
Pension Obligation Bonds Judicial Validation

**City Council
October 5, 2021
Agenda Item #3.4**

Presenters:

Julia H. Cooper

Director of Finance

Rosa Tsongtaatarii

Senior Deputy City Attorney

Nikolai J. Sklaroff

***Deputy Director of Finance,
Debt & Treasury Management Division***

City Council Direction

- On May 11, 2021 – the City Council directed the City Administration and the Office of the City Attorney to proceed with planning and preparation of bond documents and court validation documents necessary for the issuance of Pension Obligation Bonds (“POBs”).

Purpose and Scope of Judicial Validation

- Secure a favorable judgment affirming that the City Charter requirement that the City contribute to the Retirement Plans to fund pension benefits for certain City employees is an obligation imposed by law, and that the City may issue bonds to refund the obligation under state law.
- Affirm City authority to issue POBs to refund up to all the unfunded liability and to include the current obligation for the year of issuance.

Judicial Process

- Must file Complaint for Validation within 60 days of the City Council adoption of the resolution authorizing the issuance of bonds and approving the Trust Agreement and Bond Purchase Agreement.
- Estimate up to 7 months if no answer or appeal.

After Validation is filed

- Staff is coordinating further dialogue with the retirement boards as directed by Council in May and discussed at the September 30th Joint Council – Retirement Boards Study Session
- Pension funding policies for Council consideration to guide the use of POBs, other future funding sources
- Given the uncertain timing of the validation process, and variables that could change that timing, staff will return to Council with detailed quantitative analysis and modeling based on prevailing market conditions on or about the time the validation is successfully completed.

Preliminary Timeline of POB Issuance

Date	Activity
September 30, 2021	Joint Meeting of the Council and the Two Retirement Plan Boards - COMPLETED
October 2021	Meet with Bargaining Groups regarding Validation Action
October/November 2021	File 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

Recommendation

- Adopt a Resolution Authorizing the Issuance of Pension Obligation Bonds to Refund Certain Pension Obligations of the City, including Approving the Form, and Authorizing the Execution of, a Trust Agreement and Bond Purchase Agreement; and Authorizing Judicial Validation Proceedings and Additional Actions Relating to the Issuance of the Bonds

Note: Actual issuance of POBs requires a favorable judgment and subsequent Council consideration of the issuance documents (such as the Preliminary Official Statement).

Nothing in this Action will Obligate Council to Issue POBs in the Future