

Opportunity Overview

Refinance CalPERS UAL with Pension Obligation Bonds



KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT

MAY 5, 2020

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KOSMONT SERVICES OVERVIEW



FIRM OVERVIEW

Kosmont Transactions Services, Inc. (“KTS”)

is one of three integrated Kosmont firms dedicated to the pursuit of Economic Development opportunities for our clients

STATUS OF KPPCSD'S UNFUNDED ACCRUED LIABILITY TO CALPERS

- KPPCSD's CalPERS Classic Safety Plan has a substantial Unfunded Accrued Liability ("UAL")
 - \$4,270,379 at 6/30/18
 - \$4,434,254 projected at 6/30/20
 - Both amounts assume monthly (not lump-sum) payments
- District's UAL with CalPERS is an existing debt
 - Various GASB statements require listing UAL on balance sheet as a current liability
- CalPERS requires members to amortize UAL at predetermined levels (CalPERS changes yearly)
- According to CalPERS, overall pension costs likely to continue increasing for 10 years due to unfunded liabilities

CURRENT MARKET VOLATILITY LIKELY TO ADD TO UAL

- Market returns of less than 7% increase UAL
- CalPERS returns currently flat for the year
 - Value at market close 4/27/2020 = \$376.1 Billion ("B"); value at 6/30/2019 was \$372.6 Billion¹
 - Hit record high value of \$404 B in February; down as much as \$69 B in recent market downturn
- How does recent market volatility impact the District?
 - Savings from POB are calculated based on 6/30/20 projected UAL being amortized (i.e. \$4,434,254)
 - Recent correction doesn't impact the POB estimated savings analysis for current UAL
 - With or without a POB, the District's UAL seems likely to increase based on current market activity

OPPORTUNITY TO LOWER PENSION COSTS

REFINANCE CalPERS UAL WITH POBs

- UAL debt is being amortized at a high rate of interest (i.e. CalPERS' Discount Rate, currently 7.0%)
- Issuing Pension Obligation Bonds (POBs) to refinance all or a portion of District's UAL debt can significantly lower annual pension payments
- Municipal bond market interest rates are currently substantially lower than the CalPERS rate
- District has opportunity to lock in low refinancing rate right now
 - 3.85% rate of interest offered per Lender Term sheet submitted by Brandis Tallman (Placement Agent)
 - Utilize savings for current expenditures/projects, budget reserves, and/or to fund investment portfolio to further reduce future pension costs ("Section 115 Trust")



PRIVATE PLACEMENT POB SUMMARY OF SAVINGS¹

- 3.85% Interest Rate vs. 7.00% CalPERS amortization
- \$1.8 million gross (budgetary) payment over remaining life
 - \$22,000 in FY2021 increasing to max. of \$162,000 in FY2032 annual (budgetary); varying thereafter with some years of “dis-savings” due to level POB payments vs. declining CalPERS payments in later years
- \$1.172 Net Present Value benefit yielding NPV Savings of **26.42%**
- Closing must occur by June 18, 2020

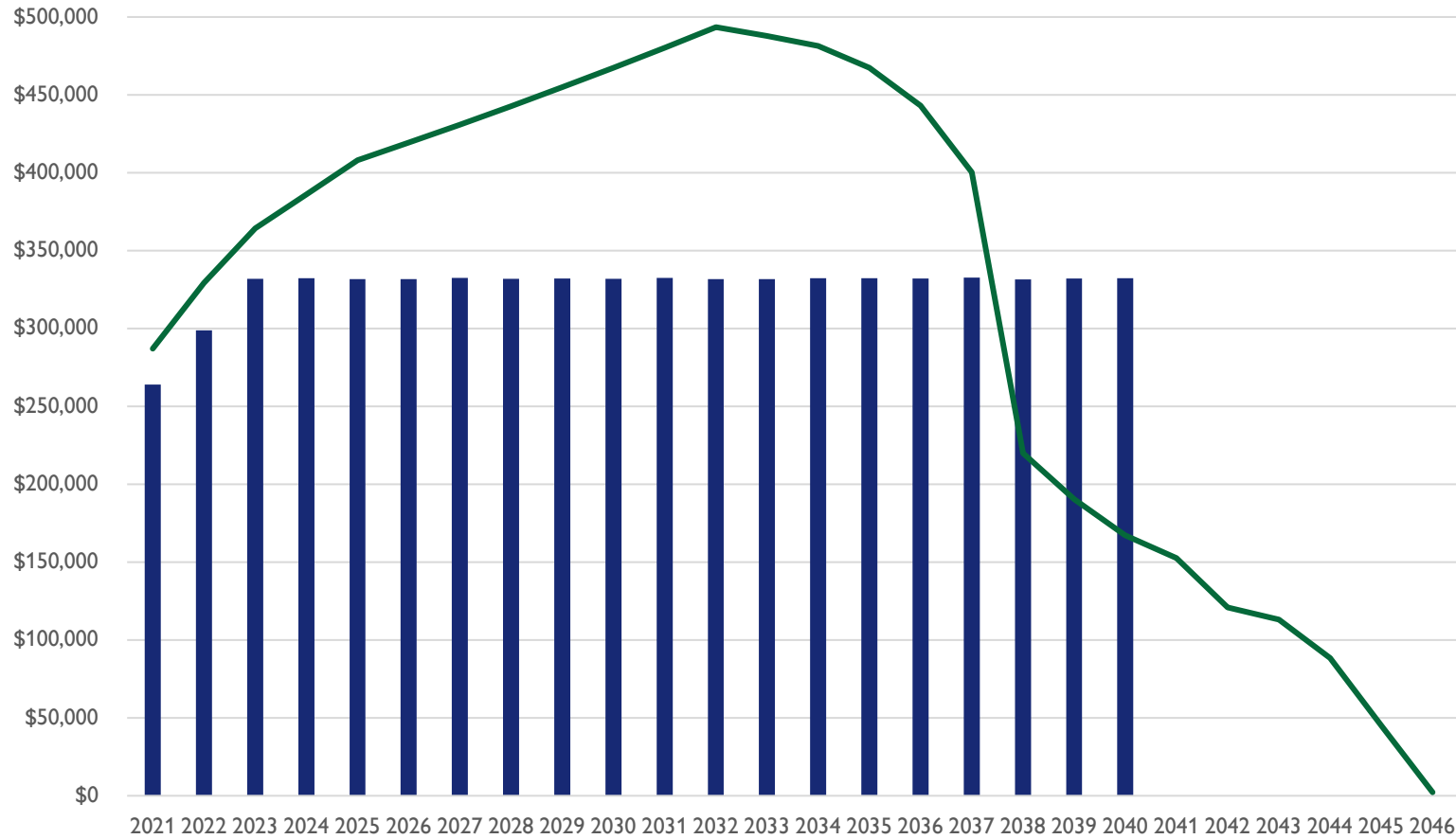
¹ Savings Compared to current CalPERS amortization as presented in *Actuarial Valuation as of June 30, 2018 for the Safety Plan of the Kensington Community Services District*; CalPERS amortization will change year to year; these comparisons represent a “snapshot” compared to current assumptions

PRIVATE PLACEMENT POB OPPORTUNITY

SUMMARY OF PRIMARY FINANCING TERMS

- General Obligation debt, but not “unlimited ad valorem tax” pledge
- 20-year repayment term; 10-year call option
 - 6 years shorter than current CalPERS repayment assumptions
 - Option to refinance in 10 years if market conditions favor
- No Debt Service Reserve Fund
- POB to be repaid via “Level Debt Service” structure
 - Unlike current projections which call for dramatic increases, POB payments will be smoothed out
 - Principal paid annually; interest paid semiannually
- \$120,000 approximate issuance costs
 - Paid through the financing; no out-of-pocket costs to the District whatsoever
- **Close by 6/18/20**

UAL/POB REPAYMENT COMPARISON



■ Curent POB Payment — Curent CalPERS Pmt.

Year Ending 30-Jun	Curent CalPERS Pmt.	POB Payment	Savings	Net Present Value Savings
2021	\$287,011	\$264,016	\$22,995	\$22,115
2022	329,254	298,823	30,431	28,182
2023	364,295	331,818	32,477	28,962
2024	386,173	332,350	53,823	46,217
2025	408,112	331,612	76,500	63,254
2026	419,335	331,644	87,691	69,820
2027	430,866	332,406	98,460	75,488
2028	442,715	331,860	110,855	81,840
2029	454,890	332,044	122,846	87,330
2030	467,399	331,921	135,478	92,740
2031	480,253	332,489	147,764	97,400
2032	493,460	331,711	161,749	102,666
2033	487,781	331,625	156,156	95,441
2034	481,417	332,193	149,224	87,824
2035	467,368	332,375	134,993	76,503
2036	443,165	332,173	110,992	60,570
2037	400,229	332,585	67,644	35,545
2038	219,882	331,574	(111,692)	(56,516)
2039	190,383	332,178	(141,795)	(69,088)
2040	167,074	332,320	(165,246)	(77,530)
2041	152,666	0	152,666	68,972
2042	120,887	0	120,887	52,590
2043	113,079	0	113,079	47,370
2044	88,295	0	88,295	35,616
2045	44,964	0	44,964	17,465
2046	2,153	0	2,153	805
TOTALS	\$8,343,106	\$6,539,717	\$1,803,389	\$1,171,581



POTENTIAL POLICY CHOICES FOR USE OF SAVINGS

- ✓ Build up reserves
- ✓ Utilize savings for current expenditures or projects; budget increases; tax/fee reductions
- ✓ Fund investment portfolio to further reduce future pension costs
 - Typically called “Section 115 Trusts”; several products and options available
 - *PARS and CalPERS are popular program providers*
 - Financial products available to leverage savings for potential earnings potential
 - Potential for District to “self-manage” if desired
 - Discussion of Section 115 Trust options can be ongoing—beyond POB approach
- District may wish to adopt a formal pension policy to memorialize the Board’s choices

POBs ARE INHERENTLY A DEFENSIVE FISCAL POLICY

- The District can refinance all or any portion of UAL
 - Determine policy for appropriate funding level of “Total Plan Liability”
- Savings can be used for any legal District purpose or to implement new fiscal policies
 - e.g., Potential to set up Section 115 Trust with additional cashflow
- Cost Savings with POBs can reduce impact of future CalPERS changes which typically increase pension costs, such as:
 - Mortality assumption changes requiring greater funding for longer retirement periods
 - Discount rate reductions requiring greater “Normal Cost” payments due to lower anticipated returns, increasing future contributions
 - Future newly created UALs (as anticipated this year) amortizing over shorter periods with no “ramp up”, increasing amortization payments, further increasing Annual Required Contribution payments

GFOA NATIONAL ADVISORY POSITION NOT APPLICABLE TO POBs ISSUED IN CA

GFOA ADVISORY POSITION AGAINST POBs

- Invested proceeds may not return a yield at or higher than bond rate, increasing overall liability
- Risky, complex instruments that may incorporate the use of GICs, swaps, or derivatives
- Issuing taxable debt:
 - Increases bonded debt burden
 - Uses up debt capacity
 - Typically issued without (or with inflexible) call features
- Typically structured to defer repayment, increasing costs
- Rating agencies may not view POBs as credit positive

WHY GFOA ADVISORY IS NOT APPLICABLE IN CA

- Proceeds will be used to refinance an existing debt; not to be invested for a return
- POBs are “plain vanilla” fixed rate municipal bonds; proceeds will only be used to refinance high-cost debt
- CA Taxable POBs:
 - UAL is already a debt on the balance sheet
 - Exempt from debt limit for CA Special District
 - POBs are routinely issued with “standard” call features
- Repayment structure is entirely up to the District
- Rating agencies are issuing POB ratings commensurate with issuer’s GO Bond rating (stronger than COP/LRB)

NEXT STEPS

- ✓ Engage Finance Team
- Draft legal documents
- Board presentation
- Board consider authorization
- Finalize transaction details (due diligence)
- Payoff UAL with CalPERS

PROJECTED SCHEDULE OF ACTIVITIES

WEEK OF	ACTIVITY
completed	Engage Finance Team
May 4	Finance Committee presentation
May 11	Board of Directors presentation
May 18	Prepare draft legal documents and authorizing resolutions
May 25	Board of Directors meet to consider authorization
June 1	Due diligence; finalize all transaction documents
(Before June 18)	Close Pension Obligation Bonds; Pay off UAL to CalPERS

THANK YOU – ANY QUESTIONS?



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MAY 5, 2020

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