



STAFF REPORT

SAUSALITO CITY COUNCIL

AGENDA TITLE:

Council Discussion and Action on Local Agency Resolution Authorizing the Issuance of One or More Series of Pension Obligations Bonds, Approving the Form of and Authorizing the Execution and Delivery of a Trust Agreement and a Purchase Agreement, and Authorizing a Validation Action and Other Matters Relating Thereto

RECOMMENDED MOTION:

Authorize the Issuance of One or More Series of Pension Obligations Bonds, Approve the Form of and Authorize the Execution and Delivery of a Trust Agreement and a Purchase Agreement, and Authorize a Validation Action and Other Matters Relating Thereto

SUMMARY

The City of Sausalito offers retirement benefits to employees through CalPERS. As of June 30, 2005, the City owes \$5,062,116 on unfunded side fund accrued actuarial pension liabilities for which CalPERS is charging the City 7.75% interest. Finance Committee is recommending the issuance of pension obligation bonds (POB) with a lower interest rate to pay off the CalPERS side fund liabilities. The issuance will result in projected net present value savings of over \$600,000 to the City over a period of 20 years. The City has the option of issuing POB through the California Statewide Communities Development Authority (CSCDA) or through Wulff, Hansen & Co.

BACKGROUND

On September 4, 2007, staff and the City's financial advisor Mark Pressman of Wulff, Hansen & Co. presented a report to the City Council on the CalPERS side fund unfunded accrued actuarial liabilities (UAAL) for employee pension plans and sought direction on whether the City of Sausalito should issue POB to payoff the UAAL. City Council directed staff to return with up-to-date figures. On September 18, 2007, staff and Mark Pressman submitted an oral report with power point presentation to City Council. At that time, City Council directed staff to proceed and return with documents necessary for a private placement sale of the POB and to start the validation process necessary to get court approval to issuance POB. To begin the validation process, the bond counsel would draft the documents and court proceedings for a fee of \$7,500 and that the City Attorney would coordinate all court filings, appearances and the publication of summons. It was

Item #: _____

Meeting Date: _____

Page #: 1

anticipated that entire validation process including city attorney time would not exceed \$10,000.

ISSUE

Decision was made to outsource the City Attorney's role in the validation process to other outside contract attorney. Two quotes were received ranging from \$12,500 to \$15,000. In addition, due to the significant difference in projected net present value savings between private placement through the Mark Pressman and the POB pool offered by the CSCDA, staff contacted CSCDA again and was informed that private placement option was available through CSCDA with a more attractive interest rate than the proposal offered by Mark Pressman due to the purchasing power of the CSCDA. Based on the calculation prepared by Morgan Stanley (CSDCA) using September 6, 2007 as the delivery date, the projected net present value savings through private placement with CSCDA is \$630,446 whereas, the projected net present value savings through private placement with Mark Pressman is \$108,734. The City also has a choice of joining the CSCDA pool (not private placement) and the projected net present value savings is \$640,663.

Finance Committee is recommending that the City goes with private placement through CSCDA as it allows the City to control the timing of the issuance and reduce the demand on staff time. Staff reviewed the City of Claremont private placement of \$6,060,000 (\$5,867,555 liability) in January 2006 through CSCDA. City of Claremont was charged 1% for underwriter's discount and 2.145% for cost of issuance. The all-in true interest cost in January 2006 was \$5.648044%.

To facilitate Council discussion, representative from Morgan Stanley will be present on November 13, 2007 at the City Council meeting to answer and provide more detail analysis of their calculation. As directed, staff and CSCDA prepared the attached documents necessary to proceed with the validation process if the City Council, after discussion and public testimony, would like to authorize the validation action and the issuance of POB. The validation process does not mean the sale of bonds.

The sale of the POB will depend on interest rate. The validation process will take up to 90 days. Any time prior to the preliminary official statement is printed, the City can pull the plug and discontinue the POB issuance process. CSCDA also advises the City that a final decision to go with "pool" or "private placement" does not need to be made at the present time. The resolution, trust agreement, and purchase contract attached are intended for pool sale. CSCDA will revise the purchase contract if the City decides to go through private placement. Staff will bring back a revised purchase contract for City Council approval.

FISCAL IMPACT

It is anticipated that the validation process will be between \$10,000 to \$15,000. Of the amount, \$7,500 will be paid to Orrick, Herrington & Sutcliffe (bond counsel) with the remainder to cover city attorney cost and publication of summon.

STAFF RECOMMENDATIONS

Authorize the issuance of one or more series of pension obligation bonds, approve the form of and authorize the execution and delivery of a trust agreement and a purchase agreement, and authorize a validation action and other matters relating thereto

ATTACHMENTS

- A. Staff report dated September 4, 2007
- B. Resolution
- C. Trust Agreement
- D. Purchase Contract
- E. CSCDA pool (level savings) prepared by Morgan Stanley
- F. CSCDA private placement projection prepared by Morgan Stanley

SUBMITTED BY:

APPROVED BY:

Louise Ho, Finance Director/Treasurer

Adam Politzer, City Manager

Item #: _____

Meeting Date: _____

Page #: 3