Monday, March 8, 2021

1. **Call to Order**
   The Wheaton City Council Planning Session was called to order at 7:00 p.m. by Mayor Suess. The following were:

   Physically Present:

   Councilman Barbier
   Councilwoman Bray-Parker
   Councilwoman Fitch
   Councilwoman Robbins
   Councilman Rutledge
   Mayor Suess
   Councilman Zaruba

   City Staff Physically Present:
   Michael Dzugan, City Manager
   John Duguay, Assistant City Manager
   Susan Bishel, Public Information Officer
   Robert Lehnhardt, Director of Finance

2. **Approval of February 22, 2021 Minutes**
   The Council approved the February 22, 2021 City Council Planning Session minutes.

3. **Public Comment**
   There were no public comments.

4. **Analysis Of Future Funding Of Police And Fire Pension Liabilities**
   City Manager Dzugan stated that this was a continuation of a discussion exploring financial strategies to address the City's Police and Firefighters' Pension Funds' unfunded pension liabilities. He stated that the following presentation would discuss the details of the issuance of Pension Obligation Bonds as a potential financial strategy.

   Director of Finance Lehnhardt introduced the financial consultants the City is working with on financial strategy options for the City.

   Heidi Andorfer of Foster and Foster provided an overview of the current funded status of the Firefighters' and Police Pension Funds. She stated that on a funding basis the Firefighters' Pension Fund's Unfunded Actuarial Accrued Liability (UAAL) is approximately $15,032,799 and is 70.6% funded, and the Police Pension Fund's UAAL is approximately $42,633,339 and is 58.5% funded. The City assumed actuarial rate of growth is 6.75% on the total UAAL of $57,666,138.

   Ms. Andorfer reviewed the City's contributions, estimated administrative costs, payment required to amortize the unfunded liabilities over 20 years, and anticipated member contributions.

Ms. Andorfer stated that the current City contributions include $1,908,482 for the Firefighters' Pension Fund and $3,828,765 for the Police Pension Fund with approximately 51.3% ($979,770) of the Firefighters' Pension Fund City contributions and approximately 72.6% ($2,778,648) of the Police Pension Fund City contributions currently being allocated towards the UAAL amortization payments.

Ms. Andorfer provided an overview of the amortization payment components and stated that the current annual contributions are not enough to cover the interest growth on the UAAL due to the City's payroll growth assumption rate of 4.00% paired with the remaining 20-year amortization period. She stated that the current contribution structure allows the City to make smaller payments at the current stage of the amortization period with higher payments towards interest and lower payments towards the principal of the unfunded liabilities, but the total annual required contributions would continue to increase through the end of the amortization period.

In response to Council questions, Director Lehnhardt stated that the City has been gradually reducing its payroll growth assumption rate since 2015 from 6% to the present 4%.

In response to Council questions, Ms. Andorfer stated that the City could increase their current and future contributions to mitigate significant required contribution costs towards the back end of the 20-year amortization period.

Dalena Welkomer of Robert W. Baird & Co. Incorporated provided an overview of the issuance of Pension Obligation Bonds as an alternative financing method to addressing the City's current UAAL. Ms. Welkomer stated that Pension Obligation Bonds are issued as general obligation bonds with a dedicated property tax levy to cover debt service payments of the bond. She stated that the City could have a bond issued at an estimated taxable bond interest rate of 2.41% based on the current market.

In response to Council questions, Ms. Welkomer stated that the assumed actuarial rate of growth of 6.75% on the UAAL is only an assumed rate of growth.

Ms. Welkomer provided an analysis representing the potential interest cost savings based on the hypothetical assumed actuarial rate of growth of 6.75% on the UAAL and the bond interest rate of 2.41%, which could yield approximately $25,540,559 in present value savings compared to current annual payments. She stated the issuance of Pension Obligation Bonds could potentially lower some future annual payments towards the UAAL by as much as $4 million.

Ms. Welkomer provided an overview of the benefits and risks of issuing a pension obligation bond.

Ms. Welkomer stated that the City's pension funds have seen a nine-year average actual investment rate of return of 7.25% for the Firefighters' Pension Fund and eleven-year average actual investment return of 7.45% for the Police Pension Fund. She stated that if each fund earned an average investment rate of return of 5% over the next 20 years, the City would still see an estimated gross savings of $19.3 million on the issuance of pension obligation bonds or present value savings of $13.4 million.

Ms. Andorfer stated that the issuance of a pension obligation bond would only address the unfunded liability (UAAL) and the City would need to continue to make its annual contributions for normal cost of benefits, administrative costs, and any future UAALs that may arise.

In response to questions from Council, Ms. Andorfer stated that she would recommend the City revise its funding policy to extend the amortization period potentially beyond 2040 and decrease the annual payroll growth rate below 4% if the City pursues the issuance of a Pension Obligation Bond.

Ben Mohr of Marquette Associates provided an overview and analysis of three investment strategy options for the pension obligation bond proceeds. He stated he would be using the assumed actuarial rate of growth of 6.75% and assumed bond interest rate of 2.41% for pension obligation bonds.

Mr. Mohr discussed the assumed target return after the consolidation of the Firefighters' and Police pensions investments and presented similar municipality and fire district scenarios.

Mr. Mohr discussed the utilization of the investment strategy of dollar-cost averaging in which the total investment amount would be divided up into multiple smaller amounts to be invested periodically over regular intervals rather than one lump-sum that could potentially be invested before a market downturn. He stated that the projection approach would be to divide the potential $57 million bond proceeds into six segments that would be invested monthly.

Mr. Mohr presented potential dollar-cost averaging schedules and pension obligation bond projections with and without market correction scenarios.

In response to questions from Council, Mr. Mohr recommended that the City utilize dollar-cost averaging if they pursue the issuance of a pension obligation bond and begin gradually investing equal amounts upon issuance of the bond up until July 1, 2022 when all of Illinois Firefighters' and Police pension fund's investments are consolidated. Mr. Mohr stated that the reasoning for investing funds prior to the Illinois Firefighters' and Police pension fund investment consolidation is because the City will still have control of how the funds can be invested prior to the consolidation.

The Council requested to revisit the utilization of dollar-cost averaging and a proposed timeline of investing prior to the Illinois Firefighters' and Police pension fund investment consolidation on July 1, 2022.

The Council requested that City staff provide analyses of the previous funding strategies, including issuing a $57 million pension obligation bond utilizing dollar-cost averaging.

The Council requested that City staff provide details to coincide with the funding strategies that include an analysis of the City's debt capacity, potential risk evaluations associated with the funding strategies, and financial projection visualization timelines from the beginning to the end of each funding strategy option.

5. 2010 General Obligation Bonds – Refinancing

Director of Finance Lehnhardt provided an overview of the City's issued $6 million in General Obligation Bonds from 2010 that have a maturity date of December 1, 2024 and are financed through the annual Property Tax Levy. He stated that the bonds were issued to fund the Manchester/Wesley Street Bridge, North Main Street Flood Control, Briarcliffe Boulevard Reconstruction, and the annual road program.

Director Lehnhardt stated that the City's consultant, Baird, reviewed the City's outstanding General Obligation Bonds and determined the 2010 General Obligation Bond to be an economical refinancing candidate. The bond has an outstanding balance of $3,225,000 in principal and $328,800 in interest at an interest rate of 4%.

Director Lehnhardt reviewed the three refinancing options for the bond, which include: 1) a public offering bond issuance of approximately $2.47 million with estimated total transaction costs of $74,700 resulting in an estimated true interest cost of 1.39% and estimated present value savings of $164,055; 2) a private placement bond issuance of approximately $2.54 million with estimated total transaction costs of $32,500 resulting in an estimated true interest cost of 1.2% and estimated present value savings of $175,713; and 3) a pay-off using $2.5 million in General Fund excess reserves to pay off the entire bond issue, with an estimated present value savings of $189,702.

In response to questions from Council, Director Lehnhardt stated that there is no penalty for paying off the bonds early. Dalena Welkomer from Baird stated that an option could be created that would split the public offering and private placement bond issuance, but an analysis would need to be completed to calculate cost savings.

In response to questions from Council, Ms. Welkomer stated that the Reoffering Premium allocated to public offering bond issuance option is a premium coupon protection for the investor that is calculated by the difference between the assumed coupon percentage and the assumed yield percentage. She stated that it provides a coupon that is higher than the yield of the issuance as a protection against any potential interest rate increases.

The Council requested City staff proceed with exploring the pay-off option of using $2.5 million in General Fund excess reserves to pay-off the entire bond issue.

6. City Council/City Staff Comments

There were no City Council/City Staff comments.

7. Adjournment

The meeting was adjourned at 9:13 p.m.

Respectfully submitted,

Daniel J. Peck