Fire Department's CalPERS UAL Refunding Overview

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Ridgeline
MUNICIPAL STRATEGIES

Municipal Advisory | Financial Planning | Pension Cost Optimization

Chester Public Utility District

CPUD Chester Public Utility District

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CalPERS Background Information

- As part of fire service divesting process, District needs to arrange for CalPERS Unfunded Accrued Liability (UAL) repayment
- Fire department employees were covered by two pension plans:

Pension Plan	Total Accrued Liability	Market Value of Assets	Unfunded Accrued Liability	% Funded
Safety - Classic	$4,132,136	$2,708,857	$1,423,279	65.6%
Safety - PEPRA	$432,350	$371,151	$61,199	85.8%
TOTAL	$4,564,486	$3,080,008	$1,484,478	67.5%

Source: CalPERS FYE 2023 Actuarial Reports

Definitions:

Total Accrued Liability = What You Need

Market Value of Assets = What You Have

Unfunded Accrued Liability = What You Owe

UAL 101

- UAL is funding shortfall that employers are required to pay to CalPERS over time
- CalPERS makes annual UAL adjustments based on investment performance and reconciliation of actual plan experience against actuarial assumptions
- New UAL is usually amortized over a 20-year period
- New UAL can be added as long as any plan beneficiaries are alive
- It is impossible to predict future UAL increases
- Potential CalPERS UAL exposure is estimated to last 50-70 years
- LAFCO wants to set an ending term to CalPERS UAL exposure

CalPERS Termination Liability

- When plans are terminated, CalPERS calculates termination liability
- Termination Liability is the amount that employer needs to pay to transfer all pension benefit responsibility to CalPERS
- To assume all benefit funding risk, CalPERS uses reduced discount rate for termination liability calculations
- Discount rate is target rate of investment return necessary to fully fund pension benefits
- CalPERS' current normal discount rate is 6.8%
- Termination liability discount rate is based on 20-year US Treasury rate, currently ≈ 4.5%
- Lower Discount Rate = Higher Termination Liability

Preliminary Termination Liability Estimate

- Based on very preliminary assessment by District's CalPERS actuary, termination liability for District's plans is likely to be approximately:
  - Safety Classic Plan - $3.25m to $3.5m
  - Safety PEPRA Plan - $300k to $350k
  - Total - $3.5m to $3.8m (this amount will change)

- CalPERS is preparing Pre-Termination calculation (expected within 20-50 days)
- If Pre-Termination calculation is acceptable to District, CalPERS will prepare Final Termination calculation (another 30-60 days) tied to specific plan termination date

UAL Refunding Basics

- **District is considering issuing debt to finance Termination Liability Payment**
- **Issues of Concern / Limiting Factors:**
  - Higher taxable interest rates
  - Total ad valorem and Measure A annual revenues are currently around $320-340k
  - This amount can support total debt of approximately $4 million:
    - 30-year term
    - 7% interest rate
  - Delayed tax payments from County pose default risk for the financing

Financing Structure Options

- Pension Obligation Bonds
  - Secured only by property tax revenues
  - Major risk – delayed tax payments
  - Potential mitigation measures:
    - Debt Service Reserve Account (1-year of payments maintained at all times)
    - Debt Service Guarantee from the District
- Sewer Revenue Bonds
  - Secured by net revenues of sewer system (including fire property taxes)
  - Likely to be investment grade credit rating, with potentially lower interest rates
  - Better understood by investors
  - Does not constitute additional risk exposure for District since debt service guarantee is very likely to be necessary

Method of Sale Options

- Rated Public Offering (bond sale)
  - Best interest rate
  - Unlikely for Pension Obligation Bonds due to tax payment issues
- Limited Public Offering (bonds sold to one investor)
  - Rated or non-rated
  - Likely higher interest rate
  - Pension Obligation Bonds or Sewer Revenue Bonds
- Private Placement (bank loan)
  - Very limited appetite from banks due to 30-year term
  - Likely to require an interest rate reset in 10-15-years

Finance Team Members & Responsibilities

- **Ridgeline Municipal Strategies, LLC – Municipal Advisor**
  - Fiduciary to District
  - Assure that fiscal and policy interests are protected
  - Manage financing on behalf of District
- **Oppenheimer & Co. Inc. – Underwriter / Placement Agent**
  - FINRA member and Broker-Dealer; acting as independent agent
  - Source capital; price and sell bonds to investors on behalf of District
- **Stradling Yocca Carlson & Rauth – Bond / Disclosure Counsel**
  - Attorney to District
  - Prepare all legal documentation; assure bonds are "valid and legally binding obligations"
  - Prepare Official Statement, a public disclosure document, for the bonds

Cost of Issuance Estimate

Description	Private Placement	Non-Rated POB	Non-Rated Sewer Revenue Bonds	Rated Sewer Revenue Bonds
Placement Agent / Underwriter	$25,000	$120,000	$70,000	$48,000
Bond & Disclosure Counsel	$45,000	$80,000	$80,000	$80,000
Municipal Advisor	$28,500	$35,500	$35,500	$38,500
Lender Counsel	$10,000	$0	$0	$0
CDIAC	$1,000	$1,000	$1,000	$1,000
Credit Rating	$0	$0	$0	$20,000
Trustee	$0	$6,000	$6,000	$6,000
Other	$5,000	$5,000	$5,000	$5,000
Total	**$114,500**	**$247,500**	**$197,500**	**$198,500**

Assumes $4 million financing amount. Some costs are preliminary estimates and subject to change. COI (other than credit rating) is contingent upon closing of financing and paid from financing proceeds.

Next Steps

- Today – retain financing team
- Obtain pre-termination liability calculation from CalPERS (20-50 days)
- Financing preparation (LAFCO agreement, financial analysis, credit rating strategy, etc.)
- Likely financing close in March – April 2025
- Financing documents and terms will require additional Board approval

Questions?

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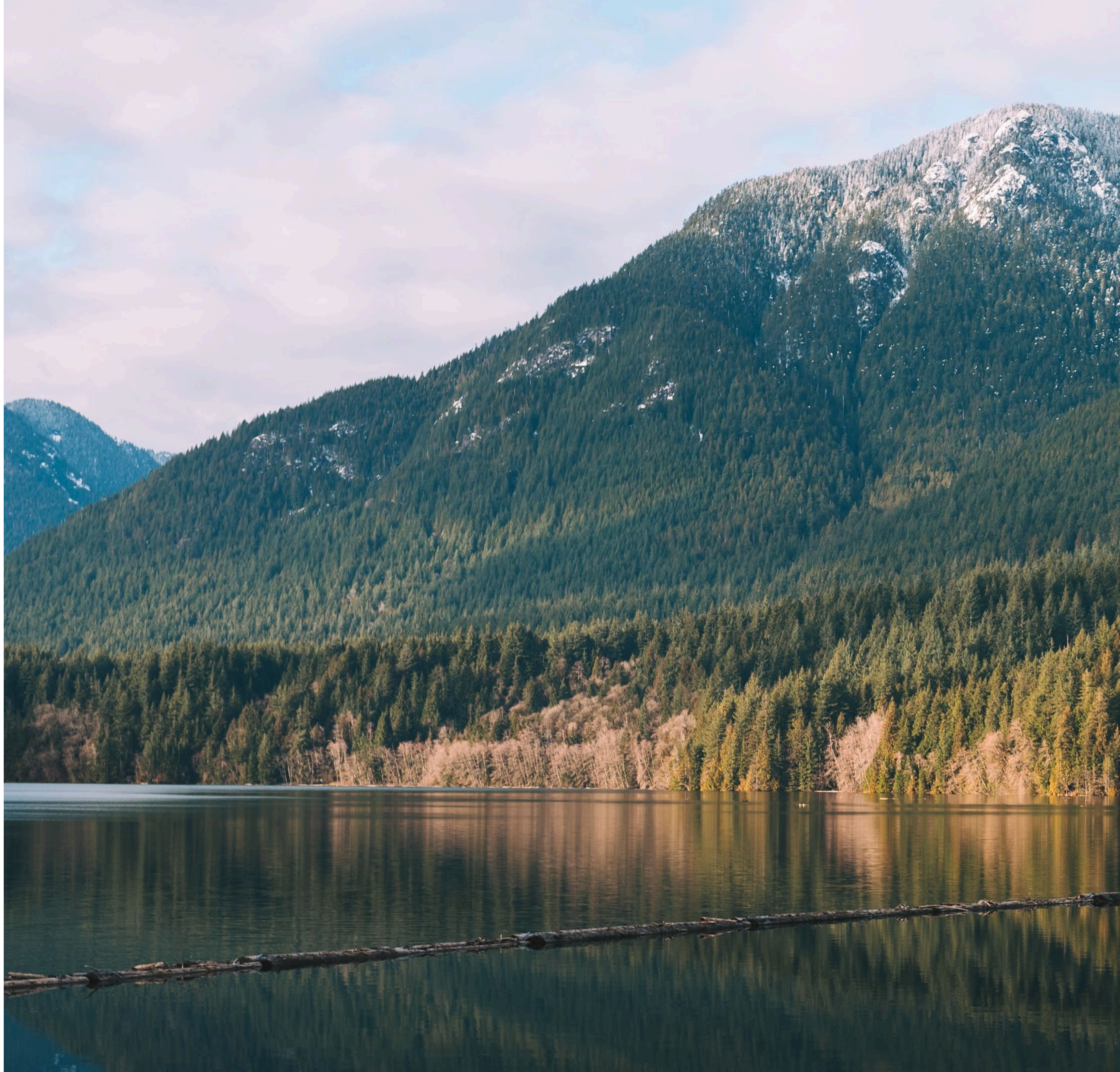

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