

Memorandum

TO: DEFERRED COMPENSATION
ADVISORY COMMITTEE

FROM: Emily Hendon

SUBJECT: DEFERRED COMPENSATION FUND
FY 2022-23 BASE AND PROPOSED
BUDGETS

DATE: March 7, 2022

APPROVED:

DATE: March 7, 2022

RECOMMENDATION

Review and provide feedback to staff related to the FY 2022-23 base and proposed budgets for the Deferred Compensation Fund.

BACKGROUND

The purpose of this memo and Attachments A, B, C, D, and E is to provide the Deferred Compensation Advisory Committee (“DCAC”) the FY 2021-22 year-end projections and the FY 2022-23 proposed budget for the Deferred Compensation Fund. This budget will be forwarded to the City Manager’s Office and the City Council for approval in the FY 2022-23 budget process. While the DCAC can provide feedback to staff related to the expenditures of deferred compensation funds, the City Council must approve the appropriation of the City’s general fund.

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

- Deferred Compensation Fund allows for the accounting of deferred compensation revenues and expenses independent of other City revenues and expenses.
- Revenues received from Voya as reimbursements from administrative fees and interest earnings are used to cover the Plan’s administrative expenses.
- Expenditures are for Human Resources and Finance staff time and for non-personal expenses.
- Fund balance is an accumulation of revenues in excess of expenditures.
- Reserve policy establishes guidelines for determining the amount to be held in reserves.

ANALYSIS

FY 2021-22 YEAR END PROJECTIONS

Base Revenues

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Attachment A includes the adopted budget revenue for FY 2021-22 of \$804,000. The Deferred Compensation Plan's ("Plan") revenue from July 1, 2021 through December 31, 2021 consisted of actual administrative reimbursements from Voya to the City of \$291,000. The asset-based fees from January 1, 2022 through June 30, 2022 are estimated to be \$291,000 bringing the total revenue projected for FY 2021-22 to \$585,464. This total includes \$3,464 of interest income through December 31, 2021.

Base Expenditures

The FY 2021-22 projections include an expenditure decrease of \$10,146 in personal services due to over-estimated personal services costs, and a savings of \$10,988 in non-personal expenses, primarily due to a reduction in conference costs, and supplies and materials expenses. These changes decrease projected expenditures for FY 2021-22 by \$21,134, or 5%.

Fund Balance

The decrease in revenue and expenditures will result in a FY2021-22 projected fund balance of \$439,942, a reduction of \$197,402 over the adopted budget.

BASE BUDGET FOR FY 2022-23

The base budget represents the revenue and expenses associated with conducting today's business in next year's dollars. A summary of the FY 2022-23 proposed base budget is included in **Attachment A**.

Base Revenue

For FY 2022-23, revenue is forecasted to be \$591,464. This is based on the forecasted revenue reimbursement through the second quarter of FY 2021-22. This estimated decrease of \$212,536 or 26% in revenue from the FY 2021-22 adopted reflects the reduction in City's add-on fee that was recommended and accepted by the DCAC to become effective July 1, 2021.

Base Expenditures

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

Personal Services

The staffing levels have not changed since the prior year. The proposed budget for FY 2022-23 in Personal Services shows a decrease of \$2,696 or 1% compared to FY 2021-22 adopted budget. This decrease is due to overestimated Personal Services costs in FY 2021-22.

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

- 0.05 Division Manager (HR)
- 0.50 Senior Analyst (HR)
- 1.00 Staff Specialist (HR)
- 0.50 Accountant (Finance)

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0.03 Principal Accountant (Finance)

0.06 Senior Accountant (Finance)

2.14 FTE

Non-Personal Services

The non-personal component of the base budget is \$130,193 which is an increase of \$16,159 or 14% from FY 2021-22 primarily due to the increased cost of the fiduciary insurance premium.

Summary of Base Revenues and Expenditures

The FY 2022-23 changes to the Proposed base budget (compared to FY 2021-22 Adopted) include the following:

Decrease in revenue		<u>\$212,536</u>
	Total Change in Revenue	\$212,536
Decrease in personal services		\$26,969
Increase in non-personal services		<u>\$16,159</u>
	Total Change in Expenditures	\$13,463

The forecasted base expenditures will increase in FY 2022-23 by \$13,463, or 3% compared to the FY 2021-22 adopted base. The above changes in FY 2022-23 will result in a decrease in the fund balance of \$84,125 for a projected ending fund balance of \$555,817 (**Attachment A**).

RESERVE POLICY

PROJECTED RESERVES FOR FY 2022-23

The current Reserve Policy ("Policy") sets the fund balance target at 25% of the forecasted operating budget expenditures, plus any applicable fiduciary liability insurance deductible (\$125,000 with current carrier), and \$50,000 to fund, if the need arises, an off-cycle request for proposal for any of the Plan's multi-year contracts, such as investment management and record keeping or investment consulting.

In accordance with the Policy, and based on current projections for FY 2021-22 and FY 2022-23, the reserve level that must be maintained at the end of FY 2022-23 is calculated as follows:

Contingency/Stabilization Reserve (25% of \$475,589 of expenditures):	\$118,897
Reserve for Insurance Deductible:	\$25,000
Reserve for Class Action Insurance Deductible	\$100,000
Reserve for Major Plan Changes & Request for Proposals:	<u>\$50,000</u>
Total Required Reserve:	\$293,897

The FY 2022-23 projected fund balance of \$555,817 exceeds the established required reserve of \$293,897 by \$261,920. According to the Policy, since the projected reserve is in excess of 125% of the reserve target, the DCAC is required to consider returning an additional portion of the excess

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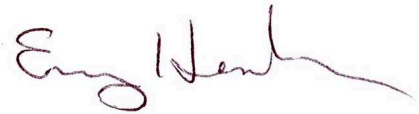
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reserves to the plan participants. Staff is recommending that in FY 2022-23, the Investment Consultant continue to monitor and provide the DCAC a recommended return of excess reserves to plan participants and any necessary adjustment to the administrative fees, to assist in minimizing the return of excess reserves to plan participants in future years.

FY 2022-23 Proposed Budget

For FY 2022-23, Staff is recommending an expenditure increase of \$13,463 from the FY 2021-22 adopted base.

If you have any questions or would like additional information about the FY 2022-23 Deferred Compensation Program base and proposed budgets, please contact me at Emily.Hendon@sanjoseca.gov.



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 2021-22 and 2022-23
DEFERRED COMPENSATION PROGRAM
BASE AND PROPOSED BUDGET SUMMARY

	2018-2019 Actuals	2019-2020 Actuals	2020-2021 Actuals	2021-2022 Final Adopted Base	2021-2022 Projection	2022-2023 Proposed
Revenues	\$873,630	\$ 430,925	\$858,637	\$ 804,000	\$ 585,464	\$ 591,464
Expenditures	\$543,611	\$ 363,032	\$462,126	\$ 462,126	\$ 440,993	\$ 475,589
Return to Participants**	\$131,880	\$ 350,000	\$350,000		\$ -	
Change to Fund Balance	\$ 198,139	\$(282,107)	\$ 46,511	\$ 341,874	\$(197,402)	\$ 115,875
FUND BALANCE	\$531,067	\$ 248,960	\$295,471	\$ 637,345	\$ 439,942	\$ 555,817

**Refund to Participants is dependent upon DCAC approval on March 15, 2021

ATTACHMENT B

**Fiscal Year 2022-23
DEFERRED COMPENSATION PROGRAM
BASE REVENUES**

YEAR	EST ASSET BASE	A PROVIDERS' ADMINISTRATIVE REIMBURSEMENT	B INTEREST INCOME	A+B REVENUE BUDGET
2009-2010 (actual)	\$ 573,240,843	\$ 397,013	\$ 10,019	\$ 407,032
2010-2011 (actual)	\$ 668,444,573	\$ 607,335	\$ 5,725	\$ 613,060
2011-2012 (actual)	\$ 658,945,218	\$ 579,586	\$ 1,079	\$ 580,665
2012-2013 (actual)	\$ 705,651,829	\$ 647,360	\$ (2,657)	\$ 644,703
2013-2014 (actual)	\$ 753,588,585	\$ 669,464	\$ 3,628	\$ 673,092
2014-2015 (actual)	\$ 801,900,000	\$ 638,528	\$ 1,332	\$ 639,860
2015-2016 (actual)	\$ 817,450,463	\$ 594,373	\$ 1,862	\$ 596,235
2016-2017 (actual)	\$ 845,269,740	\$ 639,747	\$ 1,164	\$ 640,911
2017-2018 (actual)	\$ 997,035,827	\$ 670,080	\$ 4,035	\$ 674,115
2018-2019(actual)	\$ 1,036,702,525	\$ 857,182	\$ 16,448	\$ 873,630
2019-2020(actual)	\$ 1,079,859,698	\$ 423,277	\$ 7,648	\$ 430,925
2020-2021(actual)	\$ 1,351,500,000	\$ 852,835	\$ 5,802	\$ 858,637
2021-2022(forecast)	\$ 1,392,045,000	\$ 582,000	\$ 3,464	\$ 585,464
2022-2023(forecast)	\$ 1,433,806,350	\$ 588,000	\$ 3,464	\$ 591,464

ATTACHMENT C

**Fiscal Year 2022-23
DEFERRED COMPENSATION PROGRAM
BASE EXPENDITURES FOR PERSONAL SERVICES AND NON-PERSONAL**

		2020-2021	2021-2022	2021-2022	2022-2023
		Actuals	Adopted Base	Projected	Forecast/ Proposed
PERSONAL SERVICES					
	14102 0.05 Division Manager		13,970		14,165
	19286 0.50 Sr. Analyst		101,223		101,668
	17245 0.5 Staff Specialist		73,286		0
	21528 1.0 Staff Specialist I/II Overtime		62,653		131,076
HR		186,868	251,132	223,178	246,909
	6512 0.50 Accountant II		79,296		81,036
	17221 0.03 Principal Accountant		7,005		7,021
	17831 0.06 Senior Accountant		10,660		10,431
FINANCE		98,223	96,961	114,769	98,487
SUBTOTAL, PERSONAL SERVICES		285,091	348,092	337,947	345,397
NON-PERSONAL					
30	Supplies and Materials	10	300	190	300
31	City Warehouse Supplies	0	0	0	0
33	Postage	0	500	100	500
34	Printing	0	1,500	100	1,500
35	Duplicating	0	0	0	0
44	Travel-Out of State	0	0	0	0
45	Training	1,495	14,900	0	14,900
50	Dues and Subscriptions	1,200	700	700	700
52	Contractual Services	63,034	68,445	68,445	68,728
60	Premiums	25,924	27,689	33,511	43,564
4102	Miscellaneous	0	0	0	0
SUBTOTAL, NON-PERSONAL		91,663	114,034	103,046	130,193
TOTAL EXPENDITURES		376,754	462,126	440,993	475,589

ATTACHMENT D

**Fiscal Year 2022-23
DEFERRED COMPENSATION PROGRAM
DETAIL OF PROJECTED NON-PERSONAL EXPENDITURES**

	2020-2021	2021-2022	2021-2022	2022-2023
	ACTUALS	FINAL ADOPTED BASE	Projection	Forecast/ Proposed
NON-PERSONAL EXPENSES				
30	Supplies and Materials			
		300	150	300
		-	40	-
		-	-	-
	10	300	190	300
31	City Warehouse Supplies			
33	-	500	100	500
34	-	1,500	100	1,500
35	-	-	-	-
44	-	-	-	-
45	Training			
	1,495	14,700	-	14,700
		200	-	200
	1,495	14,900	-	14,900
50	Dues and Subscriptions			
		700	700	700
	1,200	700	700	700
52	Contractual Services			
	54,000	54,000	54,000	54,000
	-	5,000	5,000	5,000
	9,034	9,445	9,445	9,728
	63,034	68,445	68,445	68,728
60	25,924	27,689	33,511	43,564
4102	-	-	-	-
TOTAL N-P EXPENSES	91,663	114,034	103,046	130,193

**Fiscal Year 2022-23
DEFERRED COMPENSATION PROGRAM
DETAIL OF PROJECTED RESERVE TARGET**

<u>19/20 RESERVE:</u>	Budgeted Expenses	\$385,239.16		
	25%	\$96,309.79		
	50K	\$50,000.00		
	Insurance Deductible	\$25,000.00		
	Reserve Target	\$171,309.79	125% of Reserve Target	\$214,137.24
<u>20/21 RESERVE:</u>	Budgeted Expenses	\$422,256.44		
	25%	\$105,564.11		
	50K	\$50,000.00		
	Insurance Deductible	\$25,000.00		
	Reserve Target	\$180,564.11	125% of Reserve Target	\$225,705.14
<u>21/22 RESERVE:</u>	Budgeted Expenses	\$440,992.60		
	25%	\$110,248.15		
	50K	\$50,000.00		
	Insurance Deductible*	\$100,000.00		
	Reserve Target	\$260,248.15	125% of Reserve Target	\$325,310.19
<u>22/23 RESERVE:</u>	Budgeted Expenses	\$475,589.49		
	25%	\$118,897.37		
	50K	\$50,000.00		
	Insurance Deductible*	\$125,000.00		
	Reserve Target	\$293,897.37	125% of Reserve Target	\$367,371.72

*The Insurance Deductible is normally \$25,000 and \$100,000 for Class Action suits.