DEBT ADVISORY COMMITTEE

DAC Conference Call

Thursday, April 9, 2020
9:00 - 10:00 a.m.

AGENDA

IMPORTANT NOTICE REGARDING DAC MEETING

This meeting is being conducted utilizing teleconferencing and electronic means. This is consistent with State of California Executive Order N-29-20 dated March 17, 2020, regarding the COVID-19 pandemic.

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact Valerie Arce at (951) 955-1130. Notification 48 hours prior to the meeting will enable us to make reasonable arrangements to ensure accessibility to the meeting [28 CFR 35 .102.35.104 ADA Title II].

Submission of Public Comments: For those who wish to make public comments at this meeting, please submit your comments by email to Valerie Arce at varce@rivco.org prior to 9:00 a.m. on April 9. All email comments shall be subject to the same rules as would otherwise govern speaker comments at the meetings. All email comments shall not exceed three (3) minutes and will be read out loud at the meeting and become part of the record of the meeting.

1. Call to Order and Self-Introductions

2. Approval of the February 20, 2020 Special DAC Meeting Minutes

3. Approval of the Agreement for the Multi-Year Lease Line of Credit for Financing Purchases of Fixed Assets for the County of Riverside

4. Public Comment on any item not on the agenda

5. Next Meeting (May 14, 2020) or as needed

6. Adjourn

SPECIAL DEBT ADVISORY COMMITTEE

MINUTES OF MEETING

February 20, 2020 3:00 p.m.

County Executive Office
4080 Lemon Street, 4th Floor
Conference Room C

Members Present:

Don Kent	County Executive Office (Chair)
Michael Thomas	County Counsel
Matt Jennings	Treasurer-Tax Collector
Rose Salgado	Economic Development Agency
Oscar Valdez	Auditor-Controller Office

Members Absent:

Stephanie Persi	Community Facilities District/Assessment District
Jason Uhley	Flood Control and Water Conservation District

Staff and Guests Present:

Rohini Dasika	Economic Development Agency
Suzanne Holland	Economic Development Agency
Rob Larkin	Raymond James
Jonathan Jensen	Auditor-Controller Office
Curt de Crinis	Columbia Capital
Mike Williams	Columbia Capital
Kim Byrens	Best Best & Krieger
Amy Onopas	Human Resources
Aileen Yan	Superior Court
Mary Beth Redding	Bartel Associates
Valerie Arce	County Executive Office

1. Call to Order and Self-Introductions

The Debt Advisory Committee meeting was called to order at 3:00 p.m. Those present made self-introductions.

2. Approval of the DAC Meeting Minutes for November 14, 2019.

All reviewed the meeting minutes from the DAC meeting held on November 14, 2020.

MOTION: Matt Jennings moved to approve the DAC Meeting Minutes from November 14, 2019.

Suzanne Holland seconded this.

The motion approved unanimously.

3. County of Riverside Pension Obligation Bonds Series 2020

Chair Don Kent began with an overview. The Pension Advisory Review Committee (PARC) Report was presented to the Board of Supervisors (BOS) at the meeting held on January 14, 2020. The key topic was the unfunded liability of $3.5 billion. The BOS had questions regarding the funded status. Per Board Policy B-25 Pension Management and Other Post Employment Benefit Policy, the county seeks to maintain a funding level of 80%. The current funding level is close to 70% on a net funded ratio basis as of the June 30, 2018 valuation. CalPERS charges 7% interest on the unfunded liability. Bond market interest rates, outside of CalPERS, are considerably less. He shared that this is not the first time that the county has considered the issuance of pension obligation bonds (POB), as this was performed in 2005.

Three reports, included in the meeting materials, were discussed: the 2020 POB report by Raymond James, the Proposed 2020 POB Study and Proposed 2020 POB Summary of Scenarios, both by Bartel Associates.

The Bartel Associates annual report shows that the County of Riverside has benefited by $138 million due to an all-in interest rate of 4.91%. The report also shows how CalPERS performed with the bond proceeds. The money invested with CalPERS earned 6.5% which is more than the bond rate.

There would be a great cost to exit CalPERS. The unfunded termination liability would range from $6.7-$8 billion for the miscellaneous plan and $3.2-$3.8 billion for the safety plan. Rates would most likely double for departments. In addition, the county would then need to secure a new retirement plan.

Mr. Kent shared the options to address the unfunded liability. The first option is to pay the unfunded liability down with cash. The money could be pulled from reserves but emphasized that he would never suggest this option, as this money is needed by the county to survive an economic downturn and to balance the books each year. It is also important to rating agencies who rate the county's debt based on a sizable reserve.

The second option would be the money in the Section 115 Pension Trust. The trust was started in 2016 and is performing well at over 7%. With a balance of approximately $30 million, it exceeds the rate that the county is paying CalPERS. Mr. Kent shared that he would like to see this money continue to grow. The funds could be used in the future as a “buffer” or to offset charges to departments. The county could refinance some of what is being paid to CalPERS. Due to the current interest rate environment, there is an opportunity to cut the interest rate to potentially greater than half of the current rate.

Michael Williams of Columbia Capital reported that the DAC was presented with financing options in 2018 similar to those being proposed now. In 2018, the county requested that Bartel Associates perform a risk analysis addressing the probability, or likelihood of success, of CalPERS earning a higher rate of return over an extended period of time versus the bond rate. However, there were two differences in 2018. The interest rates were 4.5% at that time and the bonds were structured to have some upfront budget savings. The DAC members ultimately decided that the likelihood of success, which was calculated at 67%, fell short of the DAC members 70% threshold in order to recommend moving it forward to the Board of Supervisors for their consideration.

Bond proceeds as a result of the 2005 POB issuance were sent to CalPERS. Despite the financial crisis that occurred in the ensuing years, according to Bartel Associates, the cumulative benefit to date is $138 million.

Based on lower interest rates, Raymond James completed the financial analysis and provided it to Bartel Associates. The interest rate used as part of the analysis was 3.38%, less than the 4.5% in 2018. The probability of success increased from 67% to 80%. Today’s option would provide savings that would be level over the term, yielding approximately $20-25 million in savings each year.

Mr. Kent shared that, regarding the staff report and in compliance with the B-24 Debt Management Policy, the proposed POB maturities will not extend beyond the bases to be paid off and be refinanced at the lower level.

The fact sheet outlining the County of Riverside POB, Series 2020 was discussed. Two options were outlined: The base case issuance of $497 million and the alternate case issuance of $727.3 million with close to a 50/50 split between the miscellaneous and safety plans. The estimated issue date would be April 14, 2020 and the option selected would need to be approved by the BOS on March 17, 2020. The final maturity date for the base case would be February 2041 and 2038 for the alternate case.

Currently, Moody’s Investors Service has a rating of A2 and Standard & Poor’s rating is AA. The payment of $494.055 million or $723.186 million in CalPERS unfunded accrued actuarial liabilities would be financed. The paying agent would be Wells Fargo. Bond Counsel will be Orrick Herrington, which was the same bond counsel used in 2005. The underwriter would be Raymond James. An RFPs for co-managers for either size bond issue is being completed. These will be fixed rate bonds. The first year of amortization would be 2021. The annual debt service would be $29.4 million on the base case and $48.9 million on the alternate case. The projected debt service is proportional to existing CalPERS pension bases which ramp up through FY 2031-31 before declining. No reserve funds are required.

Mary Beth Redding of Bartel Associates shared that the company has been in business since 2003, works entirely in the public sector, and focuses on work primarily in California. It often performs CalPERS projections and helps to determine whether POBs should be issued. Ms. Redding added that she has been an actuary for over thirty years and discussed projections. She shared that the company performs a lot of cost modeling, risk analysis and analysis of CalPERS costs to determine whether or not to issue POBs.

The process used to evaluate whether the county should issue bonds was discussed in more detail. The company reviewed how CalPERS invests its money and the asset classes used. Capital market assumptions are then built around each asset class, including the returns for each type of asset, the deviation of the returns, how likely they are to move in the same or different direction, and the nominal return where inflation is taken into the returns. The result is the POBs Analysis Assumptions.

The data resulted in a large spread in the returns. CalPERS returns are anticipated for the next ten years to be slightly lower than average. It was stated that it is more likely to get the average rate of return over 30 years. In 84% of the trials, results indicated that the county would end up better off issuing the bonds. In those trials where the county ends up worse off, the dollar amounts were small.

Because the likelihood of success is based on lower interest rates and today's rate are different than those in the past scenarios, Mr. Kent asked Rob Larkins of Raymond James to provide an overview of this. Mr. Larkins discussed the twenty-year historical perspective which graphed the ten-year U.S. Treasury and the thirty-year U.S. Treasury, as they are both the benchmark rates for taxable borrowing. Historical interest rates and CalPERS returns were also discussed.

Oscar Valdez of the Auditor-Controller Office inquired if departments would see any budgetary savings or an increase. Don informed that, per the B-25 Pension Management and Other Post Employment Benefit Policy, any issuance of pension related debt should first be reviewed by the Pension Advisory Review Committee (PARC). He confirmed that PARC already completed this last Thursday. The policy also outlines that a portion of the projected savings associated with an issuance is to be used at the recommendation of the County Finance Officer in a combination of five options: 1) to retire the pension bond debt, 2) to share the savings with departments, 3) to capture the savings throughout the payroll year and transfer them to CalPERS to further accelerate the pay down the unfunded liability, 4) to deposit the savings in the Section 115 Pension Trust, or 5) to complete a combination of these options.

Mr. Kent shared he would eliminate the option to retire the pension debt as the county is borrowing less than what it would be paying. At the last board meeting, the BOS clearly expressed that the priority is to pay down the unfunded liability. To complete this more quickly, his suggestion would be to capture the savings and complete one of the following: provide some to the Section 115 Pension Trust and some to CalPERS, move all savings to the trust, or provide all to CalPERS. This would need to be discussed with the PARC and recommendations would be provided to the BOS.

Mr. Kent introduced Amy Onopas of Human Resources who works with the Auditor-Controller payroll. He explained that an AUB payroll calculator would be used to set a rate.

Mr. Valdez stated that, based on the discussion, it seems as though departments would not see a decrease but an increase, as there would be an additional cost to the departments since the debt service would be spread among them. Mr. Kent clarified that it would not be an extra cost, but it would be what is normally paid to CalPERS. The county will see a net decrease in the unfunded accrued liability payment and the question yet to be determined is how the savings should be used.

Matt Jennings of the Treasurer-Tax Collector's Office shared that a comment was made to a board member regarding the increasing liability over the next couple of years and that the county plans to pay for this by possibly asking departments to cover these increases. As a result, the board member requested more information to determine what the amount to departments would be. Mr. Jennings informed that the options presented that some of the savings could be provided to CalPERS or to the Trust but also included the ability to offset what would be an increase to departments. This would mean that departments could possibly not encounter a savings but would also not encounter increases.

Mr. Kent confirmed this possibility but expressed that it would be a relatively small amount and sizable only over time. Depending on what scenario is selected, there will be a slight decrease in the contribution rates. He shared that at least two board members have expressed the need to accelerate payments to CalPERS. It is important to note that the Section 115 Pension Trust started in 2016 and is now at $30 million. The rate of return has outperformed CalPERS. Since inception, it is up 7.5% and for calendar year 2019 it was up 17.7%. It has been performing nicely and the plan is to share this information with the BOS.

Mr. Jennings shared that economists predict the possibility of an economic downturn. Over the last twenty years, CalPERS investment returns have lost money during seven of those years. If they are not earning up to the 3% of the bonds, then the county is losing money. However, in the long-term, the county could still come out ahead. Despite this, the next few years could look like the county took a bad deal. He inquired how this will this be explained to the BOS and does this have any short-term true financial impact to the county. All discussed valuation, lag time, and further discussed the 30-year analysis performed by Bartel Associates and the reports provided to PARC. Mr. Kent confirmed that there is $30 million in the Section 115 Pension Trust and he would like to see this grow. However, some of this money could be used to "smooth out" some of the high points when the pain thresholds to departments is at its highest.

Mr. Kent added that it is important to remember that the $3.5 billion unfunded liability is not solely the responsibility of the county, as costs are also borne by the state and federal government and contract cities that are also paying the bill. Likewise, if there are any savings, they get the benefits of these savings too.

Mrs. Redding emphasized that it is important to remember that this is a long-term proposition. If you look at the 2005 POBs which was at a historically bad time, 15 years later it looked like a good deal. In 2008 and 2009, people at that time were probably regretting their decision.

Mr. Jennings stated that this is to his point. In the short-term if the market turns and losses are encountered, it is important for those making the decisions to remember that it may not look like a good deal just like in previous times. However, it is important to have patience because in the long-term it could be a good deal.

Mrs. Redding shared that the hope is that CalPERS learned its lesson and will take better actions as to not encounter such huge swings over the course of the plan.

Mr. Kent shared that interest rates and stocks are lower. The fears of coronavirus are affecting the market as well. He emphasized that it important to remember that this would be a long-term proposition.

Rohini Dasika of the Economic Development Agency inquired if both scenarios would be presented to the BOS and, if yes, then how will it be presented and this was discussed.

Michael Thomas of County Counsel inquired if anyone has looked at the different risks or differences in switching the CalPERS obligations to a bond obligation.

Mr. Larkins explained that there used to be the perception of soft liability versus hard liability. As seen in San Bernardino, Vallejo and Stockton, CalPERS does not take too kindly to not being paid. From the bond market perspective, that distinction has gone away. The rating agencies all perform their own modeling of the obligation. However, if one does not pay the bonds, it is a default which is extremely bad. From an operational standpoint, one will be paying one or the other until all is done.

When San Bernardino went through bankruptcy and defaulted on their POBs, the bondholders had to give up their interest payments on the bonds in order to settle the bankruptcy. All discussed that there are more negotiation options with bond holders than with CalPERS. If one does not pay CalPERS, they will come and take the money.

The B-24 Debt Management Policy states one of the following actions are to be taken: 1) review and file or 2) review and recommend action of the DAC to the BOS. The recommended motion is that the DAC recommends the approval of the POBs. The question before the DAC today is which of the two options to recommend.

Chairman Kent recommended the motion of the approval of the POBs alternative case. He shared the reason is that the county would be taking a “bigger bite of the apple” as more of the unfunded liability would be addressed, but his suggestion is also based on page 8 of the Raymond James presentation which states that the alternative case has a higher likelihood of success as outlined by Bartel Associates. It is based on a lower TIC. It also is an opportune time to proceed in terms of interest rates. With this, he motioned to approve alternative case 1.

MOTION: Don Kent moved to approve.

Matt Jennings seconded.

All were in favor. The motion approved unanimously.

4. Public Comment

No public comments.

5. Next Meeting

The next regularly scheduled Debt Advisory Committee Meeting is scheduled for Thursday, March 12, 2020 or as needed.

6. Adjourn

With no further business, Chairman Don Kent, adjourned the Debt Advisory Committee Meeting at 4:30 p.m.

SUBMITTAL TO THE DEBT ADVISORY COMMITTEE
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

FROM: Purchasing and Fleet Services **SUBMITTAL DATE:** April 9, 2020

SUBJECT: APPROVAL OF THE AGREEMENT FOR THE MULTI-YEAR LEASE LINE OF CREDIT FOR FINANCING PURCHASES OF FIXED ASSETS FOR THE COUNTY OF RIVERSIDE

RECOMMENDED MOTION: That the Debt Advisory Committee:

1. Approve the master lease line of credit with Banc of America Capital Corp for a $20,000,000 line of credit, with the option for an additional $20,000,000 after the initial funds are exhausted, and;
2. Authorize the Purchasing Agent, based on the availability of fiscal funding, to sign amendments that do not change the substantive terms of the agreement.

BACKGROUND: In order to meet operational demands, county departments have the need to procure capital equipment through a financing mechanism when funds for outright purchases are not available. Purchasing ensures an adequate financing mechanism in place so that county departments may draw upon it as needed. The current line of credit is tentatively scheduled to be exhausted by the end of the fiscal year if not sooner. Timing is dependent upon when the capital assets are received and there are various planned capital purchases that are in progress.

Purchasing and Fleet Services releases Requests for Proposals (RFPs) prior to a current lease being exhausted of funds. Once the current lease is exhausted, the new lease will be accessed on an “as needed” basis. This provides for a readily available funding source that does not require the Purchasing to repeatedly go to the Board of Supervisors for approval of multi-year financing each time a department wishes to finance the purchase of equipment. Through the budget process or a separate Form 11, the Board of Supervisors approves capital items for purchase; all capital equipment purchases must have Board of Supervisors approval in order to finance the purchase through the line of credit.

In March 2020, Purchasing and Fleet Services issued RFP #PUARC-1669 to establish a new line of credit to meet future County financing requirements. Bids were sent to 205 lending institution contacts as well as advertised on the Purchasing website, requesting rates for a $40 million line of credit (in increments of $20 million) to be used as required by the County. Bids were received from three financial institutions, Banc of America Capital Corp, MUFG Union Bank, and USbancorp. The evaluation team consisting of the Auditor Controller, Executive Office and the Treasurer’s Office reviewed the responses and recommends the award to Banc of America Capital Corp as the most responsive and responsible bidder providing the best value to the County.

Banc of America rates are based on the Average Life Swap Indexing. The resulting interest rates offered by Banc of America were deemed competitive and is most favorable to the county in this current financial market.

SUBJECT: APPROVAL OF THE AGREEMENT FOR THE MULTI-YEAR LEASE LINE OF CREDIT FOR FINANCING PURCHASES OF FIXED ASSETS WITH BANC OF AMERICA PUBLIC CAPITAL CORP.

Proposed Award

Avg Life Swap Indexing

Indexing Based on 3/10/20 Swap Rates as published on the Bloomberg Daily Summary (Market Open):

Lease Term	Average Life Swap Rate Term	Swap Rate	Index Rate*	x % of Index	+ Fixed Index Spread	= Indicative Tax Exempt Rate
2 Years	1yr Swap	0.55%	0.55%	79%	0.8523%	1.2868%
3 Years	2yr Swap	0.51%	0.51%	79%	0.9025%	1.3054%
4 Years	2yr Swap	0.51%	0.51%	79%	0.9249%	1.3278%
5 Years	3yr Swap	0.54%	0.54%	79%	1.0090%	1.4356%
6 Years	3yr Swap	0.54%	0.54%	79%	1.0399%	1.4665%
7 Years	4yr Swap	0.59%	0.59%	79%	1.1154%	1.5815%
8 Years	4yr Swap	0.59%	0.59%	79%	1.1497%	1.6158%
9 Years	5yr Swap	0.63%	0.63%	79%	1.1509%	1.6486%
10 Years	5yr Swap	0.63%	0.63%	79%	1.2966%	1.7943%

In all cases, the Index Rate will be the greater of (i) the swap rate from the Bloomberg Daily Summary on or closest to the date the rate for a Schedule is set or (ii) 0.50%

PRICE REASONABLENESS: Banc of America Capital Corp offers the most responsive/responsible interest rates.