

2022-2023 TAX & REVENUE ANTICIPATION NOTES (TRANS)

PREFUNDING RETIREMENT & RETIREE HEALTH COSTS

Presenter: Julia H. Cooper, Director of Finance
Jim Shannon, Budget Director



OVERVIEW

- Commenced prefunding employer retirement contributions in FY 2008-09 for budgetary savings, and, beginning in FY 2010-11 and in each fiscal year thereafter except FY 2019-20, City entered into short-term borrowing to smooth the variability of cash balances in the City Investment Portfolio, specifically the General Fund
- Each year the City considers the budgetary savings from prefunding based on the discount provided by the Retirement Boards and the City's interest expense for borrowing, which is partially offset by additional earnings in Investment Portfolio
- Based on analysis, recommending prefunding the City's Tier I Retirement Contributions and OPEB (Retiree Health) costs
- FY 2022-23 prefunding will be paid on July 1, 2022, with proceeds both from the sale of the TRANs and cash on hand
- Finalizing analysis on split between cash/borrowing and split between 8-month and 12-month maturities

| Retirement Prefunding (\$ Millions) | |
|--|-----------------|
| Sources | |
| TRANs Proceeds* | \$ 360.0 |
| Cash | 61.4 |
| Total Sources | \$ 421.4 |
| Uses | |
| Pension (Tier I) | \$ 374.6 |
| OPEB (Retiree Health) | 46.8 |
| Total Uses | \$ 421.4 |

* Preliminary, subject to change



COMPETITIVE BANK SOLICITATION AND KEY BUSINESS TERMS

Competitive Bank Solicitation

- Bank of America, N.A. (BANA) was selected through a competitive bank solicitation process
- Advantages of Direct Placement – No Ratings, No Offering Documents and No Monthly Cash Flow projections required

Key Business Terms

| | |
|----------------|--|
| Par Amount | Up to \$360.0 million of \$450.0 million offered |
| Security | Secured from FY 2022-23 property tax receipts and legally available General Fund revenues of the City |
| Interest Rate | <ul style="list-style-type: none">• Given the current volatility in the market, City has flexibility to determine the TRANs size and proportional maturity dates (8-months vs. 12-month) prior to June 29, 2022 rate lock• Fixed rate to be set at closing based on the 8-month and 12-months Secured Overnight Financing Rate (SOFR) rates |
| Final Maturity | June 30, 2023 |



SOFR INDICATIVE RATES AS OF MAY 24, 2022

| | 8 Months | 12 Months | | Estimated |
|------------------------|----------|-----------|----------------------------------|-----------------------|
| Interest Rate | 1.94% | 2.26% | Financed Amount | \$ 358,160,000 |
| Credit Spread | .26% | .27% | | |
| Total Indicative Rates | 2.20% | 2.53% | Prepayment Savings | \$ 11,581,000 |
| | | | Interest Paid on TRANs | (5,218,000) |
| | | | Interest Earned on Cash Balances | 3,909,000 |
| | | | Cost of Issuance/Fees | (105,500) |
| | | | Total Net (Cost)/Savings | \$ 10,166,500 |
| | | | FY2022-23 Budgetary Savings* | \$ 6,600,000 |
| | | | Additional Budgetary Savings* | \$ 3,566,500 |

*Five Year Forecast 2023-2027 estimate for all funds



SOFR INDICATIVE RATES AS OF JUNE 17, 2022

| | 8 Months | 12 Months | | Estimated |
|------------------------|----------|-----------|----------------------------------|-----------------------|
| Interest Rate | 2.79% | 3.12% | Financed Amount | \$ 358,160,000 |
| Credit Spread | .26% | .27% | Prepayment Savings | \$ 11,581,000 |
| Total Indicative Rates | 3.05% | 3.39% | Interest Paid on TRANs | (6,178,000) |
| | | | Interest Earned on Cash Balances | 4,628,000 |
| | | | Cost of Issuance/Fees | (105,500) |
| | | | Total Net (Cost)/Savings | \$ 9,925,500 |
| | | | FY2022-23 Budgetary Savings* | \$ 6,600,000 |
| | | | Additional Budgetary Savings* | \$ 3,325,500 |



FINANCING SCHEDULE

| | |
|----------------|--|
| June 21, 2022 | City Council Approval |
| June 29, 2022 | Rate Lock – Fixed Rates Determined Maturity Dates Determined (8-month vs. 12-month) |
| July 1, 2022 | <ul style="list-style-type: none">• 2022-23 TRANs Closing• Prepay Tier I Retirement & OPEB (Retiree Health) Costs |
| Final Maturity | June 30, 2023 |



COUNCIL RECOMMENDATION

a) Adopt a resolution:

- 1) Authorizing the issuance and sale of the City of San José 2022 Tax and Revenue Anticipation Notes in an aggregate principal amount not to exceed \$360,000,000 to be sold through a direct bank placement; and
- 2) Approving, in substantially final form, the Note Purchase Agreement and authorizing the Director of Finance or other authorized officers to execute the Note Purchase Agreement with Bank of America, N.A. and other related documents, as necessary, in connection with the issuance of the 2022 Notes and authorizing other related actions in connection therewith

b) Adopt the following Fiscal Year 2022-2023 Appropriation Ordinance and Funding Sources Resolution amendments in the General Fund:

- 1) Increase the estimate for Other Revenue by \$360,000,000; and
- 2) Increase the Citywide TRAN Debt Service appropriation to the Finance Department by \$360,000,000.

