



Oceano Community Services District

Pension Liability Assessment

JANUARY 27, 2021





06/30/2019 Pension Funding Status

Description	Misc	Safety Fire	PEPRA Misc	Combined
Total Accrued Liability	\$2,659,051	\$371,435	\$153,625	\$3,184,111
Market Value of Assets	\$1,936,748	\$270,993	\$140,790	\$2,348,531
Unfunded Actuarial Liability (UAL)	\$722,303	\$100,442	\$12,835	\$835,580
% Funded	72.8%	73.0%	91.6%	73.8%

Source: CalPERS Actuarial Valuation as of June 30, 2019

Definitions:

- Total Accrued Liability = What You Need
- Market Value of Assets = What You Have
- Unfunded Actuarial Liability = What You Owe

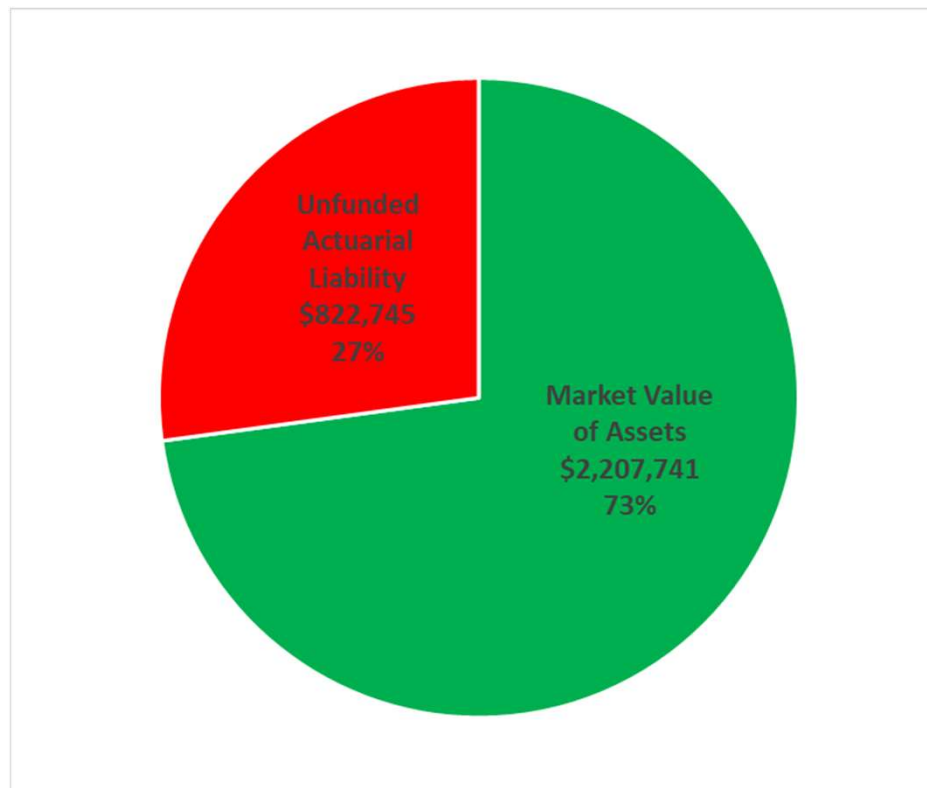
Three Pension Plans:

- Miscellaneous and PEPRA Miscellaneous
- Safety Fire

MISC and **SAFETY** represent largest savings opportunity



06/30/2019 Pension Funding Status



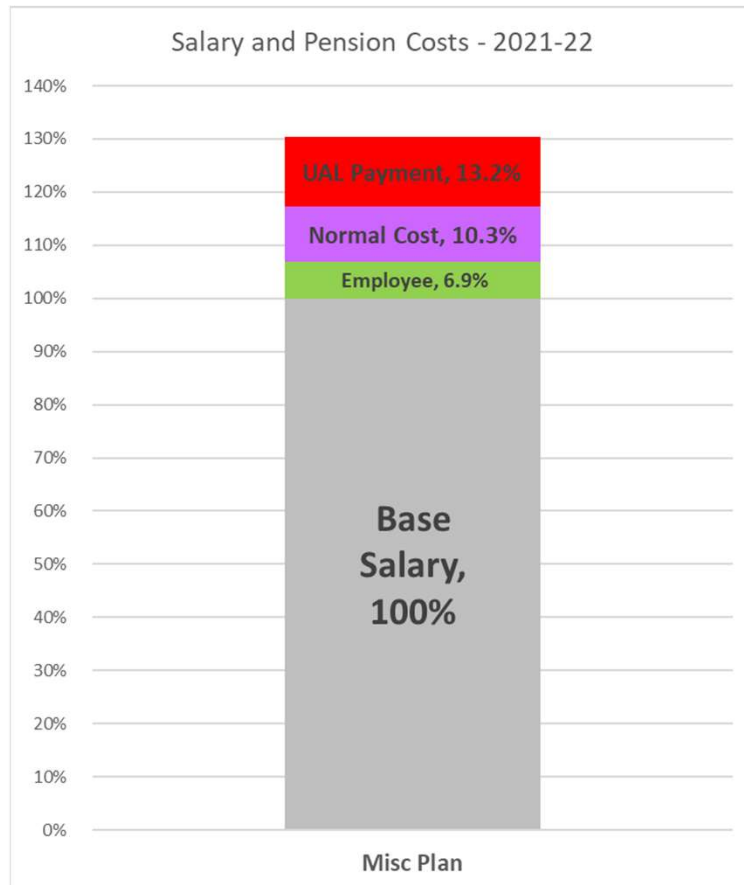
- Total Pension Obligations = \$3M
- Pension Assets = \$2.2M
- Shortfall = \$823K (27% of what is needed)

Shortfall (UAL) = DEBT:

- Owed to CalPERS
- Amortizes over time (20-30 years)
- Accrues interest at 7% interest rate (\$640K total)
- Reduced or delayed payments not allowed
- District's most expensive debt
- No prepayment restrictions or penalties



Pension Costs - Overview



District and employee pension costs – 30% of salaries

District makes two types of payments to CalPERS each year:

➤ **Normal Cost:**

- Annual cost of pension benefits for current employees
- % of payroll

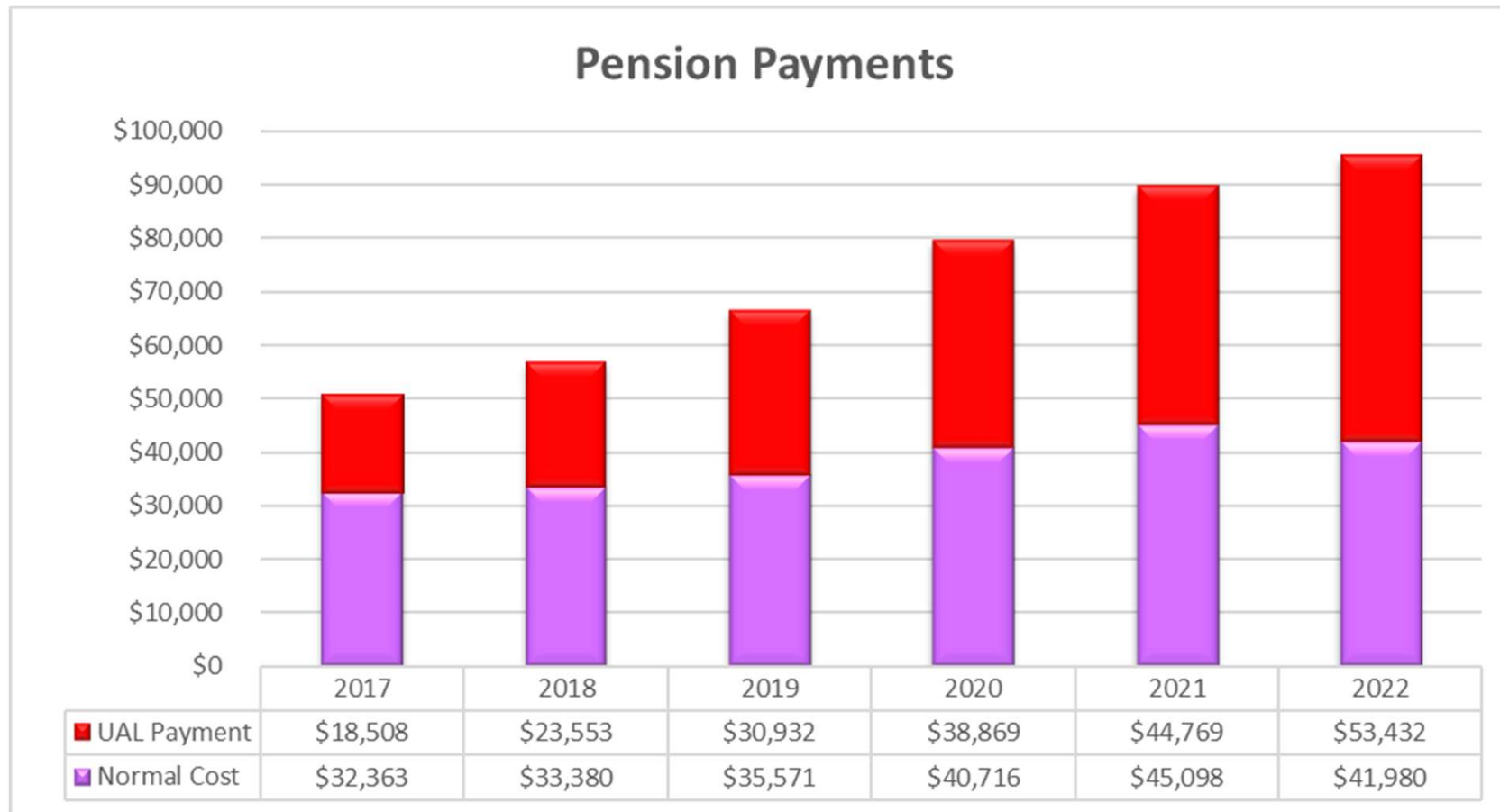
➤ **UAL Payment**

- Repayment of pension funding shortfall
- Fixed dollar amount

CalPERS charges **7%** interest rate on UAL (included in UAL Payment)



Pension Payments – Misc Plan Only



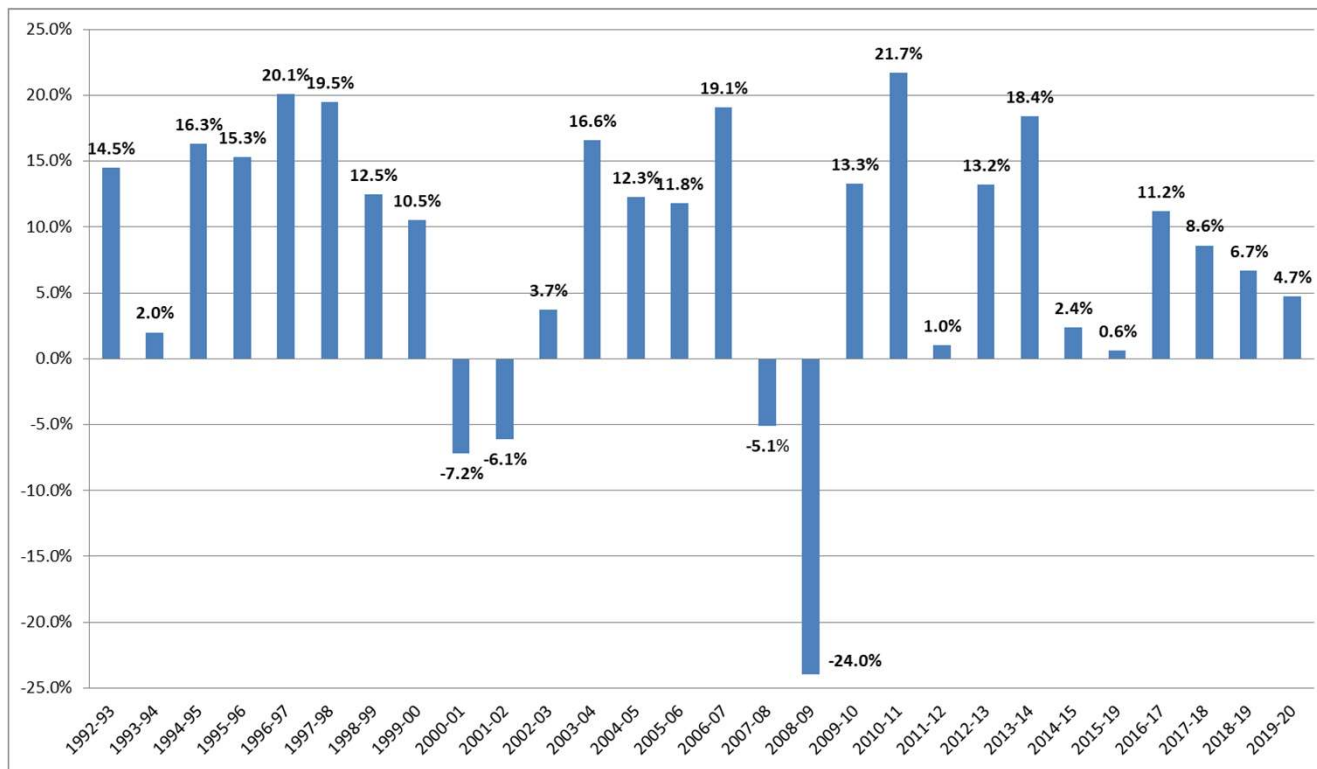
Total Pension Payments Increase:
\$45K in 6 years (88%)



Investment Risk and Returns

CalPERS Historical Average Rates of Return through 2019-20:

Past: 5 years – 6.3% 10 years – 8.5% 20 years – 5.5% 30 years – 8.0%



2020: 55% of pension benefits funded by investment returns

CalPERS manages pension investments

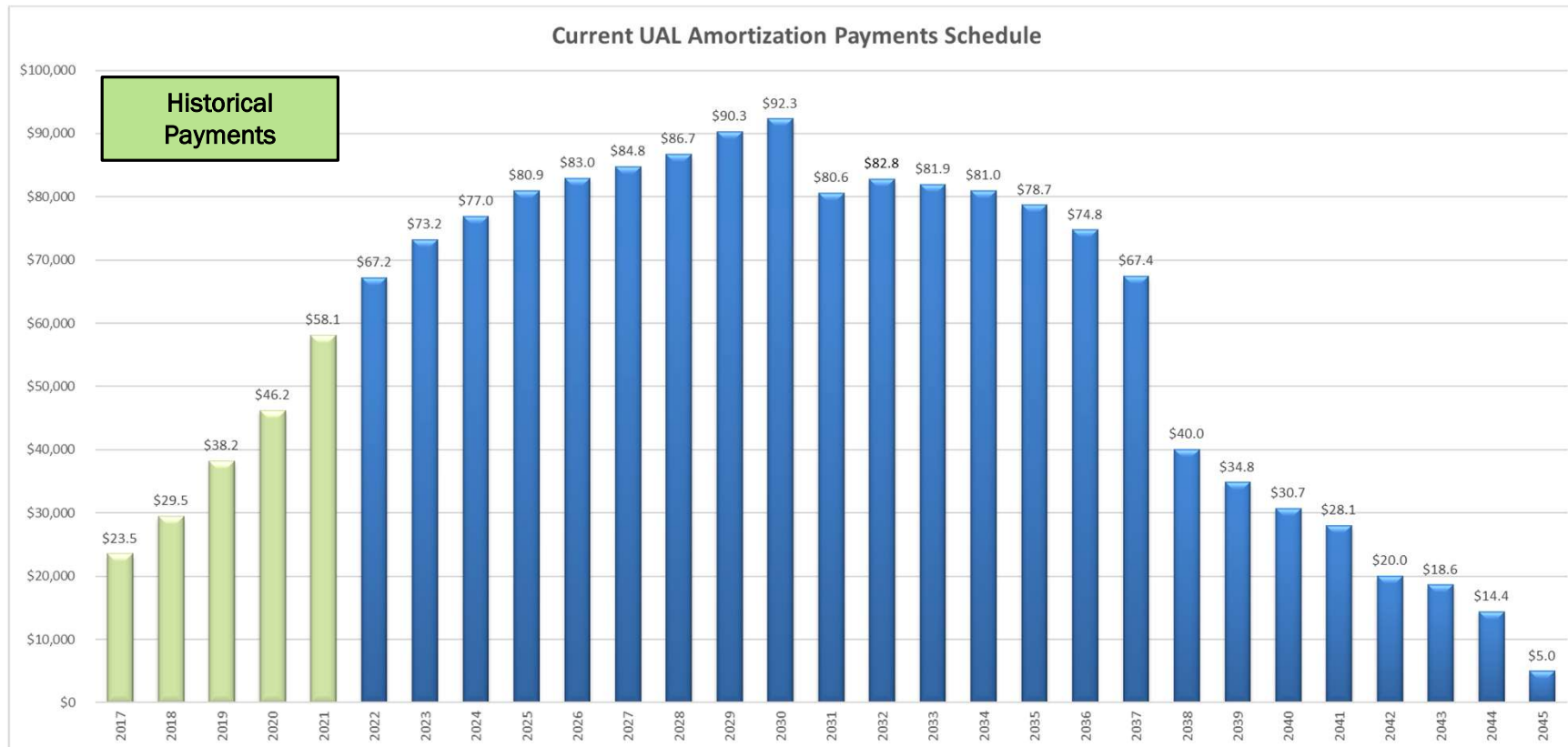
District bears all investment risk

Failure by CalPERS to achieve target investment returns does not relieve District from pension benefit guarantees to employees and retirees

Lower returns => higher UAL and higher pension payments by District



Where Things Are



06/30/2019 Actuarial Valuation

UAL Payments Only

DOES NOT INCLUDE:

- Normal Cost (10.3%+ of salaries)
- 2020 Shortfall

Total interest cost - \$640K



Pension Strategy Objectives

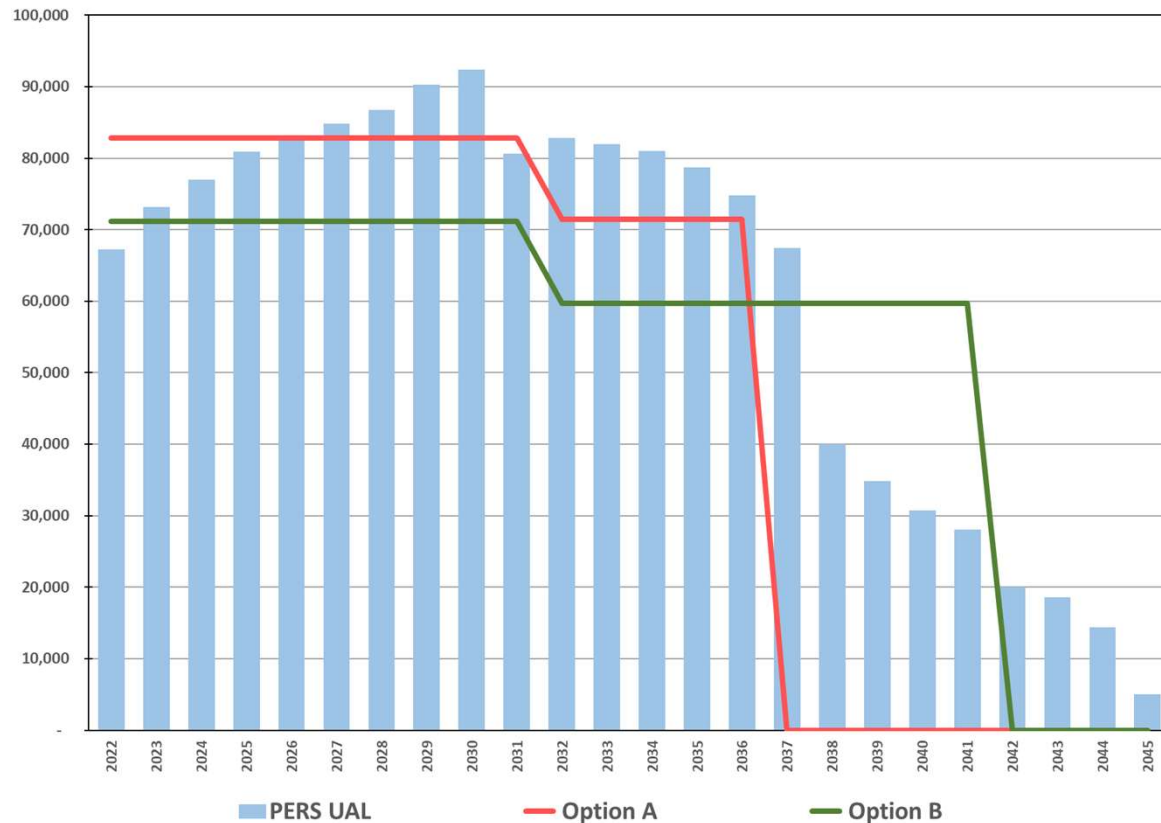
Strategy must incorporate reserves, cash flow constraints, policy objectives, capital improvements strategy, etc.

Two approaches to UAL cost management:

- Reduce annual payments – short-term cash flow management:
 - Extend UAL payments over longer term
 - Achieve interest cost savings comparing to 7% interest rate charged by CalPERS
- Reduce overall interest cost – long-term cost management:
 - Prepay or accelerate UAL payments
- After reviewing various tools to optimize UAL, District staff asked CalMuni Advisors to analyze options for **refunding the Miscellaneous and Safety Plan UAL** with bank loan at lower interest rate:
 - Safety Plan UAL repayment term – 10 years (to match current CalPERS amortization schedule)
 - Misc. Plan UAL repayment term – 15 and 20 years



Potential Refunding Options: Safety and Misc Plans



Option	Term	% of UAL Refunded	Annual UAL Cost [1]		Cash Flow Savings [2]	Estimated Interest Rate [3]
			Years 1-10	Years 11+		
A	15 years	100%	\$83,000	\$71,000	\$289,000	3.90%
B	20 years	100%	\$71,000	\$60,000	\$166,000	4.15%

[1] Annual UAL Cost consists of semi-annual loan payments and includes amortization of costs of issuance (\$65K for private placement).

[2] Savings are based on 7% CalPERS discount rate. PV savings depend on actual rate of return and may be different.

[3] Interest rate estimate is based on current market rates. Actual rates may vary.



Refunding Considerations – Benefits

- Enhanced fiscal resiliency and budget predictability from new “flattened” repayment structure
- Estimated near-term cashflow savings from lower interest rate
- Present value (PV) savings achieved if CalPERS earns more than the refunding interest rate
- Increased “funded status” of District’s retirement plan
- Cash flow savings can be utilized to build up reserves, pay down future UAL increases, set up reserves for future OPEB costs, or any other legal purpose of the District
- Interest rates are presently at all-time lows



Refunding Considerations - Risks

- CalPERS Reinvestment Risk: CalPERS will have more money to invest
 - Same for any UAL prepayment
- PV Savings not guaranteed: CalPERS has to earn more than the refunding interest rate
 - Easier to achieve than earning CalPERS' own 7% discount rate
- Listed as “debt” on District’s financial statements
 - UAL is also shown as liability on financial statements
- For asset-secured structures, District’s revenues or owned assets may be required as collateral



Next Steps

- Approve engagement of the financing team
- Determine refunding strategy term
- Determine financing structure to obtain lowest financing costs
- Prepare financing documents (bond documents, resolutions, etc.)
- Obtain financing bids and credit approval / commitment
- Approve financing terms and related documents
- Close the financing and wire funds to CalPERS
- Typical time-frame: 60-90 days



Questions?

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