



Memorandum

TO: Board of Administration for the Police and Fire Plan

FROM: Benjie Chua Foy

SUBJECT: Consideration of Proposed Budget for Fiscal Year 2020-2021 - REVISED

DATE: March 25, 2020

Approved

Date

RECOMMENDATION

Discussion and action on the proposed budget for fiscal year 2020-2021.

BACKGROUND

The Board approves the contribution rates recommended by the actuary which is made by the City. The Board also approves the administrative expense budget for reporting on the Source and Use Statements submitted for inclusion in the City’s operating budget. The amounts approved by the Board are the total category amounts and not the individual line items. If the individual line item goes over budget, no approval is required from the Board as long as the total category amount remains under budget. This proposed budget is provided to the Board for discussion and approval, and if necessary, a revised and final budget will be prepared for approval at the next meeting. Highlights of the proposed budget are as follows:

ANALYSIS

SOURCES OF FUNDS

CITY CONTRIBUTIONS

The City contribution for the retirement and health benefit plan for the coming fiscal year is estimated to be \$231,282,000.

The actual contribution amount is based on the City contribution rates recommended by the actuary and adopted by the Board, applied as a factor against the City’s total covered payroll. The FY21 contribution amounts assume the Board’s adoption in April/May, as shown in the June 30, 2019 actuarial reports for pension and healthcare, using the middle of the year amounts and no prefunding.

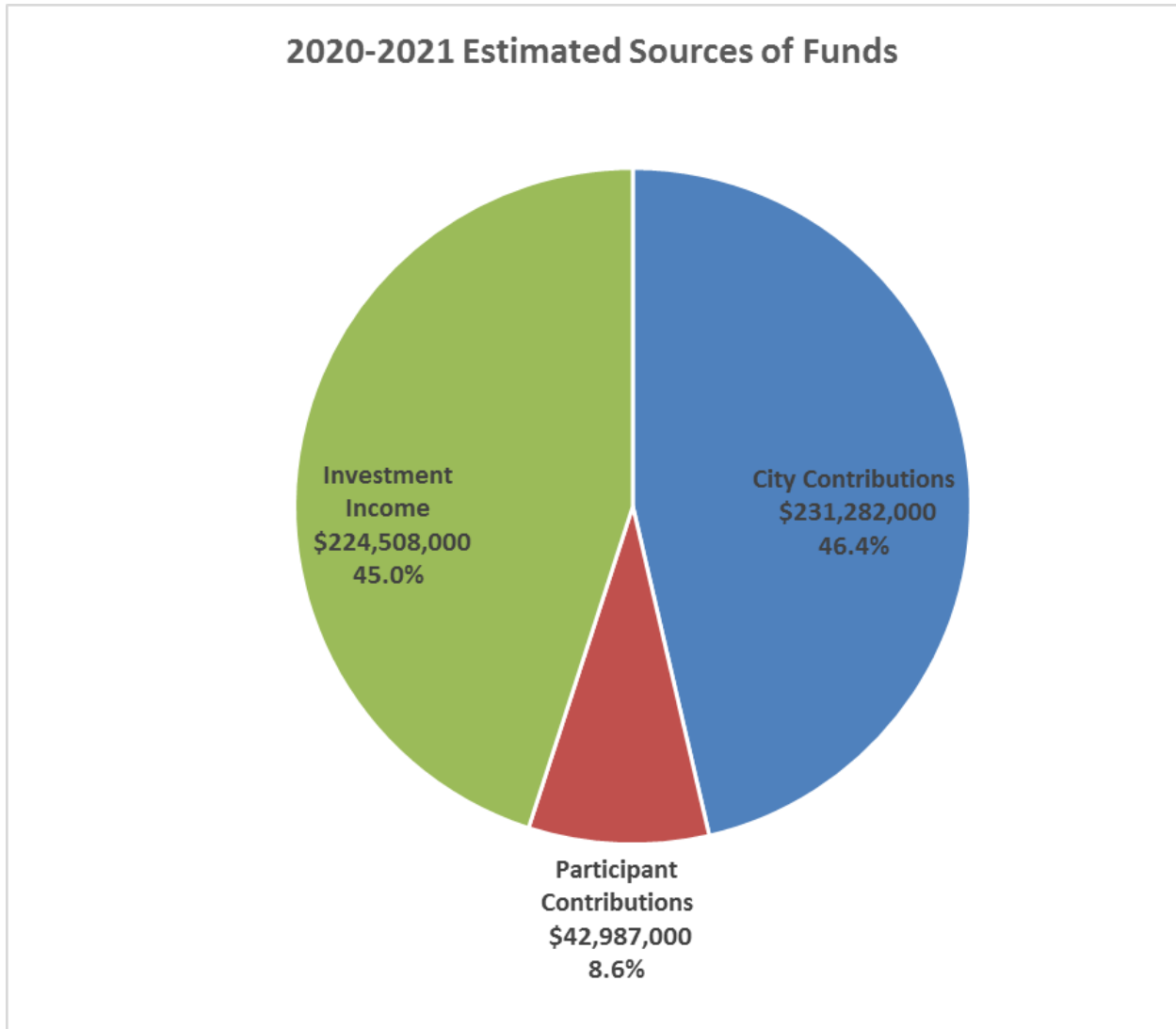
PARTICIPANT CONTRIBUTIONS

Total member contributions are estimated at \$42,987,000, a 3.90% increase from the 2019-2020 adopted amount. Member contributions are calculated based on the contribution rate for each tier. Police Tier 1 contribution rates for pension remained fairly steady going from 10.70% to 10.72% while their covered payroll increased from \$92.4 million to \$93.3 million. Fire Tier 1 contribution rates for pension increased slightly from 11.46% to 11.72% while covered payroll decreased slightly from \$72.7 million to \$71.2 million. Police Tier 2 contribution rates for pension increased from 14.06% to 14.18% and covered payroll increased from \$43.7 million to \$58.4 million, while Fire Tier 2 contribution rates for pension

increased from 15.39% to 15.53% while covered payroll increased from \$16.7 million to \$20.6 million. Healthcare contribution rates remain at 8.0% per the Municipal Code for Tier 1 members, while Tier 2 are required to go into the VEBA.

INVESTMENT INCOME

Investment earnings are calculated based on the actuarial assumed rate of return of 6.75%. The beginning fund balance, along with the City’s contributions and member contributions offset with the expenditures are expected to earn less than the full rate since these amounts will occur throughout the year.



USES OF FUNDS

PENSION BENEFITS AND HEALTH INSURANCE

The pension benefits budget increased to \$234,580,000, an increase of \$10,927,000, or 4.89%, which is the average increase for the past five years. Pension benefits include service pensions, disability and survivorship pensions, death benefits and refunds of contributions.

The health insurance budget increased to \$26,703,000, an increase of \$472,000, or 1.80%, which is the average increase for the past five years. Health insurance includes health and dental insurance subsidies, as well as Medicare reimbursements.

VEBA withdrawals represent the funds taken out of the healthcare plan by Tier 1 members who opted out and the mandatory movement of Tier 2 members out of the healthcare plan. Fiscal year 2017-2018 had the largest amount since it was the first year of the opt-in to the VEBA and will continue through calendar year 2022 for rehired employees with healthcare contributions. There were no VEBA withdrawals in fiscal year 2018-2019 and future withdrawals are expected to be minimal, if any.

ADMINISTRATIVE EXPENSE BUDGET

The proposed administrative expenses budget of \$6,485,000 is a net increase of \$116,000 or 1.82% from the prior year proposed budget of \$6,369,000.

PERSONNEL SERVICES

The budget for personnel services was increased to \$4,071,000, an increase of \$173,000, or 4.44% over the prior year adopted budget of \$3,898,000. The Budget Office's labor distribution report drives the personnel budget, which covers all the staff in Retirement Services. The salaries and benefits of all staff, except for investment staff, is split 50/50 between the Plan and the Federated City Employees' Retirement System (System). The investment staff is split 60/40 between the Plan and the System, which is roughly based on asset size. The number of positions in Retirement Services will remain at 39.75 due to the proposals. The limited-date position for Information Systems Analyst that expires on June 30, 2020 will not be renewed. The other proposed personnel changes for FY20-21 are to add a Senior Investment Officer and to convert a Benefits Staff Specialist into a Benefits Disability Analyst. Besides the proposed changes, the other reasons for the increase in personnel services is due to the increased benefit rates, as well as having two reemployed retirees for the maximum time allowed per the Municipal Code.

NON-PERSONNEL / EQUIPMENT

The budget for non-personnel / equipment was decreased to \$1,250,000, a decrease of \$158,000, or 11.22% from the prior year adopted budget of \$1,408,000. This category includes data processing costs for investments, rent, insurance, information technology hardware/software, pension administration annual maintenance fee, postage and printing, training, travel, and other office expenses. The decrease was mainly due to a decrease of \$134,000 in the investment analytics and research budget and a decrease of \$62,000 in the pension administration annual maintenance fee, offset by an increase in IT hardware/software of \$26,000. The decrease of \$134,000 was due to a reclassification of the services provided by State Street, the custodian bank, to align with how the expenses are recorded in the Comprehensive Annual Financial Report. The decrease of \$62,000 was due to the implementation of the new pension administration system, which had a lower annual maintenance fee. The increase of \$26,000 in IT hardware/software was due to the social media and phone center projects that are planned for the fiscal year.

PROFESSIONAL SERVICES

The budget for professional services was reduced to \$811,000, a slight decrease of \$34,000, or 4.02% from the prior year adopted budget of \$845,000. Core professional services comprise of actuarial services, financial audit services, legal services, and temporary staffing services. Decreases in budgetary amounts for core professional services resulted mainly from reducing the actuarial services by \$35,000, the approximate amount of the experience study that is being conducted in FY19-20 and not FY20-21.

MEDICAL SERVICES

The budget for medical services was increased to \$236,000, a slight increase of \$18,000, or 8.26% over the prior year adopted budget of \$218,000. This category is for expenses related to the processing of disability applicants, which include costs for a medical advisor and medical services from independent medical examiners (IME). The main reason for the increase is due to an increase in the hourly rate of the medical advisor and the built-in contingency amount for special cases that cost more than the average amount.

