



Agenda

CITY OF MANHATTAN BEACH

Meeting of the Finance Subcommittee

February 19, 2021 – 11:00 a.m.

***Zoom Meeting via Internet/Phone Conference**

1. Public Comments

2. Approval of Minutes from January 7, 2021 Finance Subcommittee Meeting

Recommended Action: Approve

3. Fire Station No. 2 Financing Options

Recommended Action: Discuss and Provide Direction

4. Pension Obligation Bonds (POB) Policy and Financing Structure Options

Recommended Action: Discuss and Provide Direction

5. Presentation on Federal Securities Law relating to the Issuance of Bonds by Kevin Civale, Stradling, Yocca, Carlson & Rauth (SYCR) (there will be no staff report)

Recommended Action: Receive

Adjourn

Copies of staff reports or other written documentation relating to agenda items are on file in the office of the Finance Director and on the City website.

*Join Zoom Meeting

<https://comb.zoom.us/j/94743535332?pwd=TGhtQ2hCYU80SDZRSUwvVlpuMDBpZz09>

Meeting ID: 947 4353 5332

Passcode: 884574

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Finance Subcommittee Meeting Draft Action Minutes

Meeting Date: January 7, 2021, 3:00 p.m.
Recording Secretary: Helga Foushanes

In Attendance: Tim Lilligren, Treasurer
Suzanne Hadley, Mayor
Steve Napolitano, Council Member
Bruce Moe, City Manager
Steve S. Charelian, Finance Director
Libby Bretthauer, Financial Analyst
Julie Bondarchuk, Senior Accountant

Called to Order: 3:02 p.m. by Tim Lilligren, Treasurer

Agenda Item #1 – Public Comments

None.

Agenda Item #2 - Approval of Minutes from August 20, 2020 Finance Subcommittee Meeting

The Finance Subcommittee approved the minutes of August 20, 2020.

Agenda Item #3 – Review of Results of Fiscal Year 2019-2020 Financial Audit

The Finance Subcommittee discussed, received and filed the report.

Agenda Item #4 – Month End Financials for November 2020

The Finance Subcommittee received and filed the report.

Agenda Item #5 - Investment Portfolio for November 2020

The Finance Subcommittee received and filed the report.

Agenda Item #6 – Fiscal Year 2020-2021 Monthly Schedule of Transient Occupancy Tax and Lease Payments and Miscellaneous Accounts Receivables

The Finance Subcommittee received and filed the report.

Agenda Item #7 – July-September 2020 Bad Debt Write Off's for Misc. AR, Utility Billing and Ambulance Transports Referred to Collections

The Finance Subcommittee received and filed the report.

Agenda Item #8 – Adjournment

The meeting adjourned at 3:55 p.m.



Staff Report

City of Manhattan Beach

TO: Members of the Finance Subcommittee

FROM: Steve S. Charelian, Finance Director
Julie Bondarchuk, Acting Controller
Libby Bretthauer, Senior Financial Analyst

DATE: February 19, 2021

SUBJECT: Fire Station No. 2 Financing Options

RECOMMENDATION:

Staff recommends that the Finance Subcommittee discuss and provide a financing option recommendation to the City Council.

FISCAL IMPLICATION:

The design development phase of the replacement of Fire Station No. 2 (Project) was budgeted in the CIP Fund for \$777,441 and supported by a General Fund transfer of \$540,000 to expedite the Project. In addition, construction of the Project is estimated to cost \$9.5 million. While some capital projects may be funded with existing resources, larger and costlier projects with extended useful lives may be funded by the issuance of debt to spread the costs over multiple years for affordability and to achieve intergenerational equity.

Construction costs for the Project can be funded by the City through the sale of Certificates of Participation (COPs). Using the construction estimate of \$9.5 million, the average annual debt service cost is estimated at \$454,000 per year over a 30-year term at current historically low interest rates. If bids come in lower than expected, the City expects to include the design costs within the bond issuance and recover the General Fund expense made to initiate the project.

Options to fund the debt service lease payments are discussed below.

BACKGROUND:

The existing Fire Station No. 2 is 66 years old, has reached the end of its useful life and is inadequate for operating a modern fire department. As an essential emergency response facility, the integrity of the building is critical for maintaining operations and services following seismic events and other natural disasters. Based on a building evaluation performed in 2017, there are a number of deficiencies in the building's structure that could compromise the functionality of the building, impact service delivery or cause a loss of use

of the facility following an earthquake or other natural disaster.

The design development phase of replacing Fire Station No. 2 has been completed and the construction plans have been approved by the Building & Safety Division. Per Building Code requirements, the building permit must be pulled by 2021; otherwise, additional costs will be incurred from the architect to update the plans to reflect changes in the building codes and to resubmit the plans through the Building & Safety plan check and approval process.

DISCUSSION:

In 2017, the City Council determined that Fire Station No. 2 is the highest priority facility in the City and ultimately directed staff to move forward with the complete replacement of Fire Station No. 2 at its existing location.

The approved plans for the replacement Fire Station No. 2 meets modern building codes, provides the space necessary to meet the operational needs of a modern fire department, includes the elements to protect the health and safety of the firefighters, and offers flexibility for expanding services and staffing for the next 50 years.

The cost of the replacement facility is estimated at \$9.5 million.

With the construction plans in place, finalizing the funding plan is the next step. The City's Municipal Advisor (KNN Public Finance) and Bond Counsel (Stradling Yocca Carlson & Rauth) have been instrumental in helping the City determine optimal financing strategies. Given the characteristics of the Fire Station No. 2 Project, existing municipal bond market conditions, and the City's current financial position, the issuance of Certificates of Participation is recommended.

Certificates of Participation (COPs) are a common debt financing structure to pay for a public facility such as Fire Station No. 2. The City has previously issued COPs for Water/Wastewater infrastructure improvements in 1996, Marine Avenue Sports Fields in 2002, Metlox Plaza in 2003, and the Police/Fire Facility next to City Hall in 2004. Subsequently, the City refinanced these original debt issues to take advantage of lower interest rates in 2012 (Metlox/Water/Wastewater), 2013 (Police/Fire Facility), and 2016 (Marine Avenue Sports Fields).

The Manhattan Beach Capital Improvements Corporation (CIC), which is a nonprofit public benefits corporation created for the sole purpose of issuing debt for capital improvements, issues COPs on behalf of the City. The CIC then generates the revenues to pay debt service on the bonds by leasing the facility back to the City, which is responsible for appropriating the lease payments in the annual budget throughout the term of the bonds.

Various methods to fund the debt service lease payments were evaluated during discussions with the City's Municipal Advisor. Three funding options have been identified that are (1) available in the near term and (2) an appropriate use of General Fund resources.

Option 1: Transient Occupancy Tax Increase on July 1, 2022

On March 5, 2019, Manhattan Beach voters passed Measure A, which aligned the City’s existing Uniform Hotel/Motel Occupancy Tax (TOT) with neighboring cities by increasing the rate from 10% to up to 14%. Section 8.20.020 of Chapter 8.20 of Title 8 of the Manhattan Beach Municipal Code was thereby amended to increase the TOT to 12% on May 1, 2020. The City Council subsequently delayed implementation of the 12% rate until July 1, 2020, to assist businesses’ impacted by the pandemic. Resolution 18-0521 also included a provision requiring the City to maintain the rate at 12% for at least two additional years, with the earliest opportunity to increase the rate up to 14% after April 30, 2022.

Measure A was intended to fund local priorities, with emergency response times and public safety operations being the most critical. Accordingly, Fire Station No. 2 debt service lease payments is an appropriate use of Measure A funds.

At the time Measure A was passed, the increase from 10% to 12% was expected to net the City over \$800,000 annually. However, with the COVID-19 Pandemic impacting travel and tourism, TOT revenues have decreased significantly. Based on the most recent FY 2020-2021 Mid-Year Projections, General Fund TOT Revenues are estimated \$1,071,309 (30%) below the prior year at \$2,500,000.

	General Fund TOT Revenue	Incr./ (Decr.) from Prior	%
FY 2020-2021 Mid-Year Projection	\$2,500,000	(\$1,071,309)	-30.0%
FY 2019-2020 Actual	3,571,309	(785,677)	-18.0%
FY 2018-2019 Actual	4,356,986	592,302	15.7%
FY 2017-2018 Actual*	3,764,684	(664,186)	-15.0%
FY 2016-2017 Actual	4,428,870	91,927	2.1%
FY 2015-2016 Actual	4,336,943		

**FY 2017-2018 Actual lower due to significant remodel at Marriott/Westdrift Hotel.*

At the current depressed occupancy rates, increasing the TOT rate from 12% to 14% would generate approximately \$416,000 that could be applied toward the Fire Station No. 2 debt service lease payments. Once hotel/motel occupancy rates are restored, the amount of General Fund revenue generated by the 2% increase could range up to \$750,000 annually.

Option 2: Pension Policy Savings

Issuance of Pension Obligation Bonds (POBs) at current historically low borrowing rates will save the City about \$31.8 million (present value) over the next 25 years. The savings is calculated by taking the difference between making amortization payments to CalPERS compared to debt service payments over the same period. Projected budgetary savings from the issuance of POBs ranges from \$1.1 million to \$4.4 million annually. The way in which the City Council allocates the POB savings will be determined with the approval of

the Unfunded Pension Liability Policy (Pension Policy) that will be considered during the March 2, 2021, City Council meeting.

The current draft of the Pension Policy allows for approximately 40% of POB savings to be applied toward future capital improvements and/or debt service costs. Therefore, a portion of the POB savings could be allocated toward the Fire Station No. 2 debt service lease payments as an appropriate use of funds.

Each year during the Budget process, a recommendation for the precise savings allocation for the next fiscal year will be determined. At City Council's discretion, staff would prioritize funding of the Fire Station No. 2 debt service.

Option 3: Unreserved General Fund Balance

The third available option is to use existing Unreserved General Fund Balance if Option 1 or Option 2 falls short of covering the annual debt service payments for Fire Station No. 2.

Staff recommends the Finance Subcommittee weigh the advantages and disadvantages of each of these funding options and provide a recommendation to the City Council for the funding of Fire Station No. 2 Certificates of Participation debt service lease payments.

Attachment: Estimated COP Debt Service Schedule

BOND DEBT SERVICE

City of Manhattan Beach
COP \$9.5 Million, 30-Year
Market Rates as of 2/8/2020 + 25 bps rate cushion

<i>Period Ending</i>	<i>Principal</i>	<i>Coupon</i>	<i>Interest</i>	<i>Debt Service</i>	<i>Bond Balance</i>	<i>Total Bond Value</i>
06/30/2022	300,000	4.000%	152,150	452,150	8,265,000	8,265,000
06/30/2023	160,000	4.000%	292,300	452,300	8,105,000	8,105,000
06/30/2024	170,000	4.000%	285,900	455,900	7,935,000	7,935,000
06/30/2025	175,000	4.000%	279,100	454,100	7,760,000	7,760,000
06/30/2026	180,000	4.000%	272,100	452,100	7,580,000	7,580,000
06/30/2027	190,000	4.000%	264,900	454,900	7,390,000	7,390,000
06/30/2028	195,000	4.000%	257,300	452,300	7,195,000	7,195,000
06/30/2029	205,000	4.000%	249,500	454,500	6,990,000	6,990,000
06/30/2030	215,000	4.000%	241,300	456,300	6,775,000	6,775,000
06/30/2031	220,000	4.000%	232,700	452,700	6,555,000	6,555,000
06/30/2032	230,000	4.000%	223,900	453,900	6,325,000	6,325,000
06/30/2033	240,000	4.000%	214,700	454,700	6,085,000	6,085,000
06/30/2034	250,000	4.000%	205,100	455,100	5,835,000	5,835,000
06/30/2035	260,000	4.000%	195,100	455,100	5,575,000	5,575,000
06/30/2036	270,000	3.000%	184,700	454,700	5,305,000	5,305,000
06/30/2037	280,000	3.000%	176,600	456,600	5,025,000	5,025,000
06/30/2038	285,000	3.000%	168,200	453,200	4,740,000	4,740,000
06/30/2039	295,000	3.000%	159,650	454,650	4,445,000	4,445,000
06/30/2040	305,000	3.000%	150,800	455,800	4,140,000	4,140,000
06/30/2041	315,000	3.000%	141,650	456,650	3,825,000	3,825,000
06/30/2042	320,000	4.000%	132,200	452,200	3,505,000	3,505,000
06/30/2043	335,000	4.000%	119,400	454,400	3,170,000	3,170,000
06/30/2044	350,000	4.000%	106,000	456,000	2,820,000	2,820,000
06/30/2045	365,000	4.000%	92,000	457,000	2,455,000	2,455,000
06/30/2046	375,000	4.000%	77,400	452,400	2,080,000	2,080,000
06/30/2047	390,000	3.000%	62,400	452,400	1,690,000	1,690,000
06/30/2048	405,000	3.000%	50,700	455,700	1,285,000	1,285,000
06/30/2049	415,000	3.000%	38,550	453,550	870,000	870,000
06/30/2050	430,000	3.000%	26,100	456,100	440,000	440,000
06/30/2051	440,000	3.000%	13,200	453,200		
	8,565,000		5,065,600	13,630,600		



Staff Report

City of Manhattan Beach

TO: Members of the Finance Subcommittee

FROM: Steve S. Charelian, Finance Director
Julie Bondarchuk, Acting Controller
Libby Bretthauer, Senior Financial Analyst

DATE: February 19, 2021

SUBJECT: Pension Obligation Bonds (POB) Financing Structure Options and Policy

RECOMMENDATION:

Staff recommends that the Finance Subcommittee discuss and provide a financing option recommendation to the City Council.

FISCAL IMPLICATION:

As of June 30, 2019, the most current actuarial valuation available from CalPERS, the City's Unfunded Accrued Liabilities (UAL) for all citywide employees and retirees is approximately \$91.5 million. Approximately 69% of the UAL is related to sworn Police and Fire Department ("Public Safety") employees, and 31% is related to non-safety ("Miscellaneous") employees.

The City's required annual UAL payments to CalPERS were projected to range from approximately \$6.7 million in fiscal year (FY) 2021-2022, up to approximately \$10.0 million in the peak year of FY 2031-2032. To prevent these variable rising costs from impacting future balanced budgets and essential service levels, staff explored various long-term options to reduce the UAL that would (1) preserve the City's fiscal integrity; (2) take advantage of current historically low interest rates; and (3) create fixed costs with level-debt payments.

The issuance of Pension Obligation Bonds (POBs) will achieve these goals for the City. When the concept was first introduced in November, a present value savings of \$31.8 million was stated based on interest rates at the time. Since then, interest rates have continued to drop to the City's benefit. At current rates, POBs can save the City over \$33.8 million (present value) in pension costs over the next 25 years.

Savings generated by the issuance of POBs may be deposited to the City's Pension Rate Stabilization Trust Fund to achieve better returns on our investments. Beginning in FY 2017-2018, the City has been transferring \$250,000 from the General Fund to the Pension

Rate Stabilization Trust Fund. The current balance of the Trust Fund is about \$1.76 million, including principal of \$1.5 million and accumulated interest. These funds are available to fund any pension-related payments to CalPERS at the City Council's discretion.

Fiscal implications of the POB financing structure options and allocation of savings are discussed throughout the body of this report.

BACKGROUND:

On October 6, 2020, the City Council considered the issuance of POBs for long-term CalPERS pension liabilities and an Unfunded Pension Liability Policy (Pension Policy). To allow additional time for questions, City Council requested staff bring back the item to the October 20, 2020 meeting. After additional discussion and questions, City Council continued this item to the November 4, 2020, City Council meeting.

The City Council approved the recommendation in regards to the issuance of pension obligation bonds at the November 4, 2020, meeting and directed staff to move forward with steps to initiate issuance of pension obligation bonds. On December 15, 2020, the City Council adopted Resolution No. 20-0149 authorizing the issuance and sale of pension obligation bonds. Judicial validation proceedings are in progress and expected to be finalized in March. Once finalized, the pricing of the bonds will commence.

DISCUSSION:

With City Council's authorization to commence the next phase, the City's municipal advisor, KNN Public Finance, began conducting scenario analysis to help determine the most beneficial terms for the bond issuance.

PENSION OBLIGATION BONDS FINANCING STRUCTURE OPTIONS

The two most beneficial options are discussed below, along with the "Base Case" scenario for comparison, and attached to this report.

Option 1: "Base Case" POB Structure – 100% UAL Funding, Maturity of 2045 for Public Safety, and Maturity of 2043 for Miscellaneous, all level debt service.

The Base Case POB structure mimics the amortization schedule of the City's current UAL payback terms with CalPERS, with the Police and Fire plans maturing in 2045, and the Miscellaneous plan maturing in 2043. Over the next ten years, annual budgetary savings would range from \$1.3 million to \$4.6 million.

The overall true interest cost (TIC) of the POBs is 2.91% and the present value savings is estimated at \$33.8 million over the term of the bonds.

Option 2: 100% UAL Funding, Maturity of 2043 for Public Safety and Miscellaneous, all level debt service.

Option 2 reduces the amortization schedule for the Police and Fire plans to align with the schedule for Miscellaneous employees. Over the next ten years, annual budgetary savings would range from \$1.1 million to \$4.4 million.

All plans would be fully amortized in 2043, which increases the City's initial payments but saves in overall interest costs (2.86%). The present value savings is estimated at \$34.5 million over the term of the bonds.

Option 3: 100% UAL Funding, Maturity of 2041 for Public Safety and Miscellaneous, all level debt service.

Option 3 reduces the amortization schedule to twenty years for both Public Safety and Miscellaneous plans. Over the next ten years, annual budgetary savings would range from \$0.8 million to \$4.0 million.

All plans would be fully amortized in 2041, which further increases the City's initial payments but saves even more in overall interest costs (2.75%). The present value savings is estimated at \$35.7 million over the term of the bonds.

Staff recommends Option 2, with all plans maturing in 2043, to take advantage of lower overall interest costs and higher budgetary savings over the near term. Although shortening the terms to 20 years generates additional long-term savings, lower debt service payments over the next few years will provide the City greater flexibility during this period of economic recovery after the COVID-19 Pandemic.

This recommendation also takes into account the maturity of the City's Certificates of Participation for Marine Avenue Sports Fields in Fiscal Year 2022-2033, which will free up nearly \$500,000 in General Fund dollars that could be allocated to other debt service payments or ongoing operations.

UNFUNDED PENSION LIABILITY POLICY

If the City Council selects "Option 2" above, the projected budgetary savings over the next ten years ranges from \$1.1 million to \$4.4 million annually. The attached Pension Policy aims to memorialize how the City plans to utilize the budgetary savings.

Staff recommends using an allocation of the savings as follows: approximately 60% of the savings will be used to offset future UAL costs and approximately 40% of the savings will be used for future capital improvements, infrastructure needs and/or debt service. In addition to Fire Station No. 2 Debt Service, the City has other major capital projects in need of financing, including: Joslyn Center, the Senior & Scout House, Downtown Sidewalk Expansion, Historical Documents Repository, Begg Pool/Aquatics Center, etc.

Each year during the Budget process, a recommendation for the precise savings allocation for the next fiscal year will be determined based on CalPERS' latest year-end investment return. For example, if CalPERS' fiscal year-end investment return is below its benchmark, the City Council may choose to allocate a higher portion of savings to fund future UAL costs. Alternatively, if CalPERS' fiscal year-end investment return is higher than its benchmark, then the City Council may choose to allocate more of the budgetary savings to fund capital improvements and/or pay down debt ahead of schedule.

CONCLUSION

Staff recommends the Finance Subcommittee consider recommending to the City Council

Agenda Item #: _____

Option 2 for the POB Financing Structure, with all plans maturing in 2043, and approval of the attached draft Pension Policy.

Attachments:

1. Option 1: "Base Case" POB Structure
2. Option 2: POB Structure with Maturity of 2043 for Public Safety and Miscellaneous
3. Option 3: POB Structure with Maturity of 2041 for Public Safety and Miscellaneous
4. Unfunded Pension Liability Policy

MANHATTAN BEACH
PENSION OBLIGATION BOND SCENARIOS

BASE CASE POB STRUCTURE

Required Contribution In	100% Fire UAL				100% Police UAL				100% Misc. UAL				100% Total UAL			
	Payment	POB Debt Service	Savings	TIC PV Savings	Payment	POB Debt Service	Savings	TIC PV Savings	Payment	POB Debt Service	Savings	TIC PV Savings	Payment	POB Debt Service	Savings	TIC PV Savings
6/30/2022	1,455,513	1,161,971	293,542	285,231	3,146,788	2,492,203	654,585	636,053	2,152,306	1,765,566	386,740	375,791	6,754,607	5,419,741	1,334,866	1,297,075
6/30/2023	1,623,787	1,158,480	465,307	439,333	3,488,182	2,490,839	997,344	941,671	2,401,557	1,766,647	634,910	599,469	7,513,526	5,415,966	2,097,561	1,980,473
6/30/2024	1,728,325	1,159,190	569,135	522,152	3,707,817	2,491,609	1,216,209	1,115,808	2,569,628	1,764,660	804,969	738,517	8,005,770	5,415,458	2,590,312	2,376,477
6/30/2025	1,833,254	1,162,008	671,246	598,398	3,927,876	2,491,165	1,436,712	1,280,791	2,746,690	1,767,996	978,695	872,481	8,507,820	5,421,168	3,086,652	2,751,670
6/30/2026	1,888,281	1,159,718	728,563	631,107	4,045,461	2,490,559	1,554,903	1,346,911	2,831,629	1,766,170	1,065,460	922,939	8,765,371	5,416,446	3,348,925	2,900,957
6/30/2027	1,936,747	1,158,634	778,113	654,946	4,153,200	2,491,761	1,661,440	1,398,452	2,907,340	1,768,158	1,139,182	958,862	8,997,287	5,418,553	3,578,735	3,012,260
6/30/2028	1,988,314	1,157,387	830,927	679,600	4,263,904	2,487,555	1,776,349	1,452,842	2,985,128	1,764,821	1,220,308	998,067	9,237,346	5,409,763	3,827,584	3,130,508
6/30/2029	2,041,300	1,157,057	884,243	702,731	4,377,647	2,489,596	1,888,052	1,500,483	3,065,060	1,764,855	1,300,206	1,033,307	9,484,007	5,411,507	4,072,500	3,236,521
6/30/2030	2,095,740	1,157,471	938,269	724,556	4,494,520	2,488,180	2,006,341	1,549,349	3,147,186	1,766,089	1,381,098	1,066,520	9,737,446	5,411,739	4,325,707	3,340,424
6/30/2031	2,151,679	1,161,849	989,830	742,732	4,614,615	2,489,582	2,125,034	1,594,548	3,231,573	1,765,623	1,465,951	1,099,996	9,997,867	5,417,053	4,580,814	3,437,276
6/30/2032	2,209,155	1,160,049	1,049,106	764,924	4,738,006	2,488,630	2,249,377	1,640,065	3,099,143	1,768,407	1,330,737	970,266	10,046,304	5,417,085	4,629,219	3,375,255
6/30/2033	2,180,785	1,157,148	1,023,637	725,224	4,692,888	2,490,254	2,202,635	1,560,517	3,056,143	1,764,274	1,291,870	915,261	9,929,816	5,411,675	4,518,141	3,201,001
6/30/2034	2,149,231	1,158,116	991,115	682,303	4,641,801	2,489,262	2,152,540	1,481,850	2,796,720	1,763,286	1,033,435	711,437	9,587,752	5,410,663	4,177,089	2,875,590
6/30/2035	2,081,873	1,157,796	924,077	618,142	4,520,361	2,490,574	2,029,788	1,357,785	2,685,440	1,765,266	920,175	615,532	9,287,674	5,413,635	3,874,039	2,591,459
6/30/2036	1,966,194	1,161,148	805,046	523,273	4,302,809	2,488,978	1,813,832	1,178,975	2,494,058	1,765,022	729,037	473,867	8,763,061	5,415,147	3,347,914	2,176,115
6/30/2037	1,763,276	1,159,446	603,830	381,373	3,907,144	2,491,782	1,415,363	893,928	2,161,929	1,766,730	395,200	249,604	7,832,349	5,417,957	2,414,392	1,524,904
6/30/2038	1,040,998	1,161,954	-120,956	-74,232	2,180,593	2,487,690	-307,097	-188,468	1,954,090	1,767,016	187,075	114,809	5,175,681	5,416,659	-240,978	-147,890
6/30/2039	901,291	1,158,514	-257,223	-153,391	1,899,588	2,491,860	-592,272	-353,191	1,733,242	1,765,880	-32,638	-19,463	4,534,121	5,416,253	-882,132	-526,045
6/30/2040	790,335	1,159,284	-368,949	-213,788	1,675,204	2,488,976	-813,772	-471,540	1,200,615	1,763,322	-562,707	-326,061	3,666,154	5,411,581	-1,745,427	-1,011,388
6/30/2041	721,935	1,159,106	-437,171	-246,147	1,537,394	2,489,196	-951,802	-535,908	1,088,522	1,764,342	-675,820	-380,517	3,347,851	5,412,643	-2,064,792	-1,162,572
6/30/2042	521,190	1,161,503	-640,313	-350,318	1,113,305	2,489,189	-1,375,884	-752,753	537,816	1,766,382	-1,228,566	-672,154	2,172,311	5,417,073	-3,244,762	-1,775,225
6/30/2043	498,899	1,157,741	-658,842	-350,250	1,036,551	2,491,866	-1,455,315	-773,668	225,725	1,766,601	-1,540,876	-819,154	1,761,175	5,416,207	-3,655,032	-1,943,072
6/30/2044	396,160	1,157,986	-761,826	-393,532	805,680	2,492,060	-1,686,380	-871,125	0	0	0	0	1,201,840	3,650,045	-2,448,205	-1,264,657
6/30/2045	203,438	1,157,072	-953,634	-478,667	391,190	2,489,771	-2,098,581	-1,053,363	0	0	0	0	594,628	3,646,843	-3,052,215	-1,532,030
6/30/2046	19,518	0	19,518	9,520	0	0	0	0	0	0	0	0	19,518	0	19,518	9,520
6/30/2047																
6/30/2048																
6/30/2049																
6/30/2050																
6/30/2051																
TOTAL	36,187,218	27,820,627	8,366,591	7,425,219	77,662,524	59,763,127	17,899,397	15,930,014	51,071,540	38,847,104	12,224,436	10,499,374	164,921,282	126,430,858	38,490,424	33,854,607

Source: Calpers, July 2020, Annual Valuation Reports as of June 30, 2019.

MANHATTAN BEACH
PENSION OBLIGATION BOND SCENARIOS

FY	POB Savings	9.5mm COP 30-year		
		Debt Service	Net Savings	DS % of Savings
6/30/2022	1,334,866	452,150	882,716	34%
6/30/2023	2,097,561	452,300	1,645,261	22%
6/30/2024	2,590,312	455,900	2,134,412	18%
6/30/2025	3,086,652	454,100	2,632,552	15%
6/30/2026	3,348,925	452,100	2,896,825	13%
6/30/2027	3,578,735	454,900	3,123,835	13%
6/30/2028	3,827,584	452,300	3,375,284	12%
6/30/2029	4,072,500	454,500	3,618,000	11%
6/30/2030	4,325,707	456,300	3,869,407	11%
6/30/2031	4,580,814	452,700	4,128,114	10%
6/30/2032	4,629,219	453,900	4,175,319	10%
6/30/2033	4,518,141	454,700	4,063,441	10%
6/30/2034	4,177,089	455,100	3,721,989	11%
6/30/2035	3,874,039	455,100	3,418,939	12%
6/30/2036	3,347,914	454,700	2,893,214	14%
6/30/2037	2,414,392	456,600	1,957,792	19%
6/30/2038	-240,978	453,200	-694,178	0%
6/30/2039	-882,132	454,650	-1,336,782	0%
6/30/2040	-1,745,427	455,800	-2,201,227	0%
6/30/2041	-2,064,792	456,650	-2,521,442	0%
6/30/2042	-3,244,762	452,200	-3,696,962	0%
6/30/2043	-3,655,032	454,400	-4,109,432	0%
6/30/2044	-2,448,205	456,000	-2,904,205	0%
6/30/2045	-3,052,215	457,000	-3,509,215	0%
6/30/2046	19,518	452,400	-432,882	0%
6/30/2047		452,400	-452,400	n/a
6/30/2048		455,700	-455,700	n/a
6/30/2049		453,550	-453,550	n/a
6/30/2050		456,100	-456,100	n/a
6/30/2051		453,200	-453,200	n/a
	38,490,424	13,630,600	24,859,824	

Required Contribution In	100% Fire UAL				100% Police UAL				100% Misc. UAL				100% Total UAL			
	Payment	POB Debt Service	Savings	TIC 2.86% PV Savings	Payment	POB Debt Service	Savings	TIC 2.86% PV Savings	Payment	POB Debt Service	Savings	TIC 2.86% PV Savings	Payment	POB Debt Service	Savings	TIC 2.86% PV Savings
6/30/2022	1,455,513	1,220,841	234,672	228,157	3,146,788	2,628,166	518,622	504,225	2,152,306	1,765,566	386,740	376,004	6,754,607	5,614,574	1,140,033	1,108,385
6/30/2023	1,623,787	1,223,952	399,835	377,944	3,488,182	2,623,619	864,564	817,228	2,401,557	1,766,647	634,910	600,148	7,513,526	5,614,218	1,899,309	1,795,320
6/30/2024	1,728,325	1,224,110	504,216	463,378	3,707,817	2,628,251	1,079,566	992,131	2,569,628	1,764,660	804,969	739,773	8,005,770	5,617,020	2,388,750	2,195,282
6/30/2025	1,833,254	1,221,010	612,245	547,038	3,927,876	2,625,863	1,302,013	1,163,344	2,746,690	1,767,996	978,695	874,460	8,507,820	5,614,868	2,892,952	2,584,842
6/30/2026	1,888,281	1,222,856	665,426	578,050	4,045,461	2,628,313	1,417,148	1,231,066	2,831,629	1,766,170	1,065,460	925,557	8,765,371	5,617,338	3,148,033	2,734,673
6/30/2027	1,936,747	1,225,386	711,361	600,799	4,153,200	2,626,500	1,526,701	1,289,416	2,907,340	1,768,158	1,139,182	962,127	8,997,287	5,620,044	3,377,244	2,852,342
6/30/2028	1,988,314	1,222,672	765,642	628,692	4,263,904	2,624,279	1,639,626	1,346,347	2,985,128	1,764,821	1,220,308	1,002,032	9,237,346	5,611,771	3,625,575	2,977,072
6/30/2029	2,041,300	1,220,371	820,929	655,377	4,377,647	2,627,158	1,750,489	1,397,478	3,065,060	1,764,855	1,300,206	1,038,001	9,484,007	5,612,384	3,871,624	3,090,856
6/30/2030	2,095,740	1,223,949	871,791	676,661	4,494,520	2,626,764	1,867,756	1,449,703	3,147,186	1,766,089	1,381,098	1,071,971	9,737,446	5,616,802	4,120,645	3,198,336
6/30/2031	2,151,679	1,221,294	930,385	702,093	4,614,615	2,623,886	1,990,729	1,502,257	3,231,573	1,765,623	1,465,951	1,106,245	9,997,867	5,610,803	4,387,065	3,310,596
6/30/2032	2,209,155	1,222,478	986,677	723,903	4,738,006	2,623,454	2,114,552	1,551,400	3,099,143	1,768,407	1,330,737	976,332	10,046,304	5,614,339	4,431,966	3,251,634
6/30/2033	2,180,785	1,222,354	958,431	683,659	4,692,888	2,625,281	2,067,607	1,474,845	3,056,143	1,764,274	1,291,870	921,504	9,929,816	5,611,909	4,317,908	3,080,008
6/30/2034	2,149,231	1,220,882	928,349	643,818	4,641,801	2,624,165	2,017,636	1,399,248	2,796,720	1,763,286	1,033,435	716,696	9,587,752	5,608,333	3,979,420	2,759,761
6/30/2035	2,081,873	1,223,022	858,851	579,086	4,520,361	2,625,016	1,895,345	1,277,948	2,685,440	1,765,266	920,175	620,433	9,287,674	5,613,304	3,674,371	2,477,467
6/30/2036	1,966,194	1,223,602	742,592	486,798	4,302,809	2,627,612	1,675,197	1,098,156	2,494,058	1,765,022	729,037	477,911	8,763,061	5,616,236	3,146,826	2,062,865
6/30/2037	1,763,276	1,223,582	539,694	343,969	3,907,144	2,628,148	1,278,996	815,156	2,161,929	1,766,730	395,200	251,877	7,832,349	5,618,460	2,213,890	1,411,001
6/30/2038	1,040,998	1,222,614	-181,616	-112,538	2,180,593	2,626,630	-446,037	-276,386	1,954,090	1,767,016	187,075	115,920	5,175,681	5,616,260	-440,579	-273,003
6/30/2039	901,291	1,220,698	-319,407	-192,425	1,899,588	2,628,058	-728,470	-438,863	1,733,242	1,765,880	-32,638	-19,662	4,534,121	5,614,636	-1,080,515	-650,951
6/30/2040	790,335	1,222,834	-432,499	-253,324	1,675,204	2,627,274	-952,070	-557,648	1,200,615	1,763,322	-562,707	-329,589	3,666,154	5,613,430	-1,947,276	-1,140,561
6/30/2041	721,935	1,223,864	-501,929	-285,829	1,537,394	2,624,278	-1,086,884	-618,938	1,088,522	1,764,342	-675,820	-384,853	3,347,851	5,612,484	-2,264,633	-1,289,621
6/30/2042	521,190	1,222,123	-700,933	-388,073	1,113,305	2,625,500	-1,512,195	-837,231	537,816	1,766,382	-1,228,566	-680,199	2,172,311	5,614,005	-3,441,694	-1,905,503
6/30/2043	498,899	1,224,224	-725,325	-390,430	1,036,551	2,624,074	-1,587,523	-854,537	225,725	1,766,601	-1,540,876	-829,427	1,761,175	5,614,899	-3,853,724	-2,074,394
6/30/2044	396,160	0	396,160	207,326	805,680	0	805,680	421,644	0	0	0	0	1,201,840	0	1,201,840	628,971
6/30/2045	203,438	0	203,438	103,512	391,190	0	391,190	199,042	0	0	0	0	594,628	0	594,628	302,554
6/30/2046	19,518	0	19,518	9,655	0	0	0	0	0	0	0	0	19,518	0	19,518	9,655
6/30/2047																
6/30/2048																
6/30/2049																
6/30/2050																
6/30/2051																
TOTAL	36,187,218	26,898,716	9,288,502	7,617,296	77,662,524	57,772,287	19,890,237	16,347,032	51,071,540	38,847,104	12,224,436	10,533,261	164,921,282	123,518,108	41,403,174	34,497,588

Source: Calpers, July 2020, Annual Valuation Reports as of June 30, 2019.

MANHATTAN BEACH
PENSION OBLIGATION BOND SCENARIOS

FY	POB Savings	9.5mm COP 30-year		
		Debt Service	Net Savings	DS % of Savings
6/30/2022	1,140,033	452,150	687,883	40%
6/30/2023	1,899,309	452,300	1,447,009	24%
6/30/2024	2,388,750	455,900	1,932,850	19%
6/30/2025	2,892,952	454,100	2,438,852	16%
6/30/2026	3,148,033	452,100	2,695,933	14%
6/30/2027	3,377,244	454,900	2,922,344	13%
6/30/2028	3,625,575	452,300	3,173,275	12%
6/30/2029	3,871,624	454,500	3,417,124	12%
6/30/2030	4,120,645	456,300	3,664,345	11%
6/30/2031	4,387,065	452,700	3,934,365	10%
6/30/2032	4,431,966	453,900	3,978,066	10%
6/30/2033	4,317,908	454,700	3,863,208	11%
6/30/2034	3,979,420	455,100	3,524,320	11%
6/30/2035	3,674,371	455,100	3,219,271	12%
6/30/2036	3,146,826	454,700	2,692,126	14%
6/30/2037	2,213,890	456,600	1,757,290	21%
6/30/2038	-440,579	453,200	-893,779	0%
6/30/2039	-1,080,515	454,650	-1,535,165	0%
6/30/2040	-1,947,276	455,800	-2,403,076	0%
6/30/2041	-2,264,633	456,650	-2,721,283	0%
6/30/2042	-3,441,694	452,200	-3,893,894	0%
6/30/2043	-3,853,724	454,400	-4,308,124	0%
6/30/2044	1,201,840	456,000	745,840	38%
6/30/2045	594,628	457,000	137,628	77%
6/30/2046	19,518	452,400	-432,882	0%
6/30/2047		452,400	-452,400	n/a
6/30/2048		455,700	-455,700	n/a
6/30/2049		453,550	-453,550	n/a
6/30/2050		456,100	-456,100	n/a
6/30/2051		453,200	-453,200	n/a
	41,403,174	13,630,600	27,772,574	

MANHATTAN BEACH
PENSION OBLIGATION BOND SCENARIOS

Required Contribution In	100% Fire UAL				100% Police UAL				100% Misc. UAL				100% Total UAL			
	19,942,282				42,841,197				28,807,225				91,590,704			
	Payment	POB Debt Service	Savings	TIC 2.75% PV Savings	Payment	POB Debt Service	Savings	TIC 2.75% PV Savings	Payment	POB Debt Service	Savings	TIC 2.75% PV Savings	Payment	POB Debt Service	Savings	TIC 2.75% PV Savings
6/30/2022	1,455,513	1,297,475	158,038	153,815	3,146,788	2,789,495	357,293	347,746	2,152,306	1,876,353	275,953	268,579	6,754,607	5,963,323	791,284	770,140
6/30/2023	1,623,787	1,300,469	323,318	306,270	3,488,182	2,788,265	699,918	663,013	2,401,557	1,872,890	528,668	500,792	7,513,526	5,961,623	1,551,903	1,470,075
6/30/2024	1,728,325	1,299,977	428,349	394,920	3,707,817	2,791,500	916,318	844,809	2,569,628	1,874,992	694,636	640,427	8,005,770	5,966,468	2,039,302	1,880,156
6/30/2025	1,833,254	1,295,797	537,458	482,274	3,927,876	2,786,790	1,141,087	1,023,925	2,746,690	1,876,762	869,928	780,608	8,507,820	5,959,348	2,548,472	2,286,808
6/30/2026	1,888,281	1,296,563	591,719	516,776	4,045,461	2,786,918	1,258,544	1,099,146	2,831,629	1,873,370	958,259	836,893	8,765,371	5,956,850	2,808,521	2,452,816
6/30/2027	1,936,747	1,297,463	639,284	543,399	4,153,200	2,786,600	1,366,601	1,161,626	2,907,340	1,872,995	1,034,345	879,205	8,997,287	5,957,058	3,040,230	2,584,229
6/30/2028	1,988,314	1,298,119	690,195	570,997	4,263,904	2,790,793	1,473,112	1,218,703	2,985,128	1,877,294	1,107,834	916,509	9,237,346	5,966,206	3,271,141	2,706,209
6/30/2029	2,041,300	1,298,519	742,782	598,082	4,377,647	2,788,635	1,589,012	1,279,460	3,065,060	1,873,934	1,191,127	959,086	9,484,007	5,961,087	3,522,920	2,836,628
6/30/2030	2,095,740	1,299,853	795,888	623,719	4,494,520	2,788,549	1,705,971	1,336,930	3,147,186	1,877,006	1,270,181	995,411	9,737,446	5,965,407	3,772,039	2,956,059
6/30/2031	2,151,679	1,299,844	851,836	649,726	4,614,615	2,790,642	1,823,973	1,391,210	3,231,573	1,873,116	1,358,458	1,036,145	9,997,867	5,963,601	4,034,266	3,077,081
6/30/2032	2,209,155	1,298,452	910,704	676,066	4,738,006	2,789,722	1,948,284	1,446,319	3,099,143	1,877,316	1,221,828	907,030	10,046,304	5,965,489	4,080,815	3,029,415
6/30/2033	2,180,785	1,300,637	880,149	635,924	4,692,888	2,790,699	1,902,189	1,374,368	3,056,143	1,874,322	1,181,822	853,889	9,929,816	5,965,657	3,964,159	2,864,181
6/30/2034	2,149,231	1,296,237	852,995	599,837	4,641,801	2,788,361	1,853,440	1,303,363	2,796,720	1,874,186	922,535	648,738	9,587,752	5,958,783	3,628,969	2,551,937
6/30/2035	2,081,873	1,300,329	781,545	534,907	4,520,361	2,787,608	1,732,753	1,185,935	2,685,440	1,876,721	808,720	553,506	9,287,674	5,964,657	3,323,017	2,274,347
6/30/2036	1,966,194	1,297,609	668,586	445,368	4,302,809	2,788,208	1,514,601	1,008,927	2,494,058	1,876,725	617,334	411,227	8,763,061	5,962,541	2,800,520	1,865,522
6/30/2037	1,763,276	1,298,639	464,638	301,240	3,907,144	2,790,212	1,116,932	724,145	2,161,929	1,877,587	284,343	184,349	7,832,349	5,966,437	1,865,912	1,209,735
6/30/2038	1,040,998	1,298,563	-257,565	-162,526	2,180,593	2,789,846	-609,253	-384,445	1,954,090	1,876,869	77,222	48,728	5,175,681	5,965,277	-789,596	-498,243
6/30/2039	901,291	1,297,381	-396,090	-243,258	1,899,588	2,787,110	-887,522	-545,071	1,733,242	1,874,571	-141,329	-86,797	4,534,121	5,959,061	-1,424,940	-875,126
6/30/2040	790,335	1,300,093	-509,758	-304,702	1,675,204	2,787,004	-1,111,800	-664,566	1,200,615	1,875,693	-675,078	-403,520	3,666,154	5,962,789	-2,296,635	-1,372,788
6/30/2041	721,935	1,296,541	-574,606	-334,286	1,537,394	2,789,370	-1,251,976	-728,358	1,088,522	1,875,077	-786,555	-457,591	3,347,851	5,960,987	-2,613,136	-1,520,236
6/30/2042	521,190	0	521,190	295,109	1,113,305	0	1,113,305	630,377	537,816	0	537,816	304,523	2,172,311	0	2,172,311	1,230,009
6/30/2043	498,899	0	498,899	274,939	1,036,551	0	1,036,551	571,234	225,725	0	225,725	124,395	1,761,175	0	1,761,175	970,569
6/30/2044	396,160	0	396,160	212,487	805,680	0	805,680	432,139	0	0	0	0	1,201,840	0	1,201,840	644,626
6/30/2045	203,438	0	203,438	106,202	391,190	0	391,190	204,214	0	0	0	0	594,628	0	594,628	310,416
6/30/2046	19,518	0	19,518	9,917	0	0	0	0	0	0	0	0	19,518	0	19,518	9,917
6/30/2047																
6/30/2048																
6/30/2049																
6/30/2050																
6/30/2051																
TOTAL	36,187,218	25,968,552	10,218,666	7,887,200	77,662,524	55,776,324	21,886,200	16,925,150	51,071,540	37,507,772	13,563,768	10,902,132	164,921,282	119,252,648	45,668,634	35,714,482

Source: Calpers, July 2020, Annual Valuation Reports as of June 30, 2019.

MANHATTAN BEACH
PENSION OBLIGATION BOND SCENARIOS

FY	POB Savings	9.5mm COP 30-year		
		Debt Service	Net Savings	DS % of Savings
6/30/2022	791,284	452,150	339,134	57%
6/30/2023	1,551,903	452,300	1,099,603	29%
6/30/2024	2,039,302	455,900	1,583,402	22%
6/30/2025	2,548,472	454,100	2,094,372	18%
6/30/2026	2,808,521	452,100	2,356,421	16%
6/30/2027	3,040,230	454,900	2,585,330	15%
6/30/2028	3,271,141	452,300	2,818,841	14%
6/30/2029	3,522,920	454,500	3,068,420	13%
6/30/2030	3,772,039	456,300	3,315,739	12%
6/30/2031	4,034,266	452,700	3,581,566	11%
6/30/2032	4,080,815	453,900	3,626,915	11%
6/30/2033	3,964,159	454,700	3,509,459	11%
6/30/2034	3,628,969	455,100	3,173,869	13%
6/30/2035	3,323,017	455,100	2,867,917	14%
6/30/2036	2,800,520	454,700	2,345,820	16%
6/30/2037	1,865,912	456,600	1,409,312	24%
6/30/2038	-789,596	453,200	-1,242,796	0%
6/30/2039	-1,424,940	454,650	-1,879,590	0%
6/30/2040	-2,296,635	455,800	-2,752,435	0%
6/30/2041	-2,613,136	456,650	-3,069,786	0%
6/30/2042	2,172,311	452,200	1,720,111	21%
6/30/2043	1,761,175	454,400	1,306,775	26%
6/30/2044	1,201,840	456,000	745,840	38%
6/30/2045	594,628	457,000	137,628	77%
6/30/2046	19,518	452,400	-432,882	0%
6/30/2047		452,400	-452,400	n/a
6/30/2048		455,700	-455,700	n/a
6/30/2049		453,550	-453,550	n/a
6/30/2050		456,100	-456,100	n/a
6/30/2051		453,200	-453,200	n/a
	45,668,634	13,630,600	32,038,034	



City of Manhattan Beach Unfunded Pension Liability Policy - Draft

PURPOSE

The purpose of this Unfunded Pension Liability Policy (“Policy”) is to provide guidance on the development and adoption of a funding plan for any Unfunded Accrued Liabilities (“UAL”) that are calculated annually by CALPERS, or for any unfunded accrued liabilities remaining immediately after the issuance of a Pension Obligation Bond (POB). This funding Policy should also support the decision making process of the City Council and should be consistent with the overall purpose and goals of the City of Manhattan Beach’s pension plan. As used in this Policy, “City” shall mean the City of Manhattan Beach and/or the City and its related entities, as the context may require.

The City recognizes that a fiscally prudent Policy should:

- Maintain the City’s sound financial position
- Ensure the City has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenditures
- Protect the City’s creditworthiness
- Ensure that all pension funding decisions are structured to protect both current and future taxpayers, ratepayers and residents of the City, and
- Ensure that the City’s debt is consistent with the City’s strategic planning goals, objectives, capital improvement program, and/or budget.

BACKGROUND

The primary goal of funding defined benefit pension plans is to ensure that sufficient assets will be accumulated to deliver promised benefits when they come due and to protect pension benefits in situations that involve employer insolvency or bankruptcy. Establishing sound funding guidelines promotes pension benefit security. The City’s overall objective is to fund the CALPERS pension plan near 100% of the total accrued liability and no less than 80%, whenever possible.

The City is committed to fiscal sustainability by employing long-term financial planning efforts, maintaining appropriate reserve levels, and employing prudent practices in governance, management, budget administration, and financial reporting. This Policy is intended to make all relevant information readily available to decision-makers and the public to improve the quality of decisions, identify policy goals, and to demonstrate a commitment to long-term financial planning. Adherence to this Policy signals to rating agencies and the capital markets that the City is well managed and able to meet its obligations in a timely manner.

The purpose of this funding policy is to establish a framework for funding the City of Manhattan Beach’s defined benefit pension plan, taking into account factors that are relevant to the plan and the City. These factors include:

- The financial position of the City

- Stability of the plan and / or the affordability of the annual contributions
- Benefit security
- The terms of the CALPERS contract for Manhattan Beach, along with any related collective bargaining agreements
- Minimum funding requirements under State law

There are a number of advantages to developing a funding policy to address an unfunded accrued liability. These advantages include the following:

- Provides the framework to ensure the proper management of future liabilities and to minimize the effects on operations. The adoption of a funding policy will ensure a disciplined decision making process, which will contribute to better predictability in funding.
- Having a written summary of the funding policy that is accessible to the employees and the public will help improve the transparency of funding decisions and increase the understanding of pension funding issues.
- The exercise of developing this funding policy improves the identification, understanding, and management of the risk factors that affect the variability of funding requirements and the security of benefits to the employees and retirees.

REMAINING UNFUNDED ACCRUED LIABILITY

The City is in the process of considering a POB that would generate bond proceeds to deposit with CALPERS up to an amount equal to 100% of the UAL as of _____ date _____ (based on the latest actuarial valuation information available to the City). After the deposit of bond proceeds to CALPERS, the City may or may not have a remaining unfunded accrued liability still owed to CALPERS.

If the City issue's a POB for less than the full 100% of the UAL, any remaining unfunded liability will be accounted for separately, for the purposes of this Policy, from any new increase in the accrued unfunded liability resulting from the annual actuarial valuation report changes.

The City will create a payoff / funding plan that will address this remaining unfunded liability immediately after the issuance of the POB. The remaining unfunded liability will be paid off or fully funded within a twenty (20) year period.

NEW UNFUNDED ACCRUED LIABILITY

Every year, CALPERS completes a new actuarial valuation report and recalculates the City of Manhattan Beach's pension liability as of the new valuation date. If the value of the funded assets is not equivalent to this new liability amount, the City will incur a new unfunded accrued liability at that point in time. The unfunded accrued liability may increase or decrease from year to year, due to the following factors:

- Changes in actuarial assumptions and experience changes (e.g., changes in the discount rate, changes in demographic experience, etc.)
- Changes in actuarial gains and losses due to asset returns being higher or lower than expected
- Changes in plan benefits

Due to the possibility of a new pension liability developing, the City of Manhattan Beach desires to create a policy in order to immediately address any new pension liabilities, or amortization bases, that arise. (Any new increase or decrease in the liability resulting from the annual actuarial valuation is identified as a separate line item, or amortization base, on the annual CALPERS actuarial valuation report.) The table below lays out the parameters for paying off / funding the UAL in a designated amount of time, based on the amount of the UAL, as follows:

New Unfunded Accrued Liability (Any new liability incurred after the June 30, 2019 valuation report)	Payoff / Funding Time Period
\$0 to \$5,000,000	Within 1 to 6 years
\$5,000,001 to \$10,000,000	Within 7 to 11 years
\$10,000,001 to \$15,000,000	Within 12 to 16 years
Over \$15,000,000	Within 17 to 20 years

Each year, when the City is provided with the annual valuation report from CALPERS, staff will present to the City Council, as part of the Mid-Year Budget Report, the following:

- The dollar amount of the new liability (new amortization base)
- The number of years that staff is recommending to pay off/fund the liability
- The dollar amount of the annual contribution to be made
- The funding source(s) of the payments
- The short-term and long-term financial impacts on the City's General Fund reserve balance

When a new amortization base results in a credit balance, the credit will be applied, first, to any negative bases during the same period and, secondly, against any prior year bases until the credit is fully exhausted. The remaining outstanding liability will then be recalculated and a new payoff schedule and annual contribution will be determined based on the payoff schedule above. New amortization repayment schedules will be kept within 20 years to help maximize long-term savings.

PREPAYMENT OPTIONS

At the beginning of each fiscal year, the City analyzes the cost / benefits of prepaying amounts due CALPERS during that fiscal year. The City strives to continue taking advantage of any prepayment discount that is afforded by CALPERS.

FUNDING LEVELS

The City's target funding level will be near 100% of the accrued liability. The City will strive to achieve this funding level through debt refinancing, allocation of reserves, and / or cost containment measures. The total funding amount will be a combination of the amount on deposit with CalPERS, the funds deposited in the City's Section 115 trust, and any funds reserved by the City that are designated for pension liabilities.

FUNDING OPTIONS

Funding options for the remaining unfunded liability and / or any new unfunded accrued liabilities may include the use of a Section 115 Trust and / or allocating fund reserves from any allowable fund within the City.

Section 115 Trust

A Section 115 Trust was established in 2017 to transfer funds to a trust to ensure that these funds will only be used for pension related costs. The trust assets can be accessed to pay CalPERS at any time to reduce volatility and offset unexpected pension rate increases. The trust will have funds deposited into it at the discretion of the City Council, based on recommendations made by City staff during the annual budget adoption process. For the calculation of funding levels, monies put in this trust will be treated the same as putting monies on deposit with CalPERS.

ADDITIONAL DISCRETIONARY PAYMENTS

Additional Discretionary Payments ("ADP") may be deposited with CalPERS at any time. After completion of the annual audit, all discretionary fund reserve balances will be reviewed by City staff. Based on any budgetary constraints at that time, a determination may be made that it is in the best interest of the City to use any available reserves or one-time savings from the prior fiscal year to make ADP's. ADP's should not adversely affect the general operations of the City. ADP's could be deposited with CalPERS, or invested in the City's Section 115 trust.

Any savings realized from the issuance of the 2021 POB, as determined by comparing the POB level debt service and fiscal year 2020-2021 CalPERS actuarial determined contributions, will be allocated as follows: approximately 60% of the savings will be used to offset future UAL costs and approximately 40% of the savings will be used for future capital improvements, infrastructure needs and/or debt service.

Each year during the Budget process, a recommendation for the precise savings allocation for the next fiscal year will be determined based on CalPERS' latest year-end investment return. If CalPERS' fiscal year-end investment return is *below* its benchmark, the City will allocate a higher portion of savings to fund future UAL costs. Alternatively, if CalPERS'

fiscal year-end investment return is *higher* than its benchmark, then the City may allocate more of the budgetary savings to offset General Fund operational costs.

CONSIDERATION OF FUTURE PENSION BENEFITS

The issuance of a POB may result in the funding of the City's pension plan with CalPERS up to, and even in excess of, 100% of the plan assets necessary to pay all pension liabilities. Even though this situation may occur, the City is still obligated to make annual debt service payments on the bonds. These payments are in lieu of annual UAL payments that the City would have made to CalPERS.

To the extent that the City is making any annual debt service payments on an issued POB, it is fiscally responsible for the City to not offer any enhanced pension benefits to City employees. This will allow the City to focus its financial resources on the current pension obligations due the bondholders and / or CalPERS.



Presentation to the Manhattan Beach Council

Disclosure Responsibilities Under the Federal Securities Laws

**Presented by:
Kevin Civale**

Why Is Disclosure Necessary?

- The City will be issuing securities in the public capital markets
- Investors in municipal securities have rights under federal securities laws
- All “material” information must be disclosed

Basic Securities Disclosure Legal Framework

- Municipal issuers do not have to register their securities with the SEC
- However, they are subject to the antifraud rule (10b5) and certain other requirements

Rule 10b5

“It shall be unlawful for any person . . .

- a) To employ any device, scheme or artifice to defraud,
- b) To make any untrue statement of a material fact or to omit to state a *material* fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading”

The “Materiality” Standard

- “[w]hether or not there is a substantial likelihood that a reasonable investor or prospective investor would consider the information important in deciding whether or not to invest.”
- Provide all the facts and let the investor decide

When Do Disclosure Rules Apply?

- New offerings
- Annual Report under Rule 15c2-12
- Any other circumstance where an Issuer is “speaking to the market”
 - Whether a communication is “speaking to the market” will depend on the official making the statement, and the audience

City Disclosure

- Official Statement is the offering document to investors - equivalent to corporate prospectus
- Must contain all material information for the particular bond sale
- Official Statement is the City's document
- Underwriters and lawyers can help develop the Official Statement but the City is ultimately responsible for content

Summary

- Make sure that a robust disclosure process is being implemented, with senior staff members in the organization actively involved in the disclosure process
- Familiarize yourself with the Official Statement
- If you are aware of any particular areas of concern, inquire how they are addressed
- During the marketing and sale of the Bonds, make sure any public statements are consistent with the Official Statement
- Create a culture of transparent disclosure – it comes from the top