City of Huntington Beach

Long-Term Financial Plan Update

August 18, 2014

Summary

- General Fund Five-Year Projections
  - Revenue Assumptions
  - Expenditure Assumptions
  - Unfunded Liabilities Review
- Recommendations

Benefits of a Five-Year Plan

- Builds a financially resilient government through long-term financial planning
- Improves long-term financial sustainability as required through the Strategic Plan
- Provides time to effect change and adapt to changing conditions
- Adds transparency and encourages involvement
- Creates methods to determine the costs/benefits of decisions over the long-term
- Implements a tool to help leaders balance competing demands for enhanced or new services, additional staff, infrastructure needs and financial reserves

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Five-Year Projections

August 18, 2014

Five-Year Plan Highlights

- The City's General Fund is benefiting from the economic recovery
- However, the City's personnel costs comprise approximately 71% of the General Fund Budget
- As such, fixed cost increases related to the existing payroll base will largely consume projected revenue increases
- The most significant cost increases projected over the next 5 to 10 years are the City's pension costs
- Hence, projected revenue increases will primarily assist in funding increased pension costs

Expenditure Assumptions

- The projections reflect the "Base Case" and do not reflect enhanced staffing levels
- Equipment Replacement increases by $500K annually until FY 18/19
- Infrastructure spending increases by $1M in FY15/16, and thereafter, to meet the 15% infrastructure Charter requirement
- Funding of $1M is included for 800 MHz project each year
- Senior Center debt service of $1.2M in FY 14/15 and thereafter
- LeBard School site acquisition funding of $333K per year for five years
- All employees are at full CalPERS pick-ups
- Reflects projected CalPERS cost increases per Bartel Associates

CalPERS Cost Increases

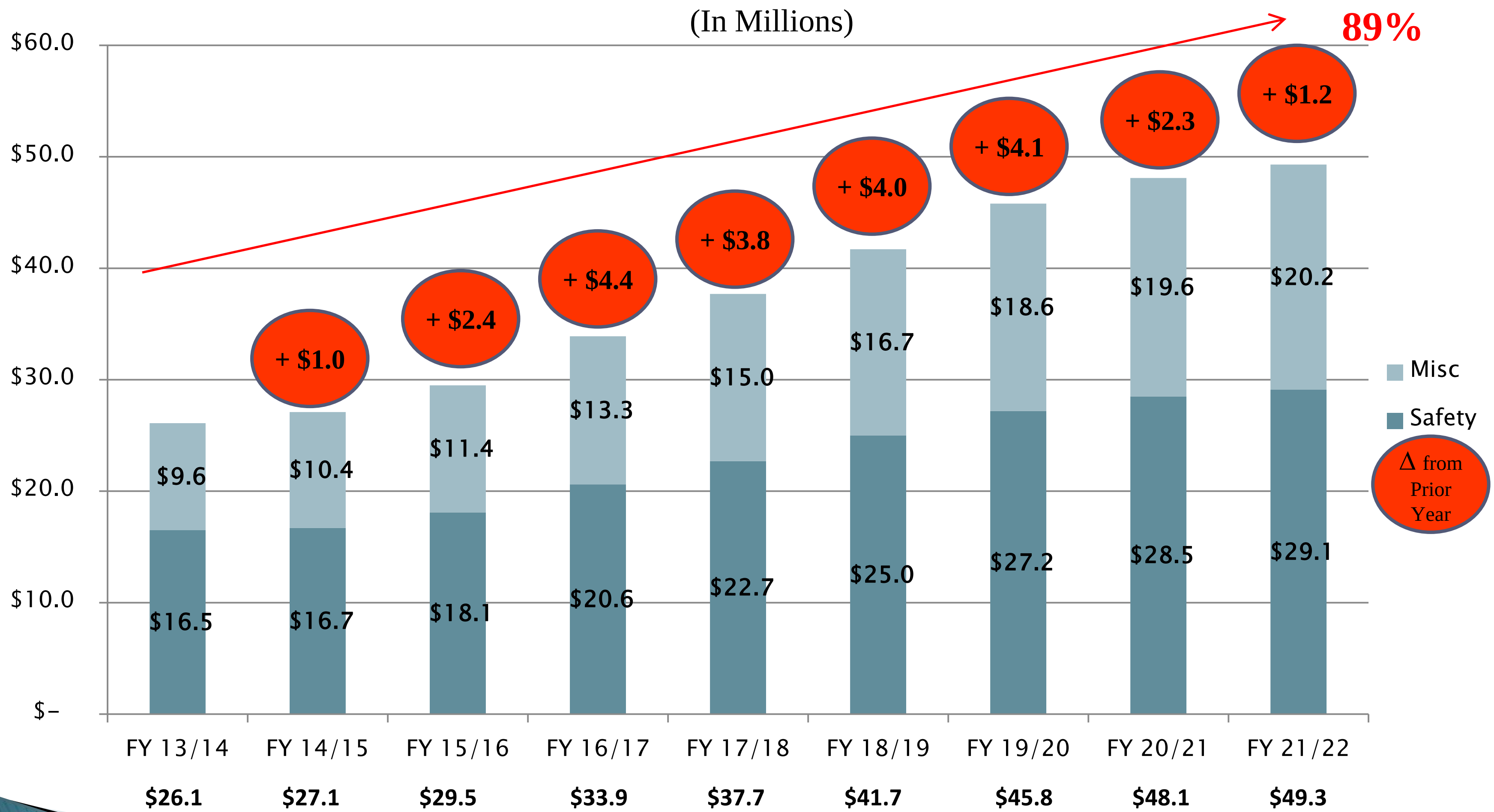
- The City's CalPERS Unfunded Liability is $334.5 million*:

	Unfunded Liability (MV)	% Funded
Safety Plan	$201.9 million	63.5%
Miscellaneous Plan	$132.6 million	69.3%

- Higher rates will be phased in starting in FY 15/16 and FY 16/17
- In 30 years, unfunded liabilities should be paid off
- Total CalPERS costs will increase by 89% from $26.1 million in FY 13/14 to $49.3 million by FY 21/22 (eight years)
- Safety rate will increase from 38.8% to 55.2% in eight years
- Miscellaneous rate will increase from 21.4% to 34.7% in eight years

* Market Value Unfunded Liability will be reflected in next CalPERS actuarial valuation in October 2014.

8-Year CalPERS Employer Rate Increases
All Funds



Five-Year Plan Projections

"Base Case"

(In Thousands)

Category	Proposed FY 14/15	Projected FY 15/16	Projected FY 16/17	Projected FY 17/18	Projected FY 18/19
Salaries	$ 96,506	$ 97,875	$99,132	$100,386	$101,659
CalPERS*	25,669	27,645	31,188	34,684	38,364
Workers' Comp** & Other Benefits	25,668	26,328	27,026	27,764	28,544
Operating & Non-Operating	49,292	49,416	48,661	48,144	48,717
Infrastructure	3,000	4,000	5,000	6,000	7,000
Equipment	4,530	5,000	5,500	6,000	6,500
Senior Center	4,200	1,200	1,200	1,200	1,200
Total Expenditures	**208,865**	**211,464**	**217,707**	**224,178**	**231,984**
Total Revenues	**207,032**	**212,725**	**218,575**	**224,586**	**230,762**
CIR – Senior Center/LeBard School	2,333				
(Challenge)/Surplus	**$500**	**$1,261**	**$868**	**$408**	**($1,222)**

*General Fund share of total CalPERS costs.
**General Fund amount needed to fund its share of Workers' Compensation Internal Services Fund's costs.

Opportunities for Additional Revenue

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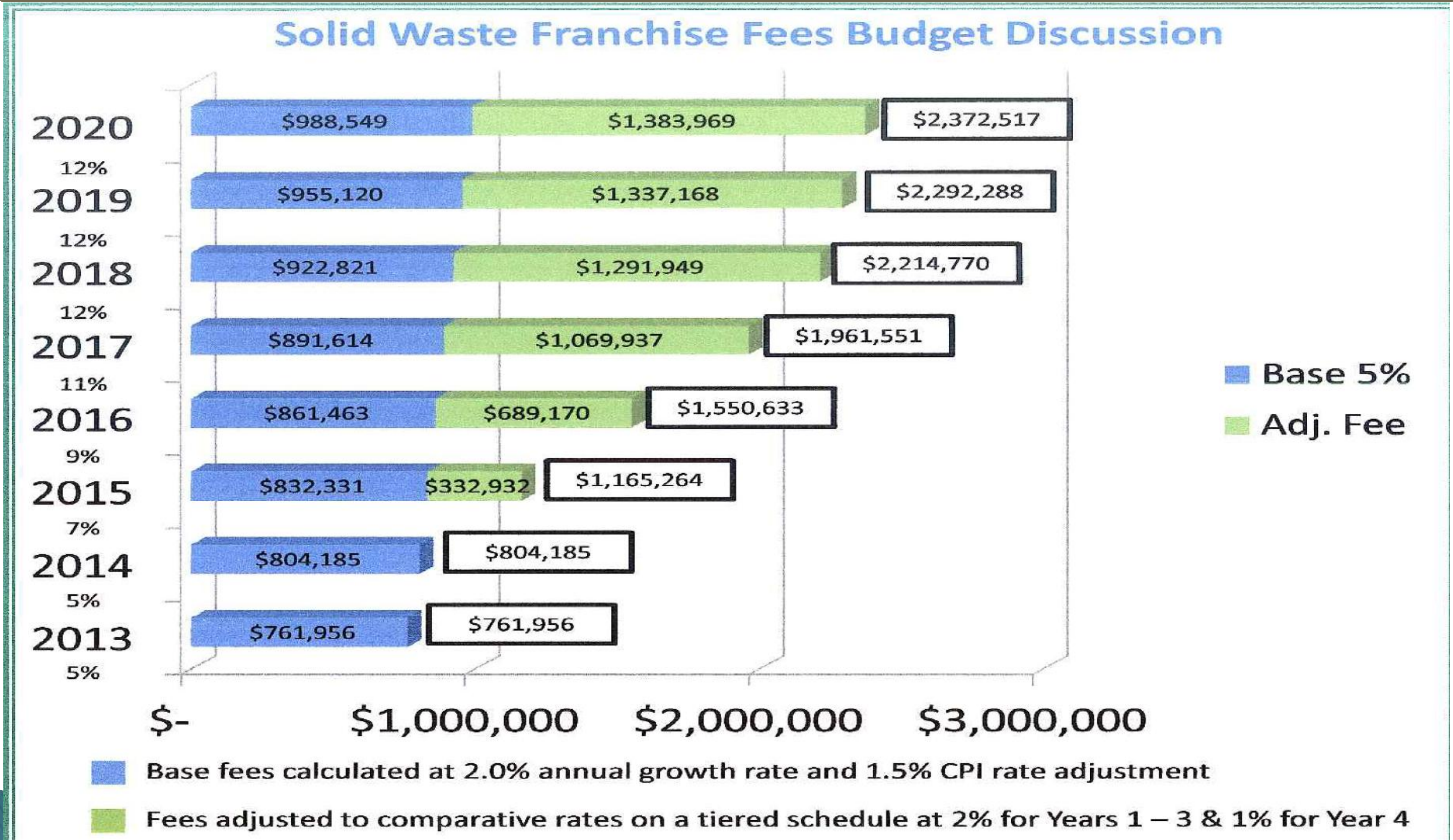
Solid Waste Franchise Fees*



Source: Rainbow Environmental Services

Five-Year Plan Projections

Base Plus Franchise Fee Increase

(In Thousands)

Category	Proposed FY 14/15	Projected FY 15/16	Projected FY 16/17	Projected FY 17/18	Projected FY 18/19
Total Expenditures	$208,865	$211,464	$217,707	$224,178	$231,984
Total Funding	209,698	213,415	219,645	225,886	232,102
(Challenge)/Surplus	**$833**	**$1,951**	**$1,938**	**$1,708**	**$118**

Unfunded Liabilities

August 18, 2014

Plan to Reduce Unfunded Liabilities

- The 5-Year Plan reflects the City’s award-winning, 3-pronged approach to reduce unfunded liabilities:
  - CalPERS “One Equals Five”
  - The “25 to 10” Plan for Retiree Medical
  - The “16 to 10” Plan for Retiree Supplemental

Plan to Address PERS Liabilities

- The City will be facing significant increases in PERS Employer contribution rates starting in FY 15/16
- The Proposed Budget includes a $500K surplus
- This surplus, coupled with the $500K in the "One Equals Five" set-aside, and Franchise Fee revenue, can create a $1M+ Plan to (choose one):
  - Fund the "One Equals Five Plan" (each $1M saves $5M); OR
  - Create a PERS Rate Stabilization Fund (minimize volatility); OR
  - Reduce amortization of Public Safety Plan by five years

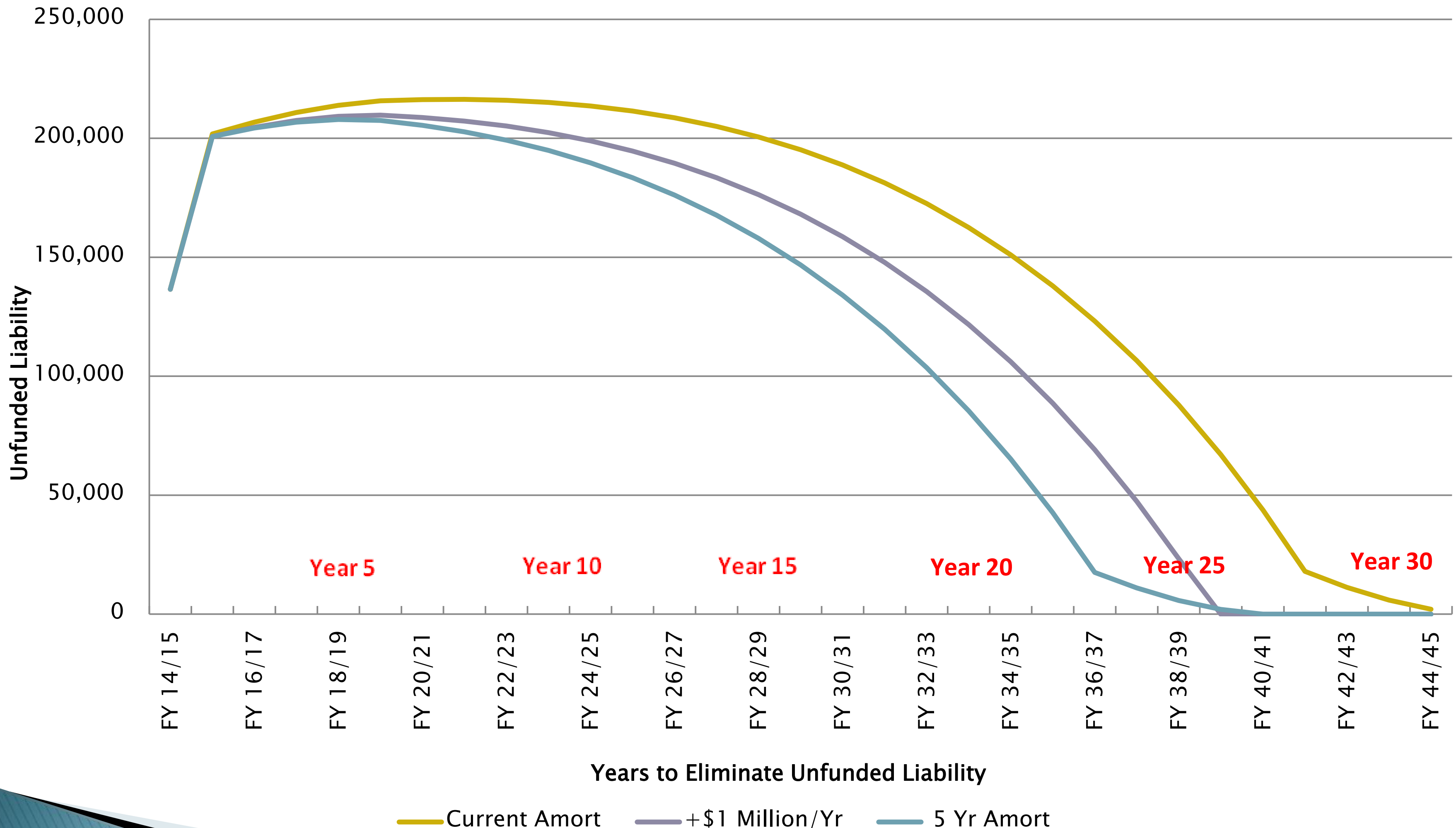
PERS Safety Plan Options

City of Huntington Beach
Illustration of Alternate Amortization - CalPERS Safety Plan

	Current Amortization (MV Change @ 30 Years)				Additional $1,000,000 Payment Each Year Over Original Schedule					Reduce Amortization Period 5 Years - New Base				
Year	UAL	Weighted Avg. Amortz Period	$ Payment	% Pay	UAL	CalPERS Amortization Period	Actual With Extra $1,000,000 $ Payment	% Pay	Payment Increase vs. Original	UAL	Weighted Avg. Amortz Period	$ Payment	% Pay	Payment Increase
2014/15	$136,533,340	27.0	$ 8,653,241	20.18%	136,533,340	27.0	$ 9,653,241	22.51%	$ 1,000,000	$ 136,533,340	22.0	$ 9,719,696	22.67%	$ 1,066,455
2015/16	$201,799,019	27.3	$ 9,812,966	22.22%	200,762,197	52.2	$ 10,812,966	24.48%	$ 1,000,000	$ 200,693,295	22.3	$ 11,030,528	24.98%	$ 1,217,562
2016/17	$206,759,646	26.3	$ 11,034,486	24.26%	204,608,240	39.2	$ 12,034,486	26.45%	$ 1,000,000	$ 204,308,597	21.3	$ 12,411,262	27.28%	$ 1,376,776
2017/18	$210,825,821	25.3	$ 12,320,467	26.29%	207,476,237	31.7	$ 13,320,467	28.43%	$ 1,000,000	$ 206,763,472	20.4	$ 13,864,913	29.59%	$ 1,544,446
2018/19	$213,863,626	24.4	$ 13,673,674	28.33%	209,226,002	26.6	$ 14,673,674	30.40%	$ 1,000,000	$ 207,895,285	19.4	$ 15,394,612	31.90%	$ 1,720,938
2019/20	$215,726,230	23.4	$ 15,096,986	30.37%	209,703,962	22.6	$ 16,096,986	32.38%	$ 1,000,000	$ 207,525,957	18.4	$ 17,003,615	34.21%	$ 1,906,629
2020/21	$216,252,809	22.4	$ 15,549,896	30.37%	208,742,049	21.6	$ 16,549,896	32.32%	$ 1,000,000	$ 205,460,680	17.4	$ 17,513,724	34.21%	$ 1,963,828
2021/22	$216,349,294	21.4	$ 16,016,393	30.37%	207,238,405	20.6	$ 17,016,393	32.27%	$ 1,000,000	$ 202,711,616	16.4	$ 18,039,136	34.21%	$ 2,022,743
2022/23	$215,969,341	20.4	$ 16,496,885	30.37%	205,138,313	19.6	$ 17,496,885	32.21%	$ 1,000,000	$ 199,211,613	15.4	$ 18,580,310	34.21%	$ 2,083,425
2023/24	$215,062,708	19.4	$ 16,991,791	30.37%	202,382,531	18.6	$ 17,991,791	32.16%	$ 1,000,000	$ 194,888,009	14.4	$ 19,137,719	34.21%	$ 2,145,928
2024/25	$213,574,947	18.4	$ 17,501,545	30.37%	198,906,934	17.6	$ 18,501,545	32.11%	$ 1,000,000	$ 189,662,200	13.5	$ 19,711,851	34.21%	$ 2,210,306
2025/26	$211,447,080	17.4	$ 18,026,591	30.37%	194,642,144	16.6	$ 19,026,591	32.06%	$ 1,000,000	$ 183,449,184	12.5	$ 20,303,206	34.21%	$ 2,276,615
2026/27	$208,615,243	16.4	$ 18,567,389	30.37%	189,513,115	15.6	$ 19,567,389	32.01%	$ 1,000,000	$ 176,157,060	11.5	$ 20,912,302	34.21%	$ 2,344,913
2027/28	$205,010,308	15.4	$ 19,124,411	30.37%	183,438,698	14.6	$ 20,124,411	31.96%	$ 1,000,000	$ 167,686,503	10.5	$ 21,539,671	34.21%	$ 2,415,261
2028/29	$200,557,470	14.4	$ 19,698,143	30.37%	176,331,167	13.6	$ 20,698,143	31.91%	$ 1,000,000	$ 157,930,184	9.5	$ 22,185,862	34.21%	$ 2,487,718
2029/30	$195,175,810	13.4	$ 20,289,087	30.37%	168,095,713	12.6	$ 21,289,087	31.87%	$ 1,000,000	$ 146,772,157	8.5	$ 22,851,437	34.21%	$ 2,562,350
2030/31	$188,777,823	12.5	$ 20,897,760	30.37%	158,629,896	11.6	$ 21,897,760	31.82%	$ 1,000,000	$ 134,087,195	7.6	$ 23,536,980	34.21%	$ 2,639,220
2031/32	$181,268,901	11.5	$ 21,524,693	30.37%	147,823,058	10.6	$ 22,524,693	31.78%	$ 1,000,000	$ 119,740,073	6.6	$ 24,243,090	34.21%	$ 2,718,397
2032/33	$172,546,792	10.5	$ 22,170,434	30.37%	135,555,689	9.6	$ 23,170,434	31.74%	$ 1,000,000	$ 103,584,808	5.7	$ 24,970,383	34.21%	$ 2,799,949
2033/34	$162,501,006	9.5	$ 22,835,547	30.37%	121,698,748	8.6	$ 23,835,547	31.70%	$ 1,000,000	$ 85,463,825	4.8	$ 25,719,494	34.21%	$ 2,883,947
2034/35	$151,012,183	8.5	$ 23,520,613	30.37%	106,112,934	7.6	$ 24,520,613	31.66%	$ 1,000,000	$ 65,207,073	4.0	$ 26,491,079	34.21%	$ 2,970,466
2035/36	$137,951,406	7.6	$ 24,226,231	30.37%	88,647,891	6.6	$ 25,226,231	31.62%	$ 1,000,000	$ 42,631,068	3.4	$ 27,285,811	34.21%	$ 3,059,580
2036/37	$123,179,470	6.6	$ 24,953,018	30.37%	69,141,370	5.6	$ 25,953,018	31.59%	$ 1,000,000	$ 17,537,867	4.0	$ 7,584,354	9.23%	$ (17,368,664)
2037/38	$106,546,091	5.7	$ 25,701,609	30.37%	47,418,310	4.6	$ 26,701,609	31.55%	$ 1,000,000	$ 10,989,581	3.0	$ 5,858,914	6.92%	$ (19,842,695)
2038/39	$87,889,052	4.8	$ 26,472,657	30.37%	23,289,866	3.6	$ 24,147,447	27.70%	$ (2,325,210)	$ 5,739,149	2.0	$ 4,023,121	4.62%	$ (22,449,536)
2039/40	$67,033,296	4.0	$ 27,266,837	30.37%	-		$ -		$ (27,266,837)	$ 1,998,325	1.0	$ 2,071,907	2.31%	$ (25,194,930)
2040/41	$43,789,935	3.4	$ 28,084,842	30.37%	-		$ -		$ (28,084,842)	$ -		$ -		$ (28,084,842)
2041/42	$17,955,196	4.0	$ 7,764,831	8.15%	-		$ -		$ (7,764,831)	$ -		$ -		$ (7,764,831)
2042/43	$11,251,088	3.0	$ 5,998,332	6.11%	-		$ -		$ (5,998,332)	$ -		$ -		$ (5,998,332)
2043/44	$5,875,717	2.0	$ 4,118,854	4.08%	-		$ -		$ (4,118,854)	$ -		$ -		$ (4,118,854)
2044/45	$2,045,877	1.0	$ 2,121,210	2.04%	-		$ -		$ (2,121,210)	$ -		$ -		$ (2,121,210)
			$ 536,511,419				$ 482,831,304		$ (53,680,116)			$ 451,984,977		$ (84,526,442)
							$ (53,680,116)					$ (84,526,442)		

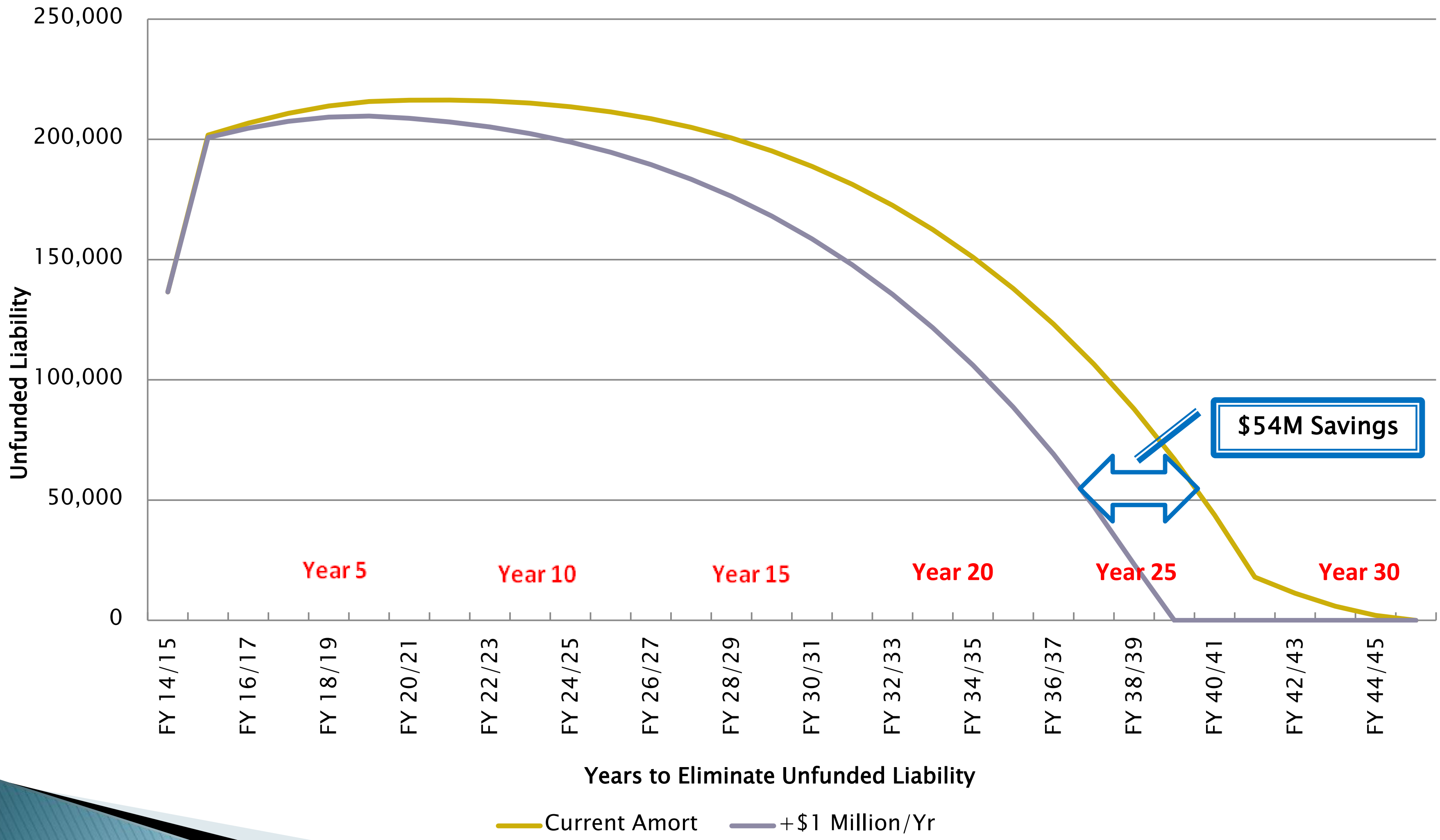
Notes: Current amortization schedule simplified for illustration.
Based on 6/30/12 actuarial valuation and taking into account expected increases from asset methodology for 2013 valuation but not assumption changes or investment gains for 2014 valuation.
Value) is amortized over 30 years, including a 5-year ramp up and ramp down.
Bartel Associates, LLC
15-Aug-14

CalPERS Safety Plan
Options to Accelerate Unfunded Liability Payment
(In Thousands)



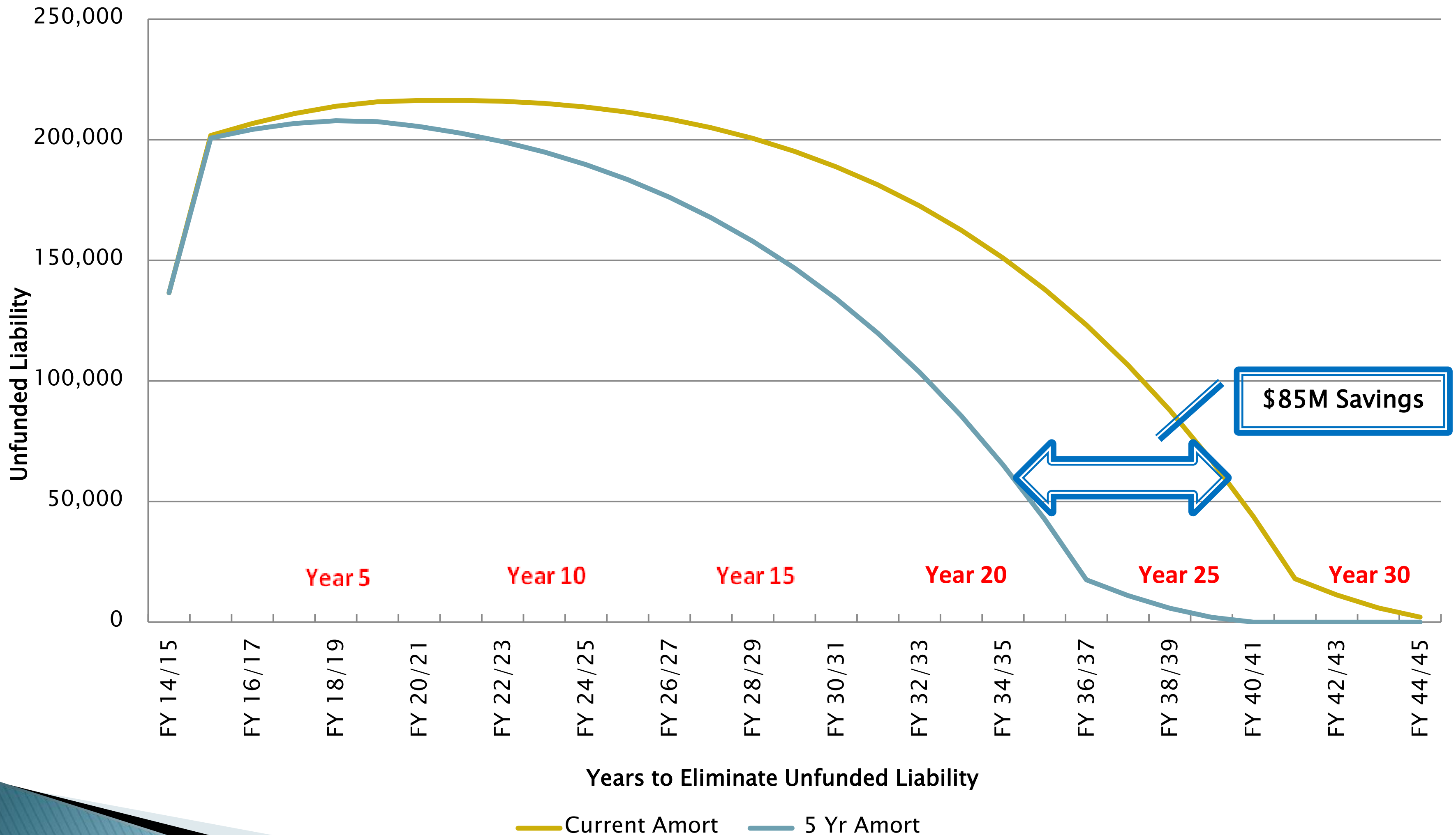
*For discussion purposes, final results will be based on actual market conditions and actuarial changes.

CalPERS Safety Plan
Scenario #1: Additional Annual Payment of $1M
(In Thousands)



*For discussion purposes, final results will be based on actual market conditions and actuarial changes.

CalPERS Safety Plan
Scenario #2: Reduce Amortization Period by 5 Years
(In Thousands)



*For discussion purposes, final results will be based on actual market conditions and actuarial changes.

Recommendation
Reduce Unfunded Liability (Safety)

- Fund the "One Equals Five" Plan for Safety
  - Reduces amortization period from 30 years to 24 years (est.)
  - Saves taxpayers an estimated $53.7 million
  - Provides more predictable budgeting while still creating long-term savings
- Amend City Council Financial Policies
  - **Budgeting**
    - Include annual funding for the "One Equals Five" Plan for the PERS Safety Plan in the annual budget

*For discussion purposes. Final results will be based on actual market conditions and actuarial changes.

Five-Year Plan Projections

Base Plus Franchise Fee Plus PERS Safety "1 = 5" Plan

(In Thousands)

Category	Proposed FY 14/15	Projected FY 15/16	Projected FY 16/17	Projected FY 17/18	Projected FY 18/19
Total Expenditures	$209,865	$212,463	$218,707	$225,178	$232,984
Total Funding	210,198	213,415	219,645	225,886	232,102
(Challenge)/Surplus	**$333**	**$952**	**$938**	**$708**	**($882)**

Accomplishments

- The “16 to 10” Plan for Retiree Supplemental will save $7.4M
- The “25 to 10” Plan for Retiree Medical will save $9.2M
- Based on increased contributions into the “25 to 10” Plan for Retiree Medical and market gains, the following success has been achieved:
  - As of 9/30/13, the Plan’s Unfunded Liability has been reduced from $10.6M to $3.1M
  - As such, it is possible this plan can be paid off in less than 10 years; perhaps in 3 more years

RECAP

	Proposed FY 14/15	Projected FY 15/16	Projected FY 16/17	Projected FY 17/18	Projected FY 18/19
Base + Franchise Fee					
Total Expenditures	$208,865	$211,464	$217,707	$224,178	$231,984
Total Revenues/CIR	209,698	213,415	219,645	225,886	232,102
(Challenge)/Surplus	**$833**	**$1,951**	**$1,938**	**$1,708**	**$118**
Base + Franchise + "1 = 5" Safety Plan					
Total Expenditures	$209,865	$212,463	$218,707	$225,178	$232,984
Total Revenues/CIR	210,198	213,415	219,645	225,886	232,102
(Challenge)/Surplus	**$333**	**$952**	**$938**	**$708**	**($882)**
Base + Franchise + "1=5" Safety Plan + Retiree Medical Savings					
Total Expenditures*	$209,865	$213,394	$217,730	$224,232	$232,038
Total Revenues/CIR	210,198	213,415	219,645	225,886	232,102
(Challenge)/Surplus	**$333**	**$21**	**$1,915**	**$1,654**	**$64**

*Includes minor labor adjustments in FY 15/16 and forward.

Accomplishments

Actions Taken to Reduce Unfunded Liabilities	Total Taxpayers' Savings*
PARS Pre-Payment	$59,606
7.75% Discount Rate Change – No Phase In	1,027,000
Retiree Supplemental "16 to 10" Plan	7,400,000
Retiree Medical "25 to 10" Plan	9,200,000
Subtotal	**$17,686,606**
PERS "1 = 5" Safety Plan	53,680,116
Total	**$71,366,722**

* Actual performance will be based on market conditions and actuarial changes during the amortization period.

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QUESTIONS?

August 18, 2014