

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



ITEM: 3.36
(ID # 12375)

MEETING DATE:
Tuesday, April 21, 2020

FROM : EXECUTIVE OFFICE:

SUBJECT: EXECUTIVE OFFICE: Adoption of Resolution No. 2020-109, Amending Resolution No. 2020-065, Authorizing and Directing Authorized Officers to apply for a Bond Insurance Policy, for the Taxable Pension Obligation Bonds, Series 2020, approved on March 17, 2020, and increasing the true interest cost limitation on the Series 2020 Bonds from 3.5% to 3.75%, All Districts. [\$7,910,234 - Bond Proceeds 100%]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Adopt Board Resolution No. 2020-109, amending Resolution No. 2020-065, authorizing the application for and use of a Bond Insurance Policy, if deemed cost-effective by the authorized officers, for the Taxable Pension Obligation Bonds (POBs), Series 2020 in an aggregate amount not to exceed \$730,000,000, that was approved on March 17, 2020, and increasing the authorized true interest cost (TIC) limitation from 3.5% to 3.75%, for the purpose of refunding a portion of the County's obligation to the California Public Employees' Retirement System (CalPERS).


ACTION:Policy


Stephanie Perez, Principal Management Analyst 4/15/2020

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Perez, seconded by Supervisor Spiegel and duly carried, IT WAS ORDERED that the above matter is approved as recommended and that all savings from the pension obligation bonds will be used to pay down pension debt.

Ayes: Jeffries, Spiegel, Washington and Perez
Nays: Hewitt
Absent: None
Date: April 21, 2020
xc: EO

Kecia R. Harper
Clerk of the Board
By: 
Deputy

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FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$7,910,234*	\$0	\$7,910,234	\$0
NET COUNTY COST	\$0	\$0	\$0	\$0
SOURCE OF FUNDS: 100% Bond Proceeds *Replaces the previous approval on 3/17/20 in the amount of \$4,186,763; \$3,733,967 attributable to bond insurance premium – see Additional Fiscal Information			Budget Adjustment:	No
			For Fiscal Year:	19/20

C.E.O. RECOMMENDATION: Approve

BACKGROUND:

On March 17, 2020 the Board approved Item 3.4 authorizing the issuance of a not to exceed amount of \$730 million in Taxable Pension Obligation Bonds, Series 2020. Since that time, the COVID-19 pandemic has had a significant impact on financial markets, including the municipal bond market, increasing interest rates and volatility. While interest rates on U.S. Treasury securities have declined, interest rate spreads (or premiums) over Treasury securities on municipal bonds, such as the County’s issuance, have increased, reflecting investors’ concerns about the economy and desire for safer, more liquid investments. As a result, estimated interest rates for the County’s pension bonds have increased from just under a 3% TIC, to marginally above a 3.5% TIC, since the issuance was approved.

True Interest Cost Limitation

The Executive Office is requesting that the true interest cost limitation of 3.5% (previously approved on March 17, 2020) be increased to 3.75%, which together with the approval for the application and use of a Bond Insurance Policy, will increase the County’s pricing flexibility in completing the sale of the pension bonds as planned.

The expected reduction in payments to CalPERS at a 3.5% TIC is \$232,755,286 over the life of the pension bonds, while the expected reduction in payments to CalPERS at a 3.75% TIC is \$216,134,843 over the life of the pension bonds. Completing the bond issuance at 3.5%, will provide \$15.5 million in lower unfunded accrued actuarial liability (UAAL) payments in both FY 20/21 and FY 21/22. At a 3.75% TIC, the reduction in the County’s UAAL payments in both FY 20/21 and FY 21/22 would be \$14.4 million.

Bond Insurance Policy

Given the market volatility discussed above, the Executive Office is also considering the viability of bond insurance. Prior to the March 17th approval, bond insurance was not considered, as there was no financial benefit at that time; investors did not value it as much then as they do today, given the County’s stand-alone “AA” bond rating. The impact of COVID-19 on the municipal bond market has since changed investor demand, and the use of bond insurance may allow the County to reduce its interest cost by up to 25 basis points (0.25%) on the bonds

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insured. Build America Mutual Insurance (BAM) has approved up to \$300 million in bond insurance.

Bond insurance provides for payment of principal and interest payments to bondholders in the event the County is unable to make timely debt service payments on the insured bonds. For reference, a portion of the County's 2005 pension bonds were also insured. The Executive Office is requesting that the Board authorize the use of bond insurance, only if it is cost-effective, at the time of the bond sale.

Conclusion

If approved by the Board of Supervisors, the Taxable Pension Obligation Bonds, Series 2020, would be marketed and sold this month, or, at the latest, early to mid-May. The bond proceeds would be applied to the County's unfunded liability at CalPERS simultaneously with the bond closing, with a commensurate reduction in future contributions to CalPERS.

After their review earlier this month, the POB ratings of AA by Standard & Poor's and A2 by Moody's Investors Service were confirmed, which is the current rating of the 2005 POBs.

Impact on Residents and Businesses

The cost of the County's Miscellaneous and Safety defined benefit pension plans have been rising and are projected, by independent actuary Bartel Associates, LLC., to continue to rise through the early 2030s. With rising costs, the County must assign more financial resources to pay these costs. The approved Pension Obligation Bonds will reduce the County's interest cost on a portion of what is due to CalPERS, thus providing savings which can then be used to set aside in the Section 115 Pension Trust or make additional discretionary payments to CalPERS.

Additional Fiscal Information

The costs associated with the issuance of these bonds will be paid through the bond proceeds. Based on current bond market conditions, the insurance premium is estimated to be \$3,733,967. The expected reduction in debt service resulting from the insurance (including the premium) is \$4,816,355. Insurance will only be used if net debt service savings can be achieved.

\$4,186,763 Issuance Cost Approved 3/17/2020

\$4,176,267 New Issuance Cost

\$3,733,967 Bond insurance premium

\$7,910,234 Total New Cost

Prior Agenda Item: 3/17/2020 Item 3.4 (ID # 12101)

ATTACHMENTS:

Resolution 2020-109

SUBMITTAL TO THE BOARD OF SUPERVISORS COUNTY OF RIVERSIDE,
STATE OF CALIFORNIA



Don R. Kent, Assistant CEO-County Finance Officer

4/16/2020



Gregory H. Priamos, Director County Counsel

4/16/2020

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3 **RESOLUTION NO. 2020-109**

4 **RESOLUTION OF THE BOARD OF SUPERVISORS OF THE COUNTY OF**
5 **RIVERSIDE AMENDING RESOLUTION NO. 2020-065, ADOPTED BY**
6 **THE BOARD OF SUPERVISORS ON MARCH 17, 2020, WHICH**
7 **RESOLUTION AUTHORIZED THE ISSUANCE AND SALE OF COUNTY**
8 **OF RIVERSIDE TAXABLE PENSION OBLIGATION BONDS, SERIES**
9 **2020 AND OTHER MATTERS RELATED THERETO**

10 **WHEREAS**, the County of Riverside (the "County") previously issued its County of
11 Riverside Taxable Pension Obligation Bonds, Series 2005 A (the "Series 2005 A Bonds"), in the
12 aggregate principal amount of \$400,000,000, of which \$218,830,000 principal amount is currently
13 outstanding;

14 **WHEREAS**, the Series 2005 A Bonds were issued pursuant to the Trust Agreement, dated
15 as of February 1, 2005 (the "Original Trust Agreement"), by and between the County and Wells
16 Fargo Bank, National Association, as trustee (the "Trustee") (capitalized undefined terms used
17 herein have the meanings ascribed thereto in the Original Trust Agreement);

18 **WHEREAS**, the Series 2005 A Bonds were issued for the purpose of refunding a portion
19 of the County's obligations to the System evidenced by the PERS Contract;

20 **WHEREAS**, the Original Trust Agreement provides that the County may at any time issue
21 Additional Bonds (in addition to the Series 2005 A Bonds) on a parity with the Series 2005 A
22 Bonds for the purpose of satisfying any obligation of the County to make payments to the System
23 pursuant to the Retirement Law relating to pension benefits accruing to the System's members,
24 and/or for payment of all costs incidental to or connected with the issuance of Additional Bonds
25 for such purpose, but only subject to the conditions set forth therein;

26 **WHEREAS**, for the purpose of refunding an additional portion of certain of the County's
27 obligations to the System evidenced by the PERS Contract, the Board of Supervisors of the County
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FORM APPROVED COUNTY COUNSEL
BY: *Synthia M. Gunzel* 4-16-2020
SYNTHIA M. GUNZEL DATE

1 (the "Board"), pursuant to Resolution No. 2020-065, adopted on March 17, 2020 (the "Authorizing
2 Resolution"), and subject to the terms and conditions specified therein, authorized the issuance of
3 its County of Riverside Taxable Pension Obligation Bonds, Series 2020 (the "Series 2020 Bonds"),
4 in an aggregate principal amount of not to exceed \$730,000,000;

5 **WHEREAS**, pursuant to the Authorizing Resolution, and subject to the terms and
6 conditions specified therein, the Board also authorized the execution and delivery by the Authorized
7 Officers, for and in the name of the County, of the First Supplemental Trust Agreement, the
8 Purchase Contract and the Continuing Disclosure Certificate, the use of the Preliminary Official
9 Statement in connection with the offering and sale of the Series 2020 Bonds, the preparation and
10 delivery of a final Official Statement and the use thereof in connection with the offering and sale
11 of the Series 2020 Bonds and certain other matters (capitalized undefined terms used in this recital
12 have the meanings ascribed thereto in the Authorizing Resolution);

13 **WHEREAS**, the market for municipal bonds, and the pricing therefor, has been impacted
14 by the global COVID-19 pandemic;

15 **WHEREAS**, the County has become aware that the County may be able to obtain a
16 municipal bond insurance policy securing the payment of the principal of and interest on the Series
17 2020 Bonds (a "Bond Insurance Policy"), which Bond Insurance Policy could increase the
18 marketability of the Series 2020 Bonds and result in interest cost savings with respect thereto;

19 **WHEREAS**, in order to provide some flexibility with respect to such market impacts and
20 in order to provide that, subject to the terms and conditions hereof, a Bond Insurance Policy for the
21 Series 2020 Bonds may be obtained, the Board desires to amend the Authorizing Resolution as
22 provided herein; and

23 **WHEREAS**, all acts, conditions and things required by the laws of the State of California
24 to exist, to have happened and to have been performed precedent to and in connection with the
25 actions authorized hereby do exist, have happened and have been performed in regular and due
26 time, form and manner as required by law, and the County is now duly authorized and empowered,
27 pursuant to each and every requirement of law, to authorize such actions for the purpose, in the
28 manner and upon the terms herein provided;

1 **NOW, THEREFORE, THE BOARD OF SUPERVISORS OF THE COUNTY OF**
2 **RIVERSIDE**, in regular session assembled on April 21, 2020, does hereby resolve, find, determine
3 and order as follows:

4 **Section 1.** All of the recitals herein contained are true and correct and the Board so finds.

5 **Section 2.** The first paragraph of Section 3 of the Authorizing Resolution is hereby
6 amended and restated to read in full as follows:

7 **Section 3.** The issuance of the Series 2020 Bonds, in an aggregate principal
8 amount of not to exceed \$730,000,000, on the terms and conditions set forth in, and
9 subject to the limitations specified in the First Supplemental Trust Agreement, is
10 hereby authorized and approved. The Series 2020 Bonds, in substantially the forms
11 set forth in the First Supplemental Trust Agreement submitted to this meeting and
12 made a part hereof as though set forth herein, be and the same are hereby approved;
13 provided, however, that (a) the Series 2020 Bonds shall be issued as Standard
14 Bonds, (b) the aggregate principal amount of the Series 2020 Bonds shall not
15 exceed the sum of the County's unfunded accrued actuarial liability for County
16 employees under the PERS Contract and the Retirement Law as of the date of
17 issuance of the Series 2020 Bonds, as determined by the Actuary, plus any original
18 issue discount on the Series 2020 Bonds, plus the costs of issuance of the Series
19 2020 Bonds (including underwriters' discount on the Series 2020 Bonds), (c) the
20 true interest cost for the Series 2020 Bonds shall not exceed 3.75%, and (d) the
21 Series 2020 Bonds shall mature not later than 21 years from the date of issuance
22 thereof.

23 **Section 3.** Section 4 of the Authorizing Resolution is hereby amended and restated to read
24 in full as follows:

25 **Section 4.** The First Supplemental Trust Agreement, in substantially the
26 form submitted to this meeting and made a part hereof as though set forth herein,
27 be and the same is hereby approved. Each of the Chair of the Board, and any such
28 other member of the Board as the Chair may designate, the Treasurer-Tax Collector

1 of the County, the County Executive Officer of the County, the Chief Operating
2 Officer of the County, the Chief Deputy County Executive Officer of the County,
3 the Deputy County Executive Officer of the County and the County Finance Officer
4 of the County, and such other officers of the County as the County Executive
5 Officer may designate (the "Authorized Officers") is hereby authorized, and any
6 one of the Authorized Officers is hereby directed, for and in the name of the County,
7 to execute and deliver the First Supplemental Trust Agreement in the form
8 submitted to this meeting, with such changes, insertions and omissions (including
9 such changes, insertions and omissions as are necessary to obtain a Bond Insurance
10 Policy meeting the requirements of this Resolution) as the Authorized Officer
11 executing the same may, upon consultation with County Counsel, require or
12 approve, such requirement or approval to be conclusively evidenced by the
13 execution of the First Supplemental Trust Agreement by such Authorized Officer.
14 The Clerk of the Board is authorized and directed to affix and attest the seal of the
15 County to the First Supplemental Trust Agreement.

16 **Section 4.** Section 10 of the Authorizing Resolution is hereby amended and restated to read
17 in full as follows:

18 **Section 10.** (a) The Authorized Officers are each hereby authorized and
19 directed to apply to each of Build America Mutual Assurance Company and
20 Assured Guaranty Municipal Corp. (each, a "Provider) for a Bond Insurance Policy
21 for the Series 2020 Bonds. With respect to any such Bond Insurance Policy so
22 applied for, the Authorized Officers are hereby authorized, and each one of them is
23 hereby directed, for and in the name and on behalf of the County, to enter into a
24 commitment letter agreement with the Provider of such Bond Insurance Policy
25 agreeing to the conditions to the issuance of such Bond Insurance Policy by such
26 Provider set forth in such commitment letter agreement, acknowledging the
27 limitations to the obligations of such Provider set forth therein and accepting the
28 manner in which any request for a renewal or continuation of such Provider's

1 commitment to issue such Bond Insurance Policy is to be made; provided, however,
2 that such conditions to the issuance of such Bond Insurance Policy by such
3 Provider, including the conditions requiring that certain provisions be incorporated
4 into the First Supplemental Trust Agreement and the Series 2020 Bonds and that
5 certain statements be set forth in the Preliminary Official Statement and the Official
6 Statement, shall not differ in any material respect from the standard conditions in
7 such a commitment letter agreement with such Provider for general fund
8 obligations of a California county that are not subject to abatement. Subject to the
9 provisions of this Section 10, the Authorized Officers are each hereby authorized
10 and directed to obtain such a Bond Insurance Policy if the present value cost of
11 such Bond Insurance Policy is less than the present value of the estimated savings
12 with respect to interest evidenced by the Series 2020 Bonds resulting from the
13 purchase of such Bond Insurance Policy. If a Bond Insurance Policy for the Series
14 2020 Bonds is obtained, the provisions of the Purchase Contract to be executed and
15 delivered by the Authorized Officers and the statements in the Preliminary Official
16 Statement and the Official Statement to be used in connection with the offering and
17 sale of the Series 2020 Bonds may be modified to reflect the provisions and
18 statements required by the commitment letter agreement of the Provider providing
19 such Bond Insurance Policy.

20 (b) The Authorized Officers are, and each of them hereby is, authorized and
21 directed to execute and deliver any and all documents and instruments and to do
22 and cause to be done any and all acts and things which they or any of them deem
23 necessary or advisable in order to carry out the issuance of the Series 2020 Bonds
24 and to consummate the transactions contemplated by the First Supplemental Trust
25 Agreement, the Purchase Contract, the Continuing Disclosure Certificate, the
26 Official Statement and this Resolution.

27 **Section 5.** Except as amended by this Resolution, Resolution No. 2020-065 shall remain
28 in full force and effect.

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Section 6. The Authorized Officers are, and each of them hereby is, authorized and directed to execute and deliver any and all documents and instruments and to do and cause to be done any and all acts and things which they or any of them deem necessary or advisable in order to carry out and to consummate the transactions contemplated by this Resolution.

Section 7. All actions heretofore taken by the officers and employees of the County with respect to the issuance and sale of the Series 2020 Bonds, or in connection with or related to any of the agreements or documents referenced herein, are hereby approved, confirmed and ratified.

Section 8. This Resolution shall take effect immediately upon its adoption.

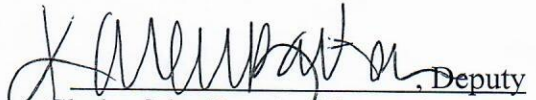
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CERTIFICATE OF CLERK

STATE OF CALIFORNIA)
) ss.
COUNTY OF RIVERSIDE)


I, Kecia Harper, Clerk of the Board of Supervisors of the County of Riverside, California, do hereby certify that the foregoing Resolution No. 2020-109 was duly adopted by the Board of Supervisors of said County, at a meeting of said Board held on the 21st day of April, 2020, and that it was so adopted by the following vote:

AYES: Jeffries, Spiegel, Washington and Perez
NOES: Hewitt
ABSTAIN: None
ABSENT: None



Deputy
Clerk of the Board of Supervisors
of the County of Riverside

The foregoing is certified to be a true copy of a resolution duly adopted by said Board of Supervisors on the date therein set forth.

Kecia R. Harper, Clerk of said Board
By  _____
Deputy