

MONTECITO FIRE PROTECTION DISTRICT

Agenda for the Special Meeting of the Board of Directors

Monday, April 12, 2021 at 2:00 p.m.

The Special meeting will be held via teleconference connection as permitted under the Governor's Executive Order N-29-20, dated March 17, 2020 due to concerns of COVID-19 ("Executive Order").

Members of the public will be able to observe the Special meeting and provide public comments via Zoom: <https://zoom.us/j/92861666858> or by calling 1-669-900-6833, meeting ID: 928 6166 6858. Any member of the public who would like to provide public input on an item listed on the agenda may utilize the "Raise Hand" feature through the Zoom App or enter "*9" if participating by telephone only. The host will be notified, and you will be recognized to speak on the agenda item in the order such requests are received by the District.

Agenda items may be taken out of the order shown.

1. Public comment: Any person may address the Board at this time on any non-agenda matter that is within the subject matter jurisdiction of the Montecito Fire Protection Districts; 30 minutes total time is allotted for this discussion.
2. Study Session: Comprehensive Financial Policy. Study alternatives developed by Capital PFG that may provide for long-term financial security, funding of currently unfunded obligations, and the construction of a potential new fire station. (Strategic Plan Goal 9)
 - a. Presented by Fire Chief Taylor, District Accountant Nahas and Jeffrey Smalls, Capital PFG.
3. Adjournment

This agenda posted pursuant to the provisions of the Government Code commencing at Section 54950. The date of the posting is April 8, 2021.



Kevin Taylor, Fire Chief



STAFF REPORT

To: Montecito Fire Protection District Finance Committee
From: Kevin Taylor, Fire Chief *KT*
Prepared by: Araceli Nahas, Accountant *AN*
Date: April 12, 2021
Topic: Study Session on Funding Strategies for Unfunded Liabilities

Summary

The District engaged Capitol PFG to evaluate Montecito Fire's current financial position, including reserve balances, and pension and OPEB unfunded accrued liabilities (UALs). Managing Partner and Municipal Adviser, Jeff Small, will present his findings and recommendations regarding reserve balances, pension and OPEB UAL funding strategies and financing options for a potential joint fire station.

Discussion

Over the past decade, the Board has taken a very responsible and proactive approach towards addressing the pension and OPEB unfunded liabilities. Current approaches include supplemental contributions to the PARS Pension and OPEB Trusts and discretionary payments to CalPERS to reduce amortization bases ahead of schedule. Despite these efforts, the District has experienced significant increases in pension contributions from CalPERS year after year and the increases will continue into the foreseeable future.

The major focus for this study session will be the pension UAL due to the impact on the annual General Fund budget and payment and interest rate structures issued by CalPERS. The current UAL for pension is \$25.6 million (with CalPERS), and \$3.5 million for OPEB. There are several strategies for addressing the pension UAL, and the most complex strategy involves a Pension Obligation Bond (POB), in which the District could pay off existing debt with CalPERS, which is borrowed at the 7% discount rate, and instead take advantage of historically low interest rates by issuing a POB at a rate in the low to mid 3%. Capitol PFG will present examples of four different POB scenarios that can result in millions of dollars in savings over the next 20 years. The four POB options are detailed in the attached presentation in slides 35-39.

Conclusion

The intent of the study session is to provide the Board with an overview of the District's current financial situation, UAL funding strategies and consider future financing needs for a potential joint fire station. Staff recommends that the Board provide direction to Staff regarding the development of a funding policy for unfunded accrued liabilities.

Attachments

1. Study Session on Potential Funding Strategies for Unfunded Liabilities Presentation

Strategic Plan Reference

Strategic Plan Goal #9, Ensure Financial Accountability & Transparency



Capitol | PFG

Montecito Fire Protection District

Study Session on Potential Funding
Strategies for Unfunded Liabilities

April 12, 2021



Capitol | PFG

Crafting Optimal Financial Solutions

Capitol Public Finance Group (Capitol PFG) is a full service, independent financial advisory firm based in the Sacramento area, providing consulting services exclusively to public agencies since 2005. Spec. Mtg. Pg. 6

The firm provides a wide array of services to meet our client's needs, including, debt planning and issuance, tax base analysis, developer mitigation, financial and facilities planning, and more. Capitol PFG prides itself on providing innovative, cost effective and ethical solutions to all clients.

Meet the Capitol PFG Leadership Team



Jeffrey Small, Esq.
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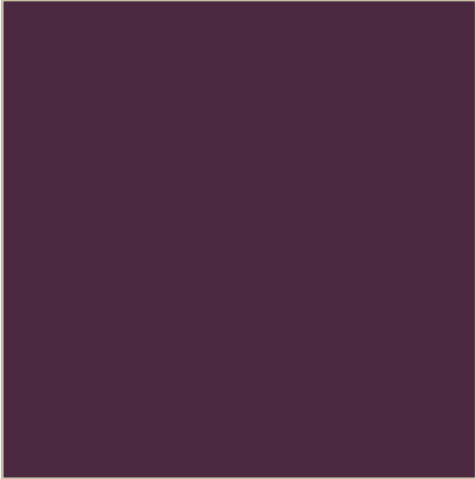


Robert Bendorf
Director of Client Services
rbendorf@capitolpfg.com



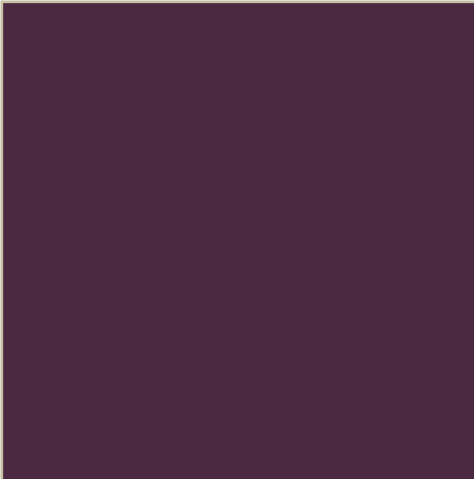
Stephanie Bell
Office Administrator
sbell@capitolpfg.com

Municipal Advisor Role



We are registered as an Independent Municipal Advisor with the Securities & Exchange Commission and the Municipal Securities Rulemaking Board. This means that in providing debt issuance services, we are required to act in the best interest of our client, deal fairly and disclose all conflicts of interest. Our SEC File Number is 867-00440.

Serving in the capacity of a Municipal Advisor, Capitol PFG has completed 273 municipal transactions totaling \$4.5 billion, including multiple transactions that were awarded the Far West Deal of the Year, Small Issuer by The Bond Buyer, recognizing the country's most innovative financings.



MFPD Relationship

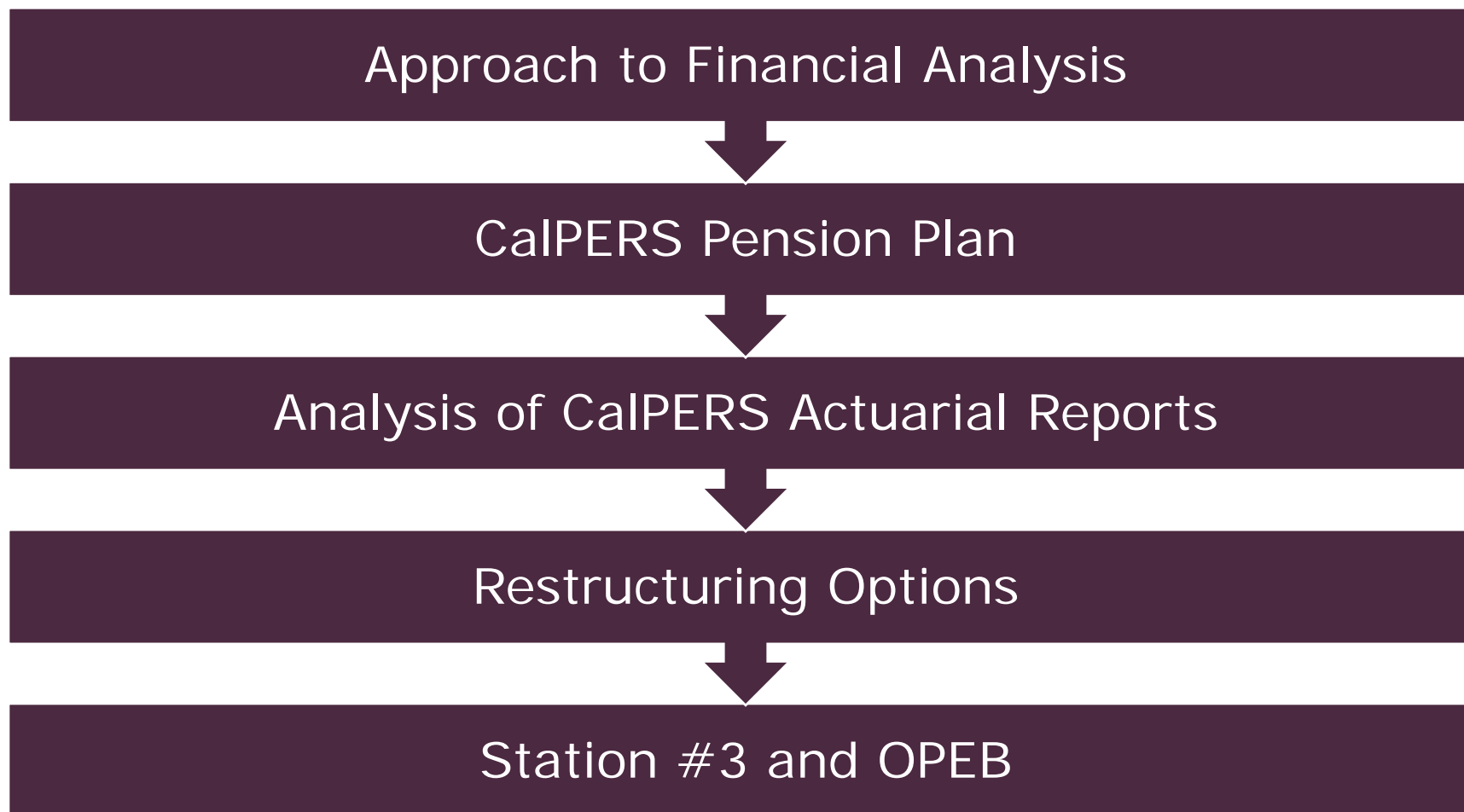
Capitol PFG Provided Financial Analysis Relating to Budgeting and Long-Term Liabilities in 2014

- Included analysis of Reserves and Pension and Other-Post Employment Benefits
- Board approved budget and reserve policies in 2015
- Update on Pension and Other Post Employment Benefits in 2017

In late 2020, Capitol PFG was asked to incorporate existing practices and policies into a single, comprehensive financial policy document supported by MFPD business practices and financial analysis



Agenda



Approach to Financial Analysis



Client Centered Approach



Identify
Objectives



Craft Solutions
Based on Policies



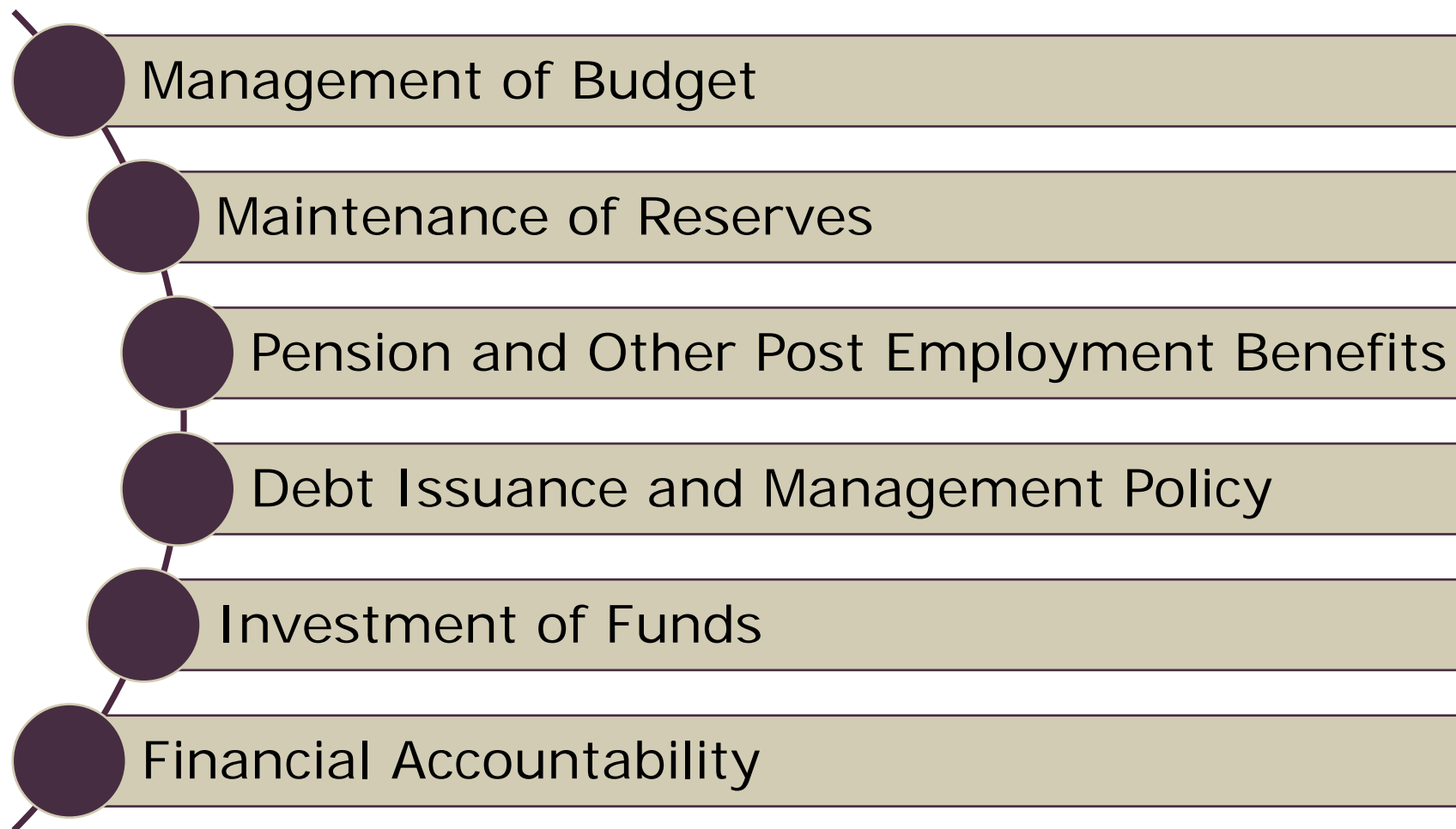
Consider Potential
Financing Needs



Allocate
Resources



Comprehensive Financial Policies



General Fund Reserves

Economic Uncertainties

- Equal to at least 3 months of operating expenditures

Catastrophic Event Reserve

- Equal to 10% of MFPD property tax revenues, plus 5% of total General Fund expenditures

Unrestricted Residual Reserve

- Equal to the greater of \$1 million or the prior year actuarially determined retirement contribution (\$2.8 million for FY 2019-20)



Capital Reserves

Capital Reserve

- Minimum funding target of \$3 million

Land and Building Reserve

- Minimum of \$1 million and a target maximum of \$3 million

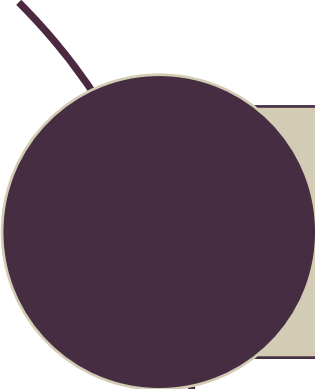


Summary of Reserve Funds

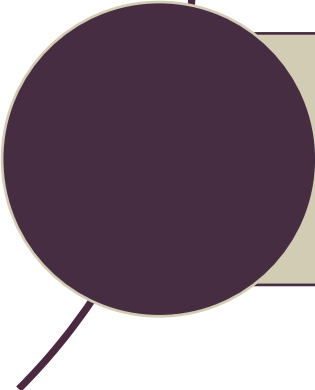
Reserve Funds			
	Proposed Budget FY 2020-21	Financial Policy	Amounts Available for One Time Prefunding of Retirement
Economic Uncertainties Reserve	\$4,330,000	\$4,330,000	\$0
Catastrophic Reserve	\$2,710,000	\$2,710,000	\$0
Unrestricted Residual	\$4,526,937	\$2,824,115	\$1,702,822
Capital Reserve	\$3,014,072	\$3,000,000	\$14,072
Land and Building Reserve	\$4,995,305	\$1,000,000	\$3,995,305
Total	\$19,576,314	\$13,864,115	\$5,712,199



Recommendation – Reserve Funds



The MFPD has approximately \$5.7 million of reserve funds that it can apply to either its Pension Trust or CalPERS.



Recommendations: apply \$5.7 million to CalPERS to reduce the high cost of funds and retain funds in the Pension Trust to preserve flexibility and local control.



Pension Policy

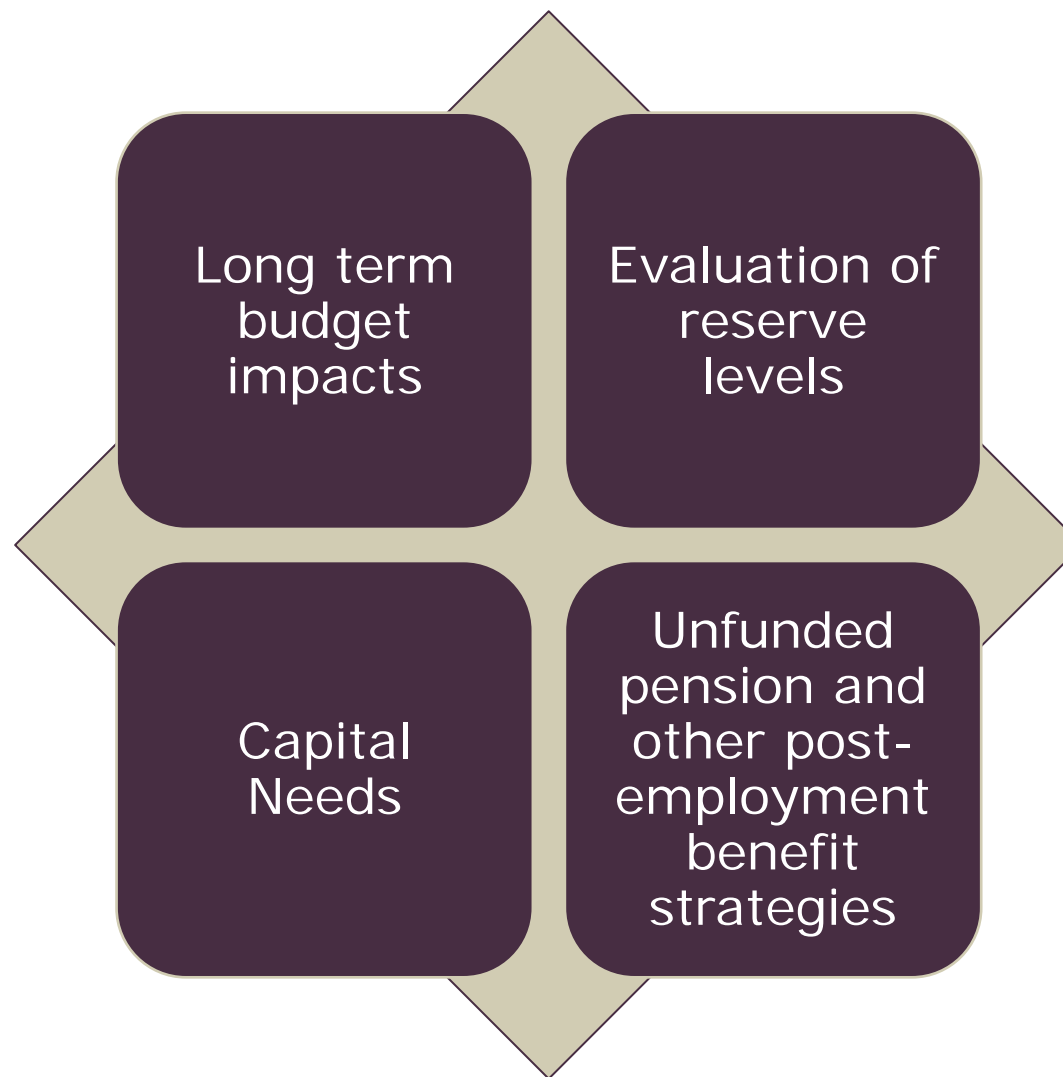
Goal of funding 100% between funds held at CalPERS and Pension Trust

- CalPERS Minimum Funding Requirement
 - Funded ratio of 80%
- CalPERS Funding Range
 - 85-95%
- CalPERS Maximum Funding
 - 100%

Funding to be achieved by June 30, 2026



Consider Potential Financing Needs



CaIPERS Pension Plan



CalPERS Annual Valuation Report

June 30, 2019 report determines required employer contribution for fiscal year 2021-22

- 2 year lag between valuation and the contribution rates

Pension Plan Annual Valuation Report

- Information to assist with upcoming and projected budget
 - Projected payroll for the contribution year
 - Contribution Rates for normal cost and unfunded liability

Valuation of Liabilities, Assets and Funded Status

- Investment returns, plan experience, and actuarial assumptions



Pension Plans with CalPERS

Participant Data				
	Active Members	Transferred Members	Separated Members	Retired Members
Safety	28	6	1	59
PEPRA Safety Fire	11	0	1	0
Miscellaneous	6	1	1	8
PEPRA Miscellaneous	0	2	0	0
Total	45	9	3	67



Projected Payroll for Fiscal Year 2021-22

Safety	• \$5,792,602
PEPRA Safety Fire	• \$1,432,872
Miscellaneous	• \$902,201
PEPRA Miscellaneous	• \$0
Total	• \$8,127,675



Minimum Contributions

Normal Cost

- Annual cost of service for active employees

Unfunded Actuarial Liability

- Unfunded annual cost of pension benefits for retired employees

Required Employer Contribution for Fiscal Year 2021-22

	Estimated Normal Cost	UAL Payment	Estimated Total Contribution
Safety	\$1,368,212	\$1,699,656	\$3,067,868
PEPRA Safety	\$200,316	\$4,885	\$205,201
Miscellaneous	\$159,509	\$193,784	\$353,293
PEPRA Miscellaneous	\$0	\$986	\$986
Total	\$1,728,037	\$1,899,311	\$3,627,348



Analysis of CalPERS Actuarial Report



Funded Status

Plans	Accrued Liability (AL)	Market Value of Assets (MVA)	Unfunded Accrued Liability (UAL)	Funded Status
Safety Plan	\$94,643,125	\$71,666,915	\$22,976,210	75.7%
Miscellaneous Plan	\$10,715,596	\$8,155,870	\$2,559,726	76.1%
PEPRA Miscellaneous	\$32,735	\$28,870	\$3,865	88.2%
PEPRA Safety Fire	\$744,595	\$682,697	\$61,898	91.7%
PARS Pension Trust*	n/a	\$4,965,271	n/a	n/a
Total CalPERS & PARS	\$106,136,051	\$85,499,623	\$25,601,699	80.6%

*Most recent information available for CalPERS is as of June 30, 2019, to be consistent with CalPERS we are reporting PARS assets as of June 30, 2019. As of January 2021 PARS reports assets at \$6,458,062.

Unfunded Liabilities represent the loan balance that the district owes to CalPERS for its pension plans.



CalPERS Pension Payment Calculations

CalPERS has a very complex methodology for calculating payments on unfunded liabilities.

The payments reflect amortization bases for each plan.

An amortization base means that CalPERS divides up each plan's liability into separate small loans.

Each loan is charged interest at the discount rate i.e., 7% and amortized (i.e., paid off) in different time frames.



Adjustment to UAL Balances

Each year the UAL will increase or decrease due to certain changes:

Changes in
the
discount
rate

Assumption
changes as
a result of
a new
experience
study

Actual
experience
changes

Investment
Earnings
on Assets



Changes to Actuarial Methodology

2021

- New experience study expected

2019

- New amortization structure
- From 30 years to 20 years with level payments

2016

- Changes in discount rates approved

2014

- Valuation change

2013

- PEPRA formula for new hires

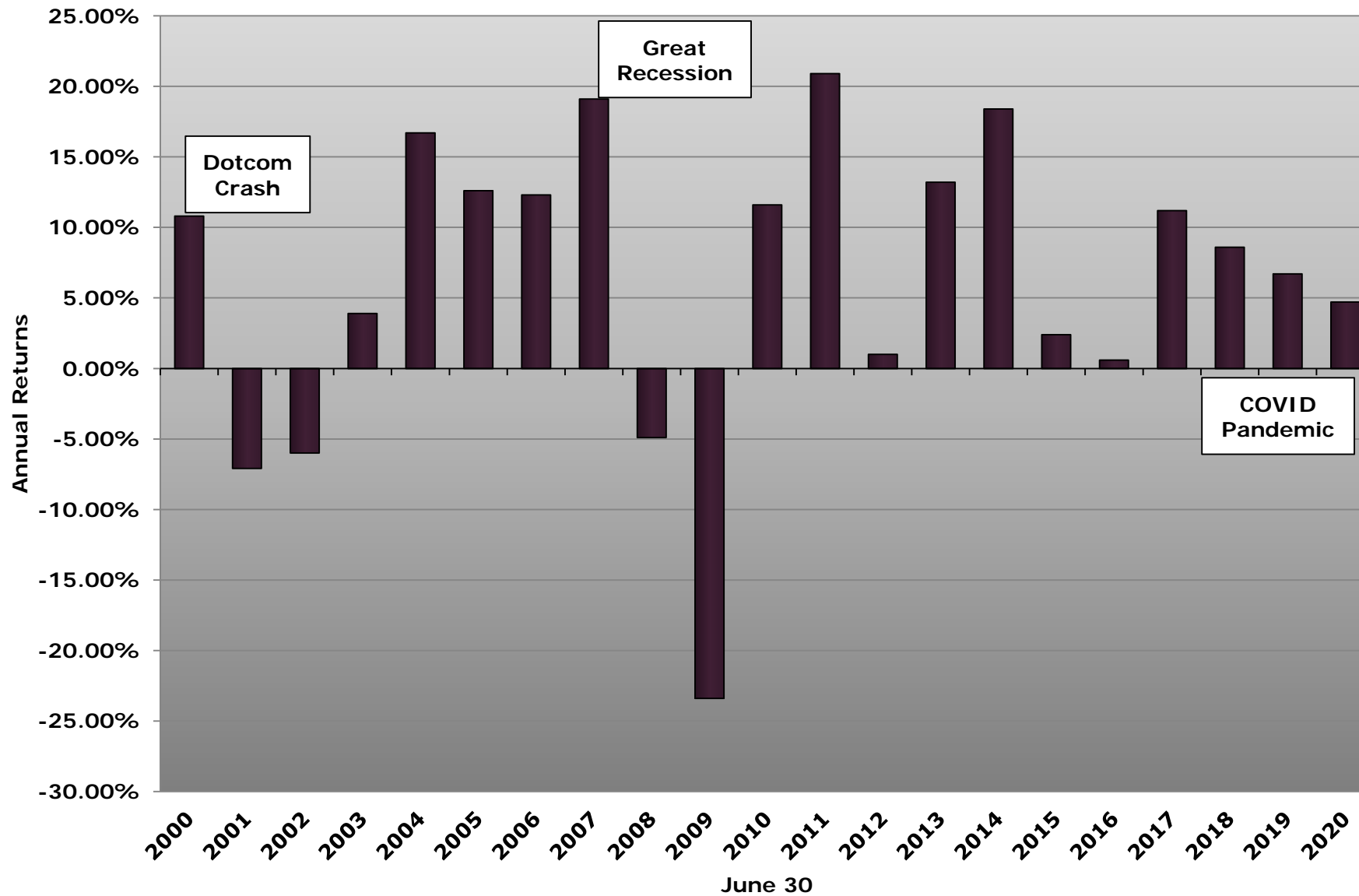


Discount Rate Changes

CalPERS Discount Rate Changes	
2020	7.000%
2019	7.250%
2018	7.375%
2012	7.500%
2004	7.750%



Since 2000, CalPERS Returns Have Averaged 6.35% and 8% Over the Last 30 Years



Restructuring Options



Restructuring the UAL

Options for addressing unfunded liabilities at CalPERS:

Prepay the annual UAL payments early in the fiscal year

Utilize reserve funds and/or annual budget appropriations to prepay "layered" loans owed to CalPERS

Request a "Fresh Start" with CalPERS that will result in a new payment schedule, over a shorter period of time, at the CalPERS discount rate of 7%

Restructure all or a portion of the Remaining UAL utilizing a Pension Obligation Bond (POB)

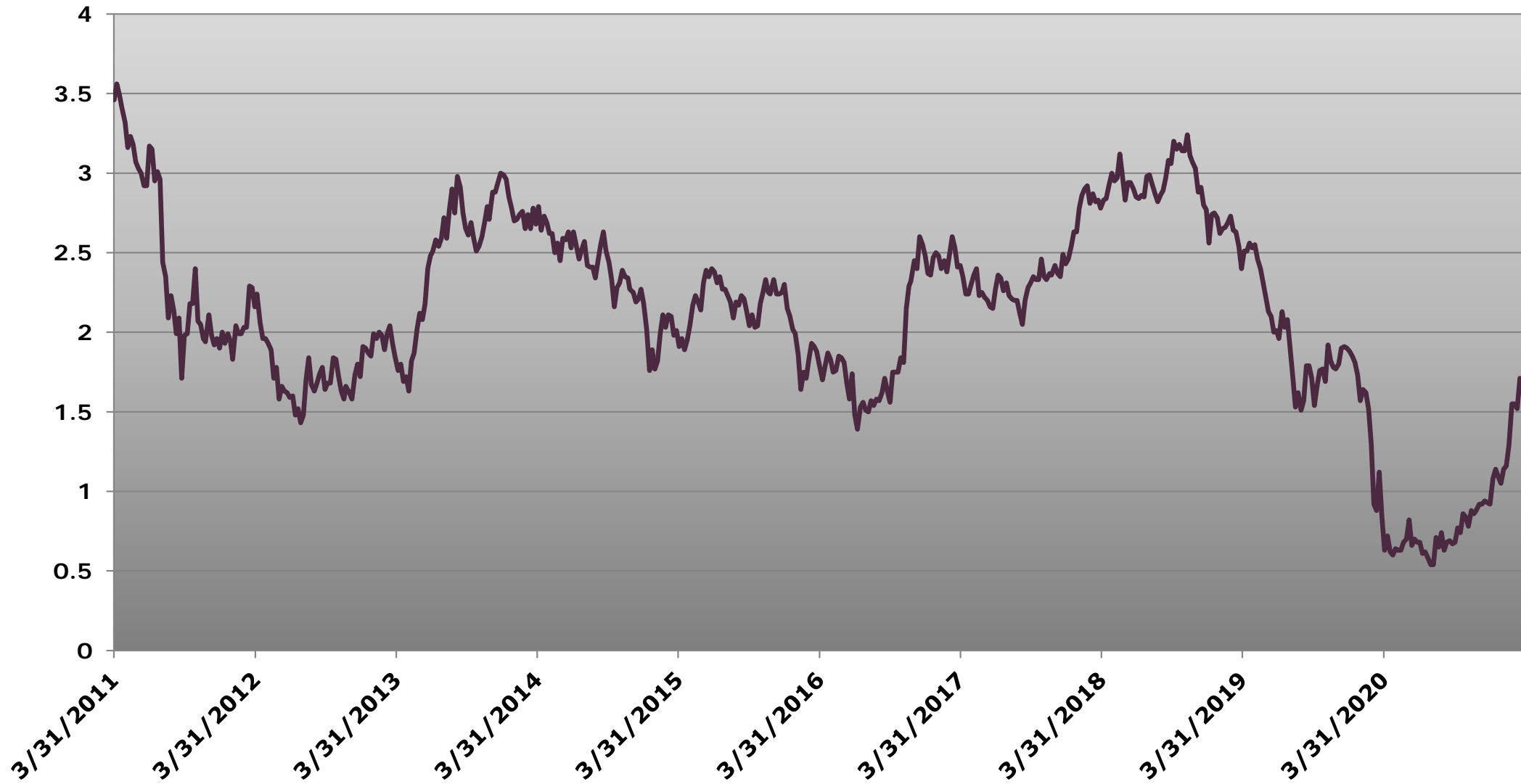


Partial Prepayment of UAL with District Funds

Example of Targeted Prepayment					
Loan	Date Established	Escalation Rate	Amortization Period	Balance 6/30/2021	Minimum Payment 2021-22
Pre-2013 Pool UAL	6/30/2013	2.75%	16	\$4,681,437	\$403,099



Interest Rates as Measured by the 10 Year Treasury are Relatively Low



Pension Obligation Bonds

Pre-payable, fixed interest rate loan
of up to 25 years






Interest rate based on market conditions and underlying perceived or actual credit rating

Repaid from and secured by the General Fund

Loan is structured as a direct placement (sold to a bank with a single interest rate) or Public Offering (Loan is broken up into pieces and sold in the capital markets)



UAL Restructuring Options

-  Level Payments
-  Uniform Savings - Savings is the same every year
-  Coverage - Debt service is a percentage of what it was
-  Term - Spread costs based on budget requirements
-  Use of Equity



Funding Target

The MFPD has an overall funding target of 100%.

- The table below shows the amount of funding required to fund 95% of the liability at CalPERS while utilizing the Pension Trust to make up the remaining 5%.

CalPERS Plan Funding at 95% As of June 30, 2019				
Plan	Accrued Liability	Funded Status at 95%	Market Value of CalPERS Asset	Required Funding
Miscellaneous Plan	\$10,715,596	\$10,179,816.20	\$8,155,870	\$2,023,946
Safety Plan	\$94,643,125	\$89,910,968.75	\$71,666,915	\$18,244,054
Less Equity Contribution	n/a	n/a	n/a	(\$5,712,199)
Total	\$105,358,721	\$100,090,785	\$79,822,785	\$14,555,801



Potential Funding Plan

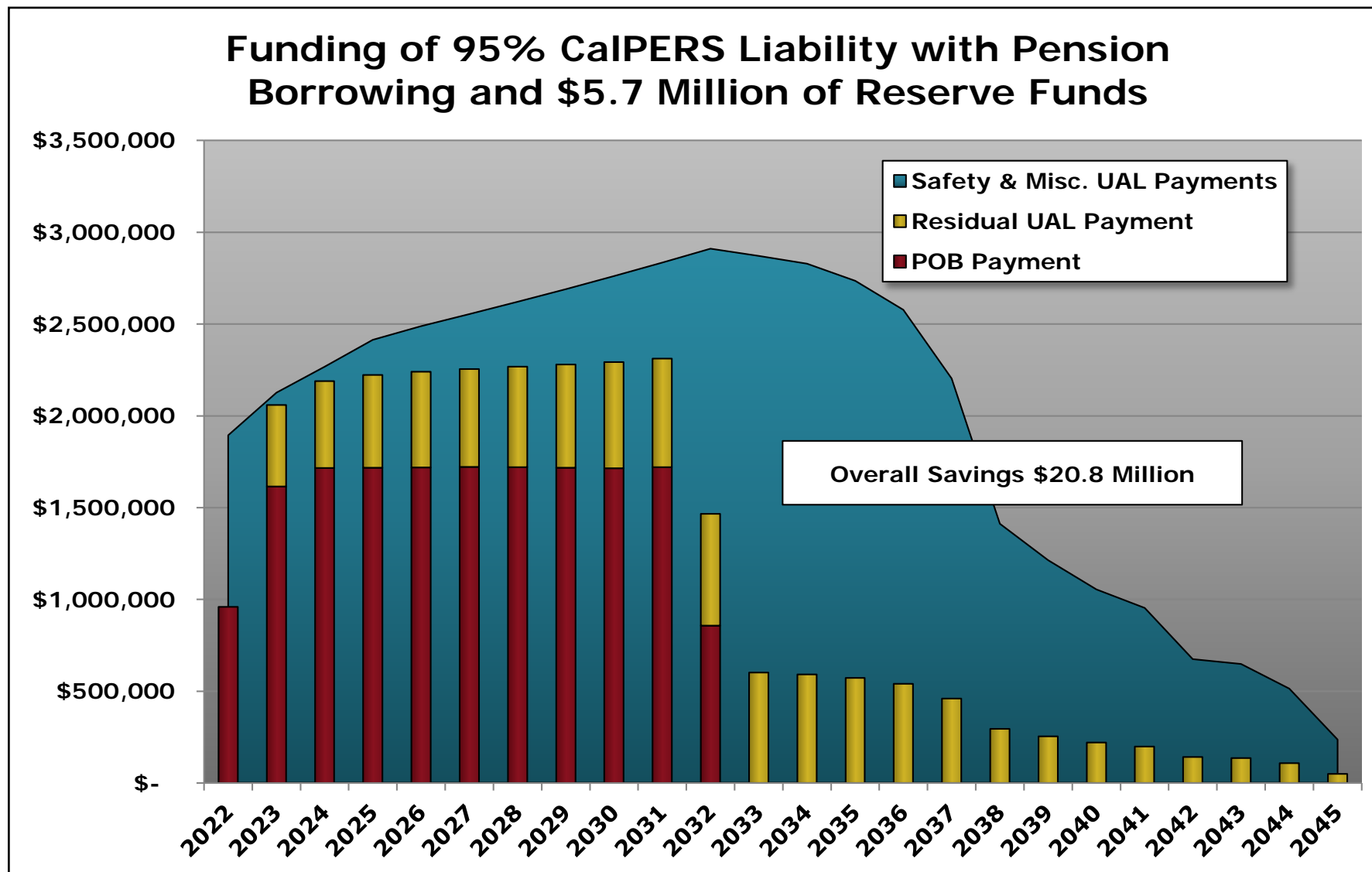
The MFPD can apply \$5.7 million to prepay the CalPERS liability and borrow approximately \$14.5 million to fund 95% of the CalPERS liability

The borrowing entails the issuance of a POB, similar to the POB the issued in 2011 and paid off in 2018.

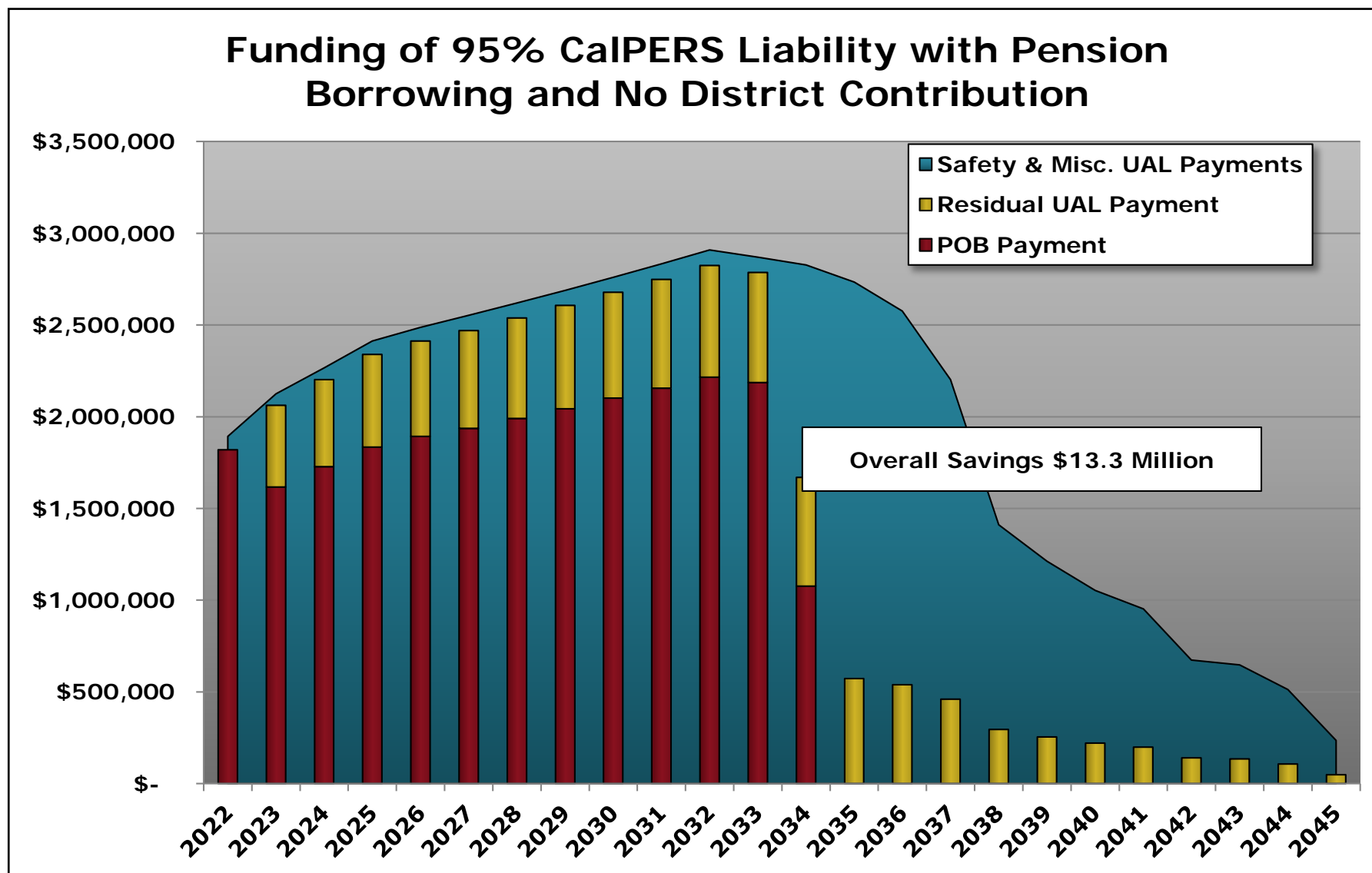
The following charts show the current and restructured UAL Payments for the CalPERS Safety and Miscellaneous Plans.



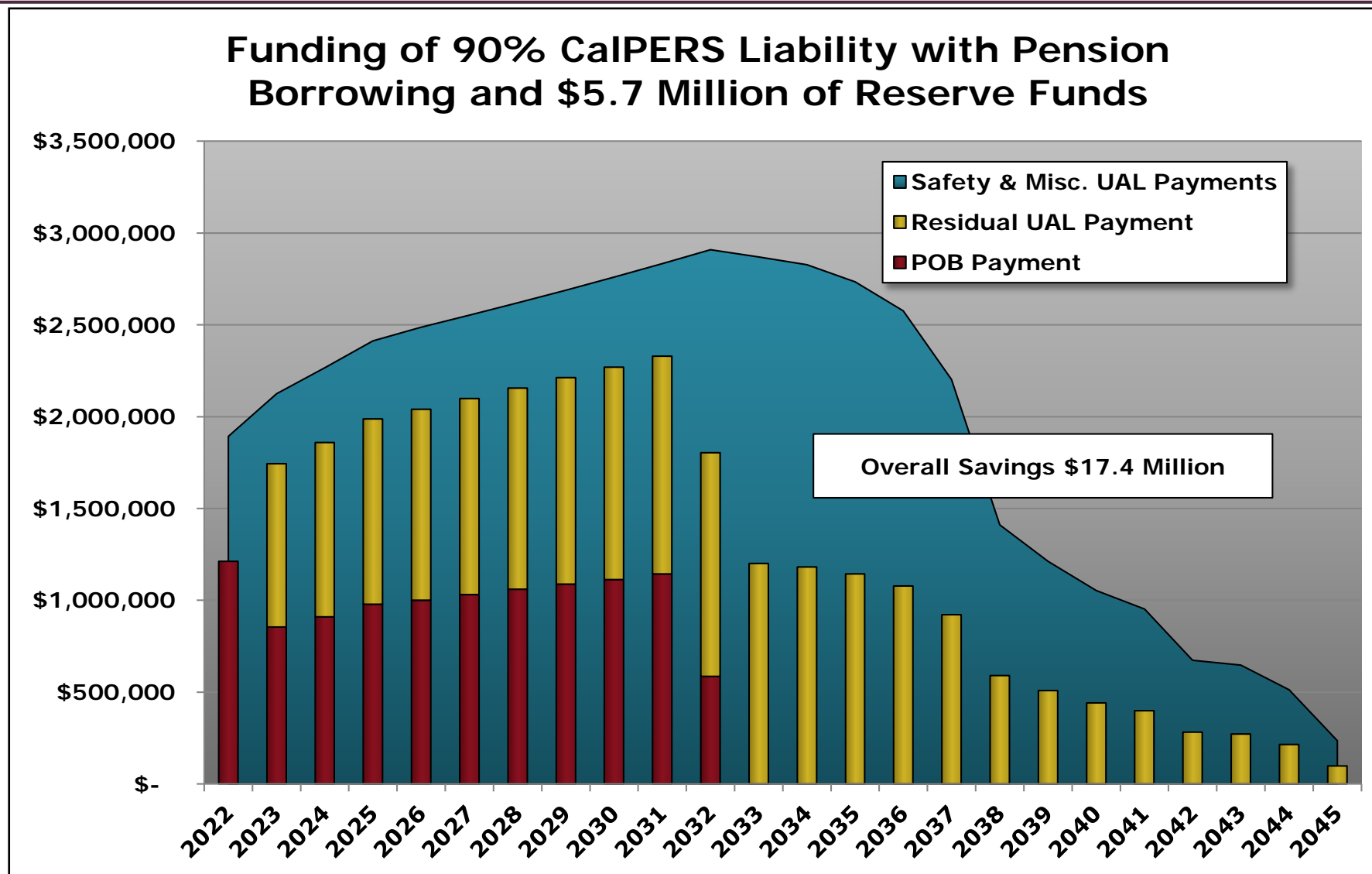
Option #1



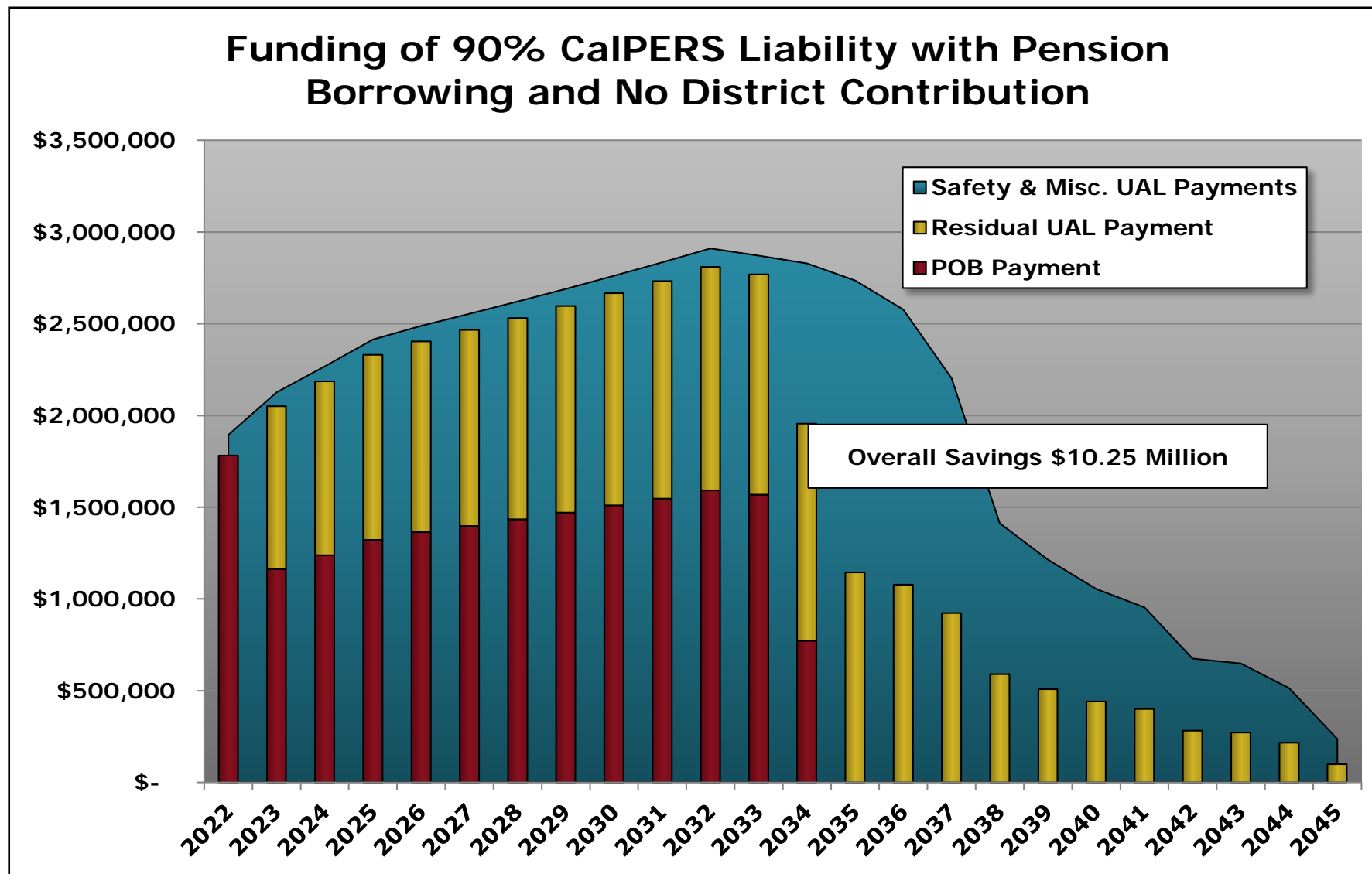
Option #2



Option #3



Option #4



Statistical Comparison

Summary of Estimated Savings				
	Option 1 95% Funded with \$5.7M Contribution	Option 2 95% Funded without Contribution	Option 3 90% Funded with \$5.7M Contribution	Option 4 90% Funded without Contribution
Required CalPERS Deposit	\$20,268,000	\$20,268,000	\$15,000,000	\$15,000,000
All Inclusive Borrowing Cost	3.25%	3.25%	3.25%	3.25%
Term of POB	10	12	10	12
POB Payments	\$17,171,483	\$24,598,260	\$10,978,040	\$18,154,553
Residual Payments to CalPERS	\$9,532,630	\$9,532,630	\$19,065,500	\$19,065,500
Total Payments POBS & CalPERS	\$26,704,113	\$34,130,890	\$30,043,540	\$37,220,053
Scheduled CalPERS Payments	\$47,462,753	\$47,462,753	\$47,462,753	\$47,462,753
Overall Savings	\$20,758,640.00	\$13,331,863.00	\$17,419,213.00	\$10,242,700.00



Notes to Statistical Comparison

- The estimated borrowing cost is approximately 3.25%
- This savings estimates are based on a CalPERS discount rate of 7%
- Dis-savings may occur if CalPERS earns less than the borrowing cost
- The interest rate on the POB is determined based on market conditions at time of sale



Station #3 and OPEB



Joint Fire Station with Carpinteria-Summerland

MFPD Contribution \$7.5 million for construction and \$1.5 million annually for operations

Funding Options:

Cash on hand

Lease-Purchase
Financing



Financial Considerations

Basic Approach to Valuing Options

Fire Station Loan - \$1.17 per \$1 borrowed

POB - \$1.21 per \$1 borrowed

Value of CalPERS Contribution - \$1.30 per \$1 prepaid

CalPERS Loan - \$1.82 for \$1 UAL



Other Post Employment Benefits



OPEB Liability

• \$15,923,820



Plan Assets

• \$12,402,086



Net Pension Liability

• \$3,521,734



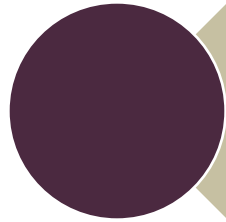
Withdrawals can be made for prior fiscal year and to pay or reimburse benefits



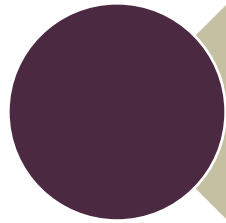
The discount rate of 5.5%



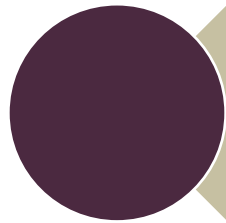
Considerations for Funding Strategies



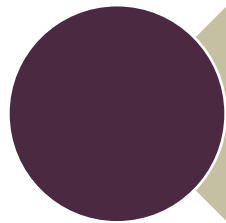
Liquidity for General and Land and Building Fund



Funding for Station #3



Evaluating Projects based on Cost of Funds



Optimizing Borrowing Amounts

