



**MINUTES OF THE CITY COUNCIL
PENSION OBLIGATION FINANCING OPTIONS**

SAN JOSE, CALIFORNIA

FRIDAY, APRIL 23, 2021

Consistent with the California Governor’s Executive Order No. N-29-20, Resolution No. 79450 from the City of San José and the Santa Clara County Health Officer’s March 16, 2020 Shelter in Place Order, the Joint City Council meeting was not physically open to the public. Public comments were accepted via eComment, email, by phone and webinar.

The Special Joint Session convened at 9:00 a.m. and was teleconferenced from remote locations.

Present: Council Members - Arenas, Esparza, Mahan, Davis, Arenas, Peralez, Jones, Carrasco, Foley, Cohen; Liccardo.

Absent: Council Members - Jimenez.

Staff: City Manager David Sykes; City Attorney Nora Frimann; Jim Shannon, Budget Director; Julia H. Cooper, Director of Finance; Senior Deputy City Attorney Karin Murabito; Nikolai J. Sklaroff, Deputy Director of Finance, Debt & Treasury Management; Assistant to the City Manager, Office of Employee Relations, Cheryl Parkman; City Clerk Toni Taber and Deputy City Clerk Ruth Krantz.

PURPOSE OF STUDY SESSION

To present and evaluate options on funding the City’s Unfunded Actuarial Liability (“UAL”) obligations of the City’s two retirement plans (“Federated City Employees’ Retirement System and the Police and Fire Department Retirement Plan” and collectively, the “Plans”), including the possibility of issuing Pension Obligation Bonds (“POBs”) as requested by the Mayor and City Council (“Council”) in their December 1, 2020 referral, and provide other preparatory work that will enable the City Council to make a fully informed decision about the merits and risks of UAL financing options.

Mayor Sam Liccardo and City Manager, David Sykes provided opening comments.

Part I – Review of Problem and Efforts to Date

Director of Finance Julia H. Cooper provided an overview and introduction of speakers, and she and Cheryl Parkman, Office of Employee Relations, began the presentation, offering a ‘Review of the Problem’ and ‘Efforts to Date’.

Pension Obligation Financing Options

April 23, 2021 (Cont'd.)

2 | Page

Part II – Pension Obligation Financing Options

Nikolai J. Sklaroff, Deputy Director of Finance, Debt & Treasury Management and Director of Finance Julia H. Cooper continued with Pension Obligation Financing Options.

Girard Miller, Author, *Pension & Public Funds Investment Expert* offered a presentation focusing on the concept of borrowing market money in the capital markets in order to invest in long term securities in order to make a profit while the business cycle is moving from recovery to expansion.

Part III – The City’s Municipal Advisor’s Report

Municipal Advisors from Urban Futures Inc. provided the next portion of the session: Julio Morales, spoke on Unfunded Accrued Liability, the Federated Plan, Cash Flow vs. Savings, including the UAL payment schedule. Michael Busch continued with funding strategies in addressing the UAL, and Mr. Morales followed up with Pension Obligation Bonds and expected outcomes. Wing-See Fox addressed POBs 2.0 (Pension Obligation Bonds) and the evolution of POB’s. Select case studies were analyzed.

Part IV – Municipal Advisor’s Report - Analysis of Potential San José POBs

Budget Director Jim Shannon continued with City Goals and Policy Considerations, and Wing-See Fox and Julio Morales, Urban Futures, Inc. continued with POB savings.

Part V – Judicial Validation of POB’s

Brian Forbath, Bond Counsel, Stradling Yocca Carlson & Rauth discussed legal theories and the process for issuing obligation bonds.

Next Steps

Director of Finance Julia H. Cooper spoke to the Council’s multiple future decision opportunities, outlining next steps, including staffs’ return to Council for formal direction on May 11, validation and approval of bond documents on June 29 as directed. She outlined potential direction for the May 11, 2021 meeting.

Director of Finance Julia H. Cooper, staff and guest speakers responded to questions from Council, and Council members discussed the various options presented. Councilmember Dev Davis indicated the need to speak with the Retirement Board in coordinating with this process. Councilmember Matt Mahan spoke to the risk analysis portion of the presentation, and asked for more detailed scenarios broken down by year. Director of Finance Julia H. Cooper offered that something of this nature could be provided early summer – late fall of this year but would not be possible for the May 11 meeting. Additionally, Mayor Sam Liccardo asked for a model or sensitivity analysis as to what the probabilities look like as returns rise or fall.

Pension Obligation Financing Options

April 23, 2021 (Cont'd.)

3 | Page

Public Comments: Bill Stoddard emphasized that risks associated with our investments goes back to a Council meeting in the 90's during the 'internet bubble', and that these obligations were not sustainable. He suggested these obligations be restructured.

Mayor Sam Liccardo indicated future discussion will be taking place and thanked everyone for their hard work.

ADJOURNMENT

Mayor Sam Liccardo adjourned the Study Session at 11:45 p.m.

Minutes Recorded, Prepared and Respectfully Submitted by,

Toni J. Taber, CMC
City Clerk

rmk/4-23-21/pension obligations SS