

**RESOLUTION NO. 2021-19**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF HUNTINGTON BEACH  
ADOPTING THE CITY'S UNFUNDED ACCRUED LIABILITY PENSION FUNDING  
POLICY**

The City Council of the City of Huntington Beach does hereby resolve as follows:

**WHEREAS**, the City currently provides employees with retirement benefits through CalPERS, a defined benefit pension program; and

**WHEREAS**, the CalPERS pension system currently stands at being around 71% funded; and

**WHEREAS**, in an effort to stabilize the overall pension fund, CalPERS has instituted new programs that require employers such as the City to accelerate payments to pay-down existing Unfunded Accrued Liabilities (UAL) account balances; and

**WHEREAS**, the City currently has an UAL account balance of around \$436 million, which is required to be paid off during the next 23-year period at 7% interest; and

**WHEREAS**, to decrease overall costs, the City has considered refinancing the repayment of its UAL account balance to take advantage of historically low interest rates through use of a Pension Obligation Bond (POB); and

**WHEREAS**, to institute added fiscal discipline and future financial stability, concurrent with the development of the refinancing plan, the City has also developed a new financial policy that would mandate budgetary actions to facilitate the accelerated payoff of any future UAL account balances that may form; and

**WHEREAS**, the Unfunded Accrued Liability Pension Funding Policy (the "Policy") has been structured to maintain the City's sound financial position and ensure that all pension funding decisions are structured to protect both current and future taxpayers, ratepayers, employees, and residents of the City.

**NOW, THEREFORE**, the City Council of the City of Huntington Beach does hereby resolve as follows:

**SECTION 1.** The City of Huntington Beach Unfunded Accrued Liability Pension Funding Policy, included as Exhibit A, is hereby approved and adopted.

**SECTION 2.** Any action to either reduce the mandated savings amount or reduce the accelerated UAL repayment terms contained in the Policy can only be achieved through a 6/7 vote of the City Council. Staff is further directed to codify terms of the Policy, along with the 6/7 vote requirement.

**SECTION 3.** The City Manager, the City Treasurer, the Chief Financial Officer, and all other officers of the City are hereby authorized and directed, jointly and severally, to do any and all things to effectuate the purposes of this Resolution and to implement the Policy, and any such actions previously taken by such officers are hereby ratified and confirmed.

**SECTION 4.** This Resolution shall take effect immediately upon adoption.

**PASSED AND ADOPTED** by the City Council of the City of Huntington Beach at a regular meeting thereof held on the \_\_\_\_\_ day of \_\_\_\_\_, 2021.

\_\_\_\_\_  
Mayor

REVIEWED AND APPROVED:

\_\_\_\_\_  
City Manager

APPROVED AS TO FORM:

\_\_\_\_\_  
City Attorney

INITIATED AND APPROVED:

\_\_\_\_\_  
Chief Financial Officer

# City of Huntington Beach

## Unfunded Accrued Liability Pension Funding Policy

### **PURPOSE**

The purpose of this Unfunded Accrued Liability Pension Funding Policy (“Policy”) is to provide procedures related to fiscal protocols for the City regarding a process to accelerate the payoff for any Unfunded Accrued Liabilities (“UAL”) that develops as calculated annually by CALPERS, or for any unfunded accrued liabilities remaining after refinancing the City’s existing UAL costs through use of a pension obligation bond (“POB”).

This funding Policy is intended to support the decision making process of the City Council and should be consistent with the overall purpose and goals of the City of Huntington Beach’s pension plan. As used in this Policy, “City” shall mean the City and/or the City and its related entities, as the context may require.

The City recognizes that a fiscally prudent Policy should:

- Maintain the City’s sound financial position;
- Ensure the City has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenditures;
- Protect the City’s creditworthiness;
- Ensure that all pension funding decisions are structured to protect both current and future taxpayers, ratepayers, employees and residents of the City, and;
- Ensure that the structure of the City’s POB and future UAL amortization is consistent with the City’s strategic planning goals, objectives, capital improvement program, budget, and/or debt policy.

The provisions contained in the “*Policy Parameters – Accelerating the Process of Funding New UAL Growth*” section of this Unfunded Accrued Liability Pension Funding Policy can only be modified through a 6/7 vote of the City Council.

### **BACKGROUND**

The primary goal of funding defined benefit pension plans is to ensure that sufficient assets will be accumulated to deliver promised benefits when they come due. Establishing sound funding guidelines promotes pension benefit security.

The City's overall objective is to fund its CALPERS pension plan up to 100% of the total accrued liability, and no less than 80%, whenever possible. To date, the City has established a Section 115 Trust to prefund future pension liabilities. In addition, upon approval of this Policy, the City intends to create a Pension Rate Stabilization Reserve in the General Fund, the goal of which will be to maintain additional savings to apply towards the City's unfunded accrued pension liabilities. It is the intention of the City to establish the Pension Rate Stabilization Reserve to allow the City to set-aside funds in the General Fund to contribute towards the pension plan funded percentage and manage ongoing pension costs.

The City is committed to fiscal sustainability by employing long-term financial planning efforts, maintaining appropriate reserve levels, and employing prudent practices in governance, management, budget administration, and financial reporting. This Policy is intended to make all relevant information readily available to decision-makers and the public to improve the quality of decisions, identify policy goals, and to demonstrate a commitment to long-term financial planning. Adherence to this Policy signals to rating agencies and the capital markets that the City is well-managed and able to meet its obligations in a timely manner.

Key factors relevant to the City's efforts to achieve 80% - 100% funding of its CALPERS plan include the following items:

- The financial position of the City
- Stability of the plan and/or the affordability of the annual contributions
- Benefit security
- The terms of the CALPERS contract for Huntington Beach, along with any related collective bargaining agreements
- Minimum funding requirements under State law

There are a number of advantages to developing a funding policy to address an unfunded accrued pension liability. These advantages include the following:

- Provides the framework to ensure the proper management of future liabilities and to minimize the effects on operations. The adoption of a funding policy will ensure a

disciplined decision making process, which will contribute to better predictability in funding.

Having a written summary of the funding policy that is accessible to employees and the public will help improve the transparency of funding decisions and increase the understanding of pension funding issues.

- The exercise of developing this funding policy improves the identification, understanding, and management of the risk factors that affect the variability of funding requirements and the security of benefits to the employees and retirees.

### **POLICY PARAMETERS – ACCELERATING THE PROCESS OF FUNDING NEW UAL GROWTH**

Every June 30th, CALPERS will complete a new actuarial valuation report and will calculate the City of Huntington Beach's pension liability as of the new valuation date. If the value of the funded assets is not equivalent to this new liability amount, the City will incur a new unfunded accrued liability at that point in time. The unfunded accrued liability may increase or decrease from year to year, due to the following factors:

- Changes in actuarial assumptions and experience changes (e.g., changes in the discount rate, changes in demographic experience, etc.)
- Changes in actuarial gains and losses due to asset returns being higher or lower than expected
- Changes in plan benefits
- Changes in number of employees participating (Classic/PEPRA), employee pickup of plan contributions, etc.

Due to the possibility of new UAL pension liabilities developing in the future, the City of Huntington Beach is working to create a UAL Pension Funding Policy in order to address any new pension liabilities, or amortization bases, that may arise on an annual basis.

Of note, any new increase or decrease in the liability resulting from the annual actuarial valuation is identified as a separate line item, or amortization base, on the annual CALPERS actuarial valuation report. To address that matter, the City's UAL Pension Funding Policy will incorporate the following programmatic components:

- **Minimum Annual Contribution of \$1M to the City's Section 115 Trust**  
In December 2015, City Council approved the establishment of an irrevocable Section 115 Trust with PARS, through which the City can pre-fund its pension obligations. The Section 115 Trust allows the City to build its pension reserve while maintaining oversight of investment management and control over the risk tolerance of the portfolio. As part of the UAL Pension Funding Policy, unless set aside by a 6/7<sup>th</sup> vote of the City Council, the City will be required to set aside no less than \$1M annually into the City's Section 115 Trust. Further the trust assets shall be restricted and may only be accessed to pay CALPERS costs to reduce volatility and offset unexpected pension rate increases.
- **Perpetual Set-Aside of 50% of Pension Refinance Savings**  
The City will realize an estimated savings of \$978,000 in the first year of refinancing its UAL pension debt, as determined by comparing year one of the preliminary POB debt service payment against the actuarially determined UAL payment made to CalPERS included in the City's audited Fiscal Year 2019/20 CAFR. Unless set-aside by a 6/7<sup>th</sup> vote of the City Council, 50% of that savings amount, or \$489,000, will be budgeted on an annual basis for deposit into the City's Section 115 Trust to offset any future UAL costs that arise. This amount is over and above the \$1M minimum annual contribution to the City's Section 115 Trust, and shall be adjusted each year by the annual Consumer Price Index for All Urban Consumers, all items, 1982-84 equals 100, as published by the United States Department of Labor, Bureau of Labor Statistics, for the Los Angeles/Long Beach/Anaheim Area.
- **Establish an Additional Annual 50% Set-Aside of any General Fund Surplus Into a Restricted General Fund Pension Rate Stabilization Reserve**  
Annually, unless set aside by a 6/7<sup>th</sup> vote of the City Council, the UAL Pension Funding Policy will require that the City set aside a minimum of fifty percent (50%) of any annual General Fund surplus into a City's General Fund Pension Rate Stabilization Reserve. Further any funds placed into the City's General Fund Pension Rate Stabilization Reserve shall be restricted and may only be accessed to pay CALPERS costs to reduce volatility and offset unexpected pension rate increases.
- **Accelerate the Payoff/Funding of New UAL**  
The table below lays out the City's parameters for accelerating the payoff of new pension UAL in a designated amount of time, based on the amount of any annual UAL growth:

<b>New Unfunded Accrued Liability</b> (Any new liability incurred after the June 30, 2019 valuation report )	<b>Payoff Time Period</b>
\$0 to \$5,000,000	Within 1 to 5 years
\$5,000,001 to \$10,000,000	Within 5 to 7 years
\$10,000,001 to \$15,000,000	Within 7 to 9 years
\$15,000,001 to \$20,000,000	Within 9 to 10 years
\$20,000,001 or more	Within 10 to 15 years

Repayment of newly incurred UAL pension liability in accordance with the above schedule would be funded from balances available in the Section 115 Trust or General Fund Pension Stabilization Reserve, or from an additional allocation to be made through the City’s budget process, unless set aside by a 6/7<sup>th</sup> vote of the City Council.

- **Annual Assessment of Additional Discretionary Payments to be Made to CalPERS**

Additional Discretionary Payments (“ADP”) may be deposited with CALPERS at any time. After completion of the City’s annual audit, all discretionary fund reserve balances will be reviewed by City staff. Based on any budgetary constraints at that time, an assessment should be coordinated to determine the cost / benefit of utilizing any available reserves or one-time savings from the prior fiscal year to make an ADP’s. ADP’s should not adversely effect the general operations of the City. ADP’s could be deposited with CalPERS, invested in the City’s Section 115 trust, or set-aside in the General Fund Pension Rate Stabilization Reserve.