

2019-2020

OPERATING BUDGET

**POLICE AND FIRE
DEPARTMENT
RETIREMENT
PLAN**

**BUDGET FOR
FISCAL YEAR
2019-2020**



Memorandum

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

FROM: Benjie Chua Foy

**SUBJECT: Consideration of Proposed Budget
for Fiscal Year 2019-2020**

DATE: February 27, 2019

Approved

Date

RECOMMENDATION

Discussion and action on the proposed budget for fiscal year 2019-2020.

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 \$210,168,000.

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 FY20 contribution amounts assume the Board's adoption in April/May inclusive of the changes from Measure F, as shown in the June 30, 2018 actuarial reports for pension and healthcare, using the middle of the year amounts and no prefunding.

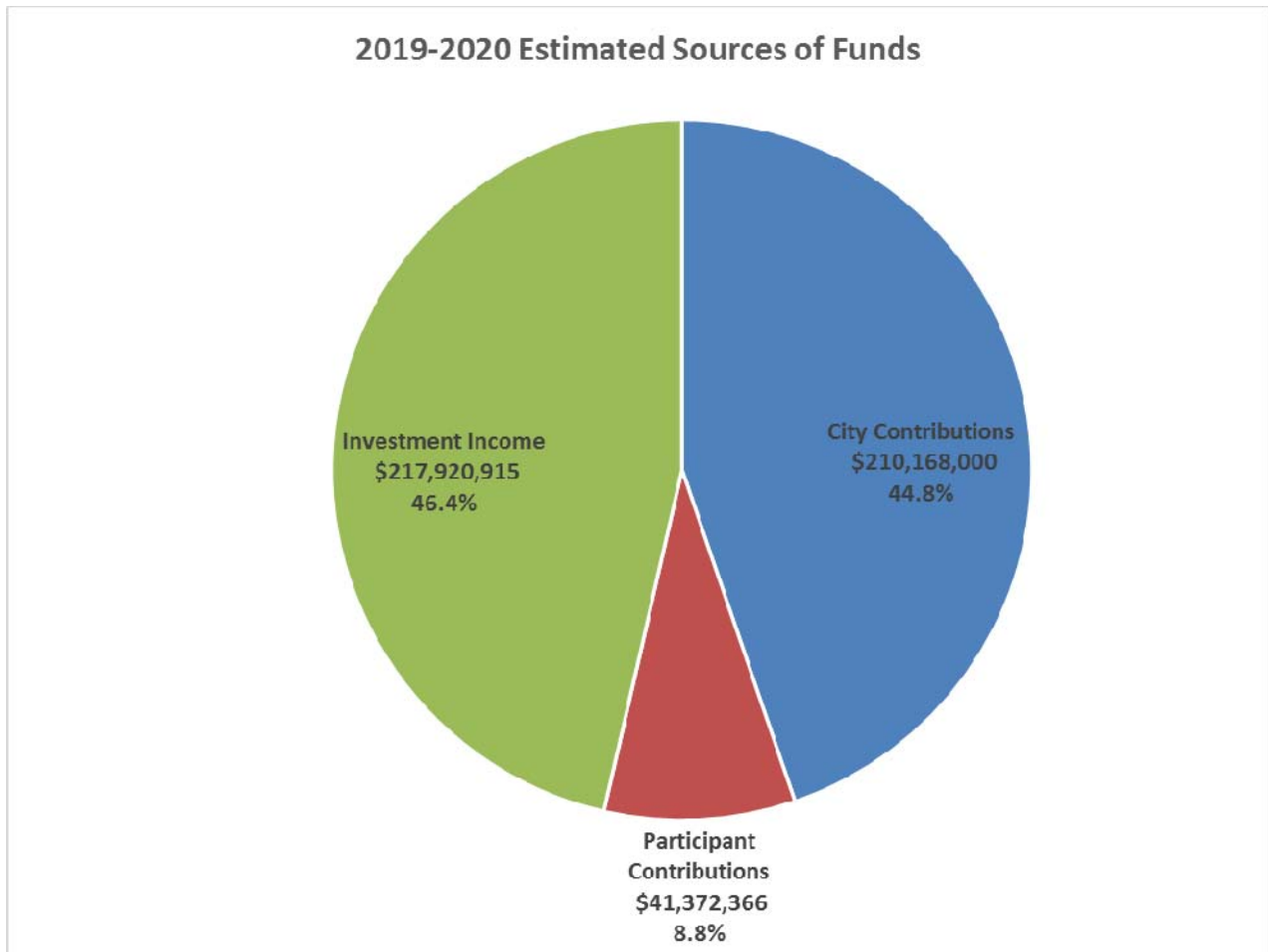
PARTICIPANT CONTRIBUTIONS

Total member contributions are estimated at \$41,372,366, an 11.00% increase from the 2018-2019 adopted amount. Member contributions are calculated based on the contribution rate for each tier. Police Tier 1 contribution rates for pension increased from 10.28% to 10.70% while their covered payroll decreased slightly from \$92.6 million to \$91.7 million. Fire Tier 1 contribution rates for pension increased slightly from 11.09% to 11.50% while covered payroll decreased slightly from \$74.8 million to \$74.1 million. Police Tier 2 contribution rates for pension increased from 13.71% to 14.10% and covered

payroll increased from \$31.6 million to \$49.7 million, while Fire Tier 2 contribution rates for pension increased from 15.13% to 15.40% while covered payroll increased from \$11.4 million to \$17.9 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 \$223,653,000, an increase of \$10,537,000, or 4.94%, 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 \$26,231,000, an increase of \$2,739,000, or 11.66%. 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. Last fiscal year will have the largest amount as 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.

ADMINISTRATIVE EXPENSE BUDGET

The proposed administrative expenses budget of \$6,701,000 is a net increase of 7.06% or \$442,000 from the prior year proposed budget of \$6,259,000.

PERSONNEL SERVICES

The budget for personnel services was increased to \$3,898,000, an increase of \$120,000, or 3.18% over the prior year adopted budget of \$3,778,000. 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 remained at 39.75. However, two of the positions are limited-date positions which expire on June 30, 2019. The proposed personnel changes for FY19-20 were requested to convert the limited-date positions to permanent positions, and after discussions with the Mayor's Office, we understand they are in support of approving the two limited-date positions. The main reason for the increase is due to the increased benefit rates, as well as adding two return to work retirees in the budget.

NON-PERSONNEL / EQUIPMENT

The budget for non-personnel / equipment was increased to \$1,408,000, an increase of \$96,000, or 7.32% over the prior year adopted budget of \$1,312,000. 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. This increase was mainly due to an increase of \$54,000 in the investment analytics and research budget for added services. The rest of the increase is due to CPI increases in various categories.

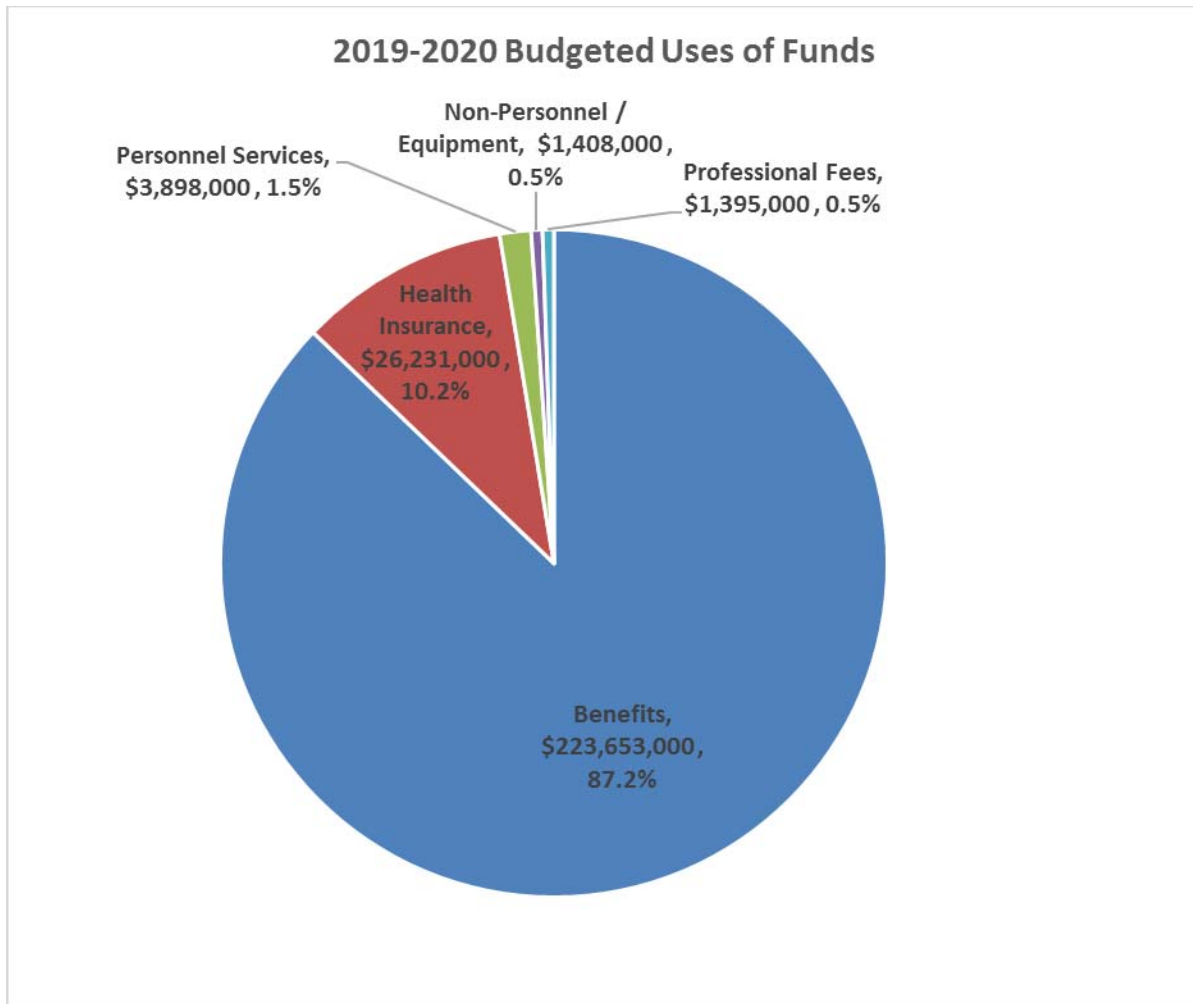
PROFESSIONAL SERVICES

The budget for professional services was reduced to \$845,000, a decrease of \$94,000, or 10.01% over the prior year adopted budget of \$939,000. 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 FY19-20. These include the following:

- \$125,000 reduction in temporary staffing services due to completion of pensionable earnings correction project and implementation of the new pension administration system
- \$40,000 increase in actuarial services due to planned experience study
- \$25,000 addition for a communications consultant
- \$34,000 reduction in other professional services budget to be consistent with past trends

MEDICAL SERVICES

The budget for medical services was increased to \$550,000, an increase of \$320,000, or 139.13% over the prior year adopted budget of \$230,000. 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 in anticipation of the implementation of the three-doctor Board medical advisor panel as approved by Measure F.



Attachment: Proposed Budget for Fiscal Year 2019-2020

PROPOSED BUDGET

FISCAL YEAR 2019-2020

POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

March 7, 2019

POLICE & FIRE DEPARTMENT RETIREMENT PLAN

Statement of Source and Use of Funds

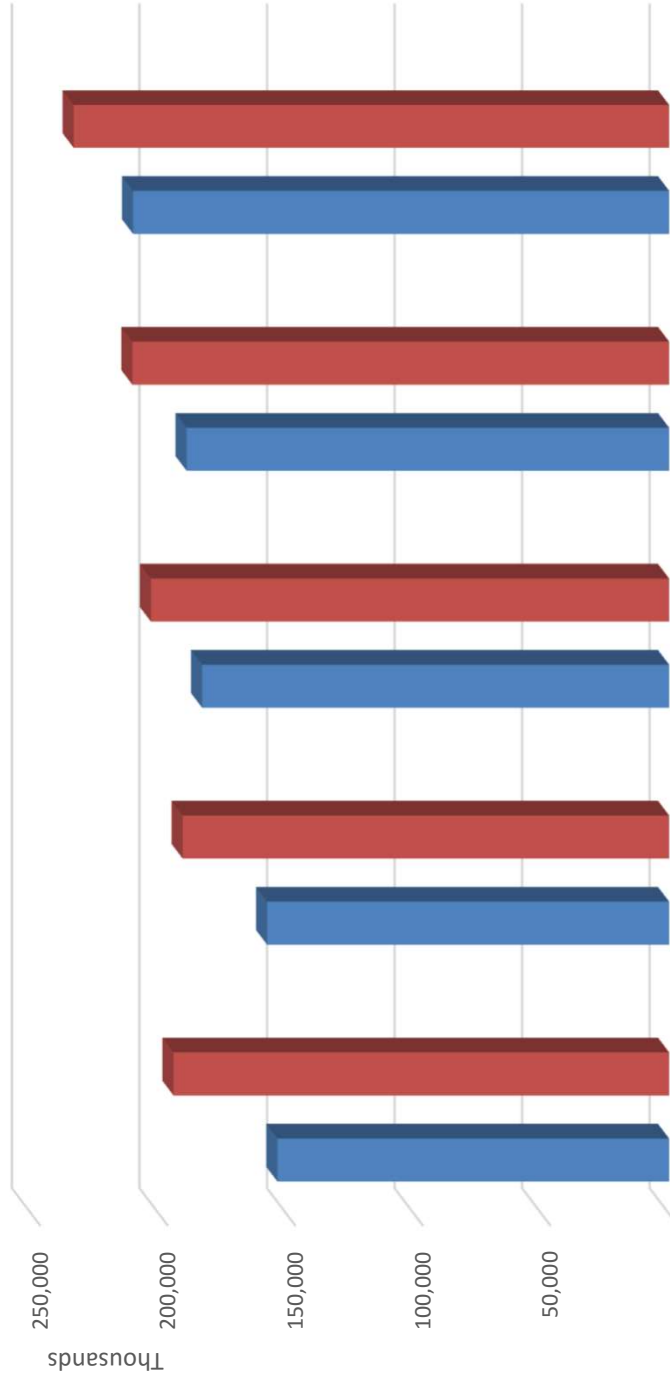
	(A) 2017-2018 Actual	(B) 2018-2019 Modified	(C) 2018-2019 Forecast	(D) 2019-2020 Proposed	(A) to (B) Increase (Decrease)	(B) - (C) Increase (Decrease)	(C) - (D) Increase (Decrease)
SOURCE OF FUNDS							
Beginning Fund Balance	3,442,939,000	3,658,711,000	3,658,711,000	3,846,643,809	215,772,000	0	187,932,809
Claims Reserve	3,442,939,000	3,658,711,000	3,658,711,000	3,846,643,809	215,772,000	0	187,932,809
Total Beginning Fund Balance							
Transfers							
City Contributions	183,094,000	184,231,413	189,154,538	210,168,000	1,137,413	4,923,125	21,013,462
1970 COLA	534	475	534	540	(59)	59	6
1980 COLA	9,927	9,075	8,818	8,820	(852)	(257)	2
1990 COLA	3,758	3,500	3,801	3,804	(258)	301	3
Total Transfers	183,108,219	184,244,463	189,167,691	210,181,164	1,136,244	4,923,228	21,013,473
Revenue							
Participant Income	39,968,000	37,272,734	37,272,623	41,372,366	(2,695,266)	(111)	4,099,743
Investment Income, net of expenses	240,546,000	208,423,486	205,915,177	217,920,915	(32,122,514)	(2,508,309)	12,005,738
Total Revenue	280,514,000	245,696,220	243,187,800	259,293,281	(34,817,780)	(2,508,420)	16,105,481
TOTAL SOURCE OF FUNDS	3,906,561,219	4,088,651,683	4,091,066,491	4,316,118,254	182,090,464	2,414,808	225,051,763
USE OF FUNDS							
Expenditures							
Benefits	206,630,000	213,116,000	213,240,311	223,653,000	6,486,000	124,311	10,412,689
Health Insurance	27,686,000	23,492,000	25,760,000	26,231,000	(4,194,000)	2,268,000	471,000
VEBA withdrawals	7,897,000	0	0	0	(7,897,000)	0	0
Personnel Services (Ret.)	3,193,583	3,778,000	3,278,391	3,898,000	584,417	(499,609)	619,609
Non-Personnel/Equipment	1,221,953	1,312,000	1,155,867	1,408,000	90,047	(156,133)	252,133
Professional Fees	1,207,464	1,169,000	974,960	1,395,000	(38,464)	(194,040)	420,040
1970 COLA	534	475	534	540	(59)	59	6
1980 COLA	9,927	9,075	8,818	8,820	(852)	(257)	2
1990 COLA	3,758	3,500	3,801	3,804	(258)	301	3
Total Expenditures	247,850,219	242,880,050	244,422,682	256,598,164	(4,970,169)	1,542,632	12,175,482
Ending Fund Balance							
Claims Reserve	3,658,711,000	3,845,771,633	3,846,643,809	4,059,520,090	187,060,633	872,176	212,876,281
Total Ending Fund Balance	3,658,711,000	3,845,771,633	3,846,643,809	4,059,520,090	187,060,633	872,176	212,876,281
TOTAL USE OF FUNDS	3,906,561,219	4,088,651,683	4,091,066,491	4,316,118,254	182,090,464	2,414,808	225,051,763

Amount not included in budget since no cash outlay.

Amortization estimate for PG3 (to be placed in service February 2019 = 5 months for FY18-19; PG3 to be amortized over 10 years)

\$ 162,503 \$ 390,007

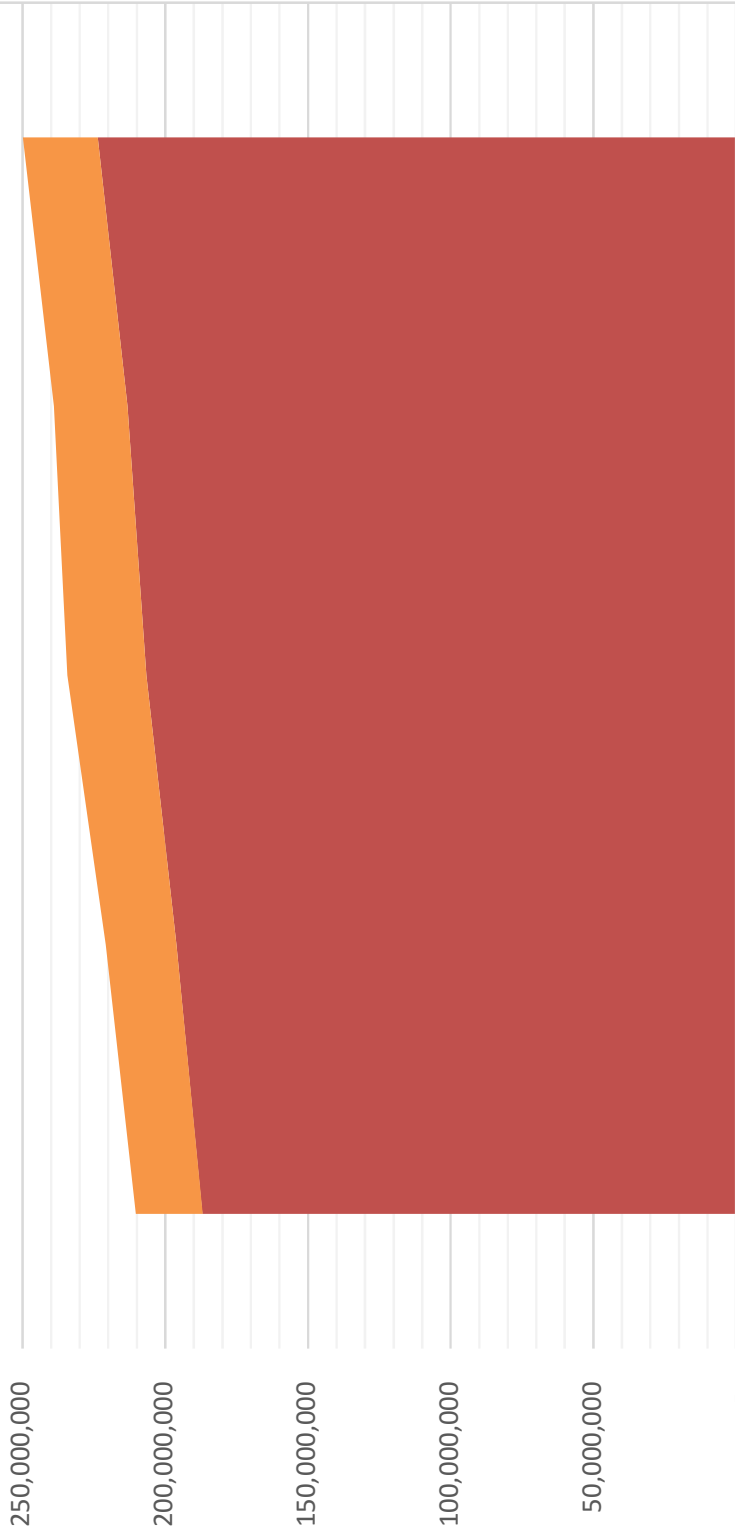
POLICE & FIRE DEPARTMENT RETIREMENT PLAN Total City Contributions & Covered Payroll



	FY 15-16	FY 16-17	FY 17-18	FY 18-19 (Forecast)	FY 19-20 (Estimate)
Total City Contributions	153,545,000	157,624,000	183,094,000	189,154,538	210,168,000
Total City Contribution % Change	2.2%	2.7%	16.2%	3.3%	11.1%
Total Covered Payroll	194,304,844	190,736,887	203,164,000	210,440,473	233,474,797
Total Covered Payroll % Change	3.2%	-1.8%	6.5%	3.6%	10.9%

POLICE & FIRE DEPARTMENT RETIREMENT PLAN

Pension Benefits and Health Insurance



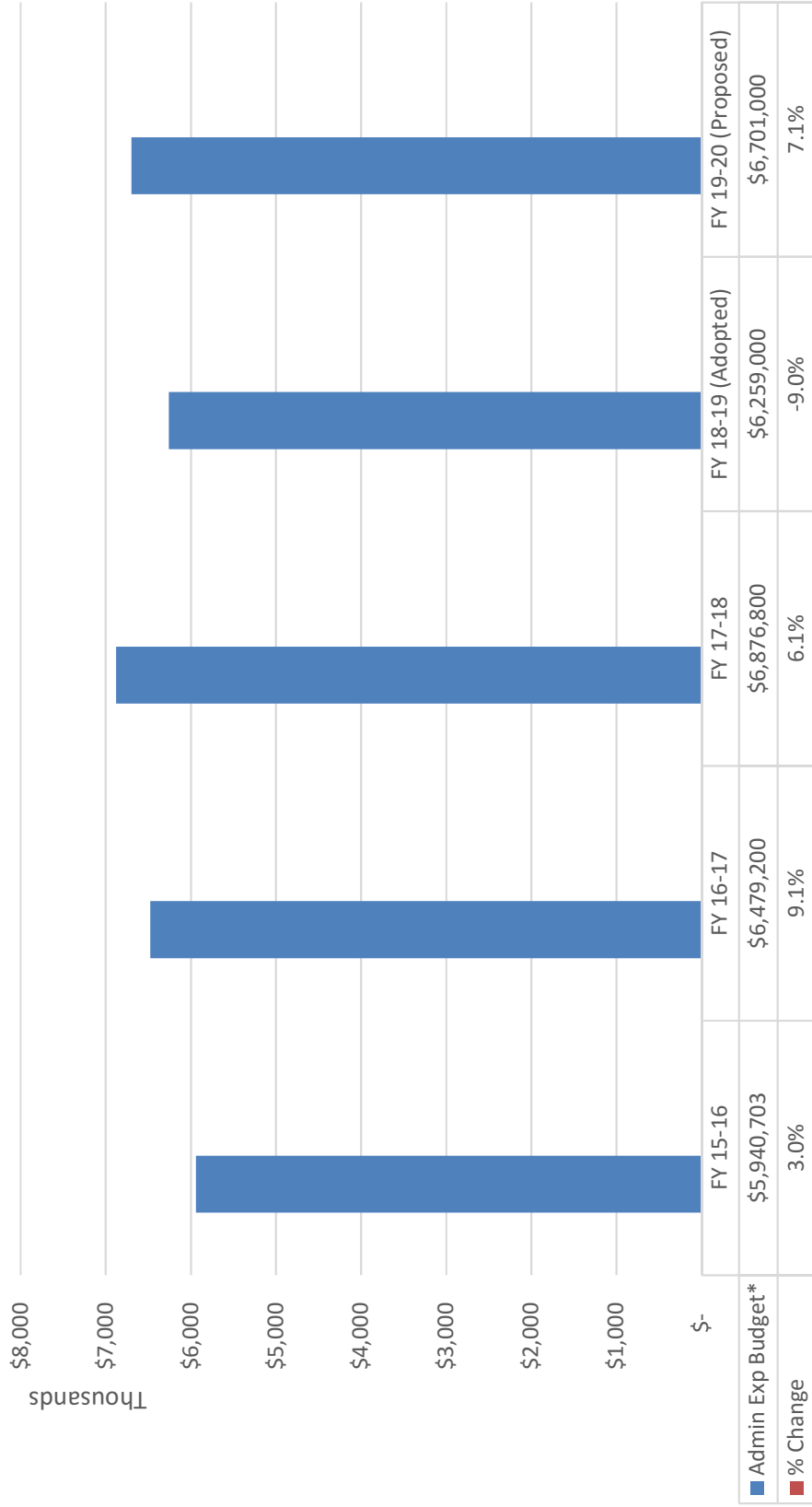
	FY 2016 - Actual	FY 2017 - Actual	FY 2018 - Actual	FY 2019 - Forecast	FY 2020 - Proposed
Total Benefits	210,389,000	220,831,000	234,316,000	239,000,311	249,884,000
Health Insurance	23,449,000	24,799,000	27,686,000	25,760,000	26,231,000
Pension Benefits	186,940,000	196,032,000	206,630,000	213,240,311	223,653,000
Health Insurance % Change	-3.1%	5.8%	11.6%	-7.0%	1.8%
Pension Benefits % Change	6.1%	4.9%	5.4%	3.2%	4.9%

POLICE & FIRE DEPARTMENT RETIREMENT PLAN

Administrative Expenses: FY 2019-2020

	(A) 2017-2018 Actual	(B) 2018-2019 Adopted	(C) 2018-2019 Forecast	(D) 2019-2020 Proposed	(A) to (B) Increase (Decrease)	(B) - (C) Increase (Decrease)	(C) - (D) Increase (Decrease)
PERSONNEL SERVICES							
Salaries and employee benefits	3,193,583	3,778,000	3,278,391	3,898,000	584,417	(499,609)	619,609
Total Personnel Services	3,193,583	3,778,000	3,278,391	3,898,000	584,417	(499,609)	619,609
NON-PERSONNEL / EQUIPMENT							
Investment analytics and research	556,873	515,000	523,633	569,000	(41,873)	8,633	45,367
Insurance	170,079	190,000	191,834	193,000	19,921	1,834	1,166
IT hardware / software	44,789	90,000	62,901	97,000	45,211	(27,099)	34,099
LRS - annual maintenance fee	106,829	110,000	44,510	110,000	3,171	(65,490)	65,490
Postage and printing	50,535	90,000	47,797	90,000	39,465	(42,203)	42,203
Rent	196,107	200,000	198,446	210,000	3,893	(1,554)	11,554
Training and travel	28,638	70,000	37,288	65,000	41,362	(32,712)	27,712
Office supplies and board meeting expense	32,888	30,000	21,986	30,000	(2,888)	(8,014)	8,014
Other non-personnel / equipment	35,215	17,000	27,472	44,000	(18,215)	10,472	16,528
Total Non-personnel / Equipment	1,221,953	1,312,000	1,155,867	1,408,000	90,047	(156,133)	252,133
PROFESSIONAL SERVICES							
Actuary	292,748	230,000	225,700	270,000	(62,748)	(4,300)	44,300
External auditor	62,232	70,000	77,588	80,000	7,768	7,588	2,412
Legal	283,291	330,000	199,444	326,000	46,709	(130,556)	126,556
Pension administrative system	39,561	35,500	43,959	36,500	(4,061)	8,459	(7,459)
Temporary staffing agencies	166,886	169,000	157,061	44,000	2,114	(11,939)	(113,061)
Other professional services	151,296	104,500	43,970	88,500	(46,796)	(60,530)	44,530
Total Professional Services	996,014	939,000	747,722	845,000	(57,014)	(191,278)	97,278
MEDICAL SERVICES							
Independent medical examiners	116,388	140,000	88,900	300,000	23,612	(51,100)	211,100
Medical consultant	95,062	90,000	138,338	250,000	(5,062)	48,338	111,662
Total Medical Services	211,450	230,000	227,238	550,000	18,550	(2,762)	322,762
TOTAL ADMINISTRATIVE EXPENSES	5,623,000	6,259,000	5,409,218	6,701,000	636,000	(849,782)	1,291,782

POLICE & FIRE DEPARTMENT RETIREMENT PLAN
Administrative Expense Budget
FY 2015-2016 to FY 2019-2020



* Amount includes budget for operations only.

OFFICE OF RETIREMENT SERVICES

Departmental Position Detail

Position	2017-2018 Adopted (1)	2018-2019 Adopted (2)	2018-2019 Forecast (3)	2019-2020 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	0.00	0.00	1.00	1.00	1.00	-	Reclassification from Senior Account Clerk
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	-	-	
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	0.00	1.00	1.00	1.00	-	-	
Financial Analyst	1.00	1.00	1.00	1.00	-	-	
Investments Operations Officer	1.00	1.00	1.00	1.00	-	-	
Information Systems Analyst	2.00	2.00	2.00	2.00	-	-	1 is a limited-date position that is being requested to be permanent
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	2.00	2.00	-	-	
Retirement Investment Officer	3.00	3.00	3.00	3.00	-	-	
Senior Account Clerk	1.00	1.00	0.00	0.00	(1.00)	-	Reclassification to Accountant I
Senior Accountant	2.00	2.00	2.00	2.00	-	-	
Senior Analyst	2.00	2.00	2.00	2.00	-	-	1 is a limited-date position that is being requested to be permanent
Senior Auditor	1.00	1.00	1.00	1.00	-	-	
Senior Retirement Investment Officer	1.00	1.00	1.00	1.00	-	-	
Staff Technician	7.00	6.00	6.00	6.00	-	-	
Staff Technician PT	0.75	0.75	0.75	0.75	-	-	
Total Positions	39.75	39.75	39.75	39.75	0.00	0.00	

OFFICE OF RETIREMENT SERVICES
Proposed Organizational Chart
FY19-20

