

City of Huntington Beach Unfunded Pension Liability Policy

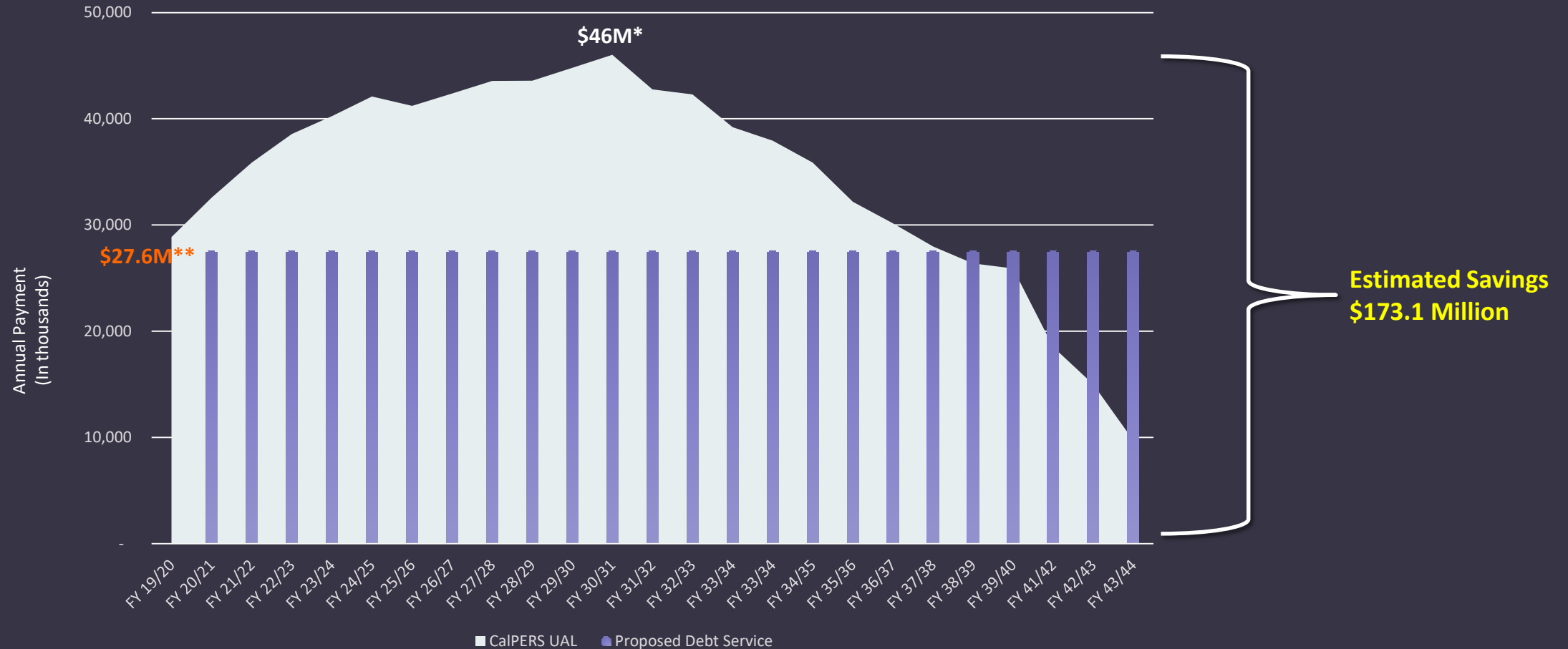
FEBRUARY 26, 2020

PRESENTED BY THE FINANCE DEPARTMENT

Pension Obligation Bond Savings Analysis

- POB saves the City an estimated \$173.1 million assuming CalPERS earns 7%
- CalPERS Historical Returns
 - 1 year 6.7%
 - 5 years 5.8%
 - 10 years 9.1%
 - 20 years 5.8% - includes 2 recessions
 - 30 years 8.1%
- Bond market rates are at an all time low
 - City has an opportunity to refinance at approximately 3.4%

Pension Obligation Bond Savings



* FY 30/31 represents peak of annual payment – \$21.09 million or 85% increase from FY 18/19

** Proposed Pension Obligation Bond Debt Service

Finance Commission Consideration

- Finance Commission recommended to keep the Accelerated Payoff / Funding Schedule until the City's CalPERS funded status reaches 120%
 - Upon reaching 120% funded status, the Accelerated Payoff / Funding Schedule would be replaced, and the new policy instituted would be to pay off any new UAL within one year, unless market factors dictate a different approach
- This concept was advanced because CalPERS returns below 7% could create new UAL amounts that may not be feasible to cover within one year
- The Accelerated Payoff / Funding Schedule enables the City to address any new UAL without significantly impacting ongoing operations
 - CalPERS payback timeframe is 20 years. The City is striving to pay off any new UAL using an accelerated schedule.

Unfunded Pension Liability Policy Recommendation

- To achieve the identified policy objective, the City would set-aside 100% of POBs savings to offset future UAL – approx. \$5 million annually
 - Understand the relative significant of this proposed policy to set aside \$5 million / year in perpetuity to pay for future UAL / pension costs
 - FY 2019/20 Library Department Budget – ~\$5M / year
 - FY 2019/20 Finance Department Budget – ~\$6M / year
- Furthermore, based on Finance Commission recommendations, the City's Accelerated Payoff / Funding Schedule will stay in effect until the City reaches a pension plan funded status of 120%
- Reserve level determined by the combined account balances of the following:
 - CalPERS account balance
 - Section 115 Trust
 - Pension Rate Stabilization Reserve

City's Accelerated Payoff / Funding Schedule

New Unfunded Accrued Liability (Any new liability incurred after the June 30, 2018 valuation report)	Payoff / Funding Time Period	Approximate Annual Payments at Upper Limit and 7% Discount Rate
\$0 to \$10,000,000	Within 1 to 3 years	\$3,811,000
\$10,000,001 to \$20,000,000	Within 4 to 6 years	\$4,196,000
\$20,000,001 to \$30,000,000	Within 7 to 9 years	\$4,605,000
\$30,000,001 to \$40,000,000	Within 10 to 12 years	\$5,036,000
\$40,000,001 to \$50,000,000	Within 13 to 15 years	\$5,490,000
Over \$50,000,000	Within 15 to 20 years	N/A

City's Funding Policy Upon Reaching 120% Funded Status

- Upon reaching 120% funded status, the Accelerated Payoff / Funding Schedule would be replaced, and the new policy instituted would be to pay off any new UAL within one year, unless market factors dictate a different approach

New Unfunded Accrued Liability (Any new liability incurred after the June 30, 2018 valuation report)	Payoff / Funding Time Period
\$0 to \$10,000,000	Within 1 year
\$10,000,001 to \$20,000,000	
\$20,000,001 to \$30,000,000	
\$30,000,001 to \$40,000,000	
\$40,000,001 to \$50,000,000	
Over \$50,000,000	

Pension Savings Allocation

- Factors to consider in evaluating allocation
 - Capital preservation – top priority is to have liquidity during down market
 - Risk tolerance – balance risk and return
- Pension Rate Stabilization Reserve
 - City pooled investment – Per California Governmental Regulations
 - Very Conservative - Safety/Capital Preservation, Liquidity
- Section 115 Trust
 - Investment Mix (Equity, Fixed Income, Cash)
 - Conservative to Capital Appreciation

Section 115 Trust Investment

Investment Objective	Investment Mix (Equity, Fixed Income, Cash)	1 Year Return	5 Year Return	10 Year Return	Annual Return Low to High Range 2008 to 2019
Conservative	15%, 80%, 5%	11.05%	4.08%	4.71%	-9.04% to 15.59%
Moderately Conservative	30%, 65%, 5%	13.73%	5.02%	5.96%	-15.37% to 18.71%
Moderate	50%, 45%, 5%	17.71%	6.39%	7.44%	-22.88% to 21.47%
Balanced	60%, 35%, 5%	19.85%	7.06%	8.25%	-25.72% to 21.36%
Capital Appreciation	75%, 20%, 5%	22.62%	7.90%	9.00%	N/A* to 22.62%

* Capital Appreciation Investment Objective – 2008 annual rate unavailable (lowest rate due to recession)

Pension Savings Allocation Recommendation

- POBs savings approx. \$5 million annually
- First allocated to payoff any CalPERS UAL
- Once there is no remaining CalPERS UAL the POBs savings will be allocated to the following based on market conditions:
 - Pension Rate Stabilization Reserve
 - Section 115 Trust

Additional Fiscal Policies Being Developed

- To further enforce fiscal sustainability initiatives, staff has started working on additional fiscal policies to take effect in the event that the POB issuance is authorized
- Some of the policy ideas being developed include:
 - General Fund Reserve policy
 - Adequate planning for staffing cost increases
 - Park playground equipment reserve funding

Questions?
