CITY OF NORWICH EXPLANATORY TEXT
November 2, 2021 Referendum

The Norwich City Council, at its meeting of August 3, 2021, adopted an appropriation and borrowing ordinance in the amount of $145,000,000 in connection with the issuance of general obligation pension bonds to fund the liabilities of the City of Norwich Employees' Retirement Plan and further voted to submit the appropriation and bonding authorization, in accordance with the City Charter, to the voters of Norwich for approval or disapproval at a referendum to be held in conjunction with the November 2, 2021 election between the hours of 6:00 a.m. and 8:00 p.m. Pursuant to Sec. 9-369b of the Connecticut General Statutes, as amended, the City Council has authorized the City and Town Clerk to prepare an explanatory text with respect to the question. The explanatory text is set forth under the question below. This explanatory text will be furnished to each applicant for an absentee ballot and will be made available for public distribution and at the polling places. The full text of the appropriation and bonding ordinance, as approved by the City Council, is on file and available for public inspection at the Office of the City and Town Clerk, City Hall, 100 Broadway, Room 215, Norwich, CT 06360, during the City's regular business hours. The appropriation and bond authorization to be voted on shall be placed on the ballot under the following ballot heading:

Shall the $145,000,000 appropriation and bond authorization for the funding of all or a portion of the unfunded actuarial accrued liability of the City's Employees' Retirement Plan, pursuant to the ordinance adopted by the City Council on August 2, 2021, be approved?

Explanation

<u>Q. What is a Pension Obligation Bond?</u>

A Pension Obligation Bond (POB) is a bond sold by the City to investors to fund all or a portion of the unfunded accrued liability of the City's Pension Plan.

A POB is similar to refinancing a home mortgage and intended to take advantage of current low interest rates resulting in savings to the City. The City will pay investors interest in order to sell the POBs. The funds the City receives from investors upon the sale of the POBs will be invested as part of the portfolio of pension plan assets. The portfolio is managed to achieve a target long-term rate of return that is greater than the interest rate owed over the term of the bonds.

Example:

Expected long-term return on pension assets	6.25%
Estimated bond interest rate	3.00%
Difference (potential source of savings)	3.25%

Q. What component of the overall pension cost will be impacted?

Most of the City's pension contributions are used to fund the Unfunded Accrued Liability. This is the cost associated with employee benefits which were earned in the past but are not currently matched with assets of the pension plan. POBs are issued only to address this Unfunded Accrued Liability. The City will continue to have an obligation to fund pension benefits as City employees earn them in future years.

Q. What is the City of Norwich proposing and why?

The City is proposing to issue up to $145 million of POBs in order to fund the Unfunded Accrued Liability and to pay those bonds off over 25 years.

An actuarial analysis of the proposed plan indicates that the POBs could yield net present value savings of $43 million over a 30-year period. *These savings are not guaranteed.* Actual savings or costs will depend on actual future investment performance.

Q. What will the City do to address the potential risks of issuing POBs?

The City intends to do the following to decrease the risk to the City's finances in periods of poor market returns:

- After the POBs are issued, the proceeds will be gradually invested in the market over a period of 18 to 36 months. This avoids the risk of buying investments when the market is at a peak and suffering losses if the market drops.
- The City will establish a pension reserve fund with the amount that has been budgeted as a pension contribution for fiscal year 2021-22. If there are market losses that would cause the City's pension cost to increase sharply in later years, the pension reserve fund will help pay the pension contribution. If there are market gains that would cause the City's pension contribution to fall, the savings will be used to put additional money into the pension fund or the Other Postemployment Benefits fund.