



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Councilmember David Cohen
Councilmember Raul Peralez

SUBJECT: SEE BELOW

DATE: October 1, 2021

Approved

Date: 10/1/2021

SUBJECT: PENSION OBLIGATIONS BOND ISSUANCE

RECOMMENDATION

1. Accept the recommendations in staff's September 1, 2021 memorandum.

BACKGROUND

We want to first and foremost express our thanks to staff for their work in bringing forward this recommendation, as well as to the City's advisors and the Retirement Plan Board Trustees for providing their input during Thursday's study session.

We can all agree on the following:

1. Unfunded pension liability remains a crisis and we have exhausted most tools to address it.
2. Pension Obligation Bonds are the last option in the city's tool kit to address the crisis.
3. Accepting staff's recommendation today does not obligate the city to proceed with the purchase of Pension Obligation Bonds (POB), but simply allows staff to continue the analysis and bring forward a more concrete and specific recommendation next spring.

Over the last twenty years, retirement costs have skyrocketed in San José—from 5% of our General Fund in 2001 to nearly a quarter today, a significant chunk of resources that could otherwise be spent providing services and addressing some of the major quality of life issues facing our residents. The status quo risks putting us in a detrimental financial situation if we continue down the same path. Staff has made it clear that the POB is the last tool at our disposal and the last mechanism for making a meaningful difference in reducing our unfunded accrued liability.

It is impossible to predict with certainty future market performance, and it is true that the issuance of a bond inherently carries a degree of risk. However, this is still true with any market and any investment. With strong credit ratings, historically low market interest rates, and data

HONORABLE MAYOR AND CITY COUNCIL

October 5, 2021

Subject: PENSION OBLIGATIONS BOND ISSUANCE

Page 2

showing that there is no long-term period in the last hundred years during which a POB would have been a bad investment, we agree with staff's assessment, and that of the City's advisors, that this is an option worth exploring. In fact, Retirement Plan Board Trustees have pointed out that models forecasting a market downturn found the City is still better off having issued a POB than not; other cities in California have come to the same conclusion after running their own analyses.

Any good investment advisor will tell you that past performance does not guarantee future results. However, they will always invest based on their analysis of past market performance. There is no window during the last 100+ years during which this would have been a poor decision. We would miss a very rare opportunity by not taking advantage of historically low interest rates.

We also want to point out that the recommendation put forward by staff explicitly does not compel the Council to issue POBs; assuming a successful judicial validation action, each individual POB would still have to come before Council for consideration, with the benefit of detailed staff analysis and recommendations. We will be in a much better position to consider risk and returns, to run stress tests looking at potential outcomes of different economic scenarios with and without a POB, when we have a specific POB with recommendations on size, timing, and structure before us.

To reiterate a point made by staff during Thursday's study session, this action represents the beginning of the conversation around POBs, not the end: adopting this resolution opens the door, it doesn't necessarily compel us to walk through it. We need to find new ways to address our increasing retirement costs, pay down our unfunded accrued liability, and free up resources that can then be devoted to enhancing the quality of life of our residents and building a prosperous future for our city. Given past performance and market trends pointing towards positive outcomes from POBs, and the lack of risk in simply authorizing their issuance and filing a validation action, we feel they merit consideration on a case-by-case basis.

The signers of this memorandum have not had, and will not have, any private conversation with any other member of the City Council, or that member's staff, concerning any action discussed in the memorandum, and that each signer's staff members have not had, and have been instructed not to have, any such conversation with any other member of the City Council or that member's staff.