



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.

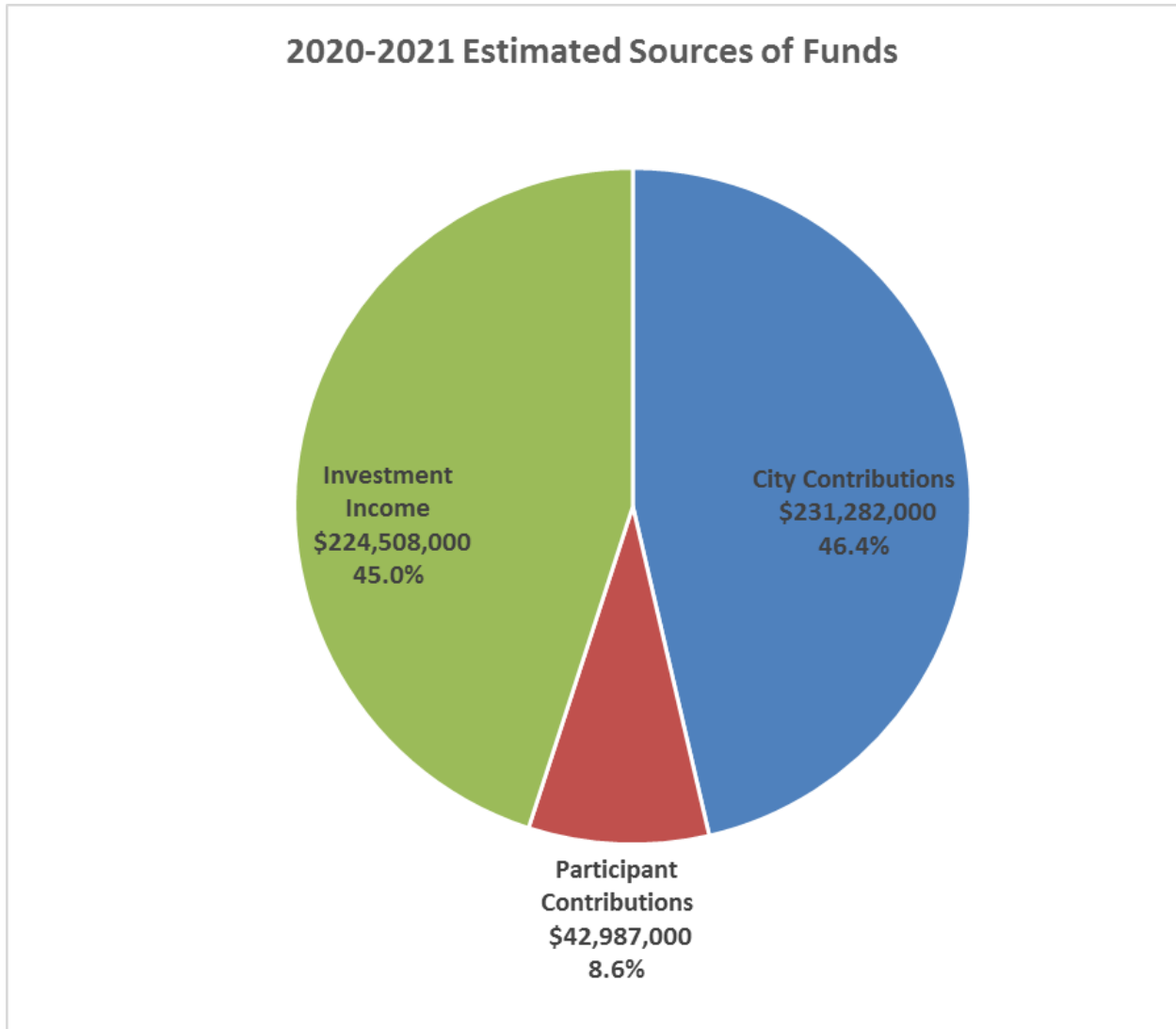
PARTICIPANT CONTRIBUTIONS

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

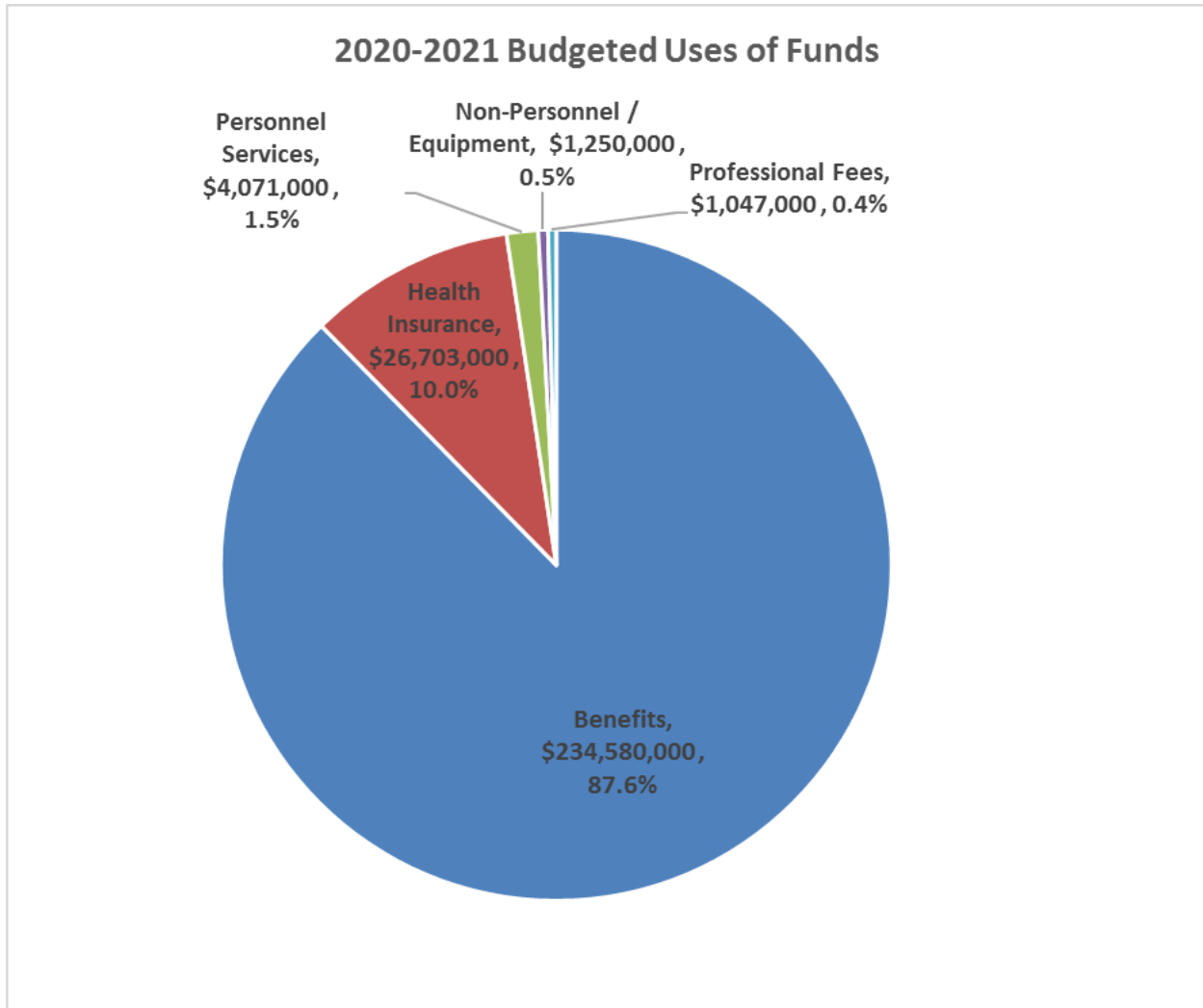
The budget for non-personnel / equipment was decreased to \$1,250,000, a decrease of \$158,000, or 11.22% from the prior year adopted budget of \$1,408,000. This category includes data processing costs for investments, rent, insurance, information technology hardware/software, pension administration 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.



Attachment: Proposed Budget for Fiscal Year 2020-2021

PROPOSED BUDGET

FISCAL YEAR 2020-2021

POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

REVISED April 2, 2020

POLICE & FIRE DEPARTMENT RETIREMENT PLAN

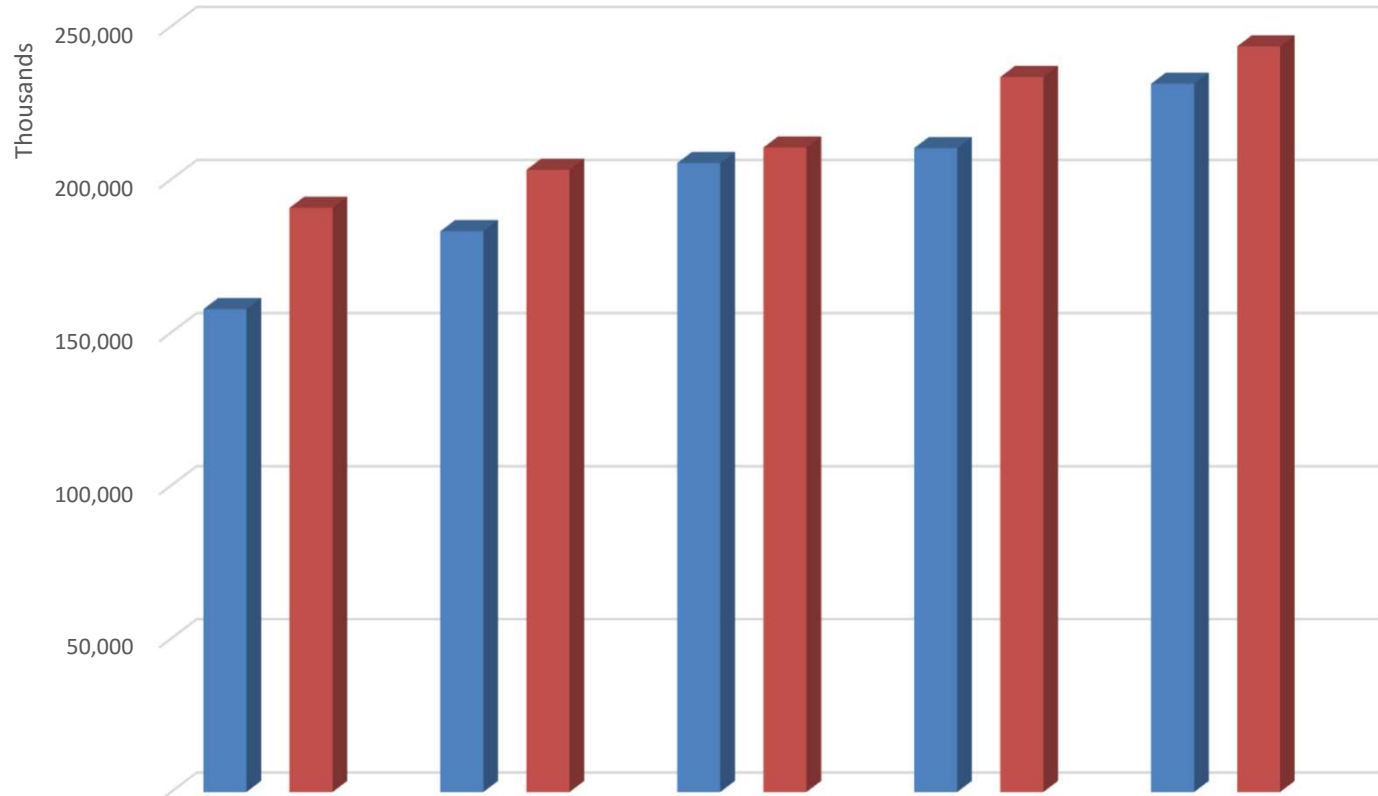
Statement of Source and Use of Funds

	(A) 2018-2019 Actual	(B) 2019-2020 Modified	(C) 2019-2020 Forecast	(D) 2020-2021 Proposed	(A) to (B) Increase (Decrease)	(B) - (C) Increase (Decrease)	(C) - (D) Increase (Decrease)
SOURCE OF FUNDS							
Beginning Fund Balance							
Claims Reserve	3,658,711,000	3,774,379,000	3,774,379,000	3,979,238,351	115,668,000	0	204,859,351
Total Beginning Fund Balance	3,658,711,000	3,774,379,000	3,774,379,000	3,979,238,351	115,668,000	0	204,859,351
Transfers							
City Contributions	205,362,000	198,036,966	210,261,515	231,282,000	(7,325,034)	12,224,549	21,020,485
1970 COLA	534	535	534	1,000	1	(1)	466
1980 COLA	8,385	8,820	7,470	9,000	435	(1,350)	1,530
1990 COLA	3,801	3,800	3,801	4,000	(1)	1	199
Total Transfers	205,374,720	198,050,121	210,273,320	231,296,000	(7,324,599)	12,223,199	21,022,680
Revenue							
Participant Income	38,126,000	41,372,366	40,144,335	42,987,000	3,246,366	(1,228,031)	2,842,665
Investment Income, net of expenses	122,086,000	230,138,204	211,428,811	224,508,000	108,052,204	(18,709,393)	13,079,189
Total Revenue	160,212,000	271,510,570	251,573,146	267,495,000	111,298,570	(19,937,424)	15,921,854
TOTAL SOURCE OF FUNDS	4,024,297,720	4,243,939,691	4,236,225,466	4,478,029,351	219,641,971	(7,714,225)	241,803,885
USE OF FUNDS							
Expenditures							
Benefits	218,008,000	223,653,000	226,769,000	234,580,000	5,645,000	3,116,000	7,811,000
Health Insurance	26,403,000	26,231,000	24,702,000	26,703,000	(172,000)	(1,529,000)	2,001,000
VEBA withdrawals	0	0	0	0	0	0	0
Personnel Services (Ret.)	3,334,302	3,898,000	3,608,216	4,071,000	563,698	(289,784)	462,784
Non-Personnel/Equipment ⁽¹⁾	1,159,922	1,408,000	1,068,509	1,250,000	248,078	(339,491)	181,491
Professional Fees	1,000,776	1,063,000	827,585	1,047,000	62,224	(235,415)	219,415
1970 COLA	534	535	534	1,000	1	(1)	466
1980 COLA	8,385	8,820	7,470	9,000	435	(1,350)	1,530
1990 COLA	3,801	3,800	3,801	4,000	(1)	1	199
Total Expenditures	249,918,720	256,266,155	256,987,115	267,665,000	6,347,435	720,960	10,677,885
Ending Fund Balance							
Claims Reserve	3,774,379,000	3,987,673,536	3,979,238,351	4,210,364,351	213,294,536	(8,435,185)	231,126,000
Total Ending Fund Balance	3,774,379,000	3,987,673,536	3,979,238,351	4,210,364,351	213,294,536	(8,435,185)	231,126,000
TOTAL USE OF FUNDS	4,024,297,720	4,243,939,691	4,236,225,466	4,478,029,351	219,641,971	(7,714,225)	241,803,885

Amount not included in budget since no cash outlay:

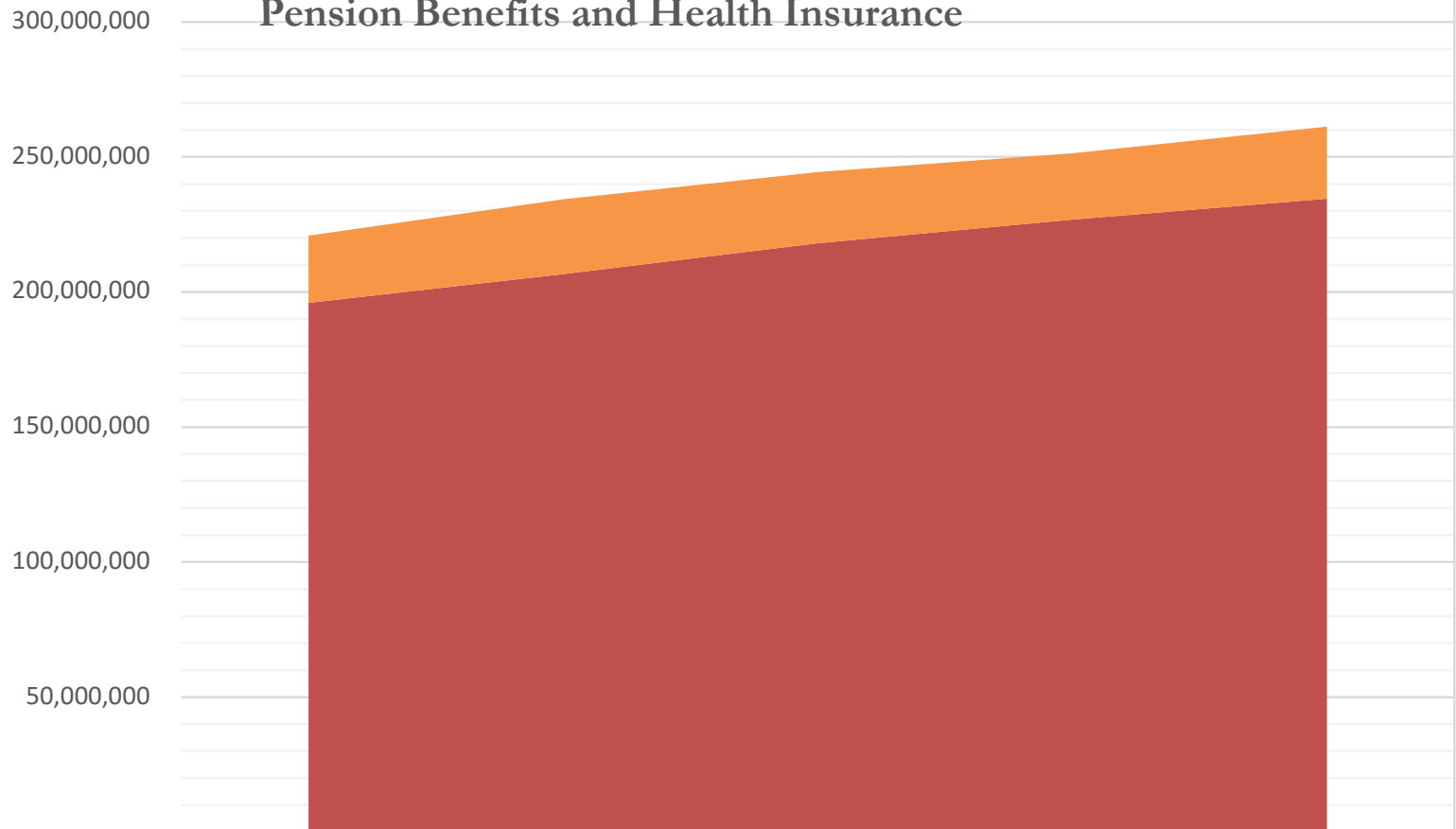
Amortization expense for PG3	\$ 133,809	\$ 390,007	\$ 396,998	\$ 396,998
⁽¹⁾ Non-personnel equipment FY18-19	\$ 1,159,922			
Rounding in CAFR	268			
Amortization expense	(133,809)			
As shown in Administrative Expenses	\$ 1,026,381			

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



	FY 16-17	FY 17-18	FY 18-19	FY 19-20 (Forecast)	FY 20-21 (Estimate)
■ Total City Contributions	157,624,000	183,094,000	205,362,000	210,261,515	231,282,000
Total City Contribution % Change	5.0%	16.2%	12.2%	2.4%	10.0%
■ Total Covered Payroll	190,736,887	203,164,000	210,440,473	233,474,797	243,500,000
Total Covered Payroll % Change	1.3%	6.5%	3.6%	10.9%	4.3%

POLICE & FIRE DEPARTMENT RETIREMENT PLAN Pension Benefits and Health Insurance



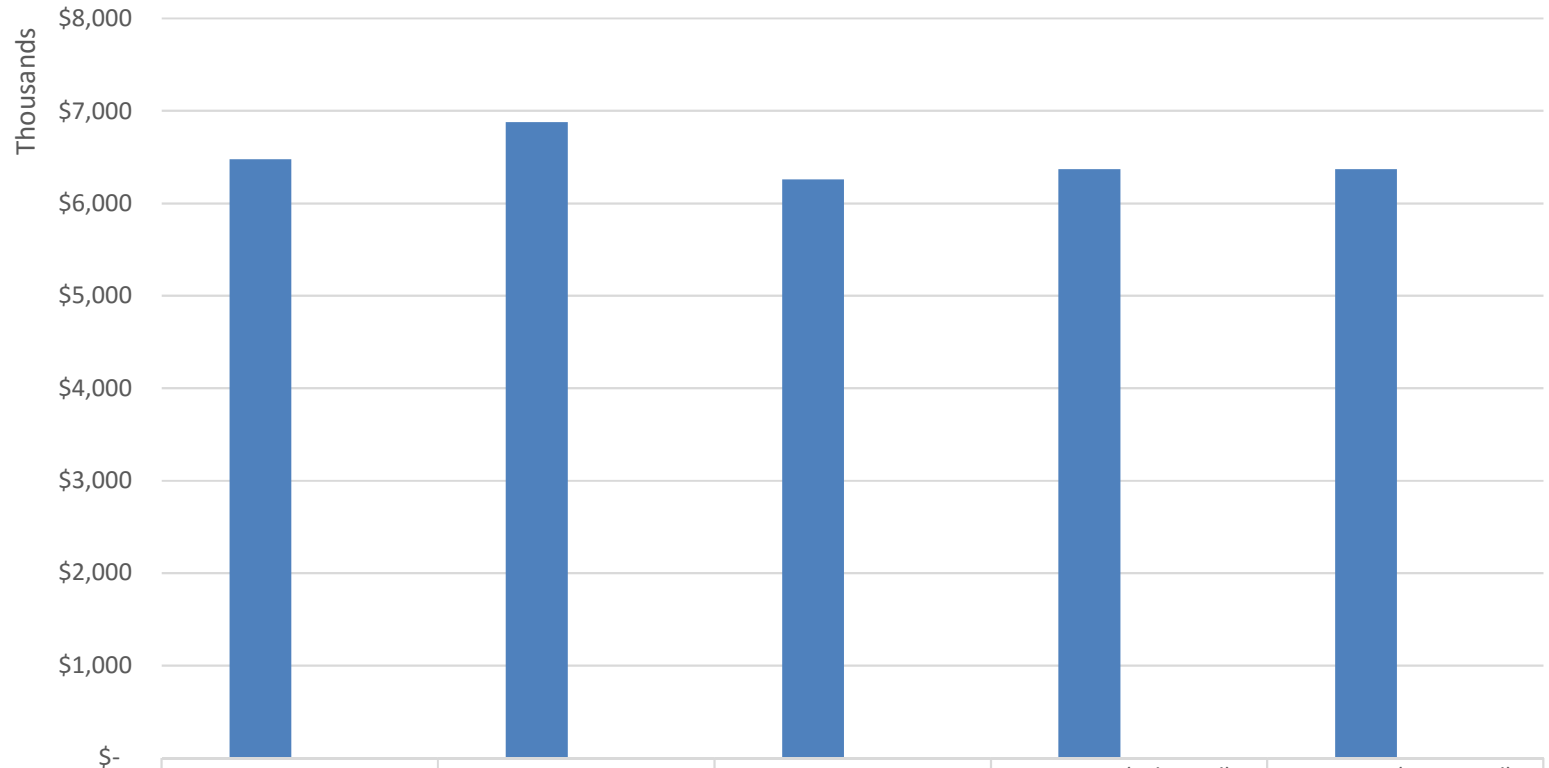
	FY 16-17 - Actual	FY 17-18 - Actual	FY 18-19 - Actual	FY 19-20 - Forecast	FY 20-21 - Proposed
Total Benefits	220,831,000	234,316,000	244,411,000	251,471,000	261,283,000
Health Insurance	24,799,000	27,686,000	26,403,000	24,702,000	26,703,000
Pension Benefits	196,032,000	206,630,000	218,008,000	226,769,000	234,580,000
Health Insurance % Change	5.8%	11.6%	-4.6%	-6.4%	8.1%
Pension Benefits % Change	4.9%	5.4%	5.5%	4.0%	3.4%

POLICE & FIRE DEPARTMENT RETIREMENT PLAN

Administrative Expenses: FY 2020-2021

	(A) 2018-2019 Actual	(B) 2019-2020 Adopted	(C) 2019-2020 Forecast	(D) 2020-2021 Proposed	(A) to (B) Increase (Decrease)	(B) - (C) Increase (Decrease)	(C) - (D) Increase (Decrease)
PERSONNEL SERVICES							
Salaries and employee benefits	3,334,302	3,898,000	3,608,216	4,071,000	563,698	(289,784)	462,784
Total Personnel Services	3,334,302	3,898,000	3,608,216	4,071,000	563,698	(289,784)	462,784
NON-PERSONNEL / EQUIPMENT							
Investment analytics and research	399,297	569,000	409,811	435,000	169,703	(159,189)	25,189
Rent	201,092	210,000	205,061	212,000	8,908	(4,939)	6,939
Insurance	169,141	193,000	170,622	193,000	23,859	(22,378)	22,378
IT hardware / software	81,738	97,000	94,744	123,000	15,262	(2,256)	28,256
Postage and printing	39,842	90,000	54,126	90,000	50,158	(35,874)	35,874
Training and travel	26,034	65,000	25,584	65,000	38,966	(39,416)	39,416
LRS - annual maintenance fee	49,476	110,000	45,540	48,000	60,524	(64,460)	2,460
Other non-personnel / equipment	33,141	44,000	34,187	54,000	10,859	(9,813)	19,813
Office supplies and board meeting expenses	26,620	30,000	28,834	30,000	3,380	(1,166)	1,166
Total Non-personnel / Equipment	1,026,381	1,408,000	1,068,509	1,250,000	381,619	(339,491)	181,491
PROFESSIONAL SERVICES							
Actuary	247,484	270,000	294,967	235,000	22,516	24,967	(59,967)
External auditor	101,343	80,000	55,427	83,000	(21,343)	(24,573)	27,573
Legal	221,633	326,000	208,413	317,000	104,367	(117,587)	108,587
Pension administration system	25,571	36,500	9,244	21,000	10,929	(27,256)	11,756
Temporary staffing agencies	185,687	44,000	70,922	77,000	(141,687)	26,922	6,078
Other professional services	38,269	88,500	45,973	78,000	50,231	(42,527)	32,027
Total Professional Services	819,987	845,000	684,946	811,000	25,013	(160,054)	126,054
MEDICAL SERVICES							
Independent medical examiners	58,325	112,000	50,588	116,000	53,675	(61,412)	65,412
Medical consultant	122,464	106,000	92,051	120,000	(16,464)	(13,949)	27,949
Total Medical Services	180,789	218,000	142,639	236,000	37,211	(75,361)	93,361
TOTAL ADMINISTRATIVE EXPENSES	5,361,459	6,369,000	5,504,310	6,368,000	1,007,541	(864,690)	863,690

POLICE & FIRE DEPARTMENT RETIREMENT PLAN
Administrative Expense Budget
FY 2016-2017 to FY 2020-2021



	FY 16-17	FY 17-18	FY 18-19	FY 19-20 (Adopted)	FY 20-21 (Proposed)
■ Admin Exp Budget*	\$6,479,200	\$6,876,800	\$6,259,000	\$6,369,000	\$6,368,000
■ % Change	12.3%	6.1%	-9.0%	1.8%	0.0%

A - 74

* Amount includes budget for operations only.

OFFICE OF RETIREMENT SERVICES

Departmental Position Detail

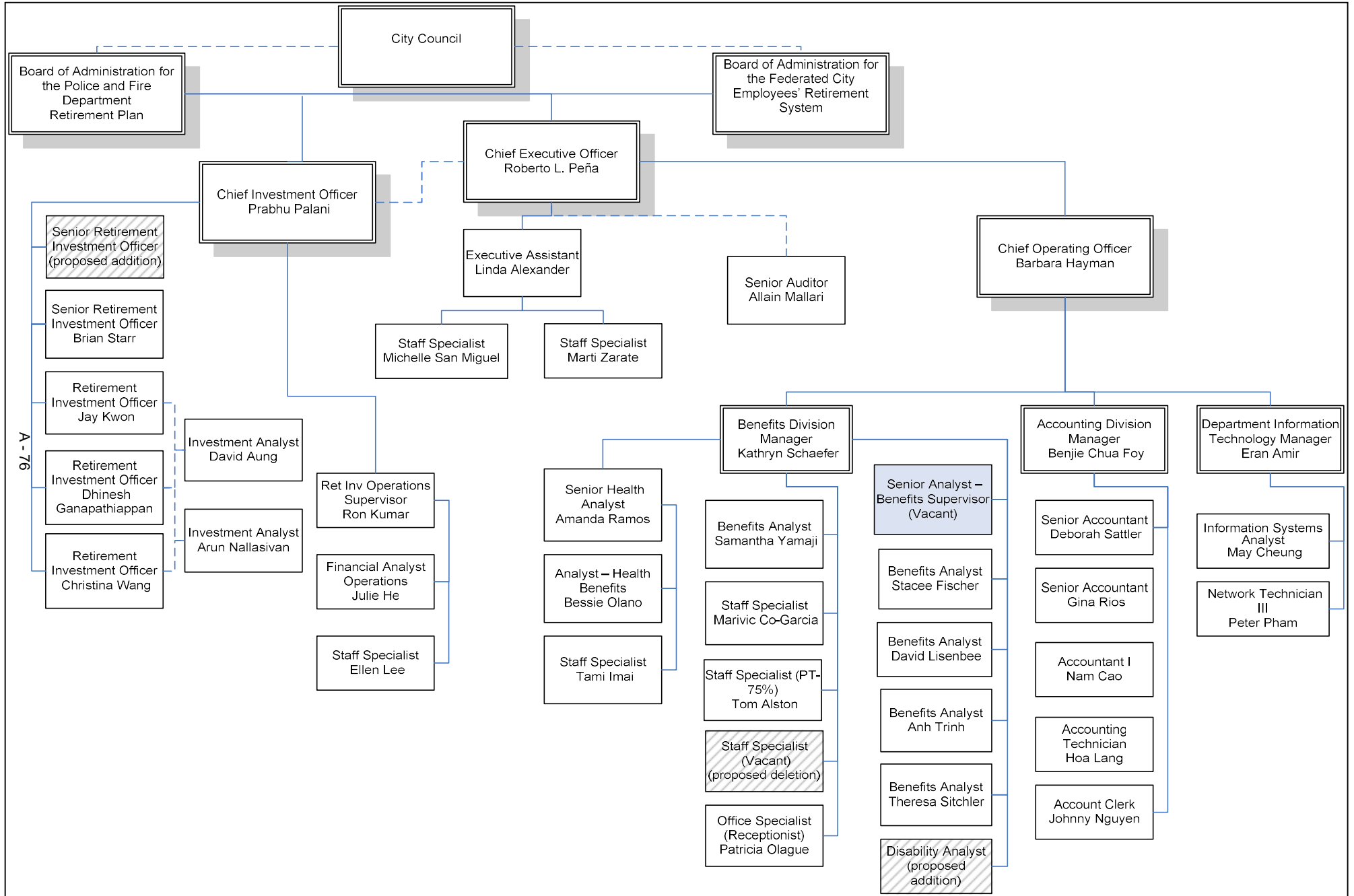
Position	2018-2019 Adopted (1)	2019-2020 Adopted (2)	2019-2020 Forecast (3)	2020-2021 Proposed (4)	Increase / (Decrease) (2 to 4)	Increase / (Decrease) (3 to 4)	Explanation
Account Clerk II	1.00	1.00	1.00	1.00	-	-	
Accountant I	0.00	1.00	1.00	1.00	-	-	
Accounting Technician	1.00	1.00	1.00	1.00	-	-	
Analyst I/II	6.00	6.00	6.00	7.00	1.00	1.00	Add-delete staff specialist to a Disability Analyst
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 Supervisor	1.00	1.00	1.00	1.00	-	-	
Information Systems Analyst	2.00	2.00	2.00	1.00	(1.00)	(1.00)	Limited Date position expires June 30, 2020
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	0.00	0.00	0.00	-	-	
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	-	-	
Senior Retirement Investment Officer	1.00	1.00	1.00	2.00	1.00	1.00	Proposed addition
Staff Specialist	7.00	6.00	6.00	5.00	(1.00)	(1.00)	Add-delete staff specialist to a Disability Analyst
Staff Specialist PT	0.75	0.75	0.75	0.75	-	-	
Total Positions	39.75	39.75	39.75	39.75	0.00	0.00	

A - 75

OFFICE OF RETIREMENT SERVICES

Proposed Organizational Chart

FY20-21



A - 76