

Memorandum

TO: VEBA ADVISORY COMMITTEE

FROM: Emily Hendon

SUBJECT: VEBA FUND FY 2021-22 BASE
AND PROPOSED BUDGETS

DATE: February 24, 2021

APPROVED:

J. Chemturi

DATE: February 24, 2021

RECOMMENDATION

Approve the FY 2021-22 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 2021-22 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 2021-22 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 2020--21 YEAR END PROJECTIONS

Base Revenues

The VEBA Plans’ (“Plan”) revenue from July 1, 2020 through December 31, 2020 consisted of actual administrative reimbursements from Voya to the City of \$61,690. The administrative reimbursements from Voya to the City from January 1, 2021 through June 30, 2021 are estimated to be \$60,000 bringing the total revenue projected for FY 2020-21 to \$127,453. The total revenue projected includes the provider’s administrative reimbursement and interest earned on the fund balance.

Base Expenditures

The FY 2020-21 projections include an expenditure decrease of \$8,114 in personal services primarily due to lower than anticipated personal services cost. Non-personal expenses are also projected to decrease over the adopted budget by \$5,500 due to a reduction in planned printing and training expenses. These changes decrease projected total expenditures for FY 2020-21 from \$157,157 to \$143,543 or approximately 3%.

Fund Balance

Decreased expenditures and increased revenues result in a FY 2020-21 projected fund balance of \$123,924. This includes the \$100,000 loan amount from the City's General Fund during FY 2018-19. If the \$25,000 loan repayment from the General Fund is paid in FY 2020-21, the Fund Balance would decrease to \$98,924.

BASE BUDGET FOR FY 2021-22

A summary of the FY 2021-22 proposed base budget is included in **Attachment A**.

Base Revenues

For FY 2021-22, revenues are forecasted to be \$133,763. This is based on the forecasted revenue reimbursement through the second quarter of FY 2021-22. This estimated increase in revenue from FY 2020-21 reflects an increase of plan assets.

Base Expenditures

Expenditures consist of personal services (staffing) and non-personal services as indicated in **Attachment C**.

Personal Services

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

- 0.10 Accountant
- 0.02 Principal Accountant
- 0.02 Senior Accountant
- 0.05 Division Manager
- 0.1 Sr. Analyst
- 0.5 Staff Specialist
- 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 annual increases in personal services expenses, the forecasted base for FY 2021-22 for Personal Services increased from \$113,803 in FY 2020-21 to \$120,950 for FY 2021-22, an increase of \$7,148 or 6%.

Non-Personal Services

The non-personal component of the base budget is \$41,545 which is \$1,809 or 4% less than FY 2020-21. Spending for non-personal services in FY 2020-21 is projected at \$37,854. Staff anticipates a decrease to non-personal services in FY 2021-22 primarily due to the forecasted expense reductions of printing and training.

The base expenditures are forecasted to increase by \$5,339 or 3% from the FY 2020-21 adopted base of \$157,157 to the FY 2021-22 forecast of \$162,495. These projected changes will result in a decrease to the fund balance of \$28,732 from FY 2020-21 for a projected ending fund balance of \$95,191 (**Attachment A**). This estimate does not include the \$25,000 loan repayment in FY 2020-21 and FY 2021-22 that is pending VAC approval, nor any revenue increase due to a change in the plan administrative fees directed by the VAC.

RESERVE POLICY

PROJECTED RESERVES FOR FY 2021-22

The Reserve Policy (“Policy”) sets the fund balance reserve target. The proposed 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 the forecast for FY 2021-22, the reserve level that is suggested to be maintained at the end of FY 2021-22 is calculated as follows:

Contingency/Stabilization Reserve (25% of \$162,495 of expenditures):	\$40,624
Reserve for insurance deductible:	\$25,000
Reserve for Major Plan Changes & Request for Proposals:	<u>\$30,000</u>
Total Required Reserve:	\$95,624

Based upon the Policy above and the forecasted revenue and expenditures for FY 2021-22, \$25,000 repayments in FY 20-21 and in FY 21-22, the fund balance will remain below the recommended amount of \$95,624. The VAC, Staff, and the Investment Consultant will continue to discuss steps to build the reserves to support expenses while maintaining required reserves.

2021-22 Proposed Budget

For FY 2021-22, staff is recommending an expenditure increase of \$5,339 from the FY 2020-21 adopted base.

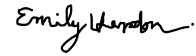
If you have any questions or would like additional information about the FY 2021-22 VEBA Program base and proposed budgets, please contact me at Emily.hendon@sanjoseca.gov.

VEBA ADVISORY COMMITTEE

Subject: VEBA Fund FY 2021-22 Base and Proposed Budgets

February 24, 2021

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Emily Hendon
Benefits Division Manager,
Human Resources

Attachments:

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 2020-21 and 2021-22
VEBA PROGRAM
BASE AND PROPOSED BUDGET SUMMARY

	2019-2020 Actuals	2020-2021 Final Adopted Base	2020-2021 Projected	2021-2022 Proposed**
Revenues	\$121,756	\$ 105,763	\$127,453	\$ 133,763
Expenditures	\$153,485	\$ 157,157	\$143,543	\$ 162,495
General Fund repayment*	\$ -	\$ -		
Change to Fund Balance	\$ (31,729)	\$ (51,394)	\$ (16,090)	\$ (28,732)
FUND BALANCE	\$191,407	\$ 140,013	\$123,924	\$ 95,191

* the \$25,000 payback to general Fund for FY 20-21 and 21-22 is dependent on VAC approval 3/15/2021 and not included in the calculations above

**VAC will determine appropriate admin fee to assess to cover annual expenses and \$25,000 annual payback

ATTACHMENT B

**Fiscal Year 2021-22
VEBA PROGRAM
BASE REVENUES**

		A		B		C		A+B+C
		PROVIDERS' ADMINISTRATIVE REIMBURSEMENT		LOAN from GENERAL FUND		INTEREST INCOME		REVENUE BUDGET
YEAR	EST ASSET BASE							
2018-2019(actual)	\$ 27,596,266	\$ 158,453	\$	\$ 91,458.00	\$	3,424	\$	253,335
2019-2020 (actual)	\$ 33,782,044	\$ 117,286	\$	-	\$	4,470	\$	121,756
2020-2021 (projection)*	\$ 41,864,733	\$ 121,690	\$		\$	5,763	\$	127,453
2021-2022 (projection)	\$ 48,463,661	\$ 128,000	\$		\$	5,763	\$	133,763

** the \$25,000 payback in FY 20-21 AND 21-22 to general Fund is dependent on VAC approval 3/15/2021*