

Memorandum

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

FROM: Benjie Chua Foy

**SUBJECT: Consideration of Proposed Budget
for Fiscal Year 2023-2024**

DATE: March 29, 2023

Approved



Date 03/29/23

RECOMMENDATION

Discussion and action on the proposed budget for fiscal year 2023-2024.

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 \$230,120,000.

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 FY24 contribution amounts assume the Board's adoption in April/May, as shown in the June 30, 2022 actuarial reports for pension and healthcare, using the beginning of the year amounts if the City prefunds the Police and Fire Tier 1 and healthcare contributions, similar to the prior year.

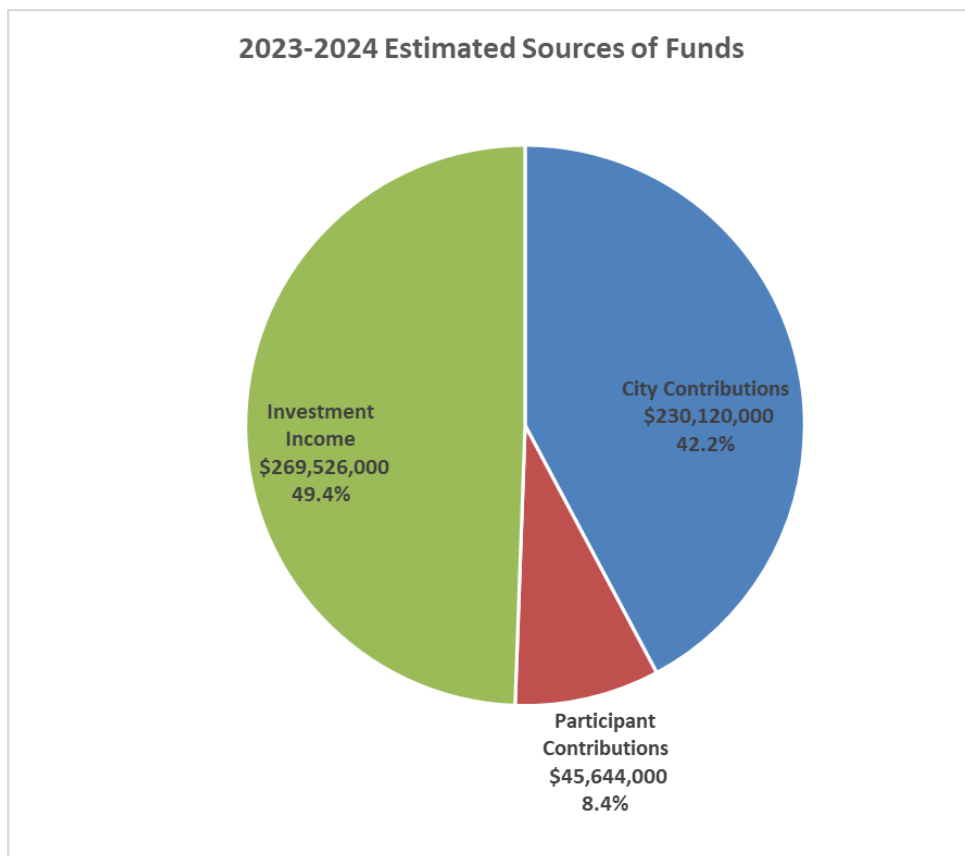
PARTICIPANT CONTRIBUTIONS

Total member contributions are estimated at \$45,644,000, a 1.11% increase from the 2022-2023 adopted amount. Member contributions are calculated based on the contribution rate for each tier. Police Tier 1 contribution rates for pension increased slightly going from 10.99% to 11.09% while their covered payroll

decreased from \$77.5 million to \$70.0 million. Fire Tier 1 contribution rates for pension decreased slightly from 12.11% to 12.00% while covered payroll decreased from \$68.7 million to \$64.2 million. Police Tier 2 contribution rates for pension decreased slightly from 14.37% to 14.35% and covered payroll increased from \$84.2 million to \$96.5 million. Fire Tier 2 contribution rates for pension decreased slightly from 15.18% to 15.11%, while covered payroll increased from \$29.7 million to \$37.2 million. Healthcare contribution rates remain at 8.0% per the Municipal Code for Tier 1 members, while Tier 2 members are required to go into the VEBA.

INVESTMENT INCOME

Investment earnings are calculated based on the actuarial assumed rate of return of 6.625%. 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 \$282,656,000, an increase of \$14,393,000 over the forecast, or 5.37%, 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 \$25,719,000, a decrease of \$304,000 over the forecast, or 1.17%, which is the average change 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 2021-2022 and future withdrawals are expected to be minimal, if any.

ADMINISTRATIVE EXPENSE BUDGET

The proposed administrative expenses budget of \$6,824,000 is a net increase of \$498,000 or 7.87% from the prior year adopted budget of \$6,326,000.

PERSONNEL SERVICES

The budget for personnel services was increased to \$4,792,000, an increase of \$329,000, or 7.37% over the prior year adopted budget of \$4,463,000. 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 increase to 45 from 43 due to the proposals. The proposed personnel changes for FY23-24 are to: 1) add an Overstrength Medicare Analyst in the Health section of the Benefits division, 2) upgrade the vacant Office Specialist to a Senior Office Specialist in the front desk in the Benefits division, and 3) upgrade the vacant Account Tech to an Accountant I/II in the Accounting division to address the increasing and more challenging workloads. Besides the proposed changes, the other reasons for the increase in personnel services is due to the increased benefit rates, as well as having three, instead of two, reemployed retirees for the maximum time allowed per the Municipal Code.

NON-PERSONNEL / EQUIPMENT

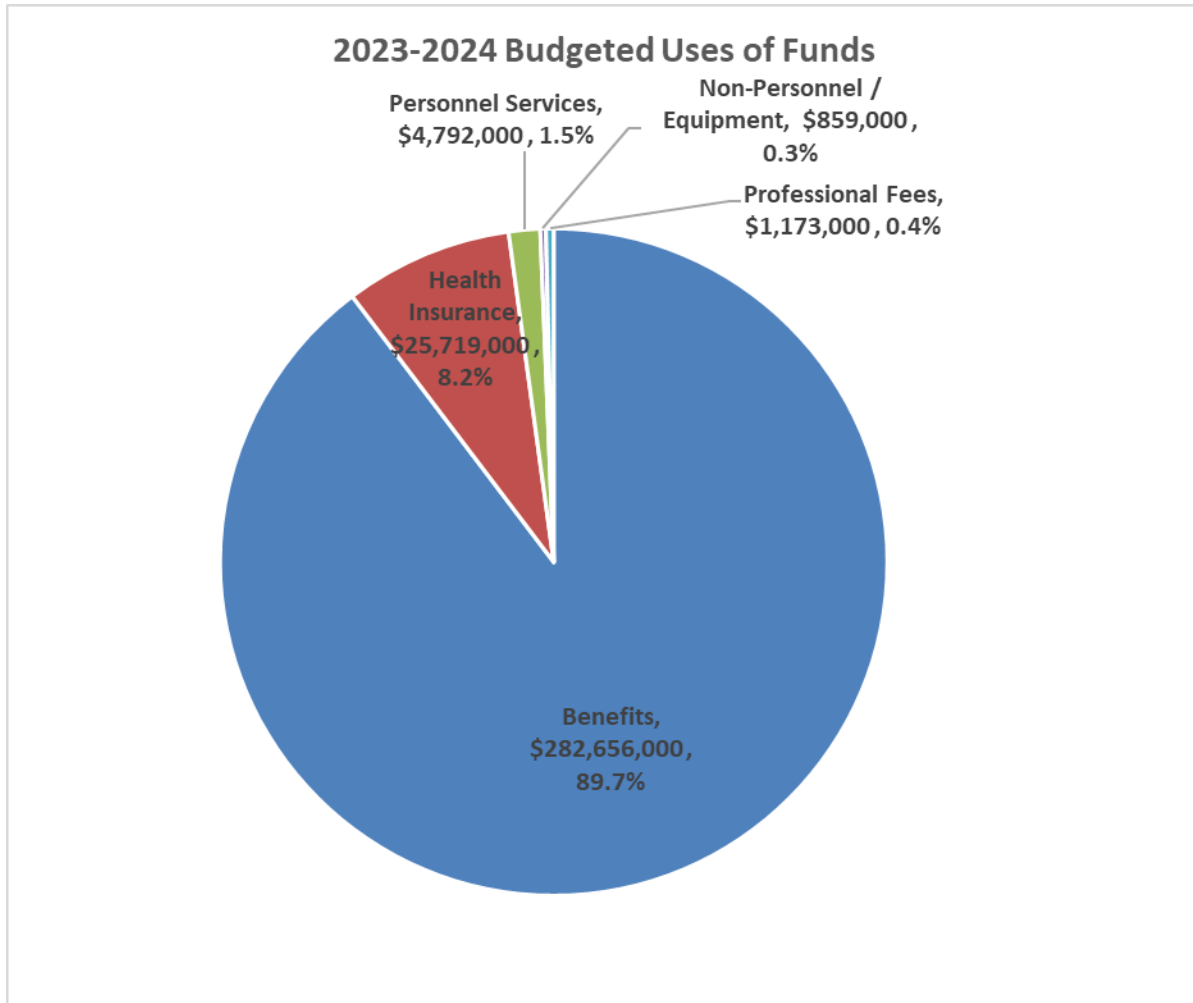
The budget for non-personnel / equipment was increased to \$859,000, an increase of \$64,000, or 8.05% from the prior year adopted budget of \$795,000. This category includes rent, insurance, information technology hardware/software, pension administration annual maintenance fee, postage and printing, training, travel, and other office expenses. The increase is mainly due to the proposed change in financial software in IT hardware/software, the cubicle reconfiguration for the Benefits division, and to account for general increases across the board.

PROFESSIONAL SERVICES

The budget for professional services was increased to \$903,000, a decrease of \$95,000, or 10.5% from the prior year modified budget of \$998,000. The adopted budget was modified to increase legal services by \$150,000 and temp services by \$50,000. If it had not been modified, current year proposed budget would be \$903,000, an increase of \$105,000, or 13.2% from the prior year adopted budget of \$798,000. Core professional services comprise of actuarial services, financial audit services, legal services, and temporary staffing services. The increase is mainly due to the increase in temp services for the Benefits division to backfill for vacancies and assist with peak periods, as well as increases in actuarial and legal services to account for the rise in the need of their services in the past few years.

MEDICAL SERVICES

The budget for medical services remained steady at \$270,000. This category is for expenses related to the processing of disability applicants, which include costs for medical services from independent medical examiners (IME). The contract with the medical advisor has been terminated so all services will be from the independent medical examiners.



Attachment: Proposed Budget for Fiscal Year 2023-2024

PROPOSED BUDGET

FISCAL YEAR 2023-2024

POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

REVISED

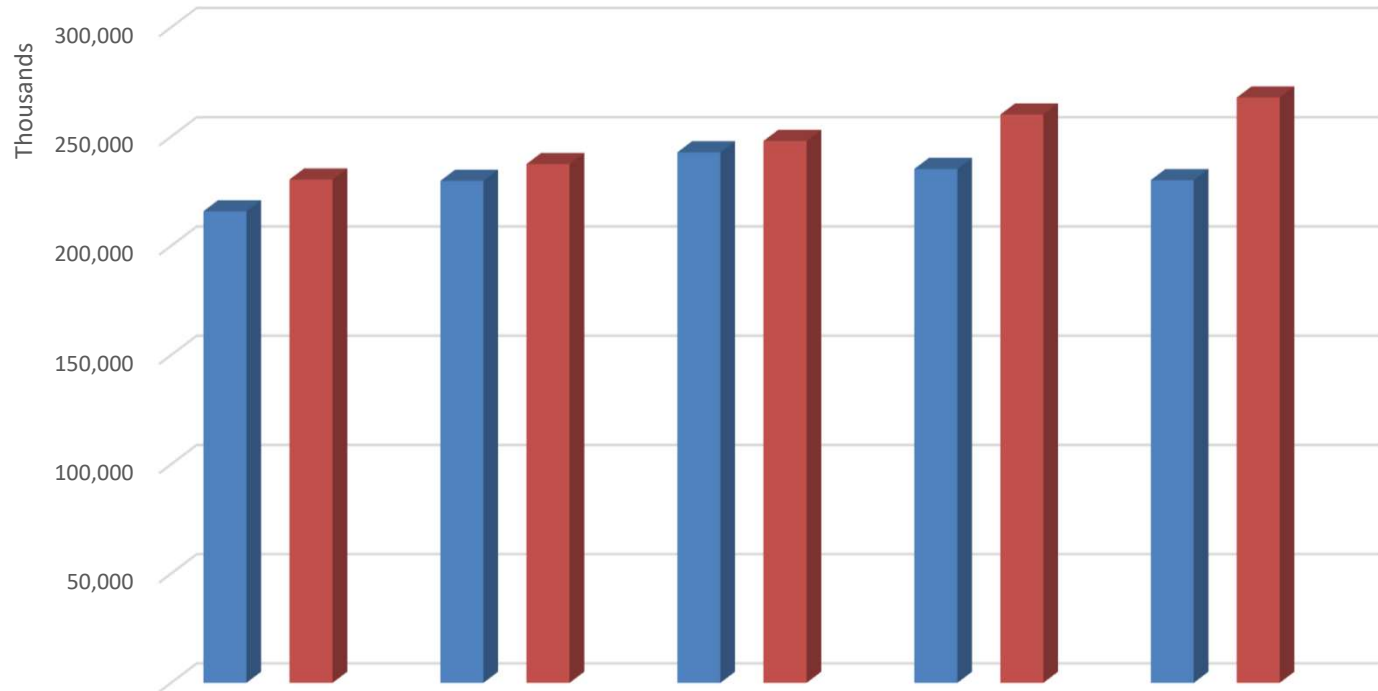
April 6, 2023

POLICE & FIRE DEPARTMENT RETIREMENT PLAN

Statement of Source and Use of Funds

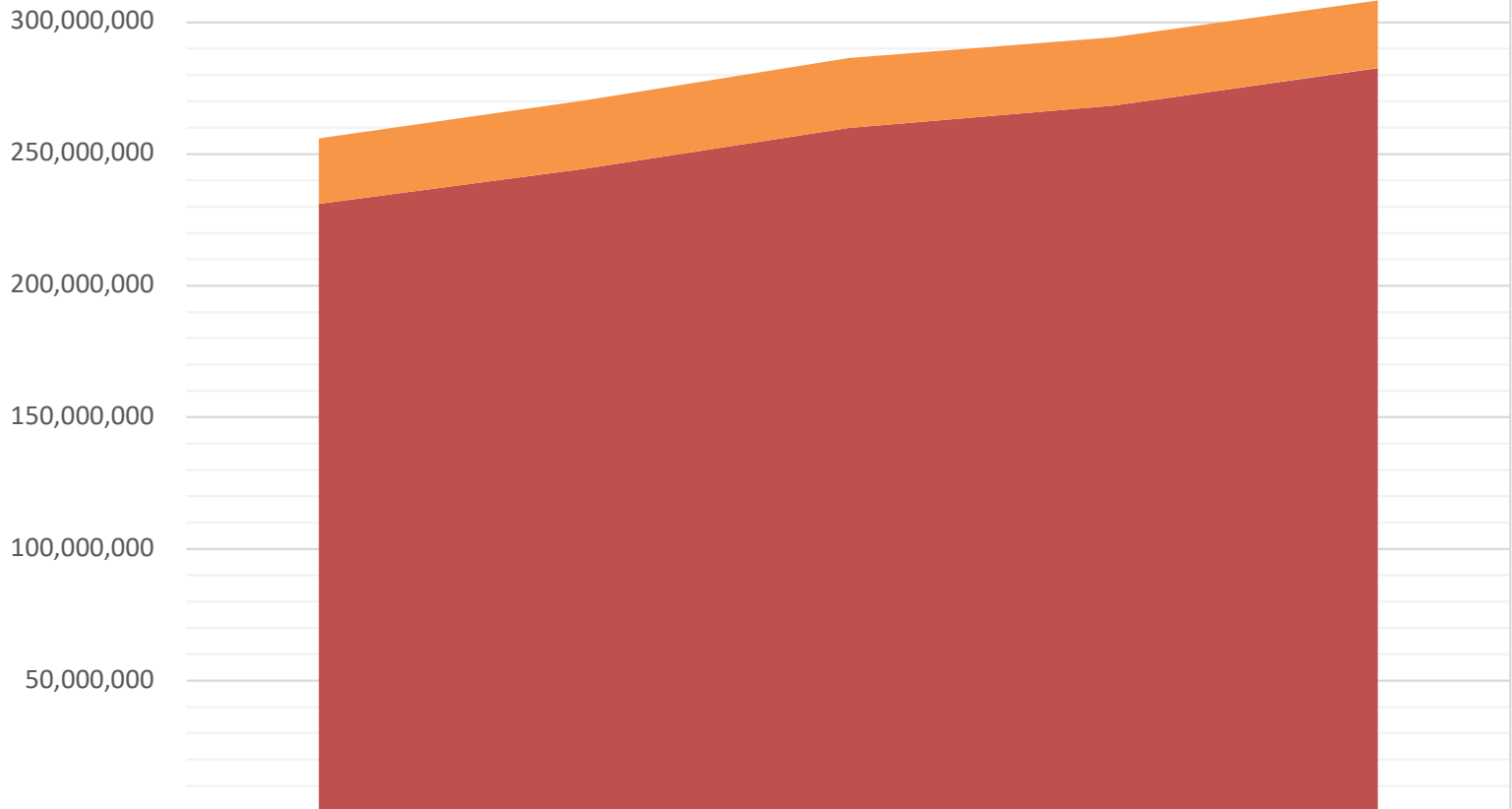
	(A) 2021-2022 Actual	(B) 2022-2023 Modified	(C) 2022-2023 Forecast	(D) 2023-2024 Proposed	(A) to (B) Increase (Decrease)	(B) - (C) Increase (Decrease)	(C) - (D) Increase (Decrease)
SOURCE OF FUNDS							
Beginning Fund Balance							
Claims Reserve	5,002,953,000	4,675,142,000	4,675,142,000	4,912,692,000	(327,811,000)	0	237,550,000
Total Beginning Fund Balance	5,002,953,000	4,675,142,000	4,675,142,000	4,912,692,000	(327,811,000)	0	237,550,000
Transfers							
City Contributions	242,809,000	235,108,000	235,221,000	230,120,000	(7,701,000)	113,000	(5,101,000)
1970 COLA	500	1,000	500	1,000	500	(500)	500
1980 COLA	6,000	7,000	5,000	7,000	1,000	(2,000)	2,000
1990 COLA	4,000	4,000	4,000	4,000	0	0	0
Total Transfers	242,819,500	235,120,000	235,230,500	230,132,000	(7,699,500)	110,500	(5,098,500)
Revenue							
Participant Income	43,769,000	45,141,000	45,151,000	45,644,000	1,372,000	10,000	493,000
Investment Income, net of expenses	(321,850,000)	297,789,000	257,830,000	269,526,000	619,639,000	(39,959,000)	11,696,000
Total Revenue	(278,081,000)	342,930,000	302,981,000	315,170,000	621,011,000	(39,949,000)	12,189,000
TOTAL SOURCE OF FUNDS	4,967,691,500	5,253,192,000	5,213,353,500	5,457,994,000	285,500,500	(39,838,500)	244,640,500
USE OF FUNDS							
Expenditures							
Benefits	259,876,000	265,735,000	268,263,000	282,656,000	5,859,000	2,528,000	14,393,000
Health Insurance	26,458,000	25,618,000	26,023,000	25,719,000	(840,000)	405,000	(304,000)
VEBA withdrawals	0	0	0	0	0	0	0
Personnel Services (Ret.)	3,937,000	4,463,000	4,435,000	4,792,000	526,000	(28,000)	357,000
Non-Personnel/Equipment ⁽¹⁾	1,121,000	795,000	718,000	859,000	(326,000)	(77,000)	141,000
Professional Fees	1,147,000	1,068,000	1,213,000	1,173,000	(79,000)	145,000	(40,000)
1970 COLA	500	1,000	500	1,000	500	(500)	500
1980 COLA	6,000	7,000	5,000	7,000	1,000	(2,000)	2,000
1990 COLA	4,000	4,000	4,000	4,000	0	0	0
Total Expenditures	292,549,500	297,691,000	300,661,500	315,211,000	5,141,500	2,970,500	14,549,500
Ending Fund Balance							
Claims Reserve	4,675,142,000	4,955,501,000	4,912,692,000	5,142,783,000	280,359,000	(42,809,000)	230,091,000
Total Ending Fund Balance	4,675,142,000	4,955,501,000	4,912,692,000	5,142,783,000	280,359,000	(42,809,000)	230,091,000
TOTAL USE OF FUNDS	4,967,691,500	5,253,192,000	5,213,353,500	5,457,994,000	285,500,500	(39,838,500)	244,640,500
<u>Amount not included in budget since no cash outlay:</u>							
Amortization expense for PG3 and GASB 87	\$ 439,062	\$ 439,062	\$ 439,062	\$ 439,062			
⁽¹⁾ Non-personnel equipment FY21-22	\$ 1,121,000						
Rounding in ACFR	654						
Amortization expense	(439,062)						
As shown in Administrative Expenses	\$ 682,592						

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



	FY 19-20	FY 20-21	FY 21-22	FY 22-23 (Forecast)	FY 23-24 (Estimate)
■ Total City Contributions	215,831,000	229,767,000	242,809,000	235,221,000	230,120,000
Total City Contribution % Change	5.1%	6.5%	5.7%	-3.1%	-2.2%
■ Total Covered Payroll	230,401,000	237,476,000	248,022,000	260,135,000	267,900,000
Total Covered Payroll % Change	5.4%	3.1%	4.4%	4.9%	3.0%

POLICE & FIRE DEPARTMENT RETIREMENT PLAN Pension Benefits and Health Insurance



	FY 19-20 - Actual	FY 20-21 - Actual	FY 21-22 - Actual	FY 22-23 - Forecast	FY 23-24 - Proposed
Total Benefits	256,039,000	270,284,000	286,334,000	294,286,000	308,375,000
Health Insurance	25,031,000	25,974,000	26,458,000	26,023,000	25,719,000
Pension Benefits	231,008,000	244,310,000	259,876,000	268,263,000	282,656,000
Health Insurance % Change	-5.2%	3.8%	1.9%	-1.6%	-1.2%
Pension Benefits % Change	6.0%	5.8%	6.4%	3.2%	5.4%

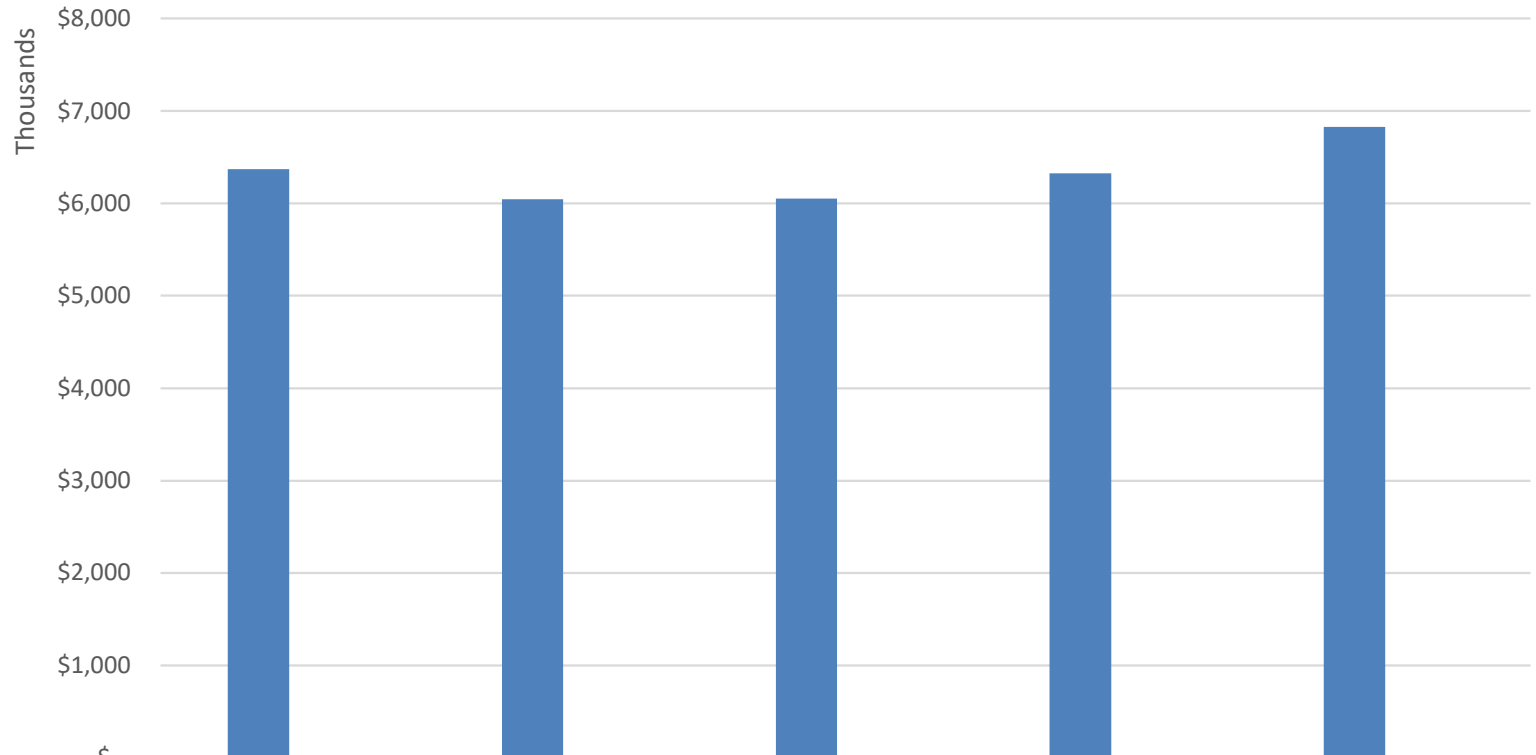
- 1168 -

POLICE & FIRE DEPARTMENT RETIREMENT PLAN

Administrative Expenses: FY 2023-2024

	(A) 2021-2022 Actual	(B) 2022-2023 Adopted	(C) 2022-2023 Forecast	(D) 2023-2024 Proposed	(A) to (B) Increase (Decrease)	(B) - (C) Increase (Decrease)	(C) - (D) Increase (Decrease)
PERSONNEL SERVICES							
Salaries and employee benefits	3,936,730	4,463,000	4,435,225	4,792,000	526,270	(27,775)	356,775
Total Personnel Services	3,936,730	4,463,000	4,435,225	4,792,000	526,270	(27,775)	356,775
NON-PERSONNEL / EQUIPMENT							
Rent	232,481	222,000	223,875	230,000	(10,481)	1,875	6,125
Insurance	223,327	256,000	233,436	256,000	32,673	(22,564)	22,564
IT hardware / software	88,962	109,000	81,571	130,000	20,038	(27,429)	48,429
Postage and printing	39,427	60,000	54,798	65,000	20,573	(5,202)	10,202
LRS - annual maintenance fee	49,845	50,000	52,160	55,000	155	2,160	2,840
Training and travel	7,770	25,000	21,720	30,000	17,230	(3,280)	8,280
Other non-personnel / equipment	33,203	58,000	38,519	78,000	24,797	(19,481)	39,481
Office supplies and board meeting expenses	7,577	15,000	11,896	15,000	7,423	(3,104)	3,104
Total Non-personnel / Equipment	682,592	795,000	717,975	859,000	112,408	(77,025)	141,025
PROFESSIONAL SERVICES							
Actuary / actuarial audit	387,400	262,000	283,360	290,000	(125,400)	21,360	6,640
External auditor	92,837	85,000	84,908	85,000	(7,837)	(92)	92
Legal	428,380	275,000	370,807	312,000	(153,380)	95,807	(58,807)
Pension administration system	16,944	24,000	17,852	24,000	7,056	(6,148)	6,148
Temporary staffing agencies	90,741	92,000	159,757	132,000	1,259	67,757	(27,757)
Other professional services	43,889	60,000	41,408	60,000	16,111	(18,592)	18,592
Total Professional Services	1,060,191	798,000	958,092	903,000	(262,191)	160,092	(55,092)
MEDICAL SERVICES							
Independent medical examiners	52,969	100,000	98,750	270,000	47,031	(1,250)	171,250
Medical consultant	33,930	170,000	156,247	-	136,070	(13,753)	(156,247)
Total Medical Services	86,899	270,000	254,997	270,000	183,101	(15,003)	15,003
TOTAL ADMINISTRATIVE EXPENSES	5,766,412	6,326,000	6,366,289	6,824,000	559,588	40,289	457,711

POLICE & FIRE DEPARTMENT RETIREMENT PLAN
Administrative Expense Budget
FY 2020 to FY 2024



	FY 19-20	FY 20-21	FY 21-22	FY 22-23 (Adopted)	FY 23-24 (Proposed)
■ Admin Exp Budget*	\$6,369,000	\$6,044,000	\$6,051,000	\$6,326,000	\$6,824,000
■ % Change	1.8%	-5.1%	0.1%	4.5%	7.9%

- 1170 -

* Amount includes budget for operations only.

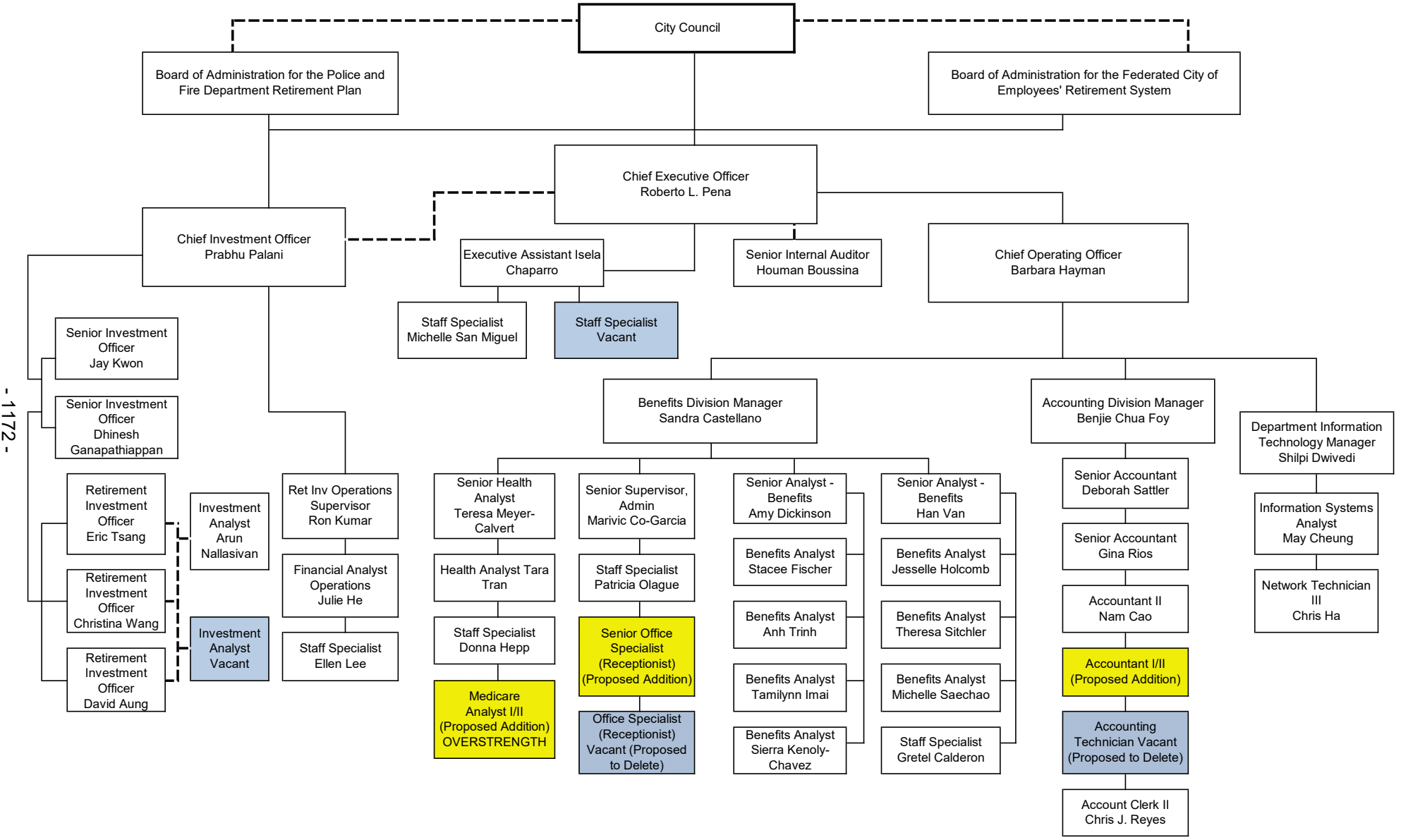
OFFICE OF RETIREMENT SERVICES

Departmental Position Detail

Position	2021-2022 Adopted (1)	2022-2023 Adopted (2)	2022-2023 Forecast (3)	2023-2024 Proposed (4)	Increase / (Decrease) (2 to 4)	Increase / (Decrease) (3 to 4)	Explanation
Account Clerk II	1.00	1.00	1.00	1.00	-	-	
Accountant I/II	1.00	1.00	1.00	2.00	1.00	1.00	Upgrade the Account Tech to an Accountant I/II
Accounting Technician	1.00	1.00	1.00	0.00	(1.00)	(1.00)	Upgrade the Account Tech to an Accountant I/II
Analyst I/II	6.00	7.00	8.00	9.00	2.00	1.00	Upgraded Staff Specialist to Analyst I/II in Benefits Division in December 2022 and Proposed addition of Medicare Analyst for Benefits Division - Overstrength
Assistant Director and Chief Investment Officer	1.00	1.00	1.00	1.00	-	-	
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	-	-	
Executive Assistant	1.00	1.00	1.00	1.00	-	-	
Financial Analyst	1.00	1.00	1.00	1.00	-	-	
Investments Operations Supervisor	1.00	1.00	1.00	1.00	-	-	
Information Systems Analyst	1.00	1.00	1.00	1.00	-	-	
Network Technician I/II/III	1.00	1.00	1.00	1.00	-	-	
Office Specialist II	1.00	1.00	1.00	0.00	(1.00)	(1.00)	Upgrade the Office Specialist to a Senior Office Specialist in Benefits Division
Retirement Investment Analyst I/II	2.00	2.00	2.00	2.00	-	-	
Retirement Investment Officer	3.00	3.00	3.00	3.00	-	-	
Senior Accountant	2.00	2.00	2.00	2.00	-	-	
Senior Analyst	2.00	3.00	3.00	3.00	-	-	
Senior Auditor	1.00	1.00	1.00	1.00	-	-	
Senior Office Specialist	0.00	0.00	0.00	1.00	1.00	1.00	Upgrade the Office Specialist in Benefits Division
Senior Retirement Investment Officer	2.00	2.00	2.00	2.00	-	-	
Senior Supervisor, Administration	0.00	1.00	1.00	1.00	-	-	
Staff Specialist	7.00	7.00	6.00	6.00	(1.00)	-	Upgraded Staff Specialist to Analyst I/II in Benefits Division in December 2022
Total Positions	40.00	43.00	43.00	44.00	1.00	1.00	

- 1171 -

OFFICE OF RETIREMENT SERVICES
Proposed Organizational Chart
Budget FY23-24



- 1172 -