to do this is approximately \$2.4 million
- ▶ **Refinancing both the 2005 B-1's and B-2's will also eliminate all remaining interest rate swaps**

# City of Richmond

## Pension Debt Overview

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- ▶ City's pension debt generally includes
  - ▶ \$149M of outstanding 1999 and 2005 POBs
    - ▶ Current annual payment of about \$13M
  - ▶ \$370M of outstanding Unfunded Liability (UAL) with PERS
    - ▶ Current annual payment of about \$29M
  - ▶ Annual Normal Cost payments
    - ▶ Current level of \$14M
- ▶ Approximately \$56M in total annual payments currently; projected to grow each year over next 10-15 years

# City of Richmond

## Pension Tax Override (PTO) Revenue

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- ▶ City of Richmond is one of  $\approx 20$  cities in the state that collects a pension tax override
  - ▶ Critical revenue stream that provides financial stability to City and ensures ability to pay required benefits to all employees
- ▶ PTO property tax levy is currently set at 0.14% (maximum constraint) and generates approximately \$20 to \$25 million in annual revenue
  - ▶ Currently covers about 40% of the City's annual pension expenses (\$56M)
    - ▶ City (primarily General Fund) pays for remaining (\$30-\$35M) pension costs
- ▶ There is currently a 3<sup>rd</sup> party actuarial analysis being completed by Bartel and Associates (expected in June with results presented to City Council)
  - ▶ Results will quantify how much of the City's annual pension costs can legally be paid by this PTO revenue stream

# City of Richmond

## PTO Actuarial Study and What it Means for POB Restructuring

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- ▶ Based on the results of the actuarial study, the financing team will put together various restructuring options for the upcoming 2022 POB
  - ▶ Will include various terms/maturities and repayment shapes
- ▶ Through the restructuring, the City will have the opportunity to more optimally re-shape PTO eligible expenses to better mimic the PTO revenue stream
  - ▶ No impact to taxpayers (PTO levy remains at 0.14%)
  - ▶ Likely a significant reduction in General Fund pension expenses (> \$5M per year)
    - ▶ Enhanced financial stability, resiliency and budget predictability
    - ▶ More resources for other critical projects and priorities
    - ▶ Likely that significantly more POB debt service over time is paid by PTO revenues

## The City Council Resolution to be Considered by Council on June 21<sup>st</sup> or 28<sup>th</sup>

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- ▶ The City Council Resolution will provide the City with the following **options**:
  - ▶ Extend the term of the new 2022 Bonds beyond the final maturity of the outstanding 2005 Bonds
    - ▶ Maintains flexibility so that several options can be explored and presented to City Council
  - ▶ Refinance all or a portion of the 2005 B-1 and B-2 bonds and swap termination payments, if any
- ▶ Final approval of 2022 Bonds, including decision on term extension and redemption of the 2005 B-1's and the 1999 Bonds will be made by Council at its **July 19<sup>th</sup> meeting**
  - ▶ An update on the actuarial study results and structuring options will be provided to City Council prior to this meeting