

**PENSION OBLIGATION BONDS  
LOAN AND REPAYMENT PLAN  
2016-2017**



**ADOPTED  
JUNE 13, 2016**



## Explanation of loan between Fund 34 Sewer Facility Construction Fund and Fund 01 General Fund

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### Pension Obligation Bonds (POBs) Issued in 2010 to Help Balance the Budget

In 2010, the City of Pacifica issued Pension Obligation Bonds (POBs) as a budget balancing strategy. Paying off the City’s unfunded liability to the California Public Employee Retirement System (CalPERS) as calculated at that time was estimated to save the City approximately \$86,000 per year.

Bonds were issued in three groups—Fire Safety, Police Safety and Miscellaneous (all non-safety employees) and the total liability amount for each group at that time follows:

	Principal <i>(millions)</i>	w/interest <i>(millions)</i>	Term <i>(years)</i>	Payoff Year
<b>Police</b>	\$4.60	\$6.00	7	2016-17
<b>Fire</b>	\$4.30	\$6.00	9	2018-19
<b>Misc*</b>	\$11.10	\$23.00	20	2019-20

They are separated because each group is covered by a different pension plan and a different pension benefit.

### POB Repayment Schedule

These bonds were issued through the typical municipal bond process and to be repaid via existing City revenues. The repayment plan was structured to repay the Fire POBs over 9 years, the Police POBs over 7 years and the Miscellaneous POBs over 20 years. The repayment amounts and schedule is shown below.

The impact of the POB repayment on the budget is more heavily weighted in the early years of repayment than in later years, i.e., in 2010-11, the repayment amount is just over \$2.2 million. In 2017-18, when the Police POBs are paid off, the total amount drops to \$1.78 million. In 2019-20, the Fire POBs are paid off and the total payment drops again, this time to \$1.1 million. (See the section entitled “Payments from the General Fund w/o loan” on page POB 3 - Pension Obligation Bonds Loan and Repayment Plan.)

Most of the POB repayment cost fell to the General Fund since most employee costs come from that fund.

## **Explanation of loan between Fund 34 Sewer Facility Construction Fund and Fund 01 General Fund (continued)**

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### **Interfund Loan Approved as Part of 2014-15 Budget**

In Spring 2014, while developing the 2014-15 Budget, the City projected a significant budget shortfall in the General Fund. As staff looked at all City obligations over the coming years, the POB repayment stood out as an opportunity for an interfund loan to help spread out the impact on the General Fund.

Without a loan to restructure the impact on the General Fund, the City may have been forced to make budget reductions that would then be undone a few years later when the Police and Fire POBs were paid off. Most likely, the budget reductions would have meant service changes and staff layoffs.

As part of that budget process, staff recommended and Council approved, an interfund loan from Fund 34 to the General Fund (see section on Attachment 1 entitled "Payments from General Fund with loan"). In the first three years of the loan, Fund 34 transfers funds into the General Fund. Then starting in 2017-18, the General Fund begins paying back the loan to Fund 34 and by 2020-21, the loan is fully repaid.

This arrangement had (and continues to provide) the benefit of smoothing the payment impact on the General Fund to be a more constant amount of approximately \$2 million per year (\$1.86 million to \$2.06 million over the seven years).

### **Interfund Loan Repaid by 2020-21 with Interest**

The total amount borrowed is shown on the Pension Obligation Bonds Loan and Repayment Plan table as \$2,127,437 with interest set to what the City's investments were receiving at the time (.05% annually) for total interest of \$43,872.

This loan has become part of the adopted budget each year in order to provide a high level of transparency to the community and ensure that the terms of the loan are clear.

CITY OF PACIFICA

PENSION OBLIGATION BONDS LOAN AND REPAYMENT PLAN

LOAN FROM FUND 34 TO GENERAL FUND

PAYMENTS - ALL FUNDS		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	
<b>Payments from General Fund w/o loan</b>									
Police		\$879,548	\$908,133	\$987,593	\$0	\$0	\$0	\$0	
Fire		\$667,108	\$688,789	\$711,175	\$734,288	\$758,153	\$0	\$0	
Misc		\$956,507	\$987,593	\$1,019,690	\$1,052,830	\$1,087,047	\$1,122,376	\$1,158,853	
Total Annual Payments		\$2,503,163	\$2,584,515	\$2,718,458	\$1,787,118	\$1,845,200	\$1,122,376	\$1,158,853	
<b>Payments from General Fund with loan</b>									
Police		\$396,468	\$396,468	\$396,468	\$396,468	\$396,468	\$396,468	\$396,468	
Fire		\$508,502	\$508,502	\$508,502	\$508,502	\$508,502	\$508,502	\$508,502	
Misc		\$956,507	\$987,593	\$1,019,690	\$1,052,830	\$1,087,047	\$1,122,376	\$1,158,853	
Total Annual Payments		\$1,861,477	\$1,892,563	\$1,924,660	\$1,957,800	\$1,992,017	\$2,027,346	\$2,063,823	
<b>Annual Loan/Repayment - Fund 34</b>		<b>\$641,686</b>	<b>\$691,952</b>	<b>\$793,798</b>	<b>(\$170,682)</b>	<b>(\$146,817)</b>	<b>(\$904,970)</b>	<b>(\$904,970)</b>	
<b>Total loan/Repayment Principal</b>				\$2,127,437				-\$2,127,437	
<b>Total Loan</b>	<b>\$2,127,437</b>	Loan Amount	\$641,686	\$1,333,639	\$2,127,437	\$1,956,756	\$1,809,939	\$904,970	\$0
<b>Total Interest</b>	<b>\$43,872</b>	.05% interest	\$3,208	\$6,668	\$10,637	\$9,784	\$9,050	\$4,525	0