



# Memorandum

**TO: Board of Administration for the  
Police and Fire Plan**

**FROM: Benjie Chua Foy**

**SUBJECT: Consideration of Proposed Budget  
for Fiscal Year 2018-2019**

**DATE: March 22, 2018**

Approved

*Robert L. Perez*

Date

3/28/18

## RECOMMENDATION

Discussion and action on the proposed budget for fiscal year 2018-2019.

## 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 \$184,231,413.

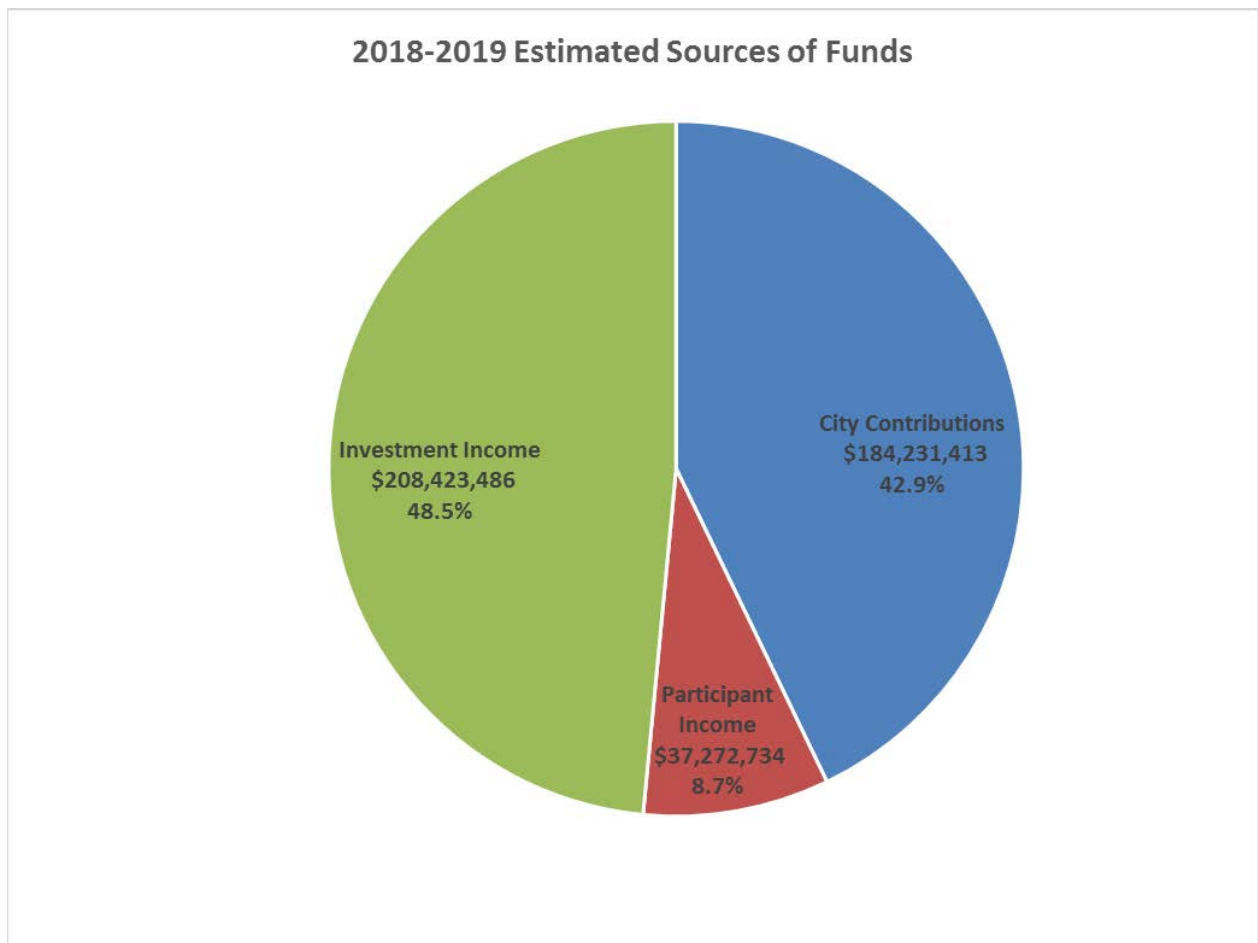
This contribution amount is based on the City contribution rates recommended by the actuary and adopted by the Board, applied as a factor against the City's total covered payroll. The FY19 contributions rates assume the Board's adoption in April/May inclusive of the changes from Measure F, as shown in the June 30, 2017 actuarial reports for pension and healthcare. The City's covered payroll is also based on the amounts shown in the June 30, 2017 actuarial reports for pension and healthcare.

## PARTICIPANT INCOME

Total member contributions are estimated at \$37,272,734, a 10.5% decrease from the 2017-2018 adopted amount. Member contributions are calculated based on the contribution rate for each tier. Police Tier 1 contribution rates for pension decreased from 10.88% to 10.28% while their covered payroll increased slightly from \$91.4 million to \$92.6 million. Fire Tier 1 contribution rates for pension and covered payroll both decreased slightly from 11.38% to 11.09% and from \$75.6 million to \$74.8 million, respectively. Police Tier 2 contribution rates for pension decreased from 15.17% to 13.71% and covered payroll increased from \$23.2 million to \$31.6 million, while Fire Tier 2 contribution rates for pension decreased from 16.26% to 15.13% while covered payroll increased from \$10.1 million to \$11.4 million. Healthcare contribution rates were reduced to 8.0% for Tier 1 members, while Tier 2 members had to go into the VEBA.

## INVESTMENT INCOME

Investment earnings are calculated based on the actuarial assumed rate of return of 6.875%. The beginning fund balance, along with the City's contributions are expected to earn the full rate while the member contributions offset with the expenditures are expected to earn less than the full rate.



## ***USES OF FUNDS***

### **PENSION BENEFITS AND HEALTH INSURANCE**

The pension benefits budget increased to \$213,116,000, an increase of \$9,541,000, or 4.69%, 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 decreased to \$23,492,000, a decrease of \$195,567, or 0.82%, which is the average decrease for the past five years. Health insurance includes health and dental insurance subsidies, as well as Medicare reimbursements.

### ***ADMINISTRATIVE EXPENSE BUDGET***

The proposed administrative expenses budget of \$6,259,000 is a net decrease of 9.0% or \$617,800 from the prior year proposed budget of \$6,876,800.

### **PERSONNEL SERVICES**

The budget for personnel services was reduced to \$3,778,000, a decrease of \$133,800, or 3.4% over the prior year adopted budget of \$3,911,800. 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 remained at 39.75. However, two of the positions are limited-date positions which expire on June 30, 2018. The proposed personnel changes for FY18-19 were originally requested to convert the limited-date positions to permanent positions. After discussions with the City Manager's and Budget Office, these two limited-date positions were extended only for FY18-19. The main reason for the decrease is due to the implementation of the VEBA which essentially reduces the City's contribution for healthcare for Tier 2 members.

### **NON-PERSONNEL / EQUIPMENT**

The budget for non-personnel / equipment was reduced to \$1,312,000, a decrease of \$52,300, or 3.8% over the prior year adopted budget of \$1,364,300. 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. This reduction is due to several reasons:

- \$63,000 reduction in investment analytics and research due to the decrease in the risk management implementation budget to be in line with the contractual amounts due to Verus

## PROFESSIONAL SERVICES

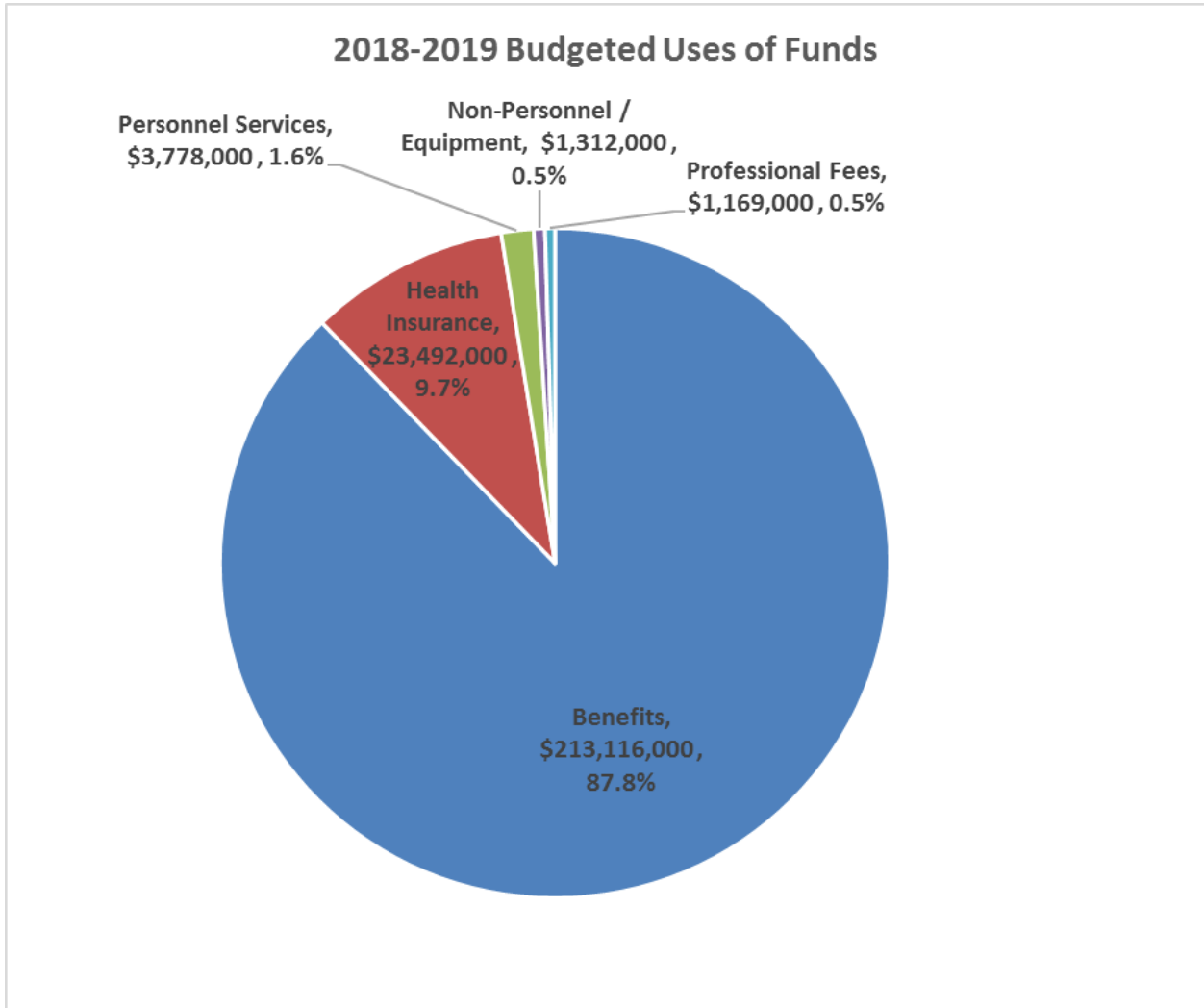
The budget for professional services was reduced to \$939,000, a decrease of \$123,700, or 11.6% over the prior year adopted budget of \$1,062,700. Funding is required to continue the professional services necessary to meet core business needs in the area of actuarial services, financial audit services, legal services, and temporary staffing services. Decreases in budgetary amounts for core professional services resulted from reducing the budgetary amounts to be in line with prior year trends which were offset by planned projects for FY18-19. These include the following:

- \$145,000 reduction in legal services budget to be consistent with past trends
- \$17,000 reduction in pension administration system-related budget to be consistent with past trends
- \$37,000 increase in temporary staffing services budget due to the pensionable earnings correction project, open enrollment and most significantly, the implementation of the new pension administration system which are required for IT, accounting and benefits as parallel productions are occurring.

## MEDICAL SERVICES

The budget for medical services was reduced to \$230,000, a decrease of \$308,000, or 57.3% over the prior year adopted budget of \$538,000. 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). Reasons for the decrease include the following:

- Prior year's budget was prepared in anticipation of a 3-doctor Board medical advisor panel which has not been implemented
- Since Dr. Tierman was a new consultant, it was not known how many reports she would be capable of producing. It was not until late 2017 that her pattern of 4 a month per plan evolved
- Fiscal year 2017 started with a backlog of 30 IME reports received and many reviews required of Dr. Tierman, which were included in last year's budget.
- Current year budget is more in line with a typical year.



Attachment: Proposed Budget for Fiscal Year 2018-2019

**PROPOSED BUDGET**

**FISCAL YEAR 2018-2019**

**POLICE AND FIRE DEPARTMENT RETIREMENT PLAN**

April 5, 2018

**POLICE & FIRE DEPARTMENT RETIREMENT PLAN**

**Statement of Source and Use of Funds**

	<b>(A)</b> <b>2016-2017</b> <b>Actual</b>	<b>(B)</b> <b>2017-2018</b> <b>Modified</b>	<b>(C)</b> <b>2017-2018</b> <b>Forecast</b>	<b>(D)</b> <b>2018-2019</b> <b>Proposed</b>	<b>(A) to (B)</b> <b>Increase</b> <b>(Decrease)</b>	<b>(B) - (C)</b> <b>Increase</b> <b>(Decrease)</b>	<b>(C) - (D)</b> <b>Increase</b> <b>(Decrease)</b>
<b>SOURCE OF FUNDS</b>							
Beginning Fund Balance							
Claims Reserve	3,167,080,000	3,442,939,000	3,442,939,000	<b>3,631,488,699</b>	275,859,000	0	188,549,699
Total Beginning Fund Balance	3,167,080,000	3,442,939,000	3,442,939,000	<b>3,631,488,699</b>	275,859,000	0	188,549,699
Transfers							
City Contributions	157,624,000	180,811,565	182,628,714	<b>184,231,413</b>	23,187,565	1,817,149	1,602,699
1970 COLA	534	530	534	<b>534</b>	(4)	4	0
1980 COLA	11,348	11,500	10,324	<b>10,260</b>	152	(1,176)	(64)
1990 COLA	5,015	4,445	3,758	<b>3,804</b>	(570)	(687)	46
Total Transfers	157,640,897	180,828,040	182,643,330	<b>184,246,011</b>	23,187,143	1,815,290	1,602,681
Revenue							
Participant Income	38,696,000	41,630,579	39,780,746	<b>37,272,734</b>	2,934,579	(1,849,833)	(2,508,011)
Investment Income, net of expenses	305,187,000	230,461,250	198,708,474	<b>208,423,486</b>	(74,725,750)	(31,752,776)	9,715,012
Total Revenue	343,883,000	272,091,829	238,489,220	<b>245,696,221</b>	(71,791,171)	(33,602,609)	7,207,001
<b>TOTAL SOURCE OF FUNDS</b>	<b><u>3,668,603,897</u></b>	<b><u>3,895,858,869</u></b>	<b><u>3,864,071,550</u></b>	<b><u>4,061,430,931</u></b>	<b><u>227,254,972</u></b>	<b><u>(31,787,319)</u></b>	<b><u>197,359,381</u></b>

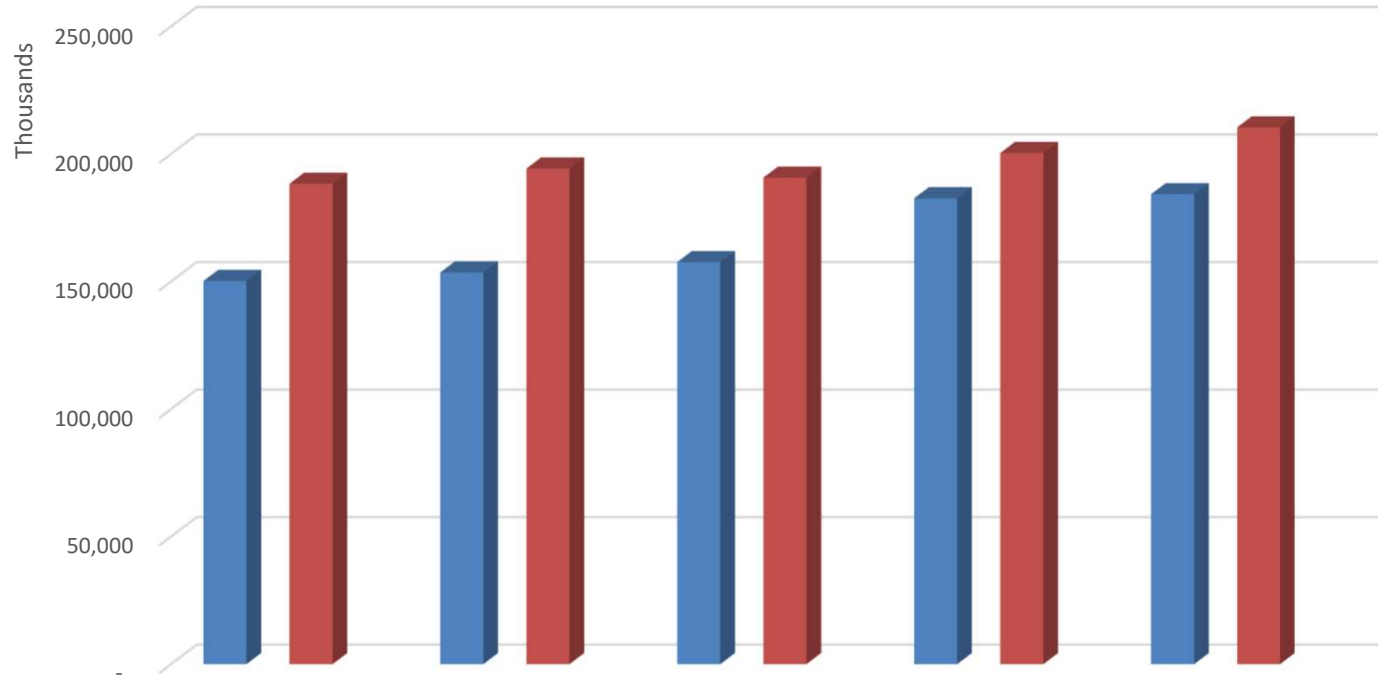
**POLICE & FIRE DEPARTMENT RETIREMENT PLAN**

**Statement of Source and Use of Funds**

	<b>(A)</b> <b>2016-2017</b> <b>Actual</b>	<b>(B)</b> <b>2017-2018</b> <b>Modified</b>	<b>(C)</b> <b>2017-2018</b> <b>Forecast</b>	<b>(D)</b> <b>2018-2019</b> <b>Proposed</b>	<b>(A) to (B)</b> <b>Increase</b> <b>(Decrease)</b>	<b>(B) - (C)</b> <b>Increase</b> <b>(Decrease)</b>	<b>(C) - (D)</b> <b>Increase</b> <b>(Decrease)</b>
<b>USE OF FUNDS</b>							
Expenditures							
Personnel Services (Ret.)	3,065,147	3,911,800	3,242,214	<b>3,778,000</b>	846,653	(669,586)	535,786
Non-Personnel/Equipment <sup>(1)</sup>	<b>1,131,656</b>	1,364,300	1,044,113	<b>1,312,000</b>	232,644	(320,187)	267,887
Professional Fees <sup>(2)</sup>	<b>1,187,995</b>	1,600,700	1,019,340	<b>1,169,000</b>	412,705	(581,360)	149,660
Benefits	196,032,000	210,844,475	203,575,000	<b>213,116,000</b>	14,812,475	(7,269,475)	9,541,000
Health Insurance	24,799,000	24,323,542	23,687,567	<b>23,492,000</b>	(475,458)	(635,975)	(195,567)
1970 COLA	534	530	534	<b>534</b>	(4)	4	0
1980 COLA	11,348	11,500	10,324	<b>10,260</b>	152	(1,176)	(64)
1990 COLA	5,015	4,445	3,758	<b>3,804</b>	(570)	(687)	46
Total Expenditures	<u>226,232,695</u>	<u>242,061,292</u>	<u>232,582,850</u>	<b><u>242,881,598</u></b>	15,828,597	(9,478,442)	10,298,748
Ending Fund Balance							
Claims Reserve	<u>3,442,371,202</u>	<u>3,653,797,577</u>	<u>3,631,488,699</u>	<b><u>3,818,549,333</u></b>	211,426,375	(22,308,878)	187,060,633
Total Ending Fund Balance	<u>3,442,371,202</u>	<u>3,653,797,577</u>	<u>3,631,488,699</u>	<b><u>3,818,549,333</u></b>	211,426,375	(22,308,878)	187,060,633
<b>TOTAL USE OF FUNDS</b>	<b><u>3,668,603,897</u></b>	<b><u>3,895,858,869</u></b>	<b><u>3,864,071,550</u></b>	<b><u>4,061,430,931</u></b>	<b><u>227,254,972</u></b>	<b><u>(31,787,319)</u></b>	<b><u>197,359,381</u></b>
Per CAFR	577,909						
Investment data processing fees	463,755						
							<u>Amount not included in budget since no cash outlay:</u>
CAFR design, stipends and education budgeted as professional fees	(13,725)						Amortization estimate for PG3 (to be placed in service February 2019 = 5 months for FY18-19; PG3 to be amortized over 10 years)
Amount capitalized in CAFR	103,717						\$ 147,667
<sup>(1)</sup>	<b>1,131,656</b>						
Per CAFR	1,174,270						
CAFR design, stipends and education budgeted as professional fees	13,725						
<sup>(2)</sup>	<b>1,187,995</b>						



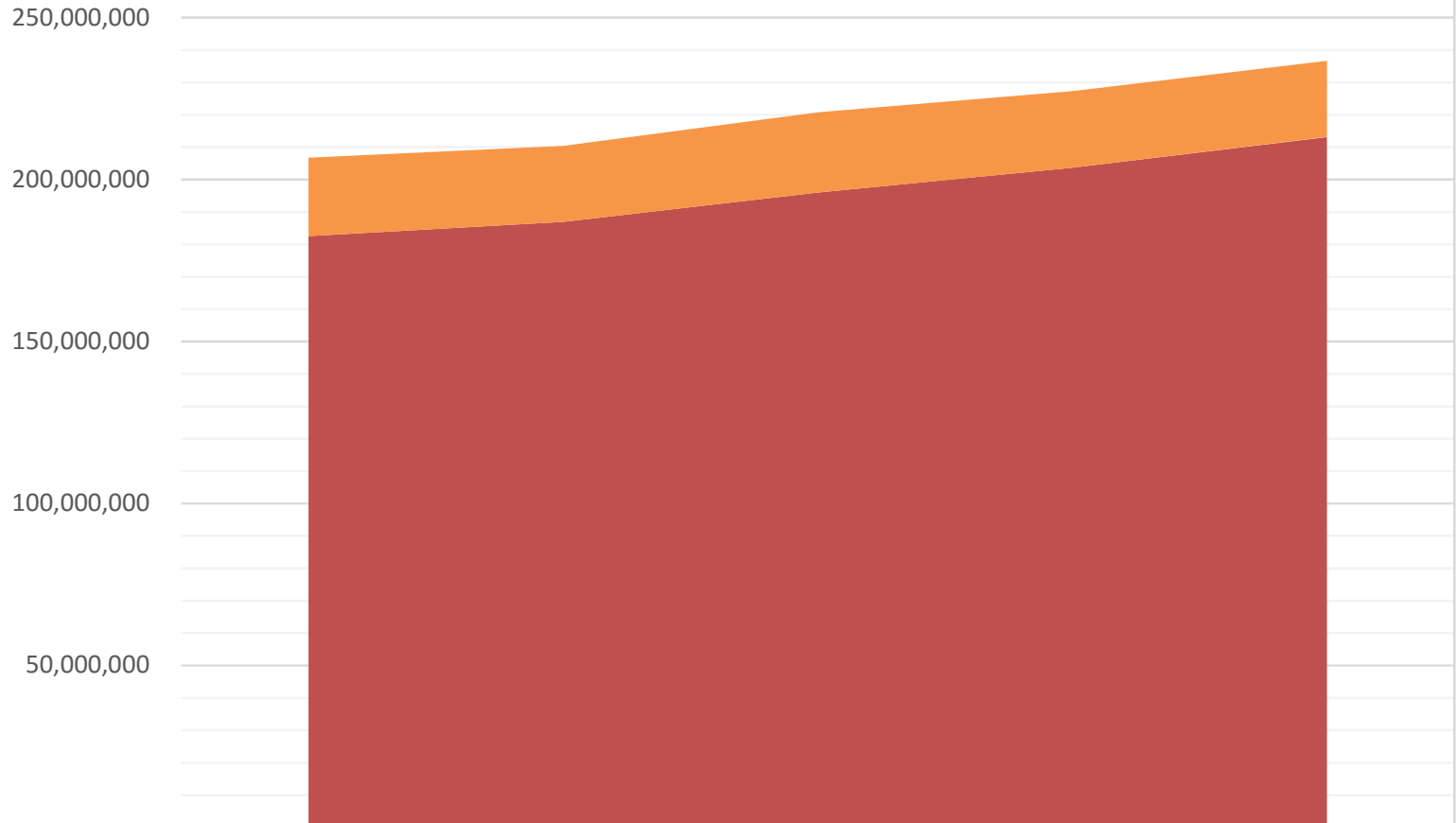
## POLICE & FIRE DEPARTMENT RETIREMENT PLAN Total City Contributions & Covered Payroll



	FY 14-15	FY 15-16	FY 16-17	FY 17-18 (Forecast)	FY 18-19 (Estimate)
<span style="color: blue;">■</span> Total City Contributions	150,189,000	153,545,000	157,624,000	182,628,714	184,231,413
Total City Contribution % Change	6.6%	2.2%	2.7%	15.9%	0.9%
<span style="color: red;">■</span> Total Covered Payroll	188,338,155	194,304,844	190,736,887	200,379,436	210,441,000
Total Covered Payroll % Change	0.2%	3.2%	-1.8%	5.1%	5.0%

## POLICE & FIRE DEPARTMENT RETIREMENT PLAN

### Pension Benefits and Health Insurance



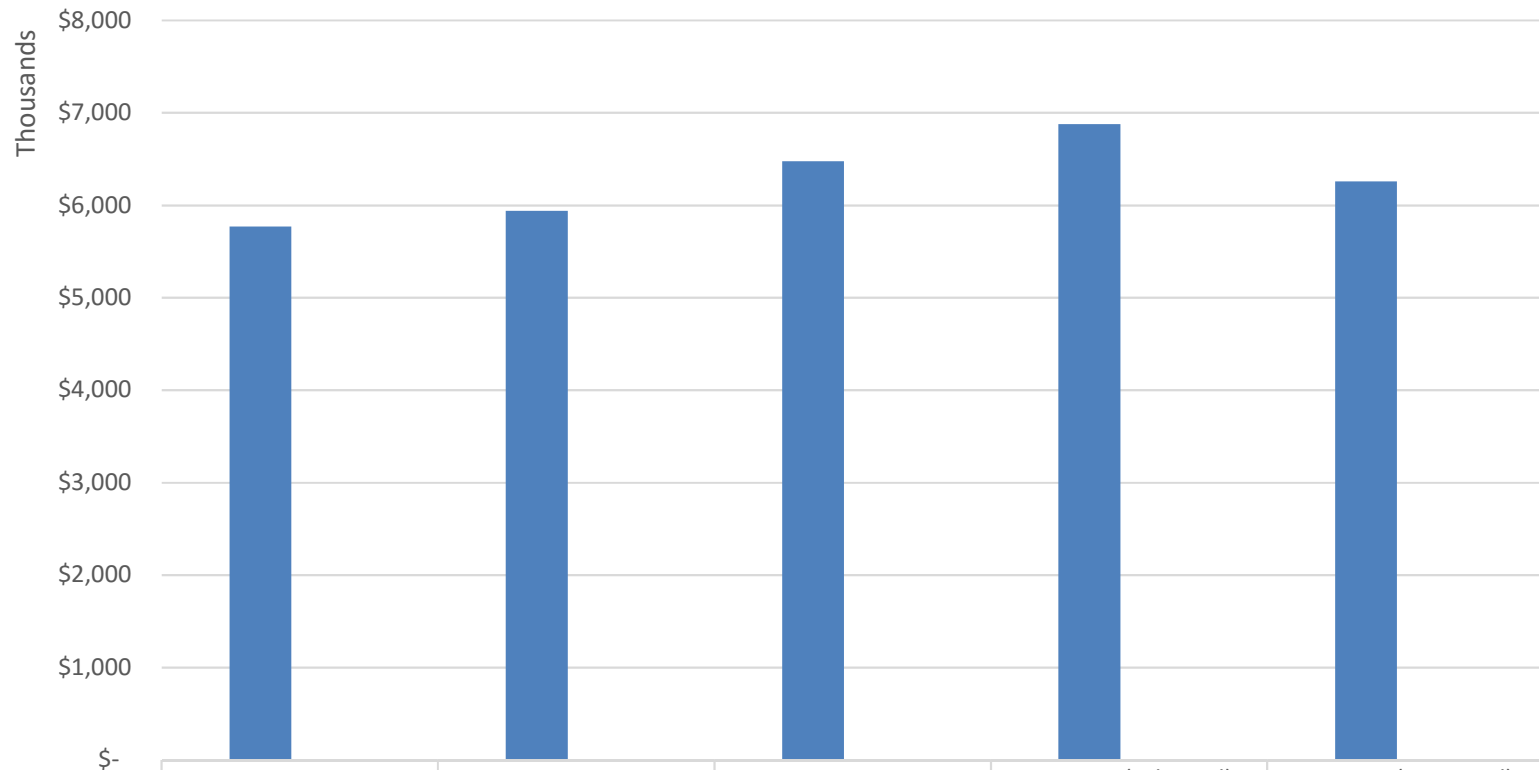
	FY 2015 - Actual	FY 2016 - Actual	FY 2017 - Actual	FY 2018 - Forecast	FY 2019 - Proposed
Total Benefits	206,776,000	210,389,000	220,831,000	227,262,567	236,608,000
Health Insurance	24,205,000	23,449,000	24,799,000	23,687,567	23,492,000
Pension Benefits	182,571,000	186,940,000	196,032,000	203,575,000	213,116,000
Health Insurance % Change	7.5%	4.2%	10.2%	5.2%	4.4%
Pension Benefits % Change	9.1%	11.7%	17.1%	21.6%	27.3%

## POLICE & FIRE DEPARTMENT RETIREMENT PLAN

### Administrative Expenses: FY 2018-2019

	(A) 2016-2017 Actual	(B) 2017-2018 Adopted	(C) 2017-2018 Forecast	(D) 2018-2019 Proposed	(A) to (B) Increase (Decrease)	(B) - (C) Increase (Decrease)	(C) - (D) Increase (Decrease)
<b>PERSONNEL SERVICES</b>							
Salaries and employee benefits	3,065,147	3,911,800	3,242,214	<b>3,778,000</b>	846,653	(669,586)	535,786
Total Personnel Services	3,065,147	3,911,800	3,242,214	<b>3,778,000</b>	846,653	(669,586)	535,786
<b>NON-PERSONNEL / EQUIPMENT</b>							
Investment analytics and research	491,255	578,000	442,995	<b>515,000</b>	86,745	(135,005)	72,005
Insurance	168,548	180,000	176,852	<b>190,000</b>	11,452	(3,148)	13,148
IT hardware / software	62,613	78,800	36,291	<b>90,000</b>	16,187	(42,509)	53,709
LRS - annual maintenance fee	103,717	105,000	106,829	<b>110,000</b>	1,283	1,829	3,171
Postage and printing	40,436	105,000	36,848	<b>90,000</b>	64,564	(68,152)	53,152
Rent	197,052	200,000	194,269	<b>200,000</b>	2,948	(5,731)	5,731
Training and travel	30,817	70,000	8,476	<b>70,000</b>	39,183	(61,524)	61,524
Other non-personnel / equipment	37,218	47,500	41,553	<b>47,000</b>	10,282	(5,947)	5,447
Total Non-personnel / Equipment	1,131,656	1,364,300	1,044,113	<b>1,312,000</b>	232,644	(320,187)	267,887
<b>PROFESSIONAL SERVICES</b>							
Actuary	375,673	230,000	250,012	<b>230,000</b>	(145,673)	20,012	(20,012)
External auditor	59,097	70,000	62,232	<b>70,000</b>	10,903	(7,768)	7,768
Legal	324,990	475,000	274,254	<b>330,000</b>	150,010	(200,746)	55,746
Pension administrative system	22,202	52,500	38,018	<b>35,500</b>	30,298	(14,482)	(2,518)
Temporary staffing agencies	83,056	132,000	157,269	<b>169,000</b>	48,944	25,269	11,731
Other professional services	43,802	103,200	95,955	<b>104,500</b>	59,398	(7,245)	8,545
Total Professional Services	908,820	1,062,700	877,740	<b>939,000</b>	153,880	(184,960)	61,260
<b>MEDICAL SERVICES</b>							
Independent medical examiners	172,975	302,000	96,250	<b>140,000</b>	129,025	(205,750)	43,750
Medical consultant	106,200	236,000	45,350	<b>90,000</b>	129,800	(190,650)	44,650
Total Medical Services	279,175	538,000	141,600	<b>230,000</b>	258,825	(396,400)	88,400
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>5,384,798</b>	<b>6,876,800</b>	<b>5,305,667</b>	<b>6,259,000</b>	<b>1,492,002</b>	<b>(1,571,133)</b>	<b>953,333</b>

**POLICE & FIRE DEPARTMENT RETIREMENT PLAN**  
**Administrative Expense Budget**  
**FY 2014-2015 to FY 2018-2019**



	FY 14-15	FY 15-16	FY 16-17	FY 17-18 (Adopted)	FY 18-19 (Proposed)
■ Admin Exp Budget*	\$5,768,489	\$5,940,703	\$6,479,200	\$6,876,800	\$6,259,000
■ % Change	17.2%	3.0%	9.1%	6.1%	-9.0%

\* Amount includes budget for operations only.

**OFFICE OF RETIREMENT SERVICES**

**Departmental Position Detail**

<b>Position</b>	<b>2016-2017 Adopted (1)</b>	<b>2017-2018 Adopted (2)</b>	<b>2017-2018 Forecast (3)</b>	<b>2018-2019 Proposed (4)</b>	<b>Increase / (Decrease) (2 to 4)</b>	<b>Increase / (Decrease) (3 to 4)</b>	<b>Explanation</b>
Account Clerk II	1.00	1.00	1.00	1.00	-	-	
Accounting Technician	1.00	1.00	1.00	1.00	-	-	
Analyst I/II	6.00	6.00	6.00	6.00	-	-	
Assistant Director and Chief Investment Officer	1.00	1.00	1.00	1.00	-	-	Previous one left April 2017 and a new one was hired in March 2018
Department Information Technology Manager	1.00	1.00	1.00	1.00	-	-	
Deputy Director	1.00	1.00	1.00	1.00	-	-	
Director of Retirement Services	1.00	1.00	1.00	1.00	-	-	
Division Manager	2.00	2.00	2.00	2.00	-	-	Previous one left January 2017 and a new one was hired in September 2017
Executive Assistant	0.00	0.00	1.00	1.00	1.00	-	Reclassification from Staff Tech in December 2017
Financial Analyst	1.00	1.00	1.00	1.00	-	-	New one hired December 2017
Investments Operations Officer	0.00	1.00	1.00	1.00	-	-	Reclassification from RIO to this one in July 2017
Information Systems Analyst	2.00	2.00	2.00	2.00	-	-	
Network Technician I/II/III	1.00	1.00	1.00	1.00	-	-	
Office Specialist II	1.00	1.00	1.00	1.00	-	-	
Retirement Investment Analyst I/II	2.00	2.00	1.00	2.00	-	1.00	Vacant position
Retirement Investment Officer	4.00	3.00	2.00	3.00	-	1.00	Reclassification from RIO to this one in July 2017; vacant position
Senior Account Clerk	1.00	1.00	1.00	1.00	-	-	
Senior Accountant	2.00	2.00	2.00	2.00	-	-	
Senior Analyst	2.00	2.00	2.00	2.00	-	-	
Senior Auditor	1.00	1.00	1.00	1.00	-	-	New one hired December 2017
Senior Retirement Investment Officer	1.00	1.00	1.00	1.00	-	-	
Staff Technician	7.00	7.00	6.00	6.00	(1.00)	-	Reclassification from Staff Tech in December 2017
Staff Technician PT	0.75	0.75	0.75	0.75	-	-	
<b>Total Positions</b>	<b>39.75</b>	<b>39.75</b>	<b>37.75</b>	<b>39.75</b>	<b>0.00</b>	<b>2.00</b>	

OFFICE OF RETIREMENT SERVICES

Proposed Organizational Chart

FY18-19

