

To: Huntington Beach City Council  
From: Huntington Beach Finance Commission  
Date: February 24, 2025

The City of Huntington Beach Finance Commission respectfully requests the City of Huntington Beach City Council (City Council) to assess different ways and take active steps to reduce the Unfunded Pension Liability.

According to the 2024 Audited Financial Statements, the Net Pension Liability of the City's Defined Benefit Pension Plans increased from a liability of \$161 million at the beginning of the year to a liability of \$193 million at the end of the year, which is an *increase liability of \$32 million* in a single year. These losses are projected to continue and accelerate in the future, which has the distinct possibility of leading the City into insolvency and eventual bankruptcy.

In 2021, the then City Council issued \$360 million in Pension Obligation Bonds (POB) in order to pay down the existing Unfunded Pension Liability. Two years after using the bond funds to pay down the existing Unfunded Pension Liability, the City is once again underfunded and has an Unfunded Pension Liability of over \$100 million. This is due to CalPERS below market returns and the unsustainable nature of Defined Benefit Pension Plans. These funds are gone, the Defined Benefit Plan is still underfunded, which puts the City in a position to service the POB bonds in addition to the outlay of the Unfunded Pension Liability. Simply adding money to the Pension fund does not solve the problem. The root-cause of this issue is that Defined Benefit Pension Plans are 'unsustainable and unaffordable'.<sup>1</sup> The City Council must address the root-cause and reduce the use of the Defined Benefit Pension Plan.

Below are various suggestions that the City Council could use to reduce the Unfunded Pension Liability. These are high-level summaries of ideas but the City Council should have a thorough and thoughtful process before proceeding with a change. We recognize that this is a very difficult matter with many factors influencing your decision, but the issue must be addressed.

- Make a charter amendment that during the budgeting process, the City must add the entire Unfunded Pension Liability into the current year budget and find ways to balance the budget in the given year. In the interim, a mandatory headcount reduction equivalent to the expected UAL deficit be incorporated into the annual budgeting process.
- All new employees are automatically included in a Defined Contribution Plan, only. If an employee requires to be part of the Defined Benefit Plan, all members of City Council must approve the employee's addition.
- The City Council could sell bonds to buy out of CalPERS completely, approximately \$2.5 billion. Afterward, all new employees would be on a Defined Contribution Plan reducing the reliance on the Defined Benefit Plan. The City must service those bonds in the future, similar to the POB bonds issued in 2021 but would not compete with the Pension costs. It is further suggested that before issuing any bond for this pay off, the city attorney addresses the legality of CalPERS requiring this pay off in the first place.
- Outsourcing more employees and possibly entire departments would reduce the headcount of the city, thus reducing new members into the pension plan.
- Incorporate a complete review of current IT systems and software applications with the intent to improve functionality, efficiency, reporting and management control/audit, which would allow the City to reduce its staff.
- Initiate a "layers & spans" analysis in order to establish a reorganization and/or restructuring of the city staff.

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<sup>1</sup> According to Lesson Two from James Spiotto in his 2014 MuniNet Guide article of November 2014 "Lessons Learned from the Detroit Bankruptcy" labor and pension contracts under state constitutional and statutory provisions should not be interpreted as a suicide pact.