Here's the Facts: Borrowing $10 Million to Pay for Day-to-Day Operations

Fiscal Irresponsibility

The City Council took out a ten million dollar "loan" so **Tony Wu** and **Letty Lopez** can pretend the budget is "operating at a surplus" and that the "reserves are over $24 million." ***The City Council is playing games. It is financially irresponsible to use one credit card to pay off a second credit card.***

- ***Borrowing Money to Pay for Operations:*** On July 7, 2020 **Letty Lopez** and **Tony Wu** voted to sell $205 million dollars in lease revenue bonds to pay for employee retirements (CalPERS payments). This action allowed the City to reduce the CalPERS pension payment amount and the interest rate it pays. Reducing pension costs is a positive action.

  However, the City mislead residents that <u>all</u> the proceeds from the bonds were going to be used for pensions. Only $195 million was used for pensions. The remaining $10 million was used for general fund day-to-day operations and to "pump up" the reserves.

- ***The Switch:*** <u>When borrowing the money, the city also did a switch</u>. The City started the process with Pension Obligation Bonds. They switched from Pension Obligation Bonds (POB) to lease revenue bonds (LRB) when they learned that <u>voters must approve the sale of POBs</u>. Instead of going to a vote of the people, the city switched to lease revenue bonds. <u>No vote is required for LRBs</u>.

  There are other important differences between the two bond types. POBs can only be used for pension obligation bonds and do not require collateral. Lease revenue bonds can be spent on anything, and collateral is required. **Tony Wu** and **Letty Lopez** used our streets for collateral (<u>San Gabriel Valley Tribune</u>. July 8, 2020). They have been spending the extra money they borrowed while also pumping up the reserves.

- ***On-Going Pension Liability:*** The City also pretends that the bond purchase "solved" the unfunded pension liability. <u>It did on the day the bonds were purchased</u>. The next day new pension obligations started again because pension payments are an ongoing process. In real world terms, the unfunded pension liability grows every year with or without bonds because the entire CalPERS pension system is grossly underfunded.

  The primary way a city's pension payments can be reduced or maintained at a given level is by being careful when hiring employees. If, for example, the City hires 10 additional public safety employees, it increases current expenses by $3 million. It also increases future retirement costs by $3 million over the course of time.

Borrowed money is debt that must be paid back! Borrowing money to pay for operations is a sign of fiscal distress.

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