

Memorandum

TO: VEBA ADVISORY COMMITTEE

FROM: Emily Hendon

SUBJECT: VEBA FUND FY 2020-21 BASE
AND PROPOSED BUDGETS

DATE: February 24, 2020

APPROVED:

J. Behembri

DATE:

2/25/2020

RECOMMENDATION

Approve the FY 2020-21 base and proposed budgets for the VEBA Fund.

BACKGROUND

The purpose of this memo and Attachments A, B, C, D, and E is to provide the VEBA Advisory Committee ("VAC") with the FY 2020-21 base and proposed budgets for the VEBA Fund. With the approval of the VAC, these budgets will be forwarded to the City Manager's Office and the City Council for approval in the FY 2020-21 budget process. While the VAC authorizes expenditures of VEBA funds, the City Council must approve the appropriation of the City's general fund.

The VEBA Fund is a special fund which accounts for all VEBA program revenues, expenditures, and fund balance. The following describes how the fund operates.

- The VEBA Fund allows for the accounting of the VEBA revenues and expenses independent of other City revenues and expenses.
- Revenues are received from Voya as reimbursements from administrative fees and interest earnings that are used to cover administrative expenses.
- Expenditures are for HR and Finance staff time and for non-personal expenses.
- The fund balance is an accumulation of revenues in excess of expenditures.
- The reserve policy establishes guidelines for determining the amount to be held in reserves.

ANALYSIS

FY 2019--20 YEAR END PROJECTIONS

Base Revenues

The VEBA Plans' ("Plan") revenue from July 1, 2019 through December 31, 2019 consisted of actual administrative reimbursements from Voya to the City of \$57,340. The administrative reimbursements from Voya to the City from January 2020 through June 30, 2020 are estimated to be \$56,000 bringing the total revenue projected for FY 2019-20 to \$119,103. The total revenue projected includes the provider's administrative reimbursement and interest earned on the fund balance.

Base Expenditures

The FY 2019-20 projections include an expenditure decrease of \$58,774 in personal services primarily due to the Staff Specialist position vacancy. Non-personal expenses are also projected to decrease over the adopted budget by \$33,500 due to the plan consultant expense estimated to be less than originally projected. These changes decrease projected total expenditures for FY 2019-20 from \$206,246 to \$113,972 or approximately 44%.

Fund Balance

The decrease in revenue and expenditures result in a FY 2019-20 projected fund balance of \$220,734. This includes the \$100,000 loan amount from the City's General Fund during FY 2018-19.

BASE BUDGET FOR FY 2020-21

A summary of the FY 2020-21 proposed base budget is included in Attachment A.

Base Revenues

For FY 2020-21, revenues are forecasted to be \$105,763. This is based on the forecasted revenue reimbursement through the second quarter of FY 2020-21. This estimated decrease in revenue from FY 2020-21 reflects the decrease of the balance in the fixed income investment and an increase in variable fund investments which have lower revenue sharing.

Base Expenditures

Expenditures consist of personal services (staffing) and non-personal services (Attachment C)

Personal Services

Personal services include the following classified civil service positions or equivalent:

- 0.10 Accountant (proposed for FY2020-21)
- 0.02 Principal Accountant (proposed for FY2020-21)
- 0.02 Senior Accountant (proposed for FY2020-21)
- 0.05 Division Manager
- 0.1 Sr. Analyst
- 0.5 Staff Specialist (proposed for FY2020-21)
- 1.1 FTE**

The compensation for the above positions is in accordance with the civil service rules, the salary resolution, and their labor organizations' agreements with the City.

Due to the proposed staffing changes, the forecasted base for FY 2020-21 for Personal Services decreased from \$129,093 in FY 2019-20 to \$109,452 for FY 2020-21, a decrease of \$19,641 or 15%.

Non-Personal Services

The non-personal component of the base budget is \$43,354 which is \$33,799 or 44% less than FY 2019-20. Spending for non-personal services in FY 2019-20 is projected at \$43,653. Staff anticipates a decrease to non-personal services in FY 2020-21 primarily due to the forecasted expense reductions of legal services, plan consulting services, and fiduciary insurance.

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The base expenditures are forecasted to decrease by \$53,440 or 26% from the FY 2019-20 adopted base of \$206,246 to the FY 2020-21 forecast of \$152,806. These projected changes will result in a decrease to the fund balance of \$47,043 from FY 2019-20 to FY 2020-21 for a projected ending fund balance of \$173,691 (Attachment A). If the \$100,000 loan is repaid during FY 2020-21 the ending fund balance would be \$73,691.

RESERVE POLICY

PROJECTED RESERVES FOR FY 2020-21

The Reserve Policy ("Policy") sets the fund balance reserve target. The proposed Reserve Policy as seen in Attachment E sets the reserve at 25% of the forecasted operating budget expenditures, plus a \$25,000 fiduciary liability insurance deductible and \$30,000 to fund, if the need arises, an off-cycle request for proposal for any of the Plan's multi-year contracts, such as plan administration, investment management and recording keeping, or plan consulting.

Based on current projections for FY 2020-21 the reserve level that is suggested to be maintained at the end of FY 2020-21 is calculated as follows:

Contingency/Stabilization Reserve (25% of \$173,691 of expenditures):	\$38,202
Reserve for insurance deductible:	\$25,000
Reserve for Major Plan Changes & Request for Proposals:	<u>\$30,000</u>
Total Required Reserve:	\$93,202

Based upon the Reserve Policy above and the forecasted revenue and expenditures for FY 2020-21, with the repayment of the \$100,000 loan to the General Fund, the fund balance will remain below the required amount of \$93,202. The VAC, Human Resources, and Investment consultant will continue to discuss and establish steps to build the reserves to support future years of expenses.

2020-21 Proposed Budget

By definition the proposed budget represents a request to increase or decrease the base budget. For FY 2020-21, staff is recommending an expenditure decrease of \$53,440 from the FY 2019-20 adopted base.

If you have any questions or would like additional information about the FY 2020-21 VEBA Program base and proposed budgets, please contact me at (408) 975-1448.



Emily Hendon
Benefits Division Manager,
Human Resources

Attachments:

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Attachment A – Base & Proposed Budgets Summary

Attachment B – Base Revenues

Attachment C – Base Expenditures for Personal Services and Non-Personal Expenditures

Attachment D – Detail of Projected Non-Personal Expenditures

Attachment E – Reserve Policy

ATTACHMENT A

**Fiscal Year 2019-20 and 2020-21
VEBA PROGRAM
BASE AND PROPOSED BUDGET SUMMARY**

	2018-2019 Actuals	2019-2020 Final Adopted Base	2019-2020 Projected	2020-2021 Proposed
Revenues	\$ 164,215	\$ 141,810	\$ 113,340	\$ 105,763
Expenditures	\$ 42,849	\$ 206,246	\$ 113,972	\$ 152,806
General Fund repayment**	\$ -	\$ -		
Change to Fund Balance	\$ 121,366	\$ (145,899)	\$ 145,267	\$ (47,043)
FUND BALANCE	\$ 221,366	\$ 75,467	\$ 220,734	\$ 173,691

**If the General Fund repayment is made in FY 2020-21 the Ending Fund Balance would be \$73,691.

ATTACHMENT B
Proposed Budget

**Fiscal Year 2020-21
VEBA PROGRAM
BASE REVENUES**

YEAR	EST ASSET BASE	A	B	C	A+B+C
		PROVIDERS' ADMINISTRATIVE REIMBURSEMENT	LOAN from GENERAL FUND	INTEREST INCOME	REVENUE BUDGET
2017-2018 (actual)	\$ 22,382,075	\$ 43,543	\$ 8,542	\$ 155	\$ 52,240
2018-2019 (actual)	\$ 25,352,667	\$ 153,254	\$ 91,458	\$ 1,810	\$ 246,522
2019-2020 (projection)	\$ 33,401,342	\$ 113,340	\$ -	\$ 5,763	\$ 119,103
2020-2021 (projection)	\$ 41,268,592	\$ 100,000	\$ -	\$ 5,763	\$ 105,763

ATTACHMENT C
Proposed Budget

**Fiscal Year 2020-21
VEBA PROGRAM**

BASE EXPENDITURES FOR PERSONAL SERVICES AND NON-PERSONAL

	2018-19	2019-20	2019-20	2020-21
	Actuals	Adopted Base	Projected	Forecast/ Proposed
PERSONAL SERVICES				
15478 1.00 Analyst (limit dated through 6/30/19)				0
20476 0.50 Account Clerk				0
14102 .05 Division Manager				13,007
19286 0.10 Sr. Analyst				18,783
21154 0.5 Staff Specialist				57,387
HR	10350.3	129,093	70,319	89,177
6512 0.10 Accountant II	0	0	0	13,176
17221 0.02 Principal Accountant	0	0	0	3,913
17831 0.02 Senior Accountant	0	0	0	3,186
FINANCE	0	0	0	20,275
SUBTOTAL, PERSONAL SERVICES	10,350	129,093	70,319	109,452
NON-PERSONAL				
30 Supplies and Materials	132	300	300	300
31 City Warehouse Supplies		0	0	0
33 Postage	1,299	2,000	2,000	2,000
34 Printing		5,000	500	5,000
35 Duplicating		0	0	0
44 Travel-Out of State		0	0	0
45 Training		1,000	0	1,000
50 Dues and Subscriptions		0	0	0
52 Contractual Services	11,482	48,903	20,903	21,170
60 Premiums	14,000	19,950	19,950	13,884
4102 Miscellaneous		0	0	0
SUBTOTAL, NON-PERSONAL	26,913	77,153	43,653	43,354
TOTAL EXPENDITURES	37,263	206,246	113,972	152,806

ATTACHMENT D
Proposed Budget

**Fiscal Year 2020-21
VEBA PROGRAM
DETAIL OF PROJECTED NON-PERSONAL EXPENDITURES**

	2018-19	2019-20	2019-20	2020-21
	Actuals	FINAL ADOPTED	Projection	Forecast/ Proposed
NON-PERSONAL EXPENSES				
30 Supplies and Materials				
Miscellaneous Office Supplies		300	300	300
Computers / Software		-	-	-
Supplies and Materials Total	132	300	300	300
31 City Warehouse Supplies				
33 Postage	1,299	2,000	2,000	2,000
34 Printing		5,000	500	5,000
35 Duplicating		-	-	-
44 Travel-Out of State		-	-	-
45 Training				
Fiduciary Training		1,000	-	1,000
Training Total		1,000	-	1,000
52 Contractual Services				
Benefits Consulting		25,000	12,000	12,000
Legal Consulting Fees		15,000	-	-
External Auditor(Grant Thornton)		8,903	8,903	9,170
Contractual Services Total	11,482	48,903	20,903	21,170
60 Premiums	14,000	19,950	19,950	13,884
4102 Miscellaneous		-	-	-
TOTAL N-P EXPENSES	26,913	77,153	43,653	43,354

ATTACHMENT E

**VEBA PROGRAM
PROPOSED RESERVE POLICY**

Fiscal Year 2019-20

19/20 Budgeted Expenditures:	\$	206,246
25% of Budgeted Expenses	\$	51,562
In case off cycle RFP is needed	\$	30,000
Fiduciary Liability Deductible	\$	25,000
Reserve Target	\$	106,562
125% of Target Reserve	\$	133,202

Fiscal Year 2020-21

20/21 Budgeted Expenditures:	\$	152,806
25% of Budgeted Expenses	\$	38,202
In case off cycle RFP is needed	\$	30,000
Fiduciary Liability Deductible	\$	25,000
Reserve Target	\$	93,202
125% of Target Reserve	\$	116,502