



**City of Bryan
Pension Obligation
Bonds**

September 8, 2020

Pension Obligation Bonds

Staff is proposing to fund the Unfunded Actuarial Accrued Liability (UAAL) of the City's Pension Liability using Pension Obligation Bonds

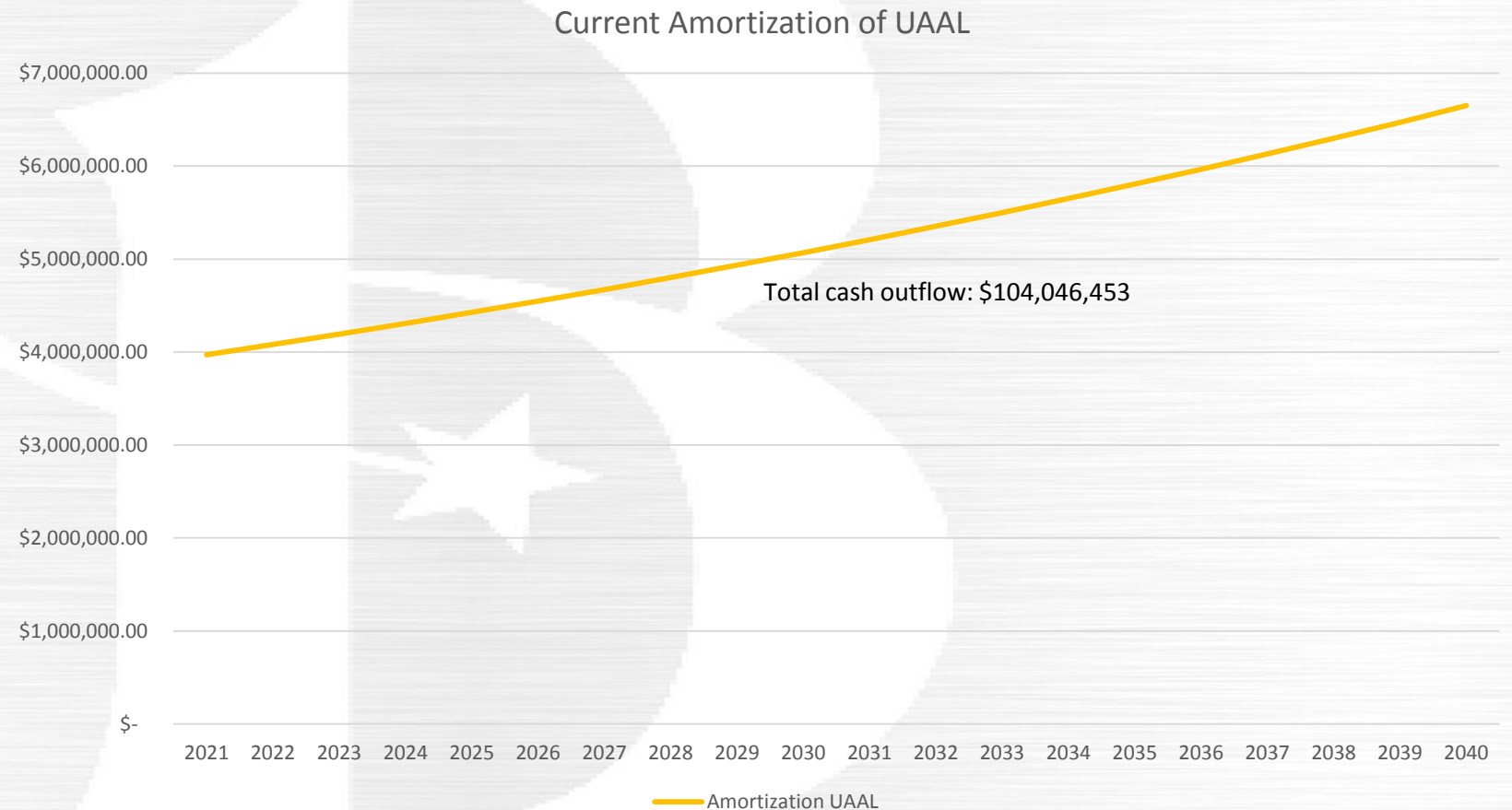
- Current Unfunded Liability as of 12/31/2019 (most recent valuation)

Actuarial Accrued Liability	\$ 366,822,333
Actuarial Value of Assets	<u>312,632,529</u>
Unfunded Liability	<u><u>\$ (54,189,804)</u></u>

Current TMRS Funding Schedule

Under the current amortization plan, the UAAL will be amortized over 20 years. This estimated cash-flow will result in a total cost to amortize the UAAL over that period of \$104,046,453.

Year	TMRS Funding
2021	\$ 3,971,633
2022	4,080,853
2023	4,193,077
2024	4,308,386
2025	4,426,867
2026	4,548,606
2027	4,673,692
2028	4,802,219
2029	4,934,280
2030	5,069,972
2031	5,209,397
2032	5,352,655
2033	5,499,853
2034	5,651,099
2035	5,806,504
2036	5,966,183
2037	6,130,253
2038	6,298,835
2039	6,472,053
2040	6,650,035
Total Cash Outflow	\$ 104,046,453



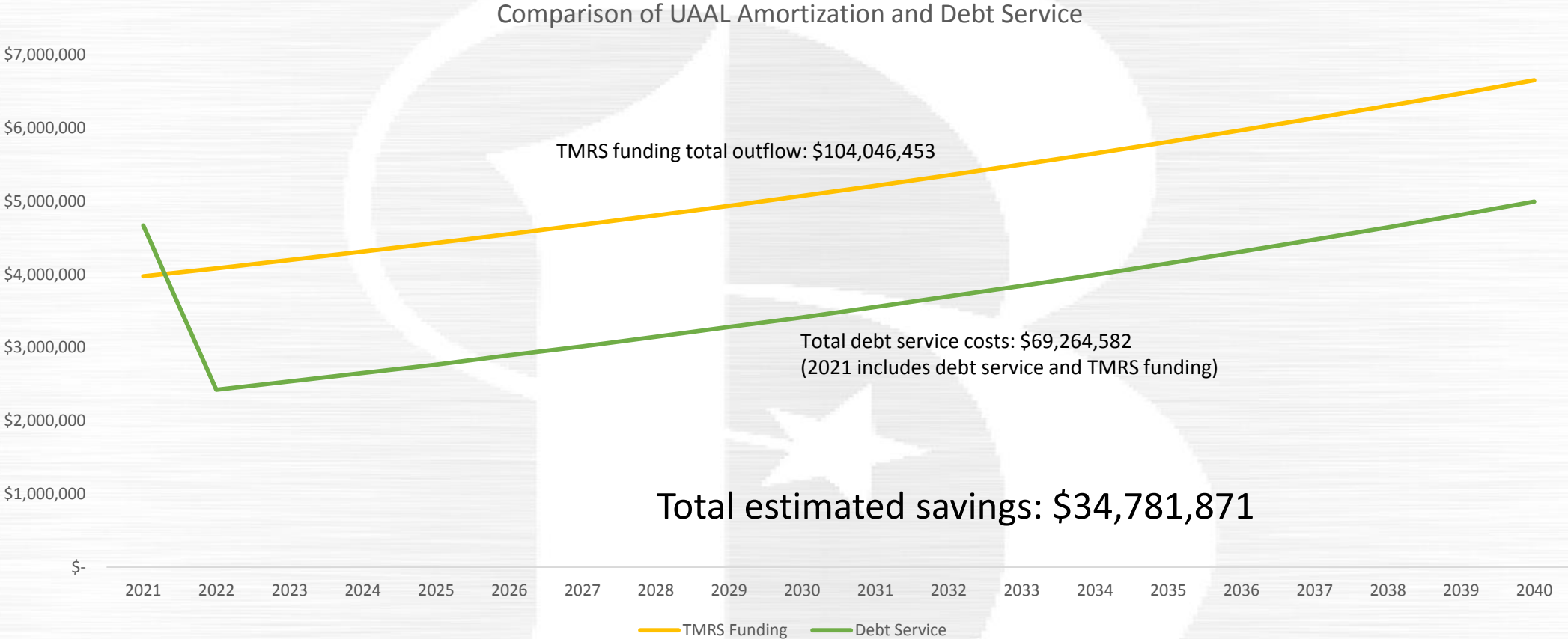
Current Market Rate – Taxable Bonds

In the current interest rate environment, rates for taxable bonds for municipal issuers are historically low.

- Estimated rate for this Pension Obligation Bond is a True Interest Cost of 2.17%.
- This rate, will show significant savings over the 20 year period compared to the estimated amortization of the UAAL.
- Total estimated savings: \$34,781,871.
- The debt service is not in compliance with the Financial Management Policy Statements, however this amortization allows savings to be spread more evenly over the life of the debt.

Year	TMRS Funding	Debt Service	Diff Total
2021	\$ 3,971,633	\$ 693,983	\$ (3,277,650)
2022	4,080,853	2,420,975	(1,659,878)
2023	4,193,077	2,535,625	(1,657,452)
2024	4,308,386	2,652,231	(1,656,155)
2025	4,426,867	2,766,371	(1,660,496)
2026	4,548,606	2,892,486	(1,656,120)
2027	4,673,692	3,013,229	(1,660,463)
2028	4,802,219	3,145,281	(1,656,938)
2029	4,934,280	3,277,942	(1,656,338)
2030	5,069,972	3,410,100	(1,659,872)
2031	5,209,397	3,553,280	(1,656,117)
2032	5,352,655	3,695,691	(1,656,964)
2033	5,499,853	3,841,871	(1,657,982)
2034	5,651,099	3,992,808	(1,658,291)
2035	5,806,504	4,147,109	(1,659,395)
2036	5,966,183	4,308,520	(1,657,663)
2037	6,130,253	4,472,560	(1,657,693)
2038	6,298,835	4,640,480	(1,658,355)
2039	6,472,053	4,812,040	(1,660,013)
2040	6,650,035	4,992,000	(1,658,035)
Total Cash Outflow	\$ 104,046,453	\$ 69,264,582	\$ (34,781,871)

Comparison of Amortization of UAAL and Debt Service



TMRS Investment Allocation

TMRS Asset Allocation Targets

Asset Class	Minimum %	Target %	Maximum %
Global Equities	25%	35%	45%
Core Fixed Income	5%	10%	15%
Non-Core Fixed Income	15%	20%	25%
Real Estate	5%	10%	15%
Real Return	5%	10%	15%
Absolute Return	5%	10%	15%
Private Equity	0%	5%	10%
Cash Equivalents	0%	0%	10%

Source: TMRS annual financial report

TMRS Investment Rate of Return - Historical

2019 Investment Results - TMRS

	1 Year	3 Years	5 Years	10 Years
TMRS Total Fund Return	14.96%	8.75%	6.75%	7.07%

Source: TMRS annual financial report

Pension Obligation Bonds

Staff has consulted with the following to date:

- Specialized Public Finance, City of Bryan Financial Advisor (Steven Adams, Paul Jasin, Patrick Smith)
- Orrick, Herrington & Sutcliffe LLP, City of Bryan Bond Counsel (Jerry Kyle)
- TMRS - Director of Actuarial Services (Leslee Hardee)

Recently, the City of Arlington became the first TMRS member city to issue Pension Obligations Bonds in the amount of \$173M. This debt issue and agreement was approved by the Office of the Attorney General and the bonds were issued in late August.

Pension Obligation Bonds – Next Steps

Remaining obstacles to issuance:

- Office of the Attorney General opinion on bonds – Orrick, the City's Bond Counsel, will seek an OAG opinion on the bonds.
- Credit Rating Agency treatment of the bonds - How does issuing Pension Obligation Bonds affect the City's credit rating?
- TMRS Agreement – By law (Local Government Code chapter 107) the City Council is required to enter into an agreement with TMRS prior to issuing the bonds and submitting a lump sum payment to TMRS for the unfunded portion of the City's liability.

Pension Obligation Bonds – Proposed Timeline

- September 8th – Receive direction from City Council
- September 15th – Propose resolution for agreement with TMRS and parameter bond sale
- October 22nd – 23rd – TMRS Board meeting to accept agreement with City of Bryan City Council
- October 27th – Estimated date for bond sale
- Before December 31, 2020 – Issue bonds and fund lump sum payment to TMRS.

Questions?