
**STUDY SESSION:
PENSION OBLIGATION BOND FINANCING**

**RESPECTIVE ROLES AND
RESPONSIBILITIES FOR
POLICY DEVELOPMENT**

**Joint City Council and Retirement Boards
September 30, 2021
1:30 p.m. to 4:30 p.m.**

Part I: Introductions and Opening Comments

Jennifer A. Maguire, *City Manager*

Presenters

- City Administration
- Jennifer A. Maguire, *City Manager*
- Julia H. Cooper, *Director of Finance*
- Jim Shannon, *Budget Director, City Manager's Office*
- Cheryl Parkman, *Assistant to the City Manager, Office of Employee Relations*
- Office of Retirement Services
- Roberto Peña, *Director of Retirement Services*
- Prabhu Palani, *Chief Investment Officer*

Consultants

Advisors to the City

- **Julio Morales**, *Urban Futures, Inc. (Municipal Advisor)*
- **Wing-See Fox**, *Urban Futures, Inc. (Municipal Advisor)*
- **Brian Forbath***, *Stradling Yocca Carlson & Rauth (Bond Counsel)*

Advisors to the Boards

- **Bill Hallmark**, *Cheiron (Actuary)*

* *No Presentation, but available for Questions.*

Presentation Agenda

I. City Manager's Introductions / Opening Comments

II. Framing the Study Session:

- *How we got here and where we need to go?*

III. Roles and Responsibilities of the City

- *Why is the City considering issuing Pension Obligation Bonds (POBs)?*

IV. Roles and Responsibilities of the Retirement Boards

V. The Retirement Boards' Consultants (Cheiron, Boards' Actuary)

- *Analysis of Actuarial Impacts*

Presentation Agenda (cont.)

VI. The City's Consultants (Urban Futures Inc., Municipal Advisors)

- *Analysis of Potential City of San José POBs*

VII. Public Comment

VIII. Council and Board Member Dialogue

- *(Questions and Comments)*

IX. Wrap-up and Next Steps

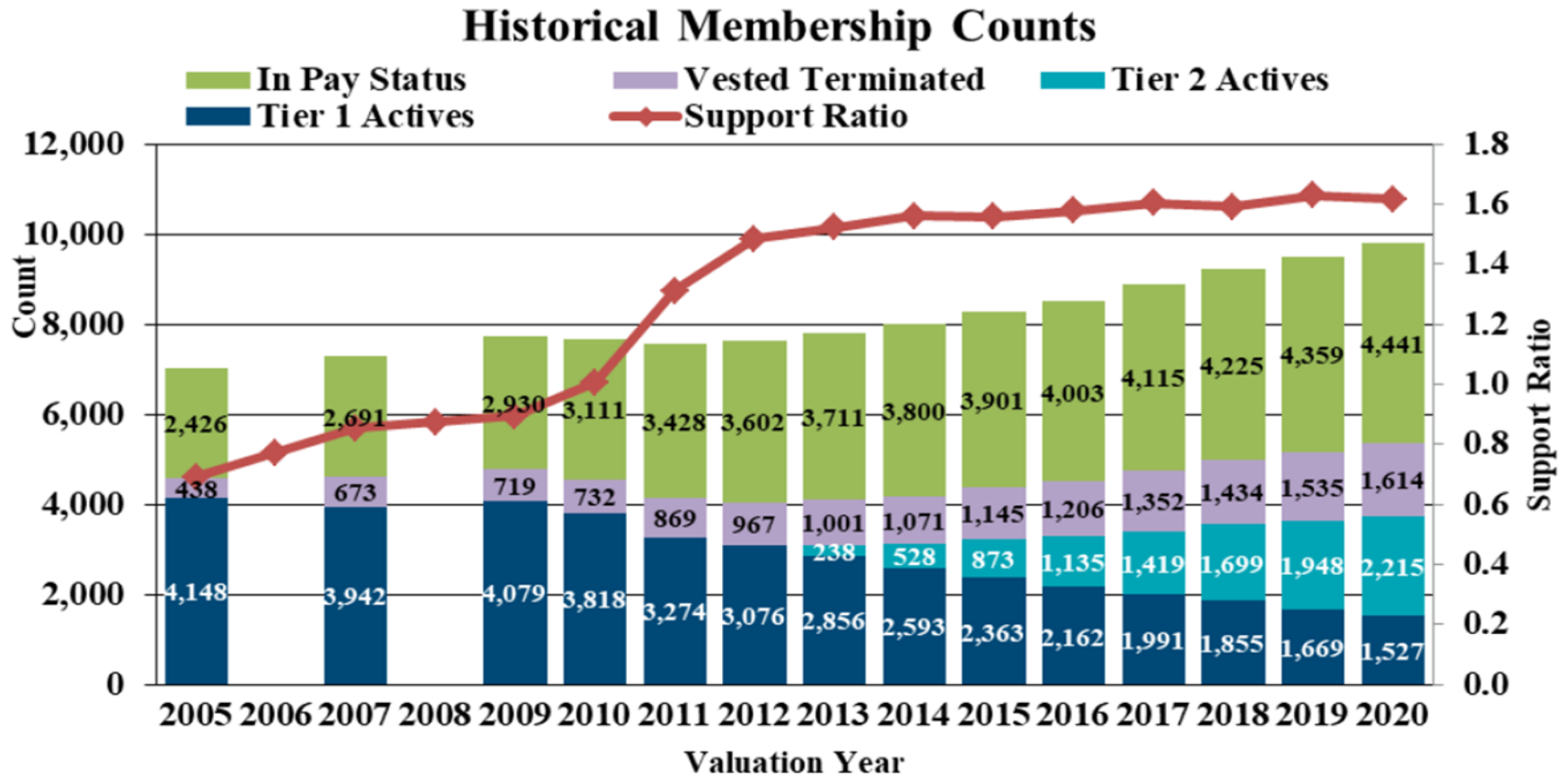
X. Adjourn

Part II – Framing the Study Session: How we got here and where we need to go?

Julia H. Cooper, *Director of Finance*

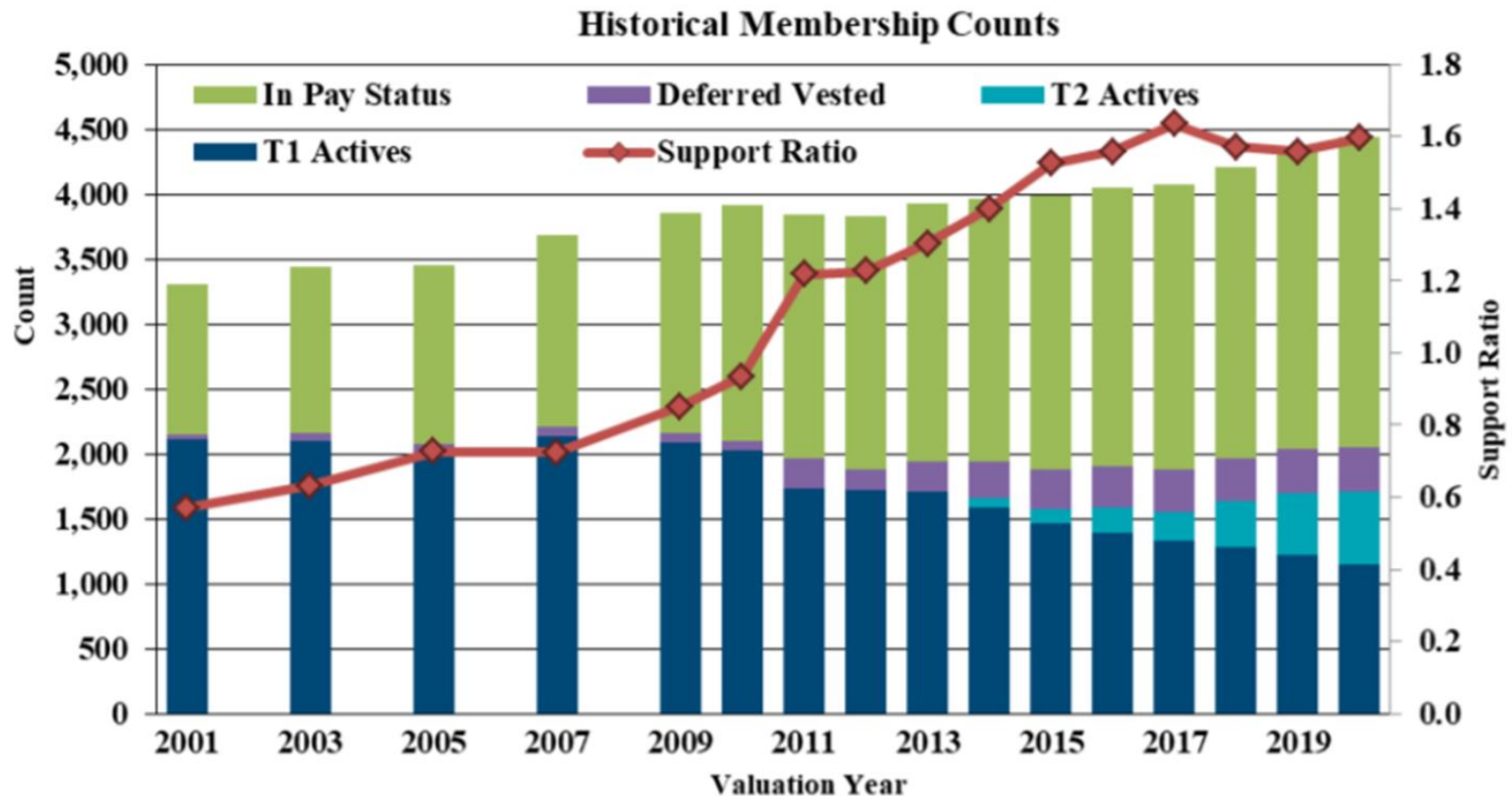
Cheryl Parkman, *City Manager's Office*

Ratio of Active Employees to Retirees - Federated



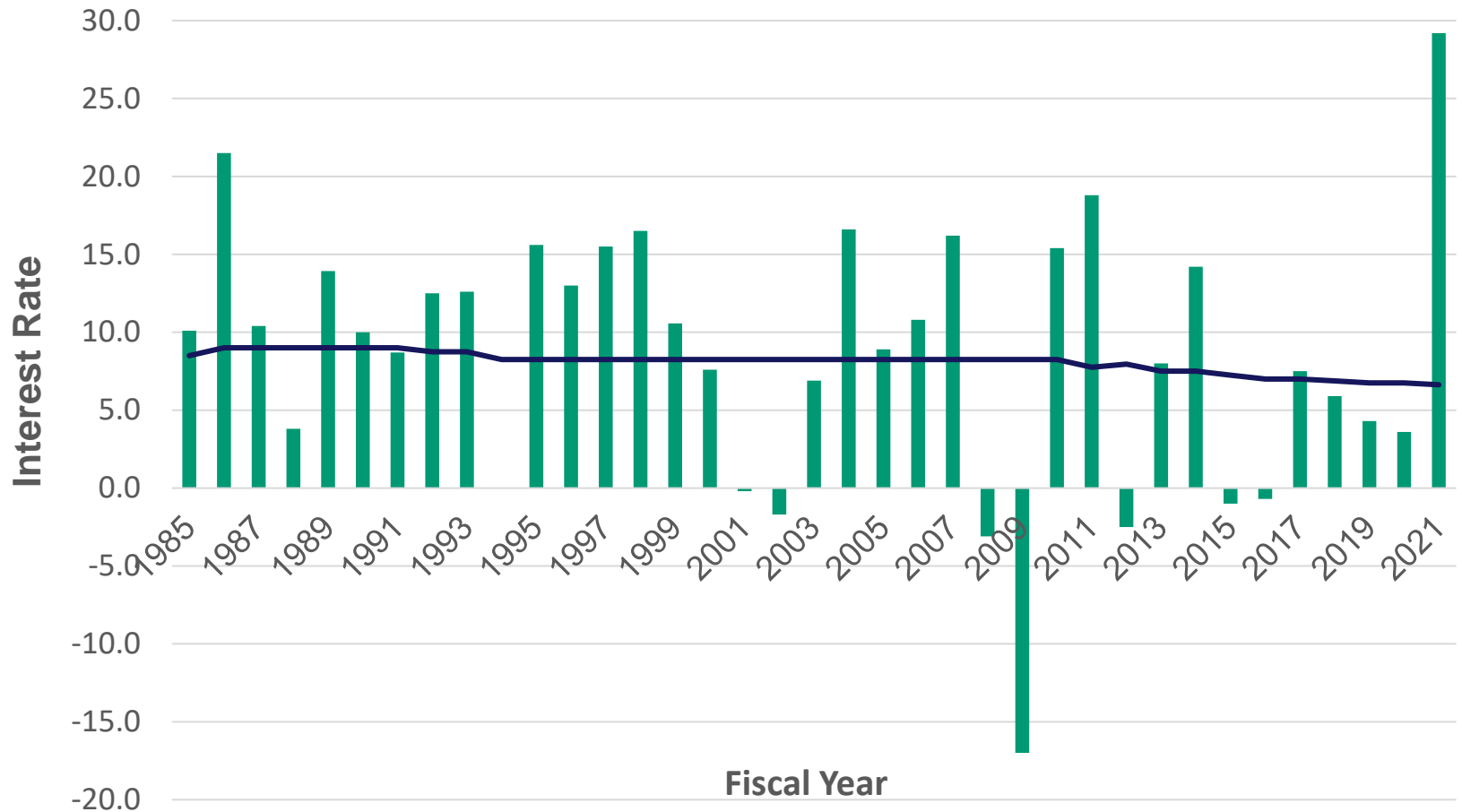
Data from June 30, 2020 Actuarial Valuation

Ratio of Active Employees to Retirees Police & Fire



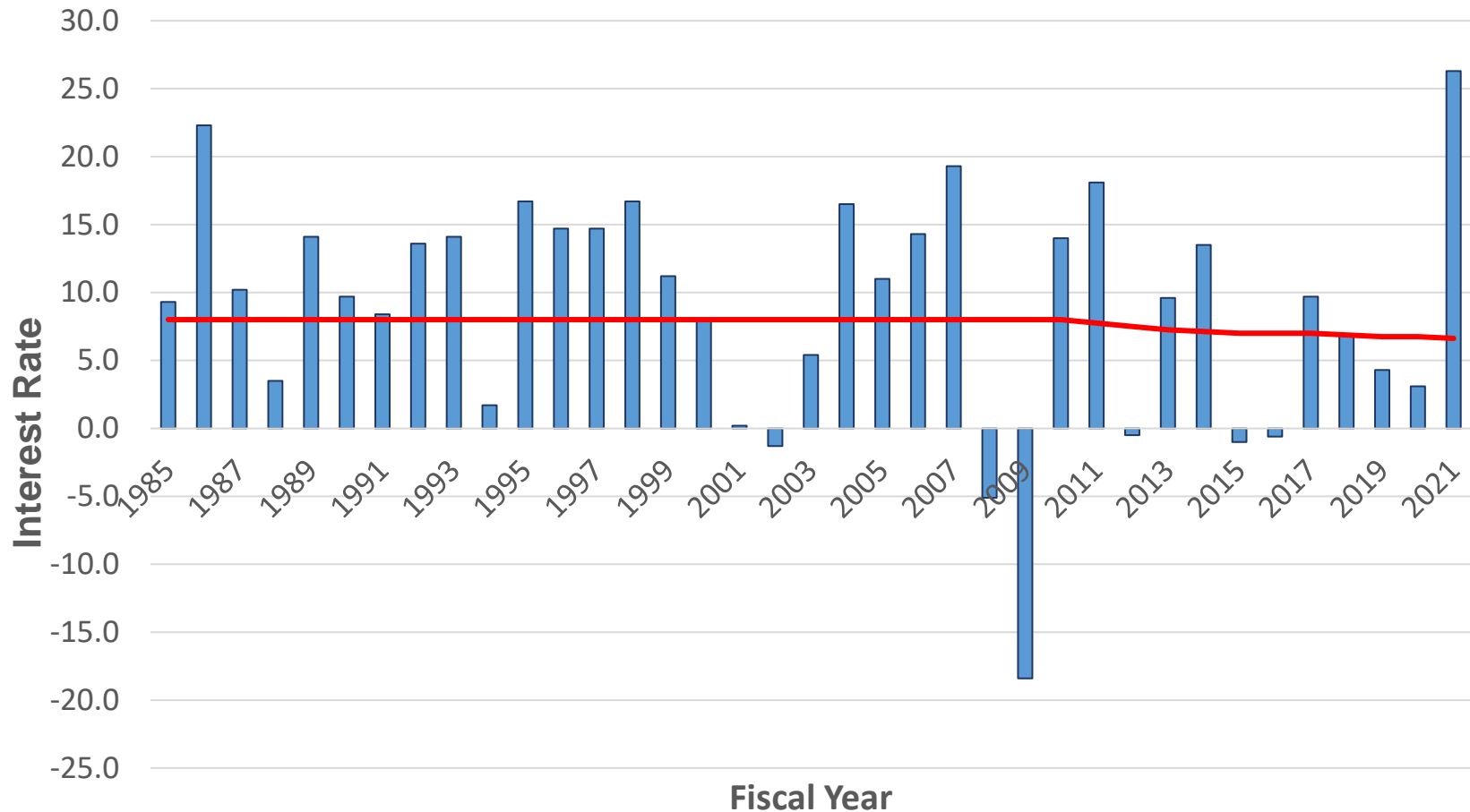
Data from June 30, 2020 Actuarial Valuation

Historical Earning & Discount Rate - Federated



■ Federated Rate of Return (Gross of Fees 1985 - 2008; Net of Fees 2009 - current)
— Discount Rate

Historical Earning & Discount Rate – Police and Fire



■ P&F Rate of Return (Gross of Fees 1985 - 2008; Net of Fees 2009 - current)
— Discount Rate

Investment Rate of Return Comparison

City of San Jose Retirement Plans

Period Ending:	Federated Plan ^(1,2,3)		Police & Fire Plan ^(1,2,4)	
	(6/30/20)	6/30/2021	(6/30/20)	6/30/2021
One Year	3.60%	29.20%	3.10%	26.30%
Three Years	4.60%	11.80%	4.70%	10.70%
Five Years	4.10%	9.70%	4.60%	9.70%
10 Years	5.50%	6.40%	6.20%	6.90%
Since inception	6.50%	7.20%	8.20%	8.60%

(1) The returns for certain investments (Equity Aggregate) are gross of fees through June 2015 and net of fees thereafter.

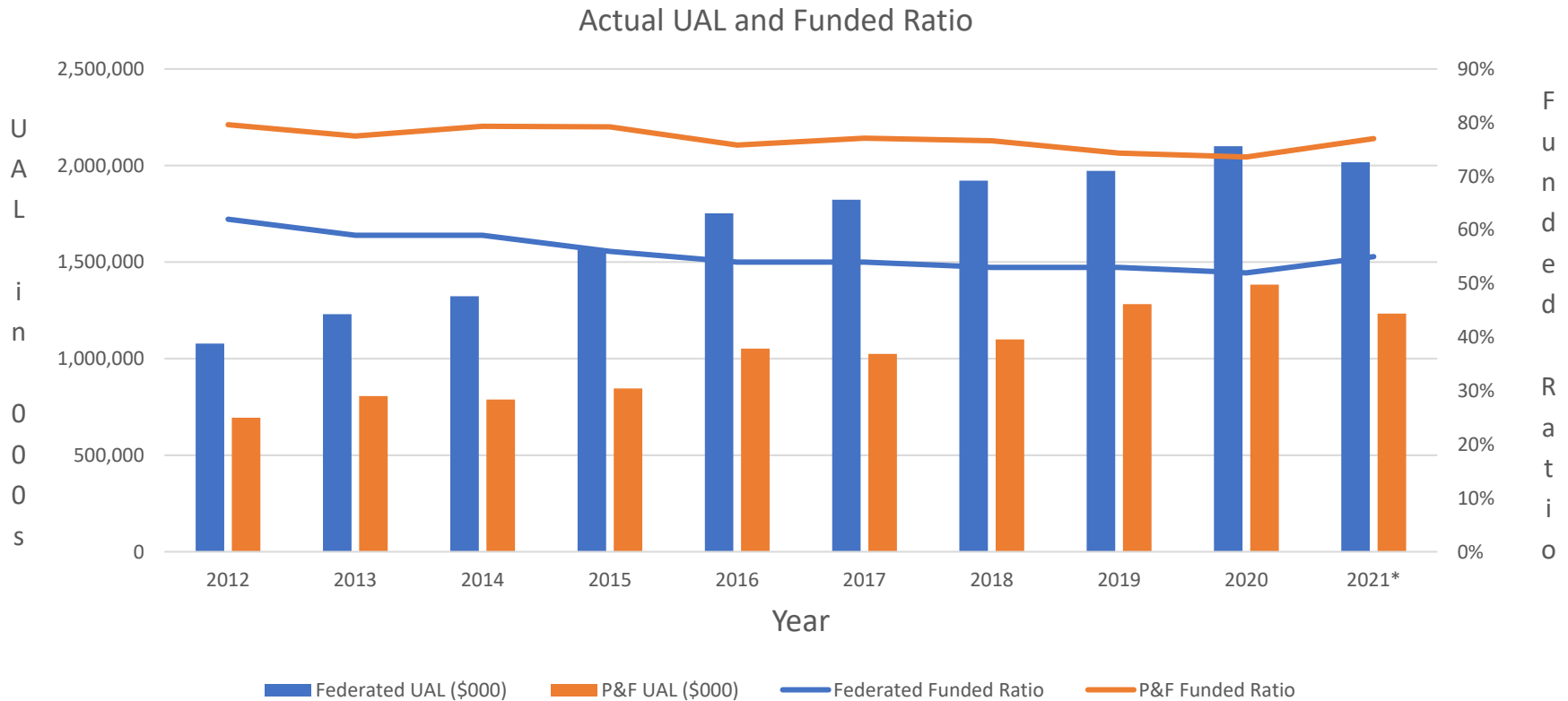
(2) Net of fees.

(3) Measurement Period Beginning January 1994.

(4) Measurement Period Beginning March 1971. Source: Meketa Investment Group Federated Pension Plan Quarterly Review June 30, 2021; Meketa Investment Group Police and Fire Pension Plan Quarterly Review June 30, 2021.

*For FY22, the Federated Plan has received 2.08% rate of return and Police and Fire has received 2.24% rate of return for the first two months.

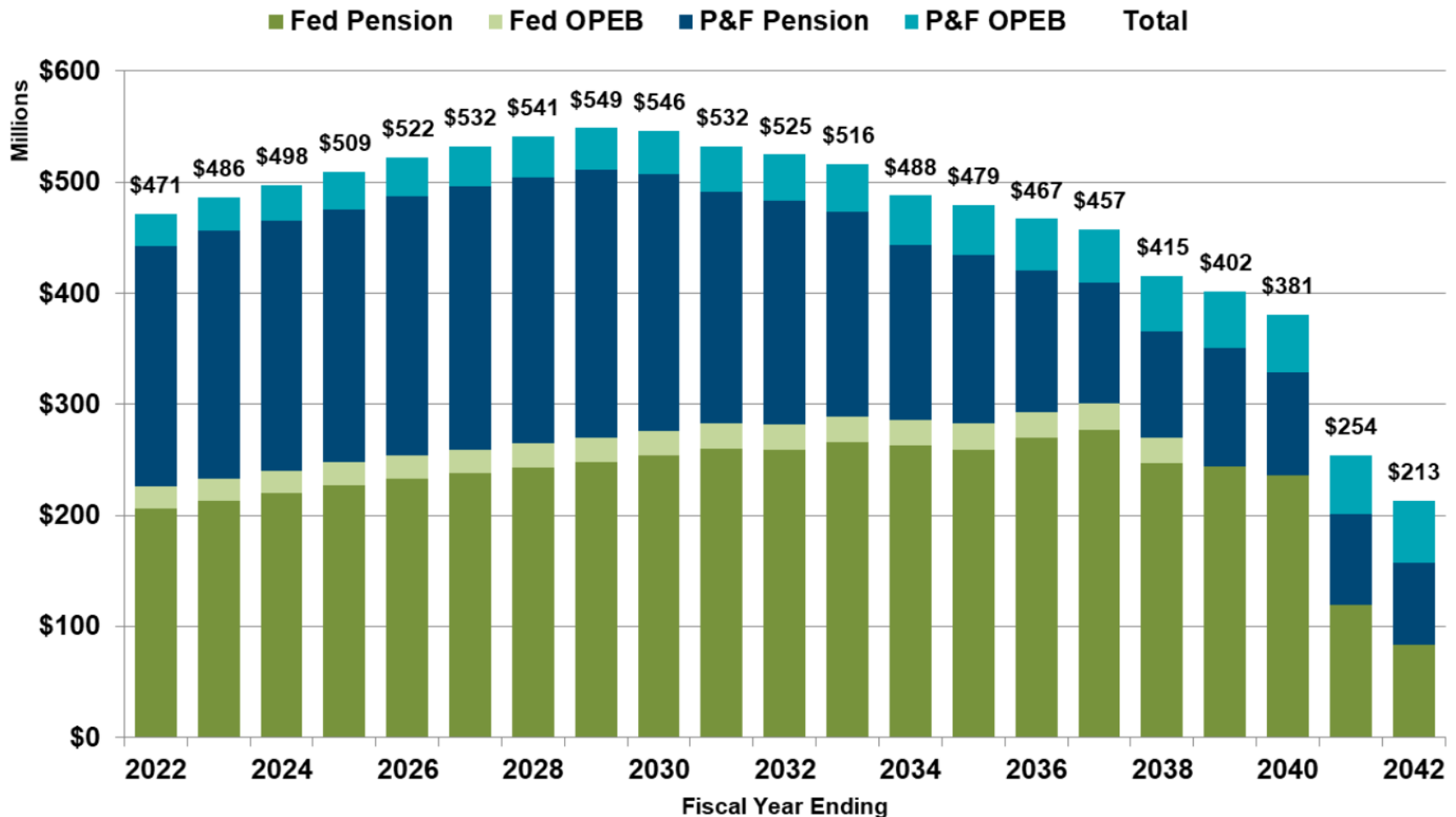
UAL and Funded Ratio History



“*Preliminary as presented to Police & Fire Board on August 5, 2021 and Federated Board on August 19, 2021”

As Shown in April, Problem Persists

Projected Annual City Contributions



Impact of 2021 Investment Returns on UAL

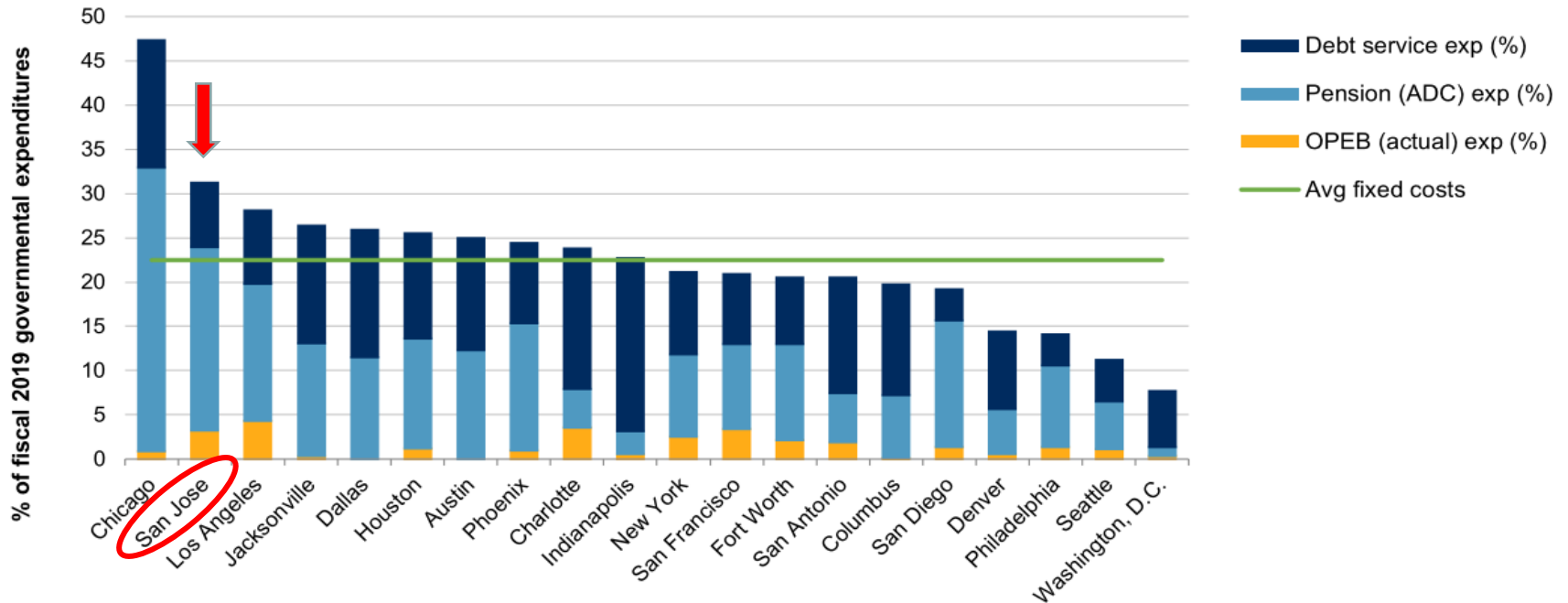
- Strong 2021 returns have reduced projected payments but the unfunded liability payments remain high and will change again with changes in performance
- Retirement Services and Cheiron will present the impact of the 2021 Investment returns on the Federated and Police & Fire Plans later in the presentation
- 2021 Investment return information has recently been updated and City staff along with our consultant, UFI are still evaluating impact

Unfunded Pension Liability Remains a City Credit Concern

- City currently enjoys strong ratings
- S&P Global Ratings - San José outranked only by Chicago among the Top 20 cities with the highest percentage of primary fixed costs (Debt Service, Pension & OPEB)
- In July 2021, Moody's Investors Services:
 - Cited *"High fixed costs and leverage"* as one of the City's credit challenges
 - Stated: *"A Material decrease in the City's unfunded pension and OPEB liabilities"* is a factor that could lead to a rating upgrade

S&P Compares San Jose to Other Cities

Primary Fixed Costs -- Pensions, Debt Service, And OPEB



OPEB—Other postemployment benefit actual payment. Pension ADC—Actuarially determined contribution. Debt service—principal and interest payment on debt. S&P Global Ratings will frequently adjust financial data based on analytical discretion account for items such as one-time expenditures. Chart is based on unadjusted financial data.

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City's Long Efforts to “Fix the Problem”

- 2007 – Mayor’s Budget Shortfall Advisory Group (BSAG)
- 2008 - City Manager’s General Fund Structural Deficit Task Force supports work of BSAG
- 2008 - Stakeholder Group - strategies to eliminate the General Fund Structural Deficit
- 2008 - City Manager report, “General Fund Structural Elimination Plan”¹
- 2012 – City of San José voters passed Measure B
- 2012 - Federated Plan Tier 2 implemented
- 2013 – Police Plan Tier 2 implemented
- 2015 – Fire Plan Tier 2 implemented
- 2015 – Settlement Frameworks with bargaining units and approved by Council
- 2016 – City of San José voters passed Measure F and Modification of Tier 2 benefits
- 2017 – VEBA Opt-In Election for Tier 1 Employees
- 2018 – VEBA Implementation

Present Efforts to “Fix the Problem”

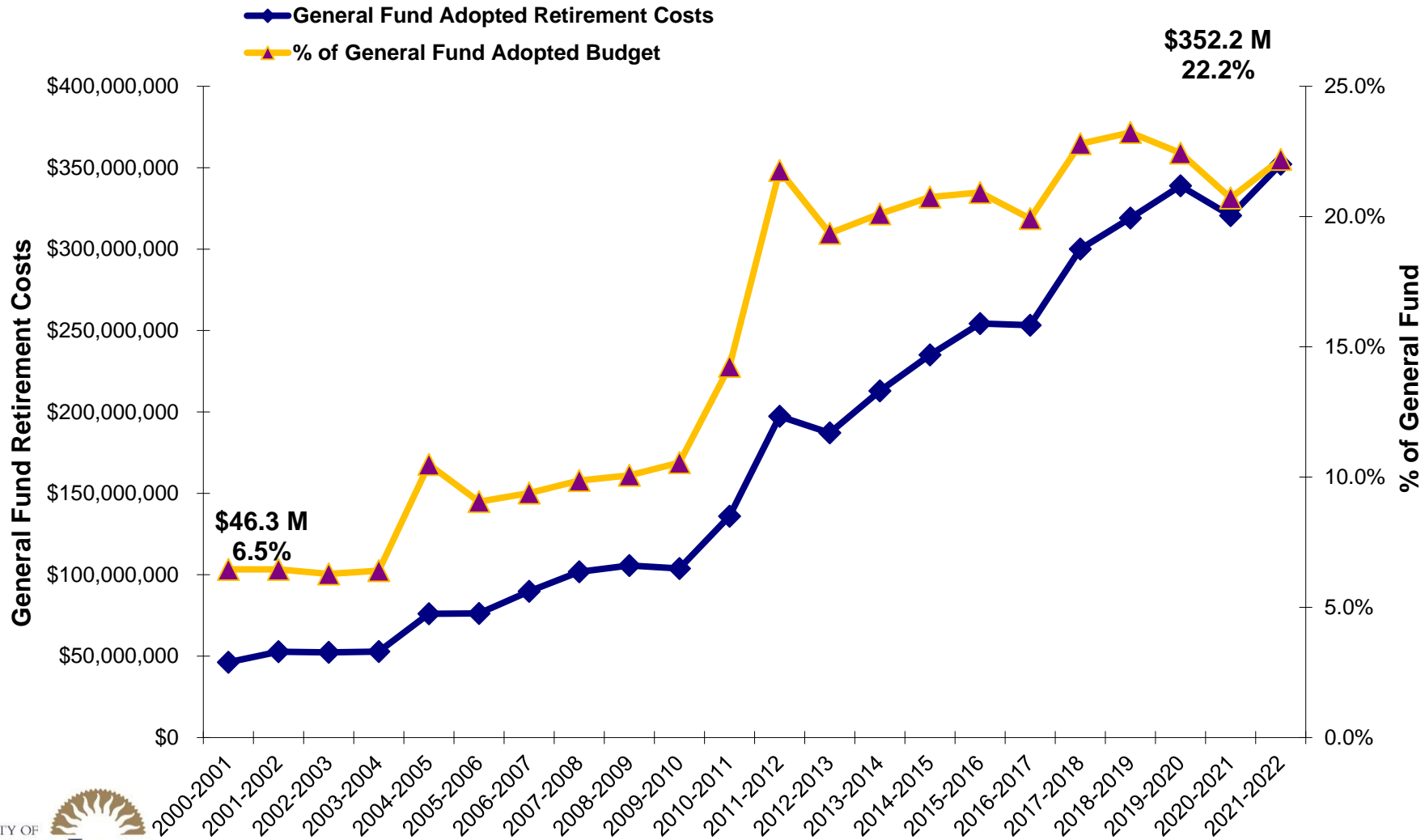
- March 2019 – Mayor calls for Stakeholders Group
- November 2019 – Retirement Stakeholder Solutions Working Group (RSSWG) begins meetings
- October 2020 – Joint Meeting of Boards and Council
- December 2021 – Council Direction to Study POBs
- April 2021 – Council Study Session
- May 2021 – Council Direction to Draft Validation Documents
- August 2021 – City Staff Meets with Federated Board
- September 2021 – City Staff Meets with Police & Fire Board
- September 2021 – This Joint Study Session
- October 5, 2021 – Council to consider filing validation suit

Part III – Roles and Responsibilities of the City - *Why is the City considering issuing POBs?*

Julia H. Cooper, *Finance Director*

Jim Shannon, *Budget Director*

Challenge: Escalating Retirement Costs



Why Consider POBs?

- City's goals:
 - Improve Funding levels of the City's retirement plans
 - Reduce the City's UAL payments
 - Maintain Long-term Financial Sustainability & Success
- City has exhausted options: the “last tool in the toolbox”
- POBs allow the City to borrow funds to pay down its Unfunded Actuarial Liability (UAL)
 - Part of a long-term strategy and comprehensive approach for addressing UAL and pension sustainability
 - NOT used for Normal Annual Costs or wholly to balance current operating budget
- Last year's returns were great, but overall yearly returns have been variable

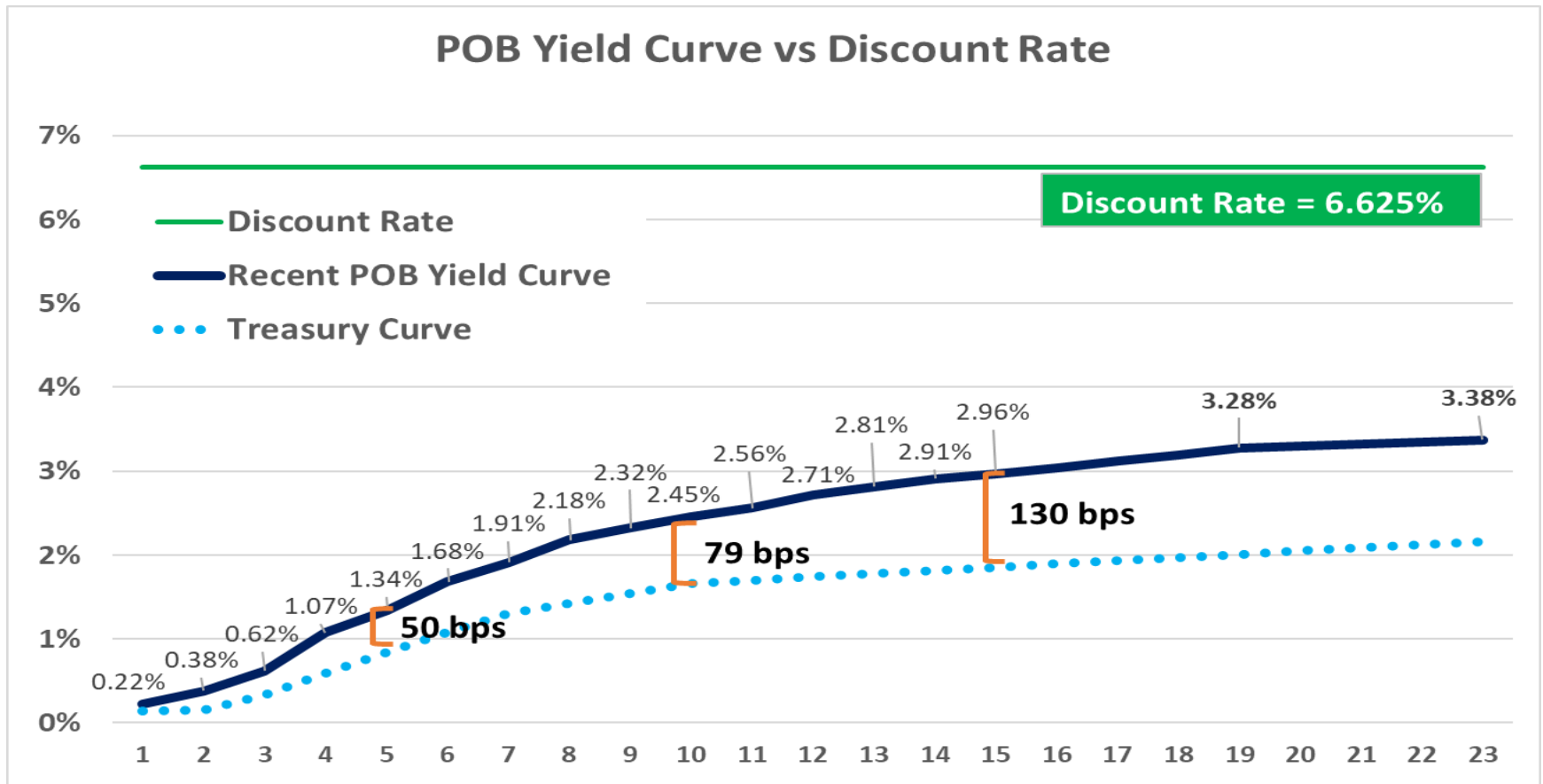
How Can POBs Save Money?

- Issued only when the borrowing costs of the bond issue are expected to be below the long-term assumed earnings rate
- By issuing POBs, the City can replace the UAL with lower cost debt owed to bond holders
- Assumed rate currently used to calculate the City's UAL payments is 6.625% for both plans (but have been trending lower)
- Bonds lock in a rate of 2.75% - 3.50% in the current market
- Actual returns will vary, but City staff is comfortable the Boards will achieve long term returns of at least 3.50%

Economics of POBs

- UAL is determined based on the discount rate (other factors too)
- Discount Rate is the expected rate of return
- UAL comprised of many amortization bases each bearing the same assumed rate, regardless of term
- Bond market offers the ability to serialize bonds and therefore to pay rates based on the term of each maturity of bonds (shorter bonds pay lower rates than long bonds)
- Recent POBs issued for other municipalities have had overall interest rates ranging from 2.75% to 3.50%

Yield on POBs vs. UAL



Source: Huntington Beach POB Official Statement, U.S. Department of the Treasury

Potential Positive Impacts

City of San José

- Reduce annual payment to Plans by reducing amount to repay UAL
- Replaces a portion of pension payments for UAL amortization with City debt service payments
- Mitigate future volatility related to annual UAL payments
- Use portion of budgetary savings
 - Accelerate the amortization of unfunded liability
 - Ease current budget pressures

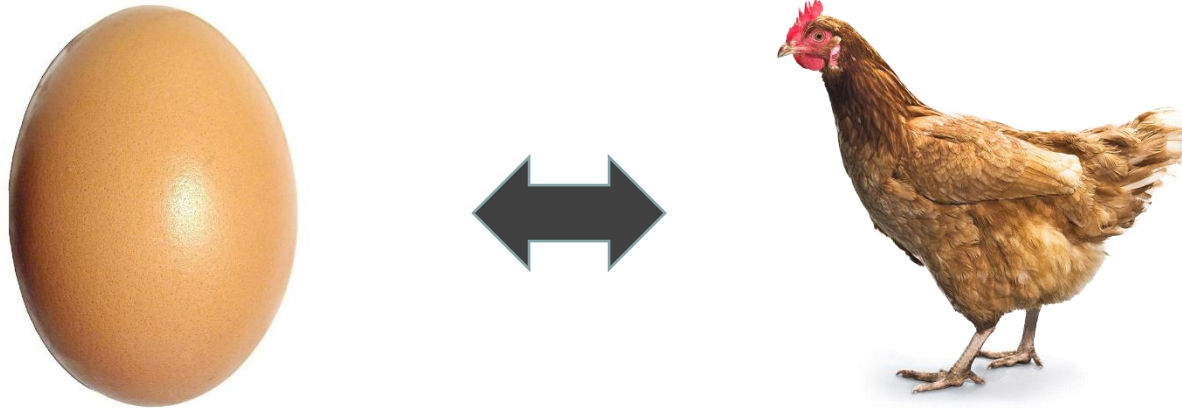
Retirement Plans

- Infusion of cash for new investments
- Increase the funding level of the Federated and Police and Fire plans
- Reduce reliance on City Contributions
- No payment obligation for the POBs

Division of Roles and Responsibilities

City of San José	Retirement Boards
Fund the Pension Liabilities	Invest Pension Assets
Determine pension funding strategy	Determine investment strategy
Make annual contributions of normal and actuarially determined amortization payments	Determine actuarial policies used to determine payments
Obligation to residents, employees, and retirees of San José	Obligation to past and future retirees of City of San José

Resolving: The Chicken and the Egg



- City won't borrow funds, until it knows how funds will be credited toward UAL and invested
- Retirement Boards expressed need to know how much the City will borrow in order determine actuarial policies and investment strategies

How to Move Forward?

Potential Solutions/Mitigants to Uncertainties

- Development or Confirmation of Policies
 - Council Pension Funding Policy
 - Retirement Boards Investment and Amortization Policies
- Explore Opportunity for Memorandum of Understanding or Funding Agreement
- Current discussion is expected to be the beginning, not the end of a dialogue
- The need for recurring dialogue as issuance of Bonds could occur over a matter of years as the City's pensions liabilities are never extinguished

Pension Obligation Funding Policy

- City Council will be presented with a policy for adoption
- Components of Pension Funding Policy:
 - Potential Funding Sources
 - POB Structuring Guidelines
 - Minimum savings threshold
 - Discount rate / POB spread
 - No extension of term

Alignment of Interests

CITY OF SAN JOSE

RETIREMENT BOARDS

**Determine
Funding
Strategy and
Policies**

**Annual
Contributions**

**Improve
Funded
Status**

**Invest Proceeds
and Meet
Benchmarks**

Asset Allocation

Set Policies

Part IV – The Role and Responsibilities of the Two Retirement Boards

Roberto Peña, *Director, Retirement Services*

Prabhu Palani, *Chief Investment Officer, Retirement Services*

The Retirement Boards

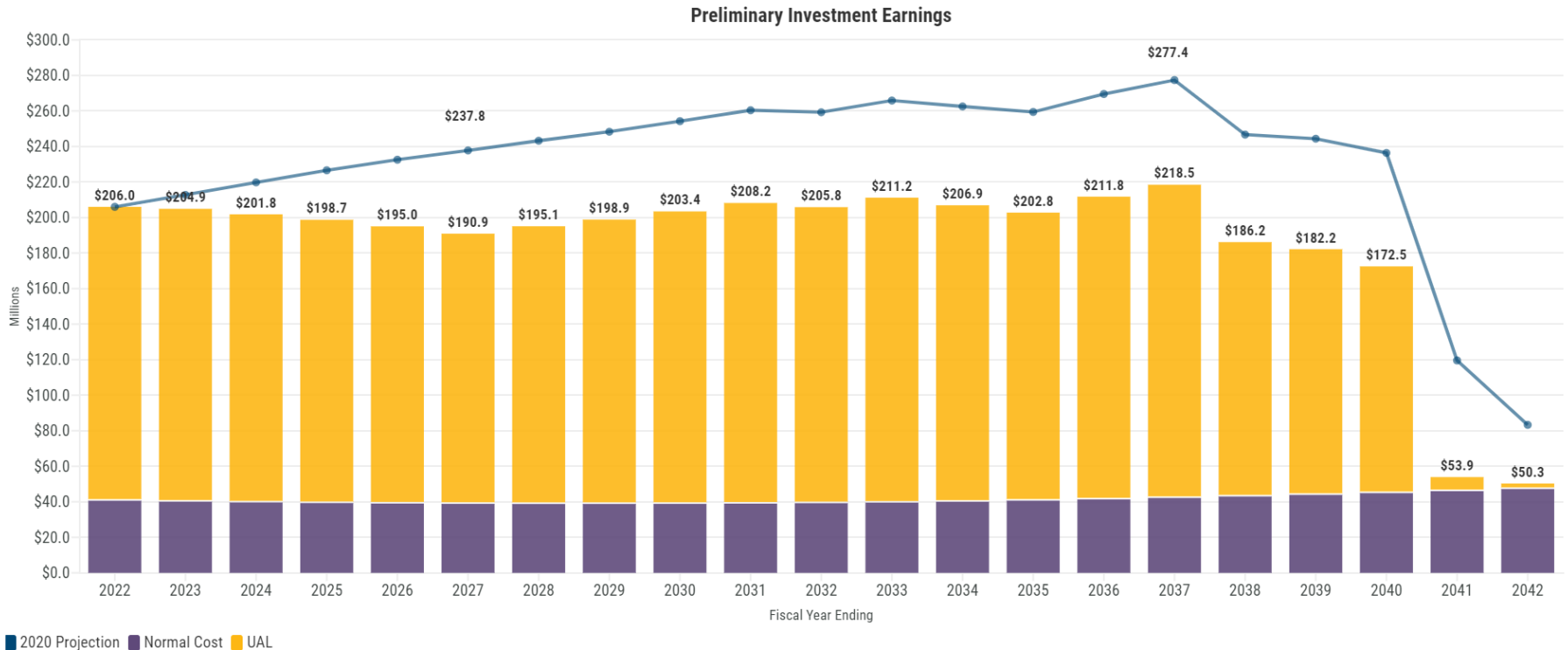
- Differences between the two Plans
- Investment Strategy
- Amortization Strategy
- Existing policies

Retirement Plan Funding Status

Retirement Plan Funding Status as of June 30, 2021

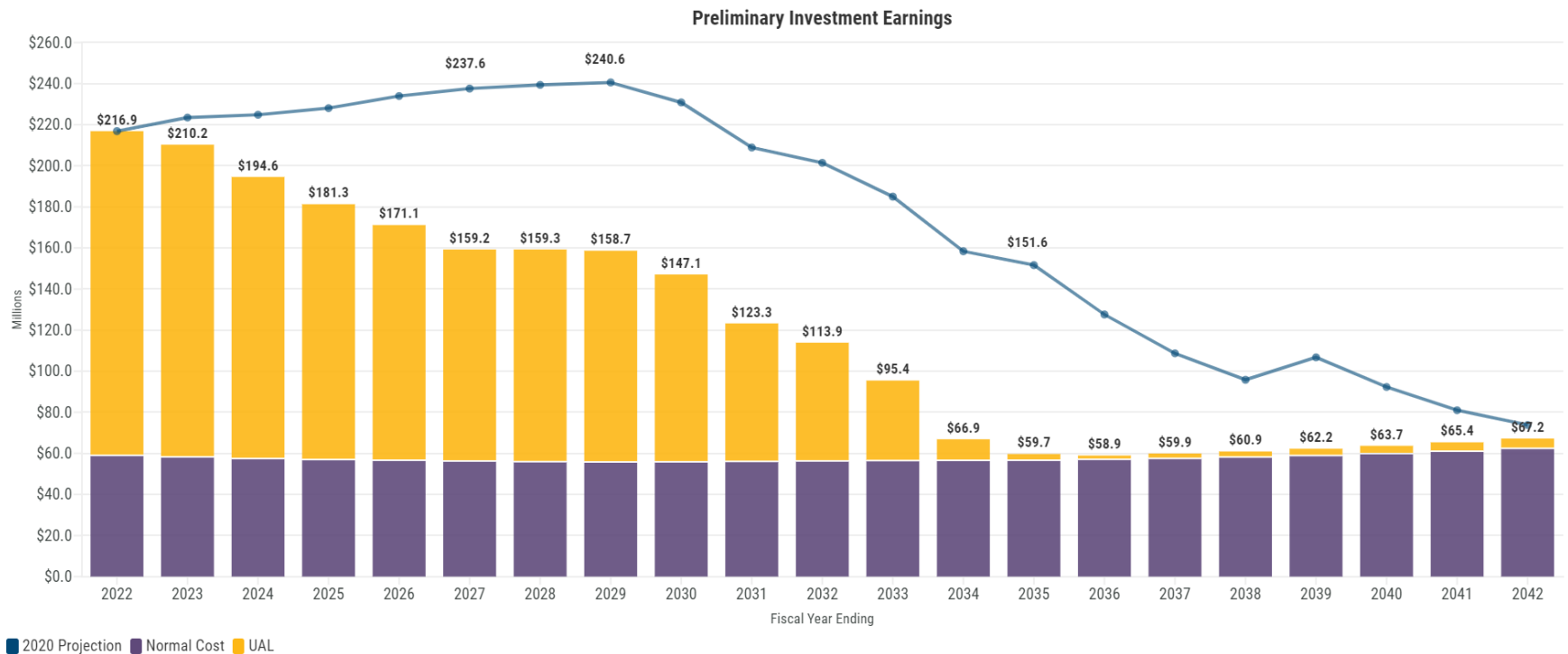
P&F			FED		
	Market	Actuarial		Market	Actuarial
Accrued Liability	5,423.3	5,423.3	Accrued Liability	4,526.8	4,526.8
Value of Assets	4,726.6	4,205.3	Value of Assets	2,884.3	2,513.1
Unfunded Liability	696.7	1,218.0	Unfunded Liability	1,642.5	2,013.7
Funded Ratio	87.2%	77.5%	Funded Ratio	63.7%	55.5%

Federated Plan: New Projected City Contributions



Source: *Updated Pension Projections Preliminary Investment Returns*, Federated Board Meeting, August 19, 2021, item 4c

Police & Fire Plan: New Projected City Contributions



Source: *Updated Pension Projections Preliminary Investment Returns*, Police & Fire Board Meeting, August 5, 2021, item 4d

City of San Jose Pension Plan Asset Allocations

	Federated (%)	Police & Fire (%)
Split between Growth/Income & Diversification ¹	75/25	70/30
Growth	75	69
US Equity	25	25
Dev. Market Equity (non-US)	12	12
Emerging Market Equity	12	9
Buyouts	8	7
Venture Capital	4	3
Private Debt	3	3
Private Real Estate	3	3
Private Real Assets	3	3
Emerging Market Bonds	3	2
High Yield Bonds	2	2
Low Beta	8	8
Absolute Return	3	3
Cash Equivalents (Immunized Cash Flows)	5	5
Other	17	23
Core Real Estate	5	5
Commodities	0	2
TIPS	2	2
Investment Grade Bonds	8	11
Long-term Government Bonds	2	3
<i>Average Annual Expected Return (10 years)</i>	<i>6.3</i>	<i>5.9</i>
<i>Average Annual Expected Return (20 years)</i>	<i>7.1</i>	<i>6.8</i>
<i>Expected Standard Deviation/Volatility</i>	<i>12.7</i>	<i>11.8</i>

[1] Growth includes all asset classes listed under "Growth" except emerging markets bonds and high yield bonds, plus core real estate.

Part V – Retirement Boards’ Consultant *Cheiron, Boards’ Actuary*

Bill Hallmark, *Cheiron*

Part V – Retirement Boards’ Consultant:

Analysis of Actuarial Impacts

September 30, 2021

Bill Hallmark, ASA, EA, FCA, MAAA

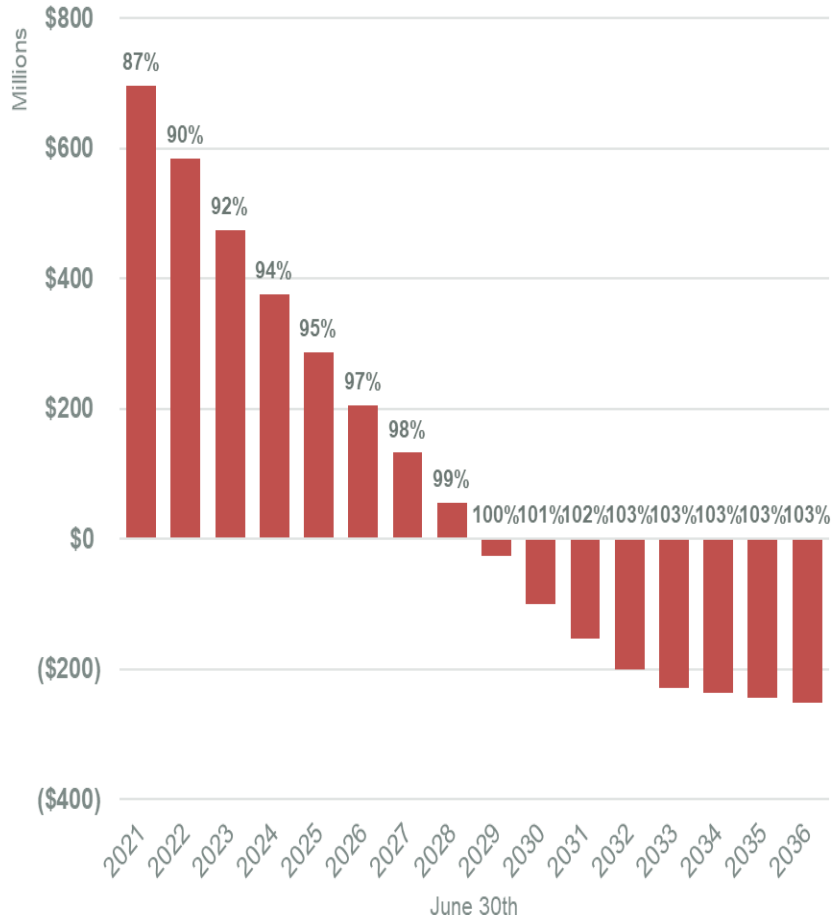


- Exceptional investment returns have dramatically improved projections
 - Police & Fire
 - 87% funded
 - On track to be 100% funded by 2029
 - Federated
 - 64% funded
 - On track to be 100% funded by 2039
- City's future contributions are highly sensitive to investment returns
- Board decisions on discount rate and amortization will reflect:
 - Changing market conditions
 - Asset allocation
 - Funded position of plans
 - Tolerance for risk

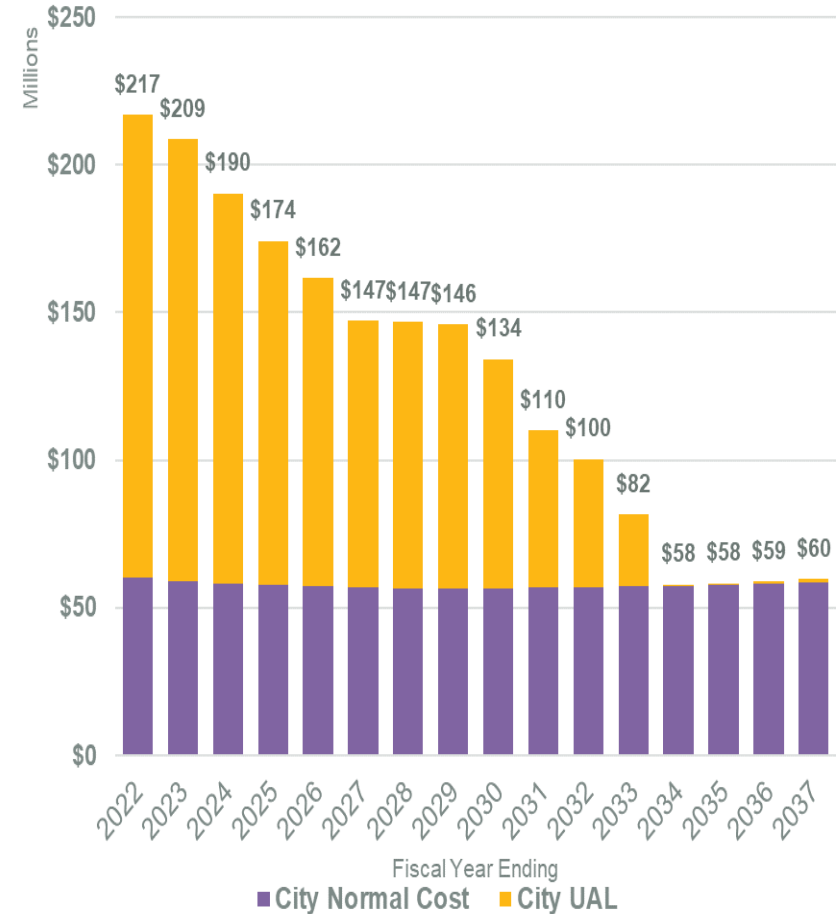
Updated Baseline Projections – Police & Fire



Projected Unfunded Liability



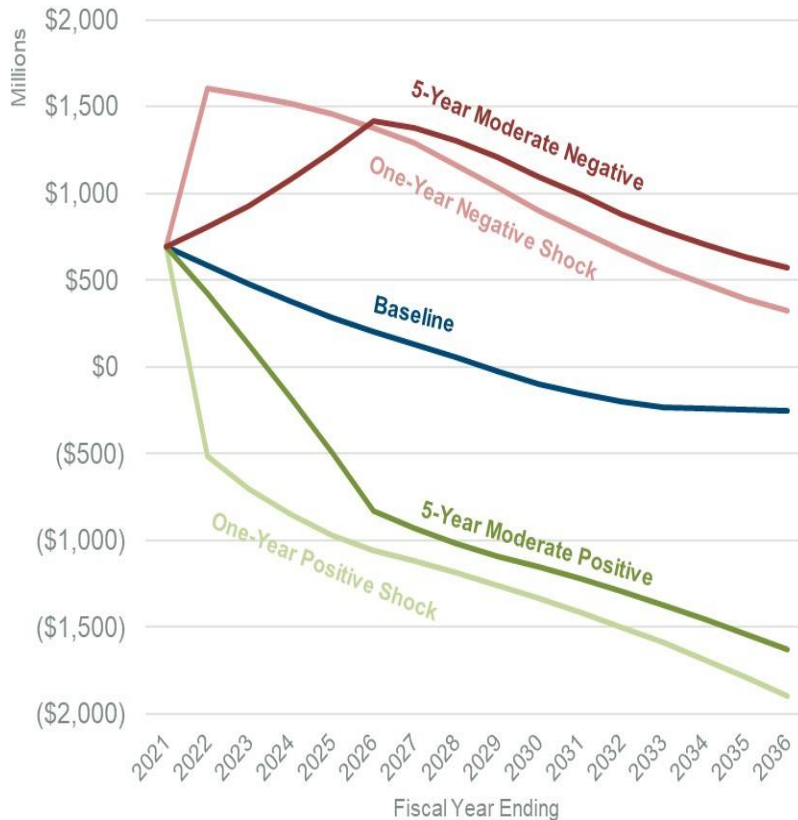
Projected City Contributions



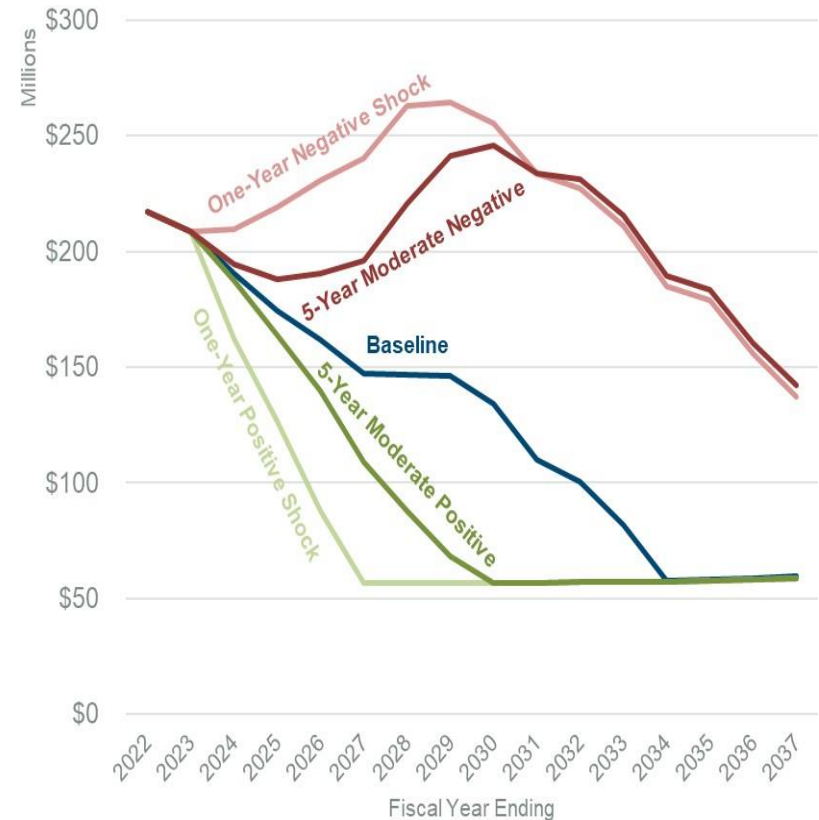
Illustrative Scenarios – Police & Fire



Illustrative Scenarios
Projected Unfunded Liability/Surplus



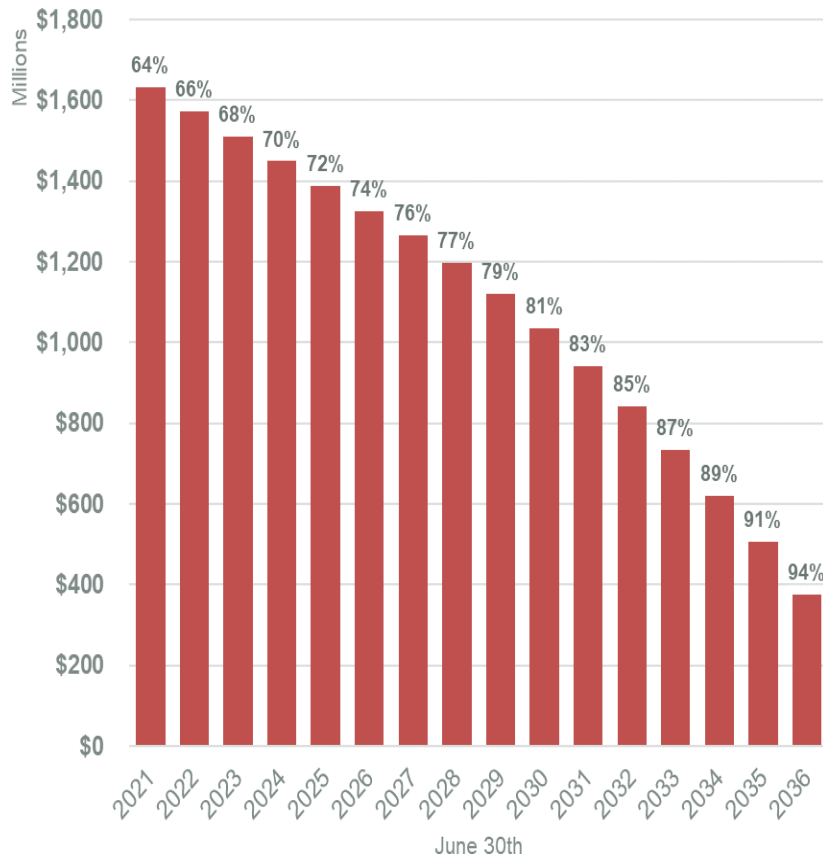
Illustrative Scenarios
Projected City Contributions



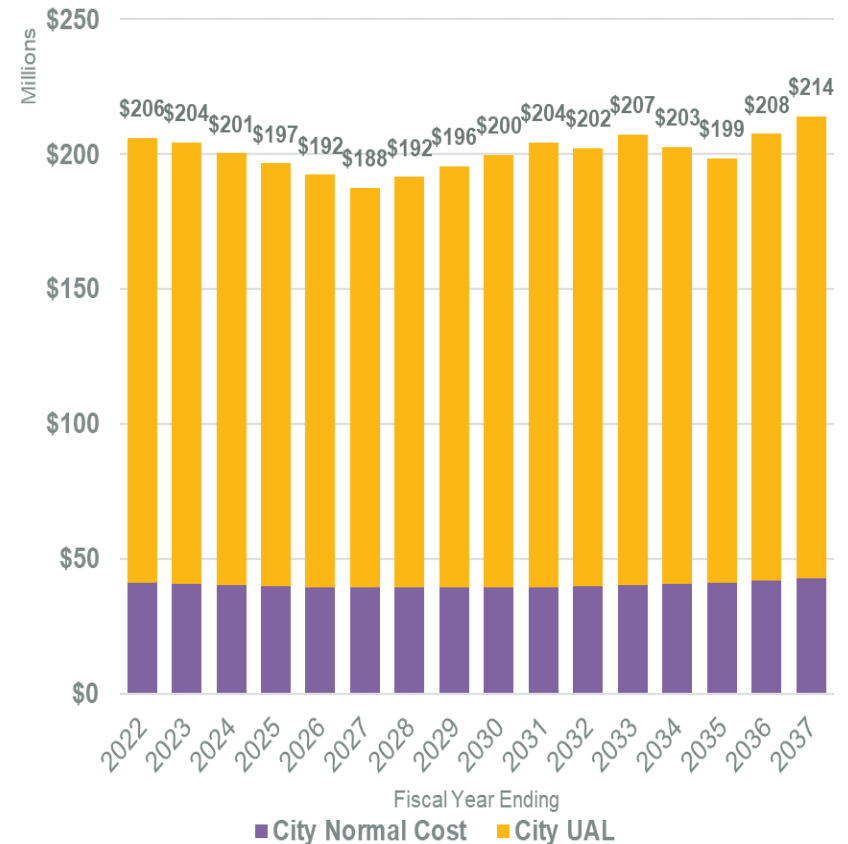
Updated Baseline Projections - Federated



Projected Unfunded Liability



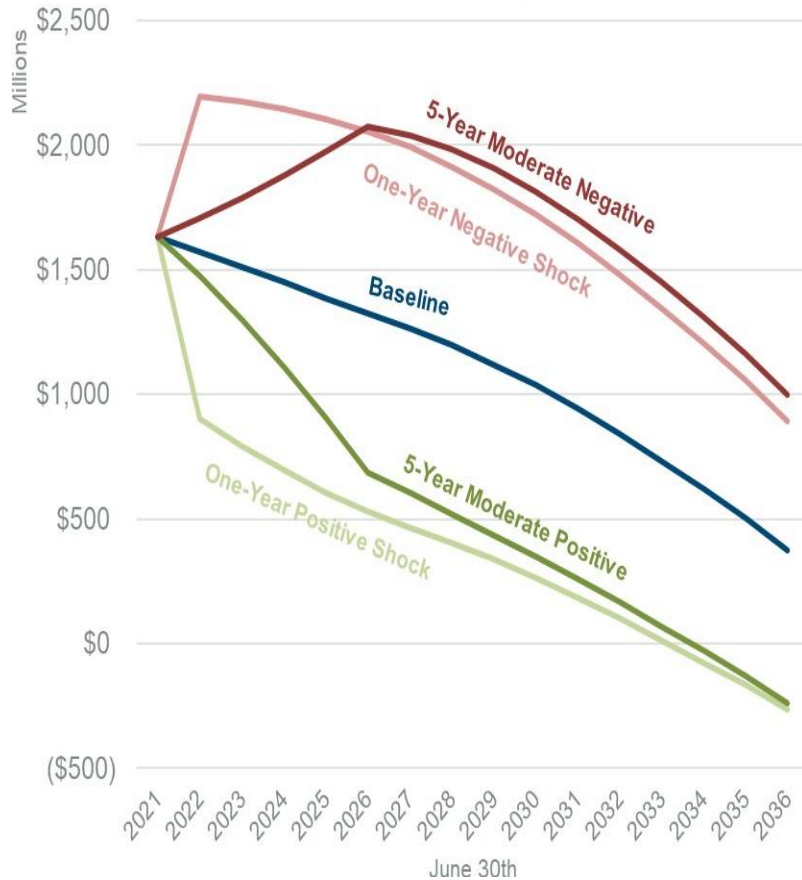
Projected City Contributions



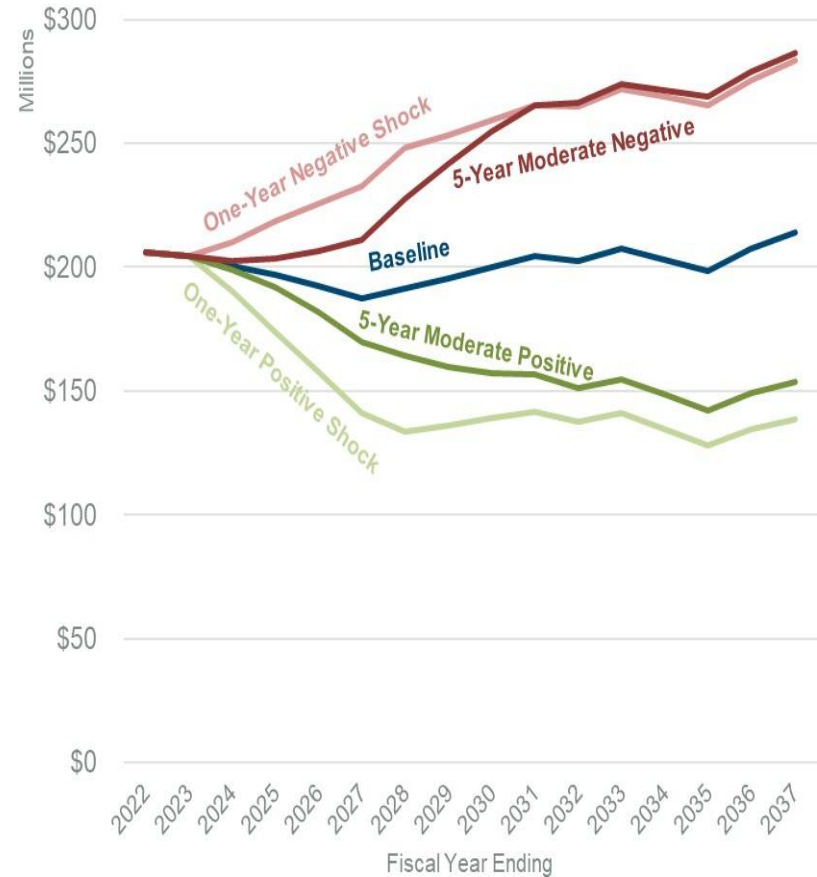
Illustrative Scenarios - Federated



Illustrative Scenarios
Projected Unfunded Liability/Surplus



Illustrative Scenarios
Projected City Contributions



Potential Impact of POB on Discount Rate

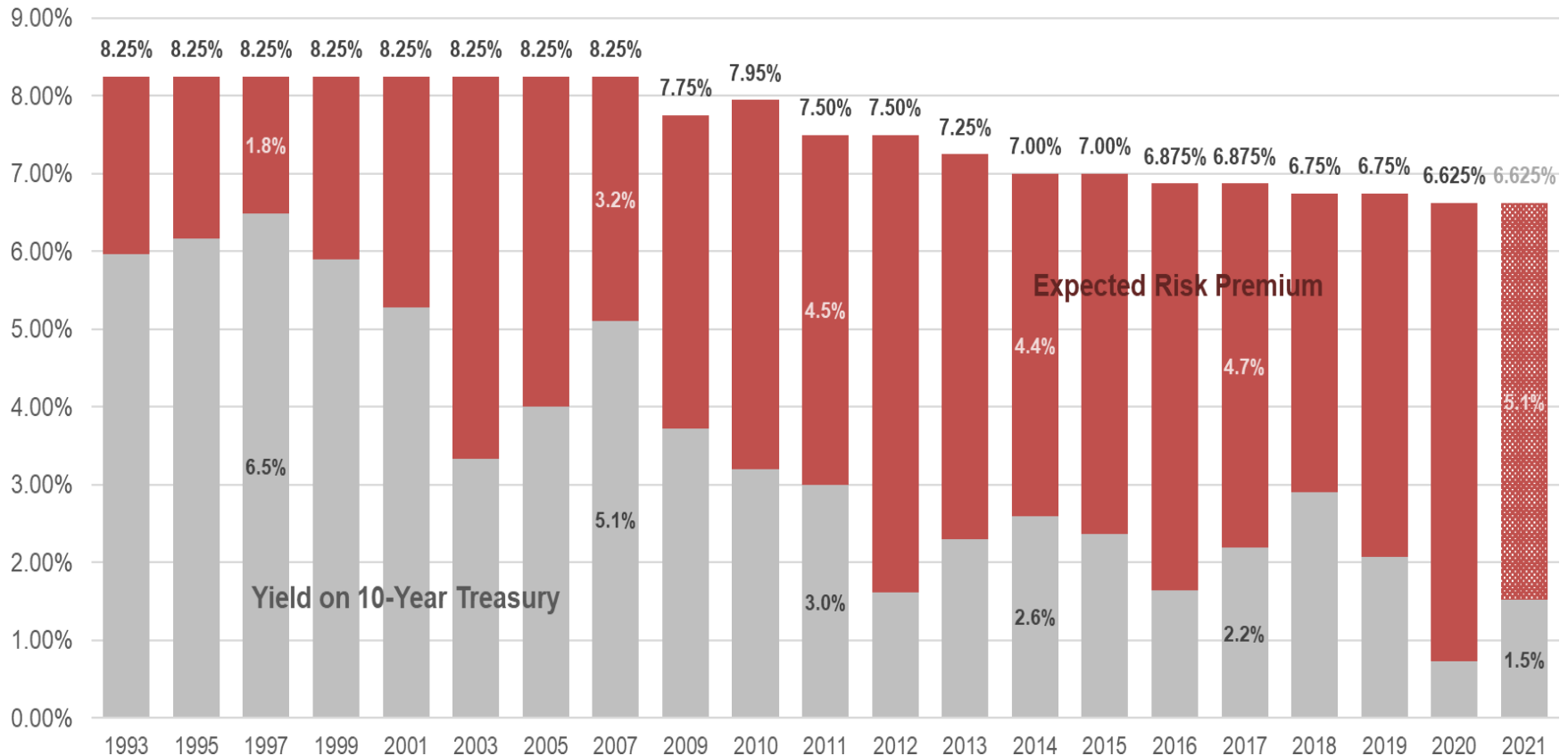


- A POB will not directly impact the discount rate
- Discount rate depends on:
 - Current capital market assumptions
 - Asset allocation
- Capital market assumptions change when market conditions change
 - Market interest rates
 - Price/earnings ratios
- Board sets asset allocation
 - Market conditions
 - Level of risk deemed acceptable
 - Funded position of plan

Market Conditions and Discount Rates



History of Discount Rates and Expected Risk Premiums
Federated System





- Board sets amortization policy and may change it at any time
 - Manage stability and predictability of City contributions
 - Pay off any unfunded liability in a reasonable period of time
- Current policies would provide a credit for POB deposit reducing City's contribution to the plan (unless minimum applies)
 - Police & Fire – 15 years
 - Federated – 20 years
- If the City issues a POB, we would likely recommend that the Board match the period of amortization credit to the term of the POB
 - 30-year POB → 30-year amortization credit
 - 20-year POB → 20-year amortization credit
 - 10-year POB → 10-year amortization credit



- The purpose of this presentation is to update the San José City Council and Retirement Boards on projected contributions and funded status for the City of San José Police and Fire Department Retirement Plan and the City of San José Federated City Employees' Retirement System and to discuss how a pension obligation bond might affect discount rate and amortization decisions.
- This presentation is based on the June 30, 2020 actuarial valuations updated with actual asset information through June 30, 2021. Please refer to the June 30, 2020 actuarial valuation reports for a description of the census data, actuarial assumptions and methods, a summary of the plan provisions, and other related disclosures.
- Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and, changes in plan provisions or applicable law.
- Deterministic projections in this presentation were developed using P-scan, a proprietary tool used to illustrate the impact of changes in assumptions, methods, plan provisions, or actual experience (particularly investment experience) on the future financial status of the Plan. P-scan uses standard roll-forward techniques that implicitly assume a stable active population.
- This presentation and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices that are consistent with our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as a credentialed actuary, I meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. I am not an attorney, and my firm does not provide any legal services or advice.
- This presentation was prepared exclusively for the City of San José for the purpose described herein. This presentation is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

William R. Hallmark, ASA, EA, FCA,
MAAA Consulting Actuary

Appendix – Illustrative Scenarios



		One-Year Shock		5-Year Moderate	
FYE	Baseline	Positive	Negative	Positive	Negative
2022	6.625%	30.000%	-15.000%	10.000%	2.000%
2023	6.625%	6.625%	6.625%	10.000%	2.000%
2024	6.625%	6.625%	6.625%	10.000%	2.000%
2025	6.625%	6.625%	6.625%	10.000%	2.000%
2026	6.625%	6.625%	6.625%	10.000%	2.000%
2027+	6.625%	6.625%	6.625%	6.625%	6.625%

- One-year shock scenarios were selected to approximate the 5th and 95th percentile expected returns over a one-year period
- Five-year moderate scenarios were selected to approximate the 25th and 75th percentile expected returns over a five-year period

Part VI – City’s Consultant ***Urban Futures Inc.***

Municipal Advisors **Advisor Analysis of Potential POBs**

Julio Morales, *Urban Futures Inc.*

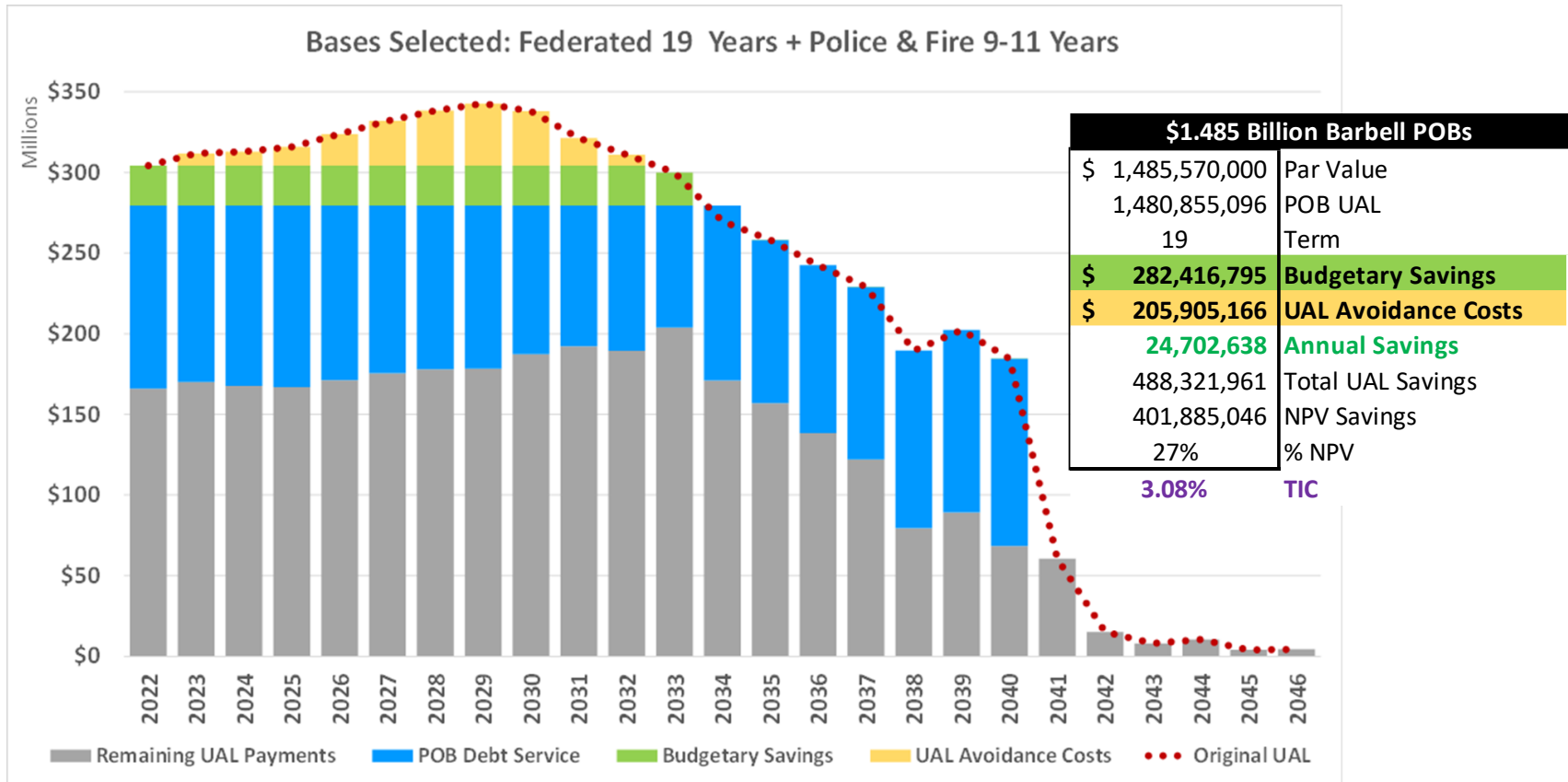
Wing-See Fox, *Urban Futures Inc.*

Recap of City Goals for Modeling

- Ensure the long-term sustainability of the City's Retirement Systems by improving funding ratios of the Plans
 - City and Retirement Plans can jointly discuss desired target funding ratios (based on an actuarial value of assets) for each Plan
 - POBs sized to generate proceeds that would increase funding ratios to target levels for each Plan
- Reduce current annual burden of UAL payments that crowd out services, mitigate rising UAL payments, and create budget stability
 - The Retirement Plans' Amortization Policies (i.e., how the credit from POB proceeds is amortized) impact the timing and amounts of budgetary savings that the City can realize
 - Aligned interest: POB terms match credit terms

“Midpoint” POB Structure Presented to Council in April Study Session

- Assumed City could select which bases to pay off with POB proceeds
- Standard approach for most California POBs done with CalPERs



Updated POB Scenarios

Prior POB Scenarios assumed base selection, which uses a targeting strategy to facilitate the shaping of cash flows / savings to meet City budgetary savings goals

- POB terms match terms of selected bases
- Retirement Plans do not currently allow for base selection
- Scenarios based on the 2020 Actuarial Report (exclude 2021 investment results)

1) Updated \$1.4 billion POB scenario match POBs to current amortization policies, which limits ability to shape cash flows / savings

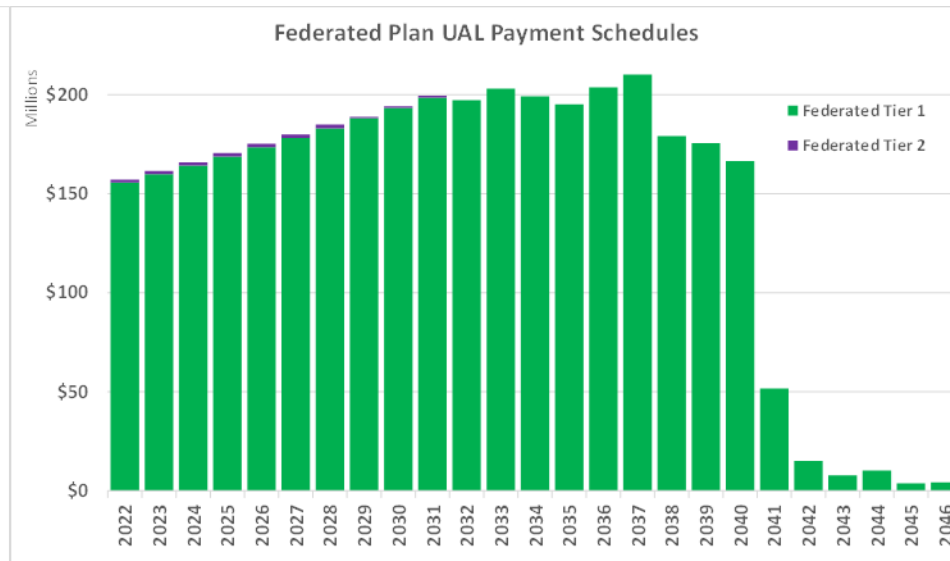
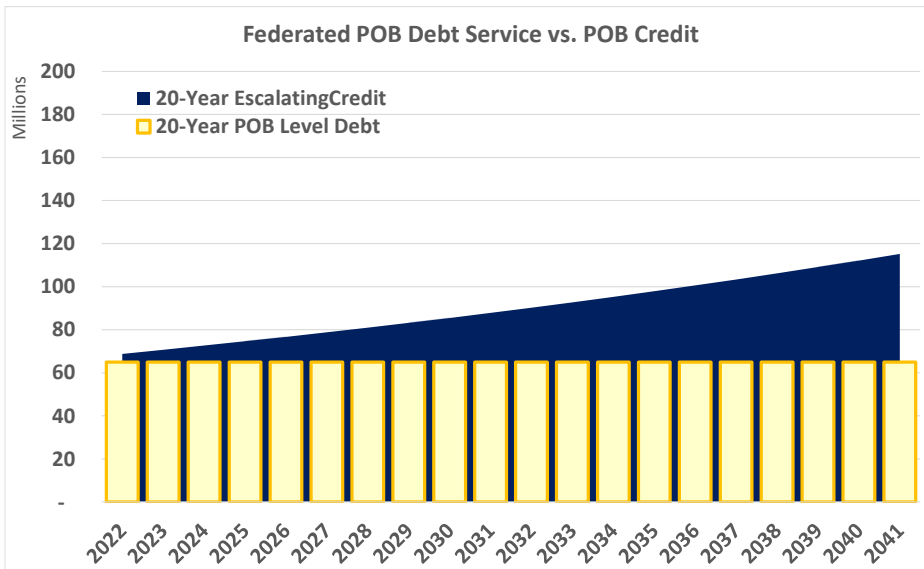
- 20-Year Escalating (Federated)
- 15-Year Escalating (Police & Fire)

2) Alternatively, Retirement Plans may consider matching credit terms to shorter, more optimal POB terms

- 19-Year Escalating (Federated)
- 9-Year Escalating (Police & Fire)

UAL Payment Schedule and Amortization Policy—Federated

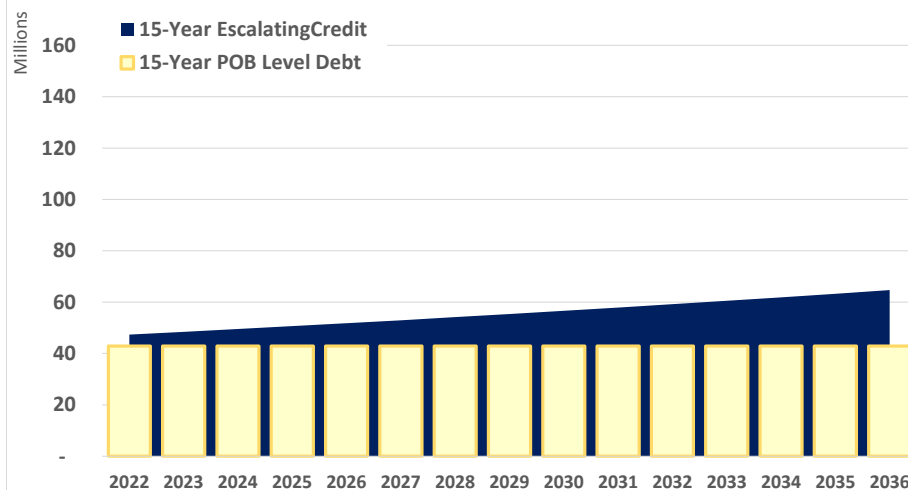
- Amortization Credit – Investment Gains & Contributions
 - 20-year with 2.75% Annual Escalation
 - Amortization Policy matches UAL payment schedule



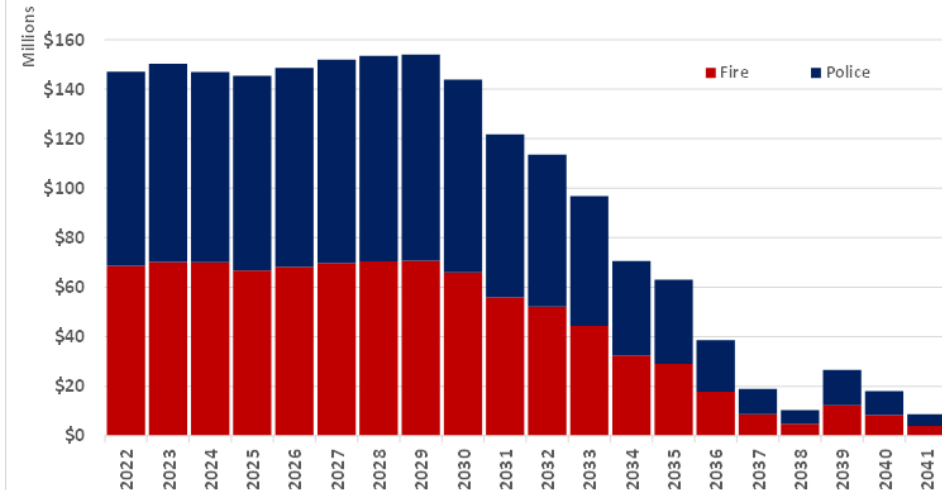
UAL Payment Schedule and Amortization Policy—Police & Fire

- Amortization Credit – Investment Gains & Contributions
 - 15-year with 2.25% Annual Escalation
 - UAL payments amortize faster than credits

Police & Fire POB Debt vs. POB Credit



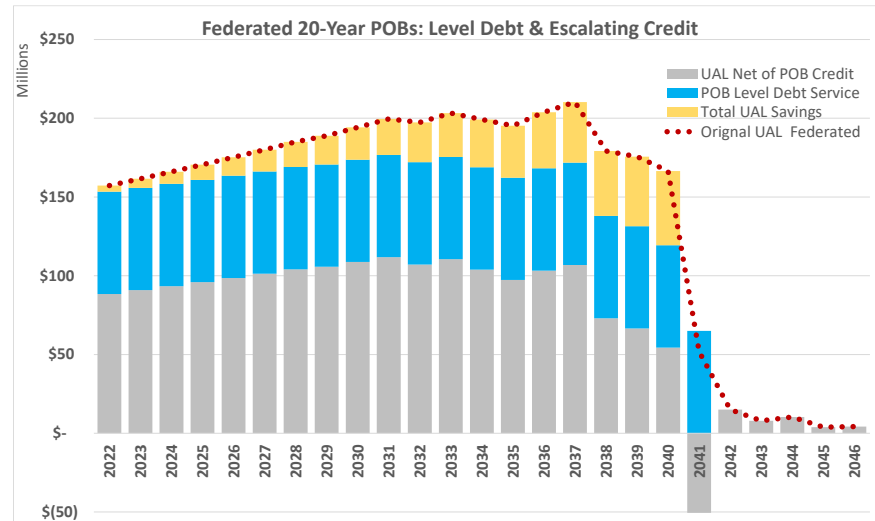
Police & Fire Plan UAL Payment Schedules



1) Match POBs to Current Amortization Policies

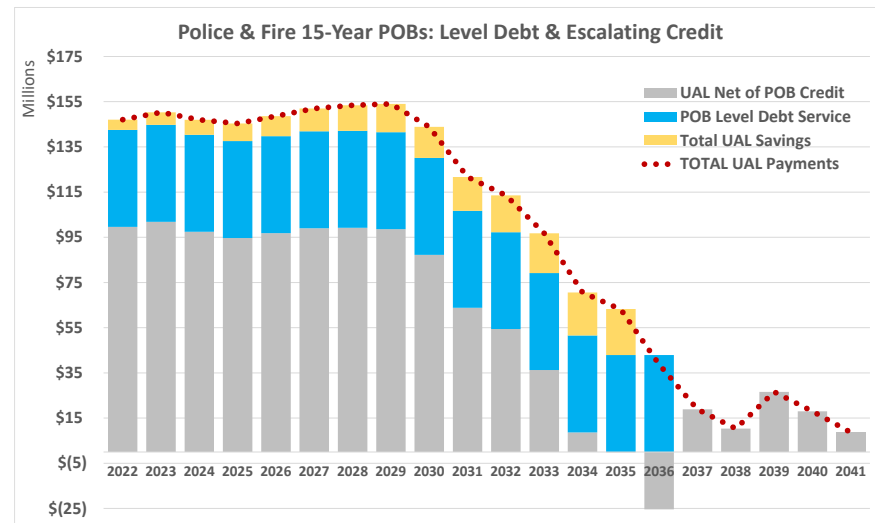
20-Year POB Level Debt & Escalating Credit

\$ 962,275,000	Par Value
958,965,752	POB UAL
20	Term
\$ 503,062,441	Total UAL Savings
330,479,087	NPV Savings
34%	% NPV
3.12%	TIC



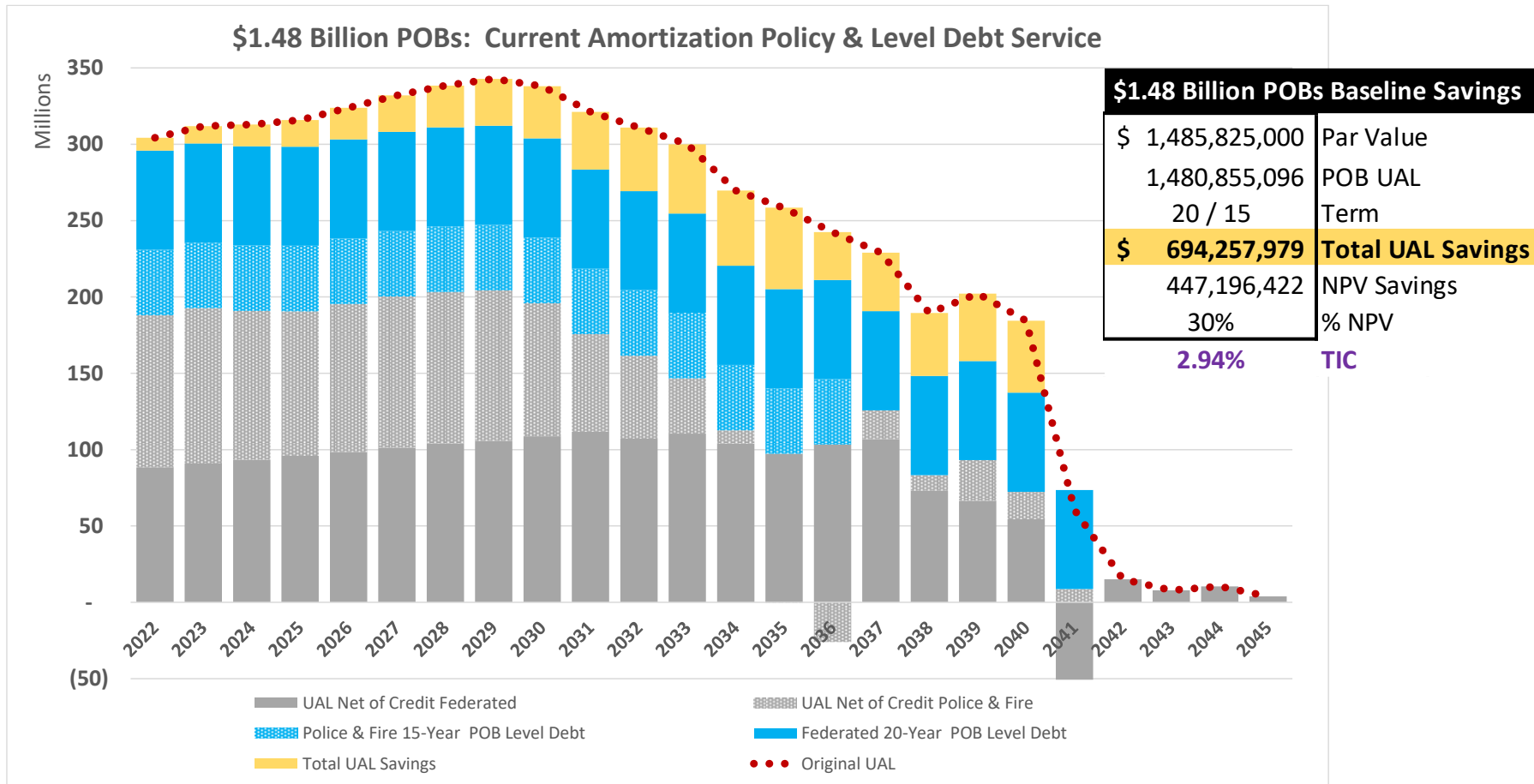
15-Year POB Level Debt & Escalating Credit

\$ 523,550,000	Par Value
521,889,344	POB UAL
15	Term
\$ 191,195,538	Total UAL Savings
146,559,949	NPV Savings
28%	% NPV
2.78%	TIC



1) Match POBs to Current Amortization Policies

- Current credit amortization policy limits the City's ability to shape UAL cash flows / savings



1) Match POBs to Current Amortization Policies

	UAL Net of Credit Federated	Federated 20- Year POB Level Debt	UAL Net of Credit Police & Fire	Police & Fire 15- Year POB Level Debt	Aggregate Payments	Original UAL	Total UAL Savings	NPV Savings @ 2.94%
1 2022	88,425,313	64,966,752	99,623,107	42,888,957	295,904,129	304,239,000	8,334,871	8,096,477
2 2023	90,857,010	64,965,298	101,864,627	42,889,256	300,576,190	311,870,503	11,294,313	10,657,472
3 2024	93,355,577	64,967,012	97,448,613	42,887,644	298,658,846	312,987,364	14,328,518	13,133,875
4 2025	95,922,856	64,966,437	94,695,873	42,887,062	298,472,227	315,914,203	17,441,975	15,530,466
5 2026	98,560,734	64,968,093	96,826,530	42,890,366	303,245,723	323,875,053	20,629,329	17,843,134
6 2027	101,271,154	64,963,931	99,005,127	42,887,303	308,127,515	332,038,473	23,910,958	20,090,013
7 2028	104,056,111	64,965,274	99,229,370	42,887,424	311,138,178	338,406,294	27,268,116	22,255,409
8 2029	105,684,342	64,963,040	98,620,144	42,889,726	312,157,251	342,870,323	30,713,072	24,350,109
9 2030	108,738,505	64,967,883	87,234,749	42,887,434	303,828,570	338,072,762	34,244,191	26,373,136
10 2031	111,773,493	64,964,818	63,795,636	42,886,464	283,420,410	321,293,252	37,872,842	28,333,483
11 2032	107,154,431	64,964,163	54,370,464	42,889,054	269,378,110	310,966,940	41,588,830	30,223,585
12 2033	110,492,017	64,964,663	36,247,654	42,890,254	254,594,587	299,995,369	45,400,782	32,050,132
13 2034	103,914,609	64,964,629	8,664,475	42,885,969	220,429,681	269,746,649	49,316,968	33,818,946
14 2035	97,300,246	64,966,045	(217,533)	42,885,738	204,934,496	258,262,911	53,328,416	35,523,814
15 2036	103,252,331	64,967,279	(26,034,161)	42,887,117	185,072,565	242,514,387	31,407,661	26,264,252
16 2037	106,871,412	64,966,879	18,840,415	-	190,678,705	229,062,644	38,383,939	24,127,085
17 2038	73,003,850	64,966,013	10,335,979	-	148,305,842	189,532,794	41,226,952	25,172,929
18 2039	66,521,833	64,964,217	26,597,976	-	158,084,026	202,233,081	44,149,055	26,186,119
19 2040	54,387,401	64,964,236	17,991,646	-	137,343,282	184,492,933	47,149,651	27,165,983
20 2041	(63,418,402)	64,963,640	8,622,863	-	10,168,100	60,401,479	50,233,379	-
21 2042	15,052,028	-			15,052,028	15,052,028	-	-
22 2043	7,935,386	-			7,935,386	7,935,386	-	-
23 2044	10,349,580	-	-		10,349,580	10,349,580	-	-
24 2045	3,919,236	-	-		3,919,236	3,919,236	-	-
25 2046	4,241,789	-	-		4,241,789	4,241,789	-	-
	\$ 1,799,622,840	\$ 1,299,310,296	\$ 1,093,763,554	\$ 643,319,763	\$ 4,836,016,453	\$ 5,530,274,433	\$ 694,257,979	\$ 447,196,422

30%

2) Match Credit Terms to POB Terms

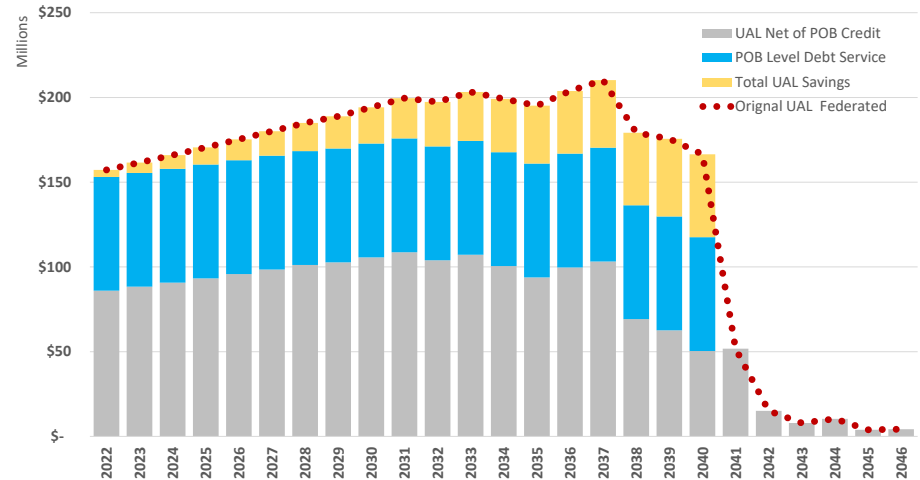
19-Year POBs Level Debt & Escalating Credit

\$ 962,275,000	Par Value
958,965,752	POB UAL
19	Term
\$ 471,034,024	Total UAL Savings
316,100,083	NPV Savings
33%	% NPV
3.08%	TIC

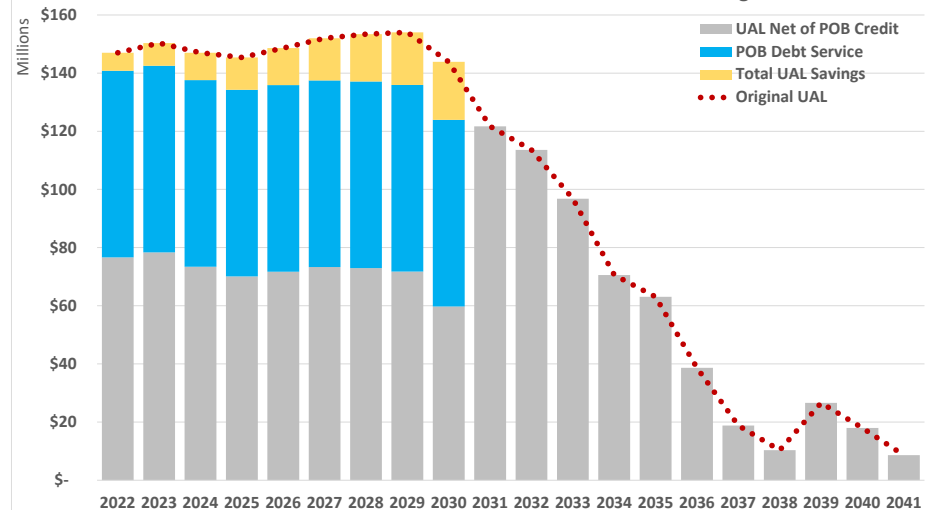
9-Year POB Level Debt & Escalating Credit

\$ 523,550,000	Par Value
521,889,344	POB UAL
9	Term
\$ 116,149,828	Total UAL Savings
98,889,583	NPV Savings
19%	% NPV
2.14%	TIC

Federated Plan: 19-Year Level POBs & Escalating Credit

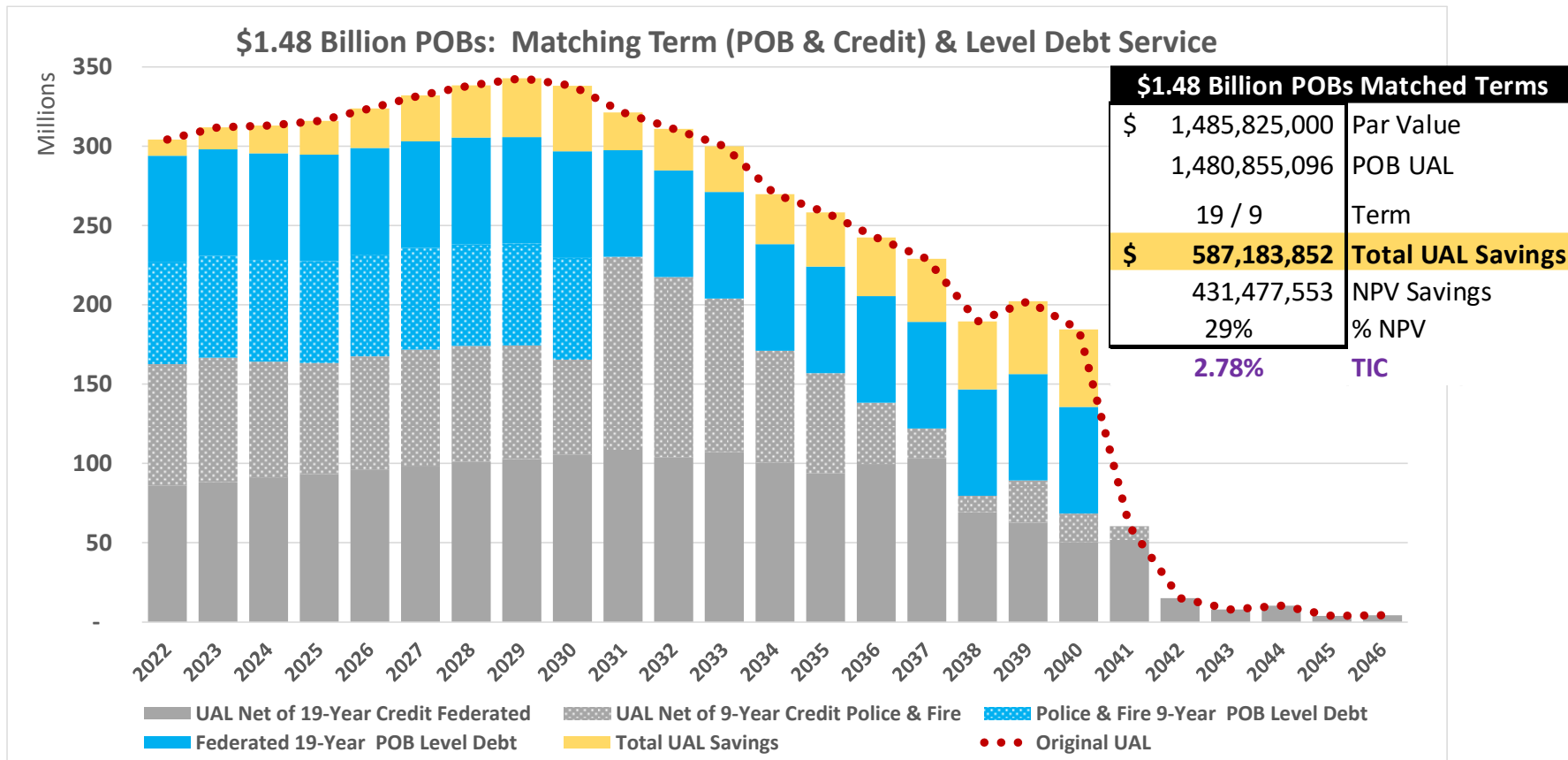


Police & Fire Plan: 9-Year POBs Level Debt & Escalating Credit



2) Match Credit Terms to POB Terms

- Matching credit terms with shorter, more optimal POB terms provides greater ability to shape cash flows / savings and avoids leaving the back end of credits “stranded” in later years



2) Match Credit Terms to POB Terms

	UAL Net of 19- Year Credit Federated	Federated 19- Year POB Level Debt	UAL Net of 9- Year Credit Police & Fire	Police & Fire 9- Year POB Level Debt	Aggregate Payments	Original UAL	Total UAL Savings	NPV Savings @ 2.78%
1 2022	85,975,292	67,168,311	76,624,120	64,162,339	293,930,061	304,239,000	10,308,939	10,029,828
2 2023	88,339,613	67,168,625	78,348,162	64,160,799	298,017,199	311,870,503	13,853,304	13,113,314
3 2024	90,768,952	67,170,686	73,403,028	64,165,514	295,508,180	312,987,364	17,479,184	16,097,551
4 2025	93,265,098	67,167,969	70,109,263	64,164,789	294,707,118	315,914,203	21,207,084	19,001,994
5 2026	95,829,888	67,168,945	71,686,721	64,161,941	298,847,495	323,875,053	25,027,558	21,818,065
6 2027	98,465,210	67,169,645	73,299,672	64,163,766	303,098,293	332,038,473	28,940,180	24,545,877
7 2028	101,173,004	67,168,464	72,945,542	64,163,952	305,450,961	338,406,294	32,955,332	27,194,594
8 2029	102,721,949	67,170,483	71,744,930	64,162,925	305,800,286	342,870,323	37,070,037	29,761,818
9 2030	105,694,646	67,171,941	59,754,843	64,165,535	296,786,965	338,072,762	41,285,797	32,249,030
10 2031	108,645,928	67,169,443	121,693,794	-	297,509,165	321,293,252	23,784,088	18,075,156
11 2032	103,940,858	67,172,523	113,571,330	-	284,684,710	310,966,940	26,282,230	19,432,886
12 2033	107,190,070	67,169,401	96,780,540	-	271,140,010	299,995,369	28,855,358	20,757,790
13 2034	100,521,859	67,167,779	70,559,351	-	238,248,988	269,746,649	31,497,661	22,045,122
14 2035	93,814,195	67,170,428	63,069,977	-	224,054,600	258,262,911	34,208,311	23,294,071
15 2036	99,670,415	67,170,866	38,677,318	-	205,518,599	242,514,387	36,995,788	24,510,129
16 2037	103,190,992	67,172,257	18,840,415	-	189,203,663	229,062,644	39,858,981	25,692,068
17 2038	69,222,218	67,168,663	10,335,979	-	146,726,861	189,532,794	42,805,933	26,844,566
18 2039	62,636,207	67,169,629	26,597,976	-	156,403,812	202,233,081	45,829,269	27,962,430
19 2040	50,394,920	67,167,551	17,991,646	-	135,554,116	184,492,933	48,938,817	29,051,262
20 2041	51,778,617	-	8,622,863	-	60,401,479	60,401,479	-	-
21 2042	15,052,028	-	-	-	15,052,028	15,052,028	-	-
22 2043	7,935,386	-	-	-	7,935,386	7,935,386	-	-
23 2044	10,349,580	-	-	-	10,349,580	10,349,580	-	-
24 2045	3,919,236	-	-	-	3,919,236	3,919,236	-	-
25 2046	4,241,789	-	-	-	4,241,789	4,241,789	-	-
	\$ 1,854,737,950	\$ 1,276,223,604	\$ 1,234,657,469	\$ 577,471,559	\$ 4,943,090,581	\$ 5,530,274,433	\$ 587,183,852	\$ 431,477,553

29%

Part VII – Public Comment

Part VIII – Council and Board Member Dialogue

Mayor Sam Liccardo, *City of San José*

Spencer Horowitz, *Chair, Federated Board*

Andrew Lanza, *Chair, Police & Fire Board*

Part IX – Wrap Up and Next Steps

Julia H. Cooper – *Director of Finance*

City and Board Interests, Goals Aligned

City Positive Impacts

- Reduce UAL and improve funding of plans
- Mitigate future volatility related to the City's annual UAL payments
- Use portion of savings to
 - Accelerate the amortization of unfunded liability
 - Ease current budget pressures

Retirement Positive Impacts

- Provide large cash infusion to make new investments either all at once or over time if City elects to fund UAL over time with several bond issues
- Increase funding level of Retirement Plans
- Reduce reliance on City contributions

Santa Clara County Court Validation

- Council direction in May 2021
- October 5, 2021 – Council consideration of Judicial Validation Action
- If favorable judgment, return to Council with recommendation depending on market conditions

Preliminary Timeline of POB Issuance

Date	Activity
September 30, 2021	Joint Meeting of the Council and the Two Retirement Plan Boards
October 2021*	Bond Counsel Files Validation Action in Santa Clara County Superior Court
Winter 2022	Council Approval of Recommended Pension Obligation Funding Policy
Winter/Spring 2022	Council Consideration of POBs Financing Plan(s) with Accompanying Analysis of Risks and Benefits
Spring/Summer 2022	Recommended Council Approval of Offering Statement for Investors (“Preliminary Official Statement”) and Continuing Disclosure Agreement for POBs Issuance (Following Successful Validation and Subject to Favorable Bond Issuance and Investment Market Conditions)
Spring/Summer 2022	Issuance and Closing of First Potential POB Bond Issue, if Debt and Investment Market Conditions Warrant

* Documents submitted to Santa Clara County Superior Court in October 2021 are expected to take approximately four to seven months for a decision, however timing could be affected by COVID-19 and whether the validation action is answered in court.

Wrap Up and Next Steps

- On-going dialogue
- POBs as a final option
- Need for mutual understandings
- Additional steps required before Council can authorize sale of POBs
- If POBs are authorized, they are likely to be issued no sooner than next Summer

Part X - Adjourn