MINUTES
FINANCE COMMISSION

Wednesday, April 26, 2023 - 5:00 p.m.
City of Huntington Beach
Council Chambers
Huntington Beach, CA 92648

For the audio recording of the April 26, 2023 Finance Commission Meeting, please visit the City's website at: https://huntingtonbeach.legistar.com/Calendar.aspx

Chair Frank Lo Grasso called the meeting to order at 5:00 p.m., and led the Pledge of Allegiance.

MEMBERS PRESENT:	Frank Lo Grasso, Chair Billy Hamilton, Vice-Chair David Cicerone, Commissioner Jamie Craver, Commissioner Kelly Gates, Commissioner Janet Michels, Commissioner Robert Sternberg, Commissioner
MEMBERS ABSENT:	None
STAFF PRESENT	Sunny Han, Acting Chief Financial Officer Serena Bubenheim, Acting Assistant Chief Financial Officer Thuy Vi, Management Aide, Finance Shari Saraye, Senior Administrative Assistant, Finance

PUBLIC COMMENTS
None

CONSENT ITEMS

Approval of Meeting Minutes

Motion: Moved by Commissioner Michels and seconded by Commissioner Craver to approve the Finance Commission Meeting Minutes dated March 29, 2023, as presented

The motion carried by the following votes: 6-0-1
Ayes: Cicerone; Craver; Lo Grasso; Gates; Michels; Sternberg
Noes: None
Abstain: Hamilton

DISCUSSION ITEMS AND POTENTIAL RECOMMENDATIONS

Vice-Chair Hamilton introduced himself and provided his background.

Acting Chief Financial Officer Sunny Han introduced Kerry Worgan, CalPERS Supervising Pension Actuary. Worgan presented the 2023 CalPERS update. He noted that that Pension Outlook Tool was recently developed to assist agencies with budgeting, planning and forecasting. Fiscal year 20/21 was a very good year as the fund did particularly well, with a 22.4% return for the year. A lot of plans and pool plans were into surplus. Fiscal year 21/22 was a challenging year with the negative 7.5% return. The 2021 valuation has been prepared and sent out, and will drive up costs for 23/24. Overall, the fund was at $440B at June 30, 2022, which is down from about $470B the year before. It has now bounced back up to approximately $450B. The system itself is 72% funded, which means they have assets on hand at 72% of what is needed to pay out all future benefits. There is still a bit of a shortfall in the fund, down from the 82%, which was a very good position for the system. They are bouncing back up to about 73% today. For every dollar that they pay to a retiree, 60 cents come from investment earnings. The investment earnings are what drive the system. Employer contributions make up 29 cents of the dollar, and the employees contribute 11 cents, or 11% of every dollar, that gets paid out to a beneficiary or a retiree. That number will likely start to escalate up because of the Public Employees' Pension Reform Act (PEPRA) legislation that has changed the dynamic, where the employees no longer have a set contribution of 7% or 8%, or 9% through a safety plan, that is now tied to half the cost. The City will see challenges as those numbers start to creep up to its employees. This legislation was put in place by Governor Jerry Brown to say that whatever the cost is of that year's benefit, the employees will pay half of that cost.

Worgan stated that the Asset Liability Management (ALM) Study is done every four years, with the last one in early 2021. They look at the Capital Market Assumptions (CMA), and ask their financial consultants to forecast for the next 10 to 20 years each of the asset classes that they maintain, which consist of bonds, equity, real estate, private equity and private debt. They look at long term, and make sure that what they are funding is reasonable as an expectation for future returns. In January of 2021, CMAs were put together for their board to choose an asset allocation. They wanted to balance a level of risk versus a return. If they take on more risk, they can get a better return, but with much more volatility versus the trade-off of a lower risk portfolio, but lower return, and therefore higher cost to both employers and the employees. It is a very daunting challenge for them to balance. The current asset mix was 50% global equity, and the new asset mix is 42%. Fixed income went from 28% to 30%, private equity went up from 8% to 13%, and they are now taking in private corporation debt as a better yield than government debt. There is a slightly better return, and with a little more risk, that makes it a worthwhile endeavor. The portfolio that they came up with was expected to have a long-term return of 6.8%. With the Risk Mitigation Policy, they set a discount rate of 7%. In good years, if they outperform the 7%, they are going to lower that discount rate where they take some of that gain to pay down some of the risk in the portfolio. With the 22% return, they ended up taking the discount rate from 7% to 6.8%. All of that was going on at the same time that they were doing the ALM, and the board was tasked with deciding the new discount rate. There were are arguments to lower the discount rate to 6.5%, which would have driven up some of the costs. There was also push to raise it up to 7% again. The board elected to stay the middle ground with the 6.8% as their best estimate for future returns. Worgan pointed out that the study was done early in 2021, but at that time, CMAs were depressed quite a bit. Bond yields were down around 1%-1.5%, but those bond yields have crept back up, and a 10-year treasury is now 4.5%. The CMAs definitely have pushed back up, but in two years when CalPERS does their next review, there is uncertainty, as there is still a lot of volatility in the financial markets. If they stay where they are today, the discount rate could easily be up at 7% again, which would again lower some of the cost and unfunded liability. It is a moving target, but they monitor it to make sure that they are comfortable with the positions that they are in. If they believe that the CMAs have changed dramatically, there is mechanism to alter it called a mid-cycle review that will be coming up later this year. They may revisit and look to see if the discount rate needs to be changed before the four years is up.

Worgan stated that CalPERS adopted new actuarial assumptions on November 17, 2021. They do a demographic study where they review all the assumptions they make in terms of the workforce, such as mortality rates, salary, growth rates, termination rates and retirement rates. They review the data and look back about 10 years, but are interested in what has happened in the last four years to see if the assumptions need to be changed. They look at changes to termination rates and retirement rates. PEPRA plans are fairly new, so they do not have a lot of experience as to when the people in these plans will retire. They know the benefit formulas are a little lower, so they expect that they are going to retire a little later. Until they actually get some experience in to see if that is happening, it is still an estimate as they look forward.

Some of the key things that they changed in the Experience Study was that the salary growth bumped up from 2.75% to 2.8%. The inflation surprisingly dropped, because when they did the CMAs in 2021, all these forecasts were for dampening inflation. In the last 20 years, they have been looking at about 2% inflation, and that changed in the last year. While they were dropping the inflation rate to 2.3%, inflation rates have skyrocketed and are slowly coming back down again. They will look at that again in their next Experience Study, and may push inflation up a little bit in the next study. They have always known that over the course of time that there has been mortality improvement. For every 12 years, they are going to see another year of life expectancy. Women tend to live three to four years longer than men do. Covid has had a significant impact on mortality rates and saw a 20% increase in expected mortality in the first year, 20/21. In the second year 21/22, it was up about 15% over what they had expected. This year, it is up about 6%, so things are slowly getting back to what they call the new normal. That will be something they have to revisit in the next Experience Study to see how much of an impact Covid is having on baseline mortality as they go forward.

Lo Grasso asked how salary growth, inflation and mortality have an effect on the inflation assumptions of 2.75% to 2.8%. Worgan stated that becomes their assumption if they look at an individual. There are a couple of components built into their evaluation. A new 30 year-old hire has merit increases, new hires generally move up quickly within their classes, and they are going to get some merit on top of inflation and salary growth. They are pushing projected pay from the time that they are hired all the way to the proposed retirement date. These numbers are used to project for someone who is making $50,000 when they start, and will probably be making a $100,000 by the time they retire. Using that $100,000 will determine what level of benefit they need to be able to provide for, and they discount that back to the valuation date. Lo Grasso asked if we are currently closer to 6% inflation. Worgan pointed out that these are long-term assumptions, effectively for 20 years or 30 years into the future. We are at 5% or 6%, but we think things will taper off and get back to more of a normal. The federal target rate is 2%, and their goal is to try and get us back to

2% within a year or two. They know their assumptions are not exactly accurate every year. There are some people that got a big pay increase or big movement up, and there are some people that may be flat lined. Some people may terminate where we did not expect many people to terminate. Every year, they evaluate their assumptions for the City's whole plan with what actually happened. That difference every year is what they call a demographic gain or loss. If many bigger salary increases come through, they are going to generate a demographic loss for the City's plan, and that may be an additional $1M or $2M of liability that needs to be paid off over time. In years where inflation was low and they assumed 2.5% before, but are only getting 2%, that would have generated some gains for the City's plan that they did not increase the COLA benefits as much as they thought they were going to. Lo Grasso stated to get to 2.3% over 20 years when we are starting out at 6% inflation, and with the federal target rate of 2%, would take many years of being at 2%. He asked if CalPERS would adjust this number. Worgan stated that all these things were predicated on the assumptions in place back in 2021, and the 2.3% comes from the external consultants saying this is their forecast. Four years from now, when they do the next review, they may say they believe it to be 2.8% or 3% for the next 20 years, and they will push those assumptions up at that time. Lo Grasso questioned why they did not forecast inflation being over 2%. Worgan stated that he did not think many people saw it in January of 2021 when they started the study, because Covid had not really come into play where they were spending tons of money driving up inflation. The ALM Committee discussed that it looked like inflation was on its way up, but they were already committed to their set of CMAs as a model on the asset side and on the inflation side. This may be something that gets modified in the mid cycle review and you may see some adjustments as they go forward before they do the full review in 2025.

Hamilton asked for clarification on whether the assumptions are updated every year or every four years. Worgan stated that they do the analysis on the ALM and the Experience Study every four years. Because they are long-term assumptions, they should not really be changing them every year. The only one that can change right now is the risk mitigation. If they were to have another good investment return, the discount rate would decrease because you have generated a large gain. Hamilton asked and Worgan confirmed that the 2.3% inflation and the updated mortality rate due to Covid will be the consistent assumption for two more years until the 2025 study. Sternberg asked if there is a mid-year review, or true up, to see that the assumptions are still good. Worgan stated that they will do the mid cycle review in July 2023 to see if these assumptions are still appropriate or if they should be changed. The question is what the inflation rate should be instead of 2.3%. It would be significant if it is 3% for the next 20 years.

Lo Grasso stated that this number could change significantly when there is another review two years from now. The City is projecting that in about two years, we are going to be upside down with our PERS calculations and that we will need to bring money to pay down the negative. He asked if our projections are based on this information, and if that number would be a lot more in two years, because we are not looking at the right inflation number today. Worgan stated that it could be a lot more, and it could be a lot less. There is a lot going on because inflation affects two things. It affects the retirees that are getting a COLA, but the COLA is capped at 2% a year. Even if inflation is at 8%, they do not move them up to 8%, but move them up to 2% since they have retired. There is a bit of a banking element. For example, if he retired and is getting 1% inflation each year, he would bank the extra 1% each year until maybe inflation goes above the 2%, and then he can get caught up. Because of the 8% that just happened, most of our retirees are fully caught up now. Even if inflation stays at 8%, the retirees are only going to get 2% each year, so there is not a big impact from inflation on the retiree benefits. The bigger part is the active employees, because if their pay goes up at 8%, their benefits and what they project goes up at 8%, so there is going to be some significant losses. If pay increases are high and dramatic for all these plans, that starts to generate some losses for these plans and some additional costs. There are a lot of moving parts in these valuations, and it is hard to say how this is all going to play out for the next couple of years. Lo Grasso asked if our contributions are based on today's salaries. Worgan stated that projections are based on the 2021 valuations. Lo Grasso stated that the big number is salary growth at 2.8% and if it goes up considerably, could affect what we will be contributing from this City to our fund.

Worgan shared the results from the 2021 Valuation Reports. The 2021 Valuation Reports set the City's contribution rates for FY 23/24. The investment return was 22.4% and outperformed the 7% target. The Funding Risk Mitigation Policy requires them to drop the discount rate from 7% to 6.8%, taking some of the risk off the portfolio, but also offsetting some of the gain in that plan. The total unfunded liability decreased from approximately $455M to an excess of $41M. A big portion of that was the pension obligation bond that paid down a lot of that debt, and then there was the investment gain on top of that. The total funded ratio increased from 68% to almost 103%. That was very good news for the City, and for all their agencies. Worgan pointed out that the 2021 valuation reports do not reflect that 7.5% investment loss in FY 21/22. He shared the actuarial valuation results, which also include preliminary valuation results for 2022. The Miscellaneous Plan went from 72% funded in 2020 to 103.7%, and they are projecting that when the next report comes out to drop back down to 89%. Overall, 89% is still a very good number across the system. In FY 21/22, the Safety Plan funded ratio went from 65% to 102%, and then drops back down to 87%. The numbers for 2022 are preliminary and could change, and those numbers will affect your FY 24/25 costs going forward.

Hamilton stated that three of the four asset types in the asset mix, like real estate and private equity, are hard to value. He asked and Morgan confirmed that they are fair valued in the asset mix. Morgan stated that there are two numbers that come out, one in July which is a preliminary number, because it takes a while to value those things and there is about a three-month lag on real assets and private equity. There is a true up three months later, and that final report puts the value at June 30. You will see a follow up reporting in their ACFR. For example, 21.3% is what they reported out of the investment office, and the final number came in at 22.4% with the additional return from private equity and real assets. The opposite happened the following year, where they reported -6.1%, and then the final number came in at -7.5%. There is a three-month lag that gets trued up. Hamilton asked and Worgan confirmed that nothing is held at cost.

Worgan stated that there are two components of the City's cost. The normal cost is the annual accruals for active employees. He shared the slide of what total normal cost is, and what the employer pays. The difference is what the employees are contributing to those plans. From FY 22/23 to FY 23/24, those numbers increased because of the drop in the discount rate from 7% to 6.8%, and a little bit of the demographic changes. The generational mortality increased the cost as well, because they expect continued future mortality improvement. In FY 24/25, nothing is changing on the assumption side, but with the blend of more PEPRA and fewer classic employees in those plans, the total cost is starting to come down and the employer cost is projected to slowly decrease into the future. The classic employees in the Miscellaneous Plan are paying 8%, and the PEPRA employees pay 7.25%. On the Safety Plan, classics are paying 9%, PEPRA Fire is paying 13%, and Police is 12.5%. The other part of the City's cost is the UAL payments. Based on the valuation at June 30, 2021, the City is currently paying $2.3M for Miscellaneous and $3.4M for Safety and because you were in surplus, both those numbers dropped to zero in FY 23/24. Unfortunately, those numbers will start to increase with the loss that happened, and because of their amortization policy, they are going to ramp up quickly. The Miscellaneous Plan will be $2.2M in FY 24/25, and up to $3.8M FY 25/26. For Safety, it will be $3.8M in FY 24/25, and going up to $6.3M in FY 25/26. Investment gains and losses are amortized over 20 years with that five-year ramp up. Demographic gains and losses and any assumption changes are amortized over 20 years on a level dollar basis. If you have demographic gains, that creates credit, so that would lower your costs over the next 20 years on a level basis. The opposite happens if you have demographic losses due to salary increases, or higher inflation than expected. Additional discretionary payments (ADP) can result in long-term savings and many plans have been doing that. The pension obligation bonds definitely saved money. It works out to almost dollar for dollar. To put an extra $1M into the plan is going to save about $1M and future interest costs. It is a significant savings that is available to agencies. What CalPERS puts out in their reports are minimum required contributions, and you can accelerate and make a bigger payment.

Worgan pointed out that the Pension Outlook Tool was created to give us the ability to do projections going forward. The report he shared gives us a baseline. For the 2021 valuation of the Miscellaneous Plan, assuming they earned 6.8% going forward, under that basis that the plan was fully funded for the whole period. Normal cost is your rate, and the 11.22% was declining down to 7.3% because of PEPRA. In FY 21/22, they lost negative 7.5%, which drops funded status down towards 90%. For the cost, the ramping impact is cost going up on a five-year curve. He also built in a 5.5% for the current FY 22/23, because that is about what they are currently projecting, and that can go up beyond that, or can go lower than that in the next two months. As those numbers change, and as the markets change, you can do some budgeting for your plans on an up-to-date basis and projected UAL payments for the next 20 years. You can see totals for Safety and Miscellaneous together. For FY 23/24 it is zero, but it ramps up quickly to about $21M for each year going forward. The projected employer cost takes into account the normal cost on top of that. In terms of the City budget, $16M is going to grow to about $37M total and stay level there, including normal cost and UAL payments.

The CalPERS Risk Mitigation Policy explains what levels of increases would generate another drop in the discount rate. They would have to earn more than 8.8% to have an impact and lower the discount rate from 6.8% to 6.75%. If they earn seven basis points over that, it would drop even further. Worgan shared a valuation table listing the other Orange County agencies CalPERS works with, noting those agencies that do not have Safety, and those that issued POBs in FY 20/21 - Huntington Beach and Orange, and in FY 21/22 - Santa Ana, La Habra and Buena Park.

Worgan shared the Investment Tracker graph, which tracks actual versus expected Public Employees' Retirement Fund (PERF) returns since June 30, 2011. In the actuarial world, they talk about mean reversion, where markets go up and come down. They think of them as short-term -

irrational, long-term - more rational. They step back and see how have they done over time. The graph reflects that there are periods where they are above and there is a correction coming the other way, and periods where they are below, and expect the direct correction to come in the other direction. They hit peak in December in 2021 and were way off the curve, and they knew that there was going to be a correction coming, which is exactly what happened. As of today, they are a little below the line, so there is still some upside, and that is why 5.5% may be pushing closer to the 7% by the end of June, if markets reach the equilibrium.

Cicerone asked if the $29B loss in the portfolio was in equities. Worgan stated the loss was both equity and bonds, because if interest rates are increasing, bond values are also decreasing. There was no real safe harbor. Cicerone asked if the investment decision makers are outside consultants. Worgan stated they are consultants, but are not the ones actually making the investment decisions. Although he is not part of the Investment Office, his understanding is that they are used as consultants as opposed to directing the investments. He believes CalPERS staff is making most of the investment decisions on particular equities. They have a huge $450B fund and they basically represent the market. If the market is going to go up 10%, their portfolio is probably going up 10%. If the market drops 10%, they are dropping 10%. It is hard to avoid that level when you have such a large fund.

Lo Grasso stated that the CalPERS website states that the portfolio is effected by what its members consider important. Lo Grasso asked how members are asked what is important, if a survey is sent out, or if it is an assumption that nobody wants to invest in tobacco stocks. Worgan stated that it is Environmental, Social and Governance (ESG). The Governor does not allow investment in tobacco, and enacted legislation that says you can no longer invest in these particular things, like with oil and gas. They are trying to push back, because their responsibility is to provide benefits, and not to be the social conscience of all these investments. The challenge is that if you take 20% of the equities off the table, they are not as likely to earn the return that they need to earn to pay those benefits. They understand why, but they also have to generate the best returns and make sure that they are still paying benefits to individuals. The board is always open to comments from people. People will show up at their board meetings and suggest concerns in terms of how they are investing, and whether they like or do not like ESG. They try to encourage people to make presentations to the board if they feel strongly about a certain issue and topic. Lo Grasso stated that he agreed that the number one priority should be improving investments, and asked if that is the prevailing thought on the board. Worgan stated that he has heard from a number of board members, people that have made presentations to the board, and staff recommendations to not have handcuffs and to invest in the best and pick the best companies. ESG is being promoted and pushed. Social conscience for how they are investing in how they are looking after the planet. There is this trade-off between willing to earn 4% if they avoid all these risky companies, as opposed to 6.8% if they can include all those companies in the portfolio. Lo Grasso stated that he hopes that is the prevailing attitude. Morgan stated that the more people that show up and push that thought forward in front of the board definitely helps. If there are many people saying you need to get out of oil and gas, maybe they will start listening to those people.

Hamilton noted that we have three different plans and the administrative expenses that are in the notes to the financial statements total $1.3M. He asked if the administrative expenses is the fee we pay to CalPERS. Han confirmed and stated that is included in the GASB 68 report. Worgan stated that it works out to about 10 basis points. Hamilton asked if it was based on a return, assets held, or if it is flat fee. Worgan stated that those are administrative expenses, so the operation of the whole system will incur $1.3M this year, even though the return is negative 7%.

Michels asked how many California cities are included in CalPERS. Worgan stated it is more than half of the cities in California, and includes 1,400 agencies and most of the cities and counties in the system. There are 37 at counties that have their own system, like San Bernardino and Orange County. Michels asked if there are shared learnings that Orange County cities could do in aggregate, or with other cities, to help improve their position, because some cities are looking better than other cities in terms of their unfunded liabilities. Worgan stated that he has done presentations for the Association of California Cities, Orange County Chapter (ACC-OC), and they will meet and discuss items such as ADPs and POBs. California Society of Municipal Finance Officers (CSMFO) also discusses a lot of these issues and best practices. Representatives from ACC-OC have met with Marcy Frost, the CalPERS CEO, and have had discussions on ESG and what they think needs to be done as opposed to what they hear the board may be considering. Getting involved with some of those groups and having a voice and being involved is the biggest thing.

Cicerone summarized the Commissioner's meeting with the City Manager. He stated that two meetings ago, he had requested in an email to Han to add six items to the Finance Commission agenda, which precipitated a meeting with Sunny, City Manager Al Zelinka and Assistant City Manager Travis Hopkins. He noted that the summary that was prepared of the two-hour meeting with the City Manager was excellent. Cicerone stated that he had questions pertaining to metrics, measurements and things that would bring clarity to the Finance Commission, as well as City taxpayers. Vice-Chair Hamilton was also present and it was a good discussion. He had requested a lot of data and would hold off on his request with the commitment from Zelinka that we would move toward that direction. Michels asked if any of the six items were prioritized for discussion and if all six items are still on the table. Han stated all the items are still on the table, but they did not come away with a priority list. She noted that Zelinka could not be present at tonight’s meeting because he was currently attending the Citizens Academy meeting. Zelinka wanted the Commission to know that he is extending the invitation to all the Commissioners to meet with him, Hopkins and Han to discuss thoughts on how to best utilize the Finance Commission to enhance the financial health of the City. Hamilton agreed that the meeting was informational on how everyone works best together, and does not recall that there were any action items. Cicerone stated that he had previously asked for a 30-minute review from each of the department heads so that we can get up to speed on the details of how they operate and afford us the opportunity to ask questions on department organization and staffing, which lead to the idea of the Citizens Academy. He stated that he is working on preparing a financial performance metrics spreadsheet and will need to obtain the data to complete it to have future discussions. We should get an idea if we are spending too much or too little, and in what area. There should be a financial health dashboard on the City's website so any citizen could get a snapshot of how we are doing.

Lo Grasso stated that Item F from the Summary of the Meeting with the City Manager includes the two ad hoc agenda items, which concerns middle income housing programs such as Elan and Breakwater, and the Homeless Initiative. He asked when we would have a presentation regarding middle income housing. Han stated that Community Development Director is unavailable in May and we could have that presentation in June. Lo Grasso stated that he thought the presentation would be given by someone from the California Municipal Finance Authority (CMFA). Han confirmed that it would be someone from CMFA, and thought it would be most beneficial to include a department representative who also works closely on that deal to be able to answer any City specific questions. Cicerone stated that he would also like to discuss purchase of the Travelodge, or Project Homekey. He stated that the details have already been discussed with the City Council, and asked if the Commission could be briefed. Han stated at the May 19, 2023 Citizens Academy, all the department heads will be providing overviews, and it will most likely include Lieutenant Smith, who will be presenting an overview of the homeless program. If there are follow up questions, we could potentially arranging a separate presentation. Craver asked if Cicerone was creating a Homeless Initiative ad hoc committee. Cicerone stated that he would like to, but is yielding until the Citizens Academy presentation. Craver suggested that an ad hoc committee be created to prepare a list of questions that he would like to have addressed. Lo Grasso supported forming the ad hoc committee to prepare questions, and requested a presentation on the Homeless Initiative. The ad hoc committee would consist of Cicerone, Hamilton and Lo Grasso. Michels agreed that forming an ad hoc committee to prepare questions in advance of the Homeless Initiative and Middle Income Housing presentations would be helpful in getting the answers. Some of it may be State obligation, some may be lawsuits, and there will be questions like how much have we spent. Having a committee together to put questions together is a good way for us to direct the questions to the right people. Lo Grasso expressed his concern that the May 19, 2023 Academy presentations will not allow time for details and for all questions to be answered, and might be a catalyst for more questions that may not be answered at the May 24, 2023 Finance Commission meeting. He stated that his goal for the outcome of the ad hoc committee is a document that the Finance Commission sends to the City Council stating the deficiencies that we see in this process with our recommendations. He suggested that we start the ad hoc committee now, give a presentation to the Finance Commission, and get input from the full Commission. When we receive the presentation from representatives, we can ask the questions.

Motion: Moved by Lo Grasso and seconded by Cicerone to form a Homeless Initiative and Real Estate Acquisition Questions Ad Hoc Committee consisting of Chair Frank Lo Grasso, Vice-Chair Billy Hamilton and Commissioner David Cicerone. The ad hoc committee will give a presentation at the May 24, 2023 Finance Commission meeting.

The motion carried by the following votes: 7-0
Ayes: Cicerone; Craver; Gates; Hamilton; Lo Grasso; Michels; Sternberg
Noes: None

COMMISSIONER COMMENTS

Craver stated that the underfunded CalPERS liability still causes her concern. It is one of the biggest things that we face as a City. We are always in contract negotiations, because they are done every three years with our unions. There is a growing obligation with how the assumptions are being looked at, and at the same time, it seems like we are unable to attract police officers to take jobs in our City. There is a competing need to staff our City and its public safety, and also be able to operate as a city, because we need the money to operate. She asked if there is anything that we can start thinking about related to the unfunded liability and pension obligations. We have done a lot as a Commission so far, but would like to work together to think of suggestions to help the City with this large and never-ending issue. Craver thanked Han for getting information to the Commission in advance of the meetings.

Sternberg thanked Han and the Finance Department for their hard work. He noted that with the Pension Liability presentation, there was minimal discussion about potential prepayments and what the effect would be. He was previously on the Investment Advisory Board, and they saved the City a lot of money by doing a calculation and suggesting a prepayment of the liability. It was noted in the discussion that if you make a prepayment now, you save a lot in the interest in the future. Sternberg suggested that the Finance Department incorporate that as well. Han stated that she believes that Sternberg is referring to the three-pronged plan that former Finance Director Lori Ann Farrell had put in place to prepay not only CalPERS, but also our supplemental and Other Post-Employment Benefits (OPEB) plans. Rather than pay CalPERS directly through an ADP, she spearheaded creating the Section 115 Trust that we could set aside funds, which we are still proactively doing by setting aside at least $1.5M every year. Han stated that we could certainly look at additional options as well. One option that we could look at is taking some of that Section 115 Trust money and putting it into CalPERS directly, and apply it towards a specific amortization base. During his presentation, Worgan noted that with each year of negative returns, a new amortization base is created that goes out over 20 years, and there is a five-year ramp up. You do have the ability to make a lump sum payment that targets just that specific base, which could help with some of those steep increases in UAL payments. That is something that we will be looking at further. There are some additional calculation tools that are not necessarily available in pension outlook, but are available by working with Worgan directly to see what those potential impacts might be. Han stated that it is a great suggestion and something we will definitely review.

Michels recommended that presentations containing acronyms be defined. She stated that terms should be spelled out so that they are more understandable, especially by external presenters, as they are not terms that she normally uses. Michels thanked the Han and the Finance Team for their hard work.

Gates thanked Han and the Finance Team for bringing in Worgan for the educational presentation.

Cicerone stated that in January, he requested an income statement, a balance sheet and a statement of cash flows. He is waiting to receive a statement of cash flows. Han stated that the ACFR lists cash flows for our proprietary statements, such as our water fund and refuse fund. We do not prepare cash flows, and it not specifically required by GASB or GFOA. We would have to create it from scratch and it would be a very onerous, time intensive project. Hamilton stated that our balance sheet is quite strong. Our pension liability is always going to be an issue whenever you are guaranteeing a return on a market value.

Lo Grasso stated that he also loses sleep over the pension liability. There are only a couple answers to it, and that is that we need to negotiate better with the unions. Short of that, we have to start cutting programs. Craver stated that we could raise revenues. Lo Grasso stated that would require difficult decisions to be made. Lo Grasso agreed with Michels that the acronyms need to be defined in the CalPERS presentation. Han stated that she could reach out to Worgan and have him provide them. Hamilton stated that he used to give these types of presentations, and one of the most complicated things to do is to go through formulas and assumptions, and Worgan did quite well. Lo Grasso stated that there were many questions that could have been asked if Worgan did not have to leave early. Cicerone stated that he had many questions and wanted to better understand the investment side, the legality and the obligations. Craver stated that Worgan was the actuary, and the questions that we have are different and somewhat fundamental. His presentation was really interesting and very educational, but he is not our audience. Han stated that at a future date, we could have other CalPERS representatives present. One year, we had them present when there was also an annual CSMFO conference going on, and their schedules were more flexible around that time. Craver asked if the City Council appoints representatives to the ACC-OC where they have more contact with CalPERS. Han stated that our Mayor attended ACC-OC, spoke with CalPERS and specifically requested that someone speak to the Commission. Lo Grasso stated that he believes that the CalPERS portfolio is one of the largest portfolios. At 2.3% inflation in November 2021, he questioned how CalPERS could not see that inflation would go up six months in the future. Gates stated her frustration is that as a City, we can only do so much. There was a lot of information here that was out of our control, such as the Governor telling them what they can and cannot invest in based on social or moral issues. We have to figure out a way to help Huntington Beach, and there is not a lot we can do about what is going on in Sacramento with CalPERS. We cannot leave CalPERS, and we can only control what we can. Lo Grasso agreed that there is very little we can do other than have less expensive staff so that the applied percentage is less. That leaves us with is closing libraries and less trash pick days. Craver stated that it also includes 30 vacant police officer positions. We can negotiate salaries down, but no one will work here.

ADJOURNMENT

Motion: Moved by Craver and seconded by Lo Grasso to adjourn the meeting at 6:25 p.m.

The motion carried by the following votes: 7-0
Ayes: Cicerone; Craver; Gates; Hamilton; Lo Grasso; Michels; Sternberg
Noes: None

Submitted by:
Sunny Han, Acting Chief Financial Officer
By: Thuy Vi, Finance Management Aide