

# Memorandum

TO: VEBA ADVISORY COMMITTEE

FROM: Emily Hendon

SUBJECT: VEBA FUND FY 2022-23 BASE  
AND PROPOSED BUDGETS

DATE: March 7, 2022

APPROVED:



DATE: March 7, 2022

## RECOMMENDATION

Approve the FY 2022-23 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 2022-23 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 2022-23 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 2021-22 YEAR END PROJECTIONS**

#### **Base Revenues**

The VEBA Plans' ("Plan") revenue from July 1, 2021 through December 31, 2021 consisted of actual administrative reimbursements from Voya to the City of \$105,874, and an additional \$108,493 is estimated for January 1, 2022 through June 30, 2022 bringing the total revenue projected for FY 2021-22 to \$215,731. The total projected revenue includes the provider's administrative reimbursement, the administrative fee revenue, and the interest earned on the fund balance.

**Base Expenditures**

The FY 2021-22 projections include an expenditure increase of \$3,356 in personal services primarily due to higher than anticipated personal services cost. Non-personal expenses are projected to decrease over the adopted budget by \$3,014 due to a reduction in planned printing, postage, and training expenses. These changes increase the projected total expenditures for FY 2021-22 from \$162,496 to \$162,838 or approximately 0.02%.

**Fund Balance**

Increased revenues result in a FY 2021-22 projected fund balance of \$190,568. This includes the balance of \$75,000 of the \$100,000 loan amount from the City's General Fund during FY 2018-19. Once the second \$25,000 loan repayment is paid in FY 2021-22, the Fund Balance would decrease to \$165,568.

**BASE BUDGET FOR FY 2022-23**

A summary of the FY 2022-23 proposed base budget is included in **Attachment A**.

**Base Revenues**

For FY 2022-23, revenues are forecasted to be \$218,350. This is based on the forecasted revenue reimbursement through the second quarter of FY 2021-22. This estimated increase in revenue from FY 2021-22 reflects the increase of the City's add-on administrative fees that became effective July 1, 2021 to better align with the annual operating budget and fund balance/reserve target.

**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 2022-23 for Personal Services increased from \$120,950 in FY 2021-22 to \$124,402 for FY 2022-23, an increase of \$3,452 or 3%.

Non-Personal Services

The non-personal component of the base budget is \$41,975 which is \$429 or 1% more than FY 2021-22. Spending for non-personal services in FY 2021-22 is projected at \$38,532. Staff anticipates an increase to non-personal services in FY 2022-23 primarily due to the forecasted increases to the cost of the external audit agreement and fiduciary insurance.

The base expenditures are forecasted to increase by \$3,880 or 2% from the FY 2021-22 adopted base of \$162,496 to the FY 2022-23 forecast of \$166,376. These projected changes will result in an increase to the fund balance of \$26,973 from FY 2021-22 for a projected ending fund balance of \$189,648 (**Attachment A**). This estimate does not include the second \$25,000 loan repayment in FY 2021-22 or the \$25,000 repayment in FY 2022-23 that is pending VAC approval. The ending fund balance will be \$164,648 once the second and third repayments are made in FY 2021-22 and FY 2022-23.

**RESERVE POLICY**

**PROJECTED RESERVES FOR FY 2022-23**

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 an off-cycle request for proposal for any of the Plan’s multi-year contracts, such as plan administration, investment management and record keeping or plan consulting, if the need arises.

Based on the forecast for FY 2022-23, the reserve level that is suggested to be maintained at the end of FY 2022-23 is calculated as follows:

Contingency/Stabilization Reserve (25% of \$166,376 of expenditures):	\$41,594
Reserve for insurance deductible:	\$25,000
Reserve for Major Plan Changes & Request for Proposals:	<u>\$30,000</u>
Total Required Reserve:	\$96,594

Based upon the Policy above and the forecasted revenue and expenditures for FY 2022-23, \$25,000 repayments in FY 21-22 and in FY 2-23, the fund balance will be above the recommended amount of \$96,594. The VAC, Staff, and the Investment Consultant will continue to monitor the reserve balance and bring recommendations to adjust fees to best align with the adopted budget.

**2022-23 Proposed Budget**

For FY 2022-23, staff is recommending an expenditure increase of \$3,881 from the FY 2021-22 adopted base.

If you have any questions or would like additional information about the FY 2022-23 VEBA Program base and proposed budgets, please contact me at [Emily.Hendon@sanjoseca.gov](mailto:Emily.Hendon@sanjoseca.gov).

VEBA ADVISORY COMMITTEE

**Subject:** VEBA Fund FY 2022-23 Base and Proposed Budgets

March 7, 2022

Page 4 of 4



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 202-22 and 2022-23  
VEBA PROGRAM  
BASE AND PROPOSED BUDGET SUMMARY**

	2020-2021 Actuals	2021-2022 Final Adopted Base	2021-2022 Projected	2022-23 Proposed**
Revenues	\$126,042	\$ 133,763	\$215,731	\$ 218,350
Expenditures	\$143,773	\$ 162,495	\$162,838	\$ 166,376
General Fund repayment*	\$ -	\$ 25,000	\$ 25,000	\$ 25,000
Change to Fund Balance	\$ (31,729)	\$ (28,732)	\$ 27,893	\$ (920)
<b>FUND BALANCE</b>	<b>\$191,407</b>	<b>\$ 162,675</b>	<b>\$190,568</b>	<b>\$ 189,648</b>

\* the \$25,000 payback to general Fund for FY 21-22 and 22-23 is dependent on VAC approval 3/15/2021

**ATTACHMENT B**

**Fiscal Year 2022-23  
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 (actual)	\$ 43,599,960	\$ 122,794		\$ 3,248		\$ 126,042		
2021-2022 (projection)*	\$ 48,704,364	\$ 214,367		\$ 1,364		\$ 215,731		
2022-2023(projection)*	\$ 51,139,582	\$ 216,986		\$ 1,364		\$ 218,350		

*\* the \$25,000 payback in FY 21-22 and FY 22-23 to general Fund is dependent on VAC approval 3/21/2022*

**ATTACHMENT C**

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

	2020-21	2021-22	2021-22	2022-23
	Actuals	Adopted Base	Projected	Forecast/ Proposed
<b>PERSONAL SERVICES</b>				
14102 .05 Division Manager		13,970		14,165
19286 0.10 Sr. Analyst		20,245		20,334
21528 0.5 Staff Specialist		62,653		65,538
<b>HR</b>	85,564	96,868	99,753	100,037
6512 0.10 Accountant II	0	15,859		16,207
17221 0.02 Principal Accountant	0	4,670		4,680
17831 0.02 Senior Accountant	0	3,553		3,477
<b>FINANCE</b>	22,308	24,082	24,553	24,365
<b>SUBTOTAL, PERSONAL SERVICES</b>	<b>107,872</b>	<b>120,950</b>	<b>124,306</b>	<b>124,402</b>
<b>NON-PERSONAL</b>				
30 Supplies and Materials	-	300	150	300
31 City Warehouse Supplies		0	0	0
33 Postage	-	2,000	1,000	2,000
34 Printing		1,500	500	1,500
35 Duplicating		0	0	0
44 Travel-Out of State		0	0	0
45 Training		500	250	500
50 Dues and Subscriptions		0	0	0
52 Contractual Services	21,034	21,445	21,445	21,728
60 Premiums	14,867	15,801	15,187	15,946
4102 Miscellaneous		0	0	0
<b>SUBTOTAL, NON-PERSONAL</b>	<b>35,901</b>	<b>41,546</b>	<b>38,532</b>	<b>41,975</b>
<b>TOTAL EXPENDITURES</b>	<b>143,773</b>	<b>162,496</b>	<b>162,838</b>	<b>166,376</b>

ATTACHMENT D

**Fiscal Year 2022-23  
VEBA PROGRAM**

**DETAIL OF PROJECTED NON-PERSONAL EXPENDITURES**

	2020-21	2021-22	2021-22	2022-23
	Actuals	FINAL ADOPTED	Projection	Forecast/ Proposed
<b>NON-PERSONAL EXPENSES</b>				
<b>30</b>	<b>Supplies and Materials</b>			
	Miscellaneous Office Supplies	- 300	150	300
	Computers / Software	- -	-	
	<b>Supplies and Materials Total</b>	<b>- 300</b>	<b>150</b>	<b>300</b>
<b>31</b>	<b>City Warehouse Supplies</b>			
<b>33</b>	<b>Postage</b>	- 2,000	1,000	2,000
<b>34</b>	<b>Printing</b>	- 1,500	500	1,500
<b>35</b>	<b>Duplicating</b>	- -	-	
<b>44</b>	<b>Travel-Out of State</b>	- -	-	
<b>45</b>	<b>Training</b>			
	Fiduciary Training	- 500	250	500
	<b>Training Total</b>	<b>- 500</b>	<b>250</b>	<b>500</b>
<b>52</b>	<b>Contractual Services</b>			
	Benefits Consulting	12,000 12,000	12,000	12,000
	Legal Consulting Fees	- -	-	
	External Auditor(Grant Thornton)	9,034 9,445	9,445	9,728
	<b>Contractual Services Total</b>	<b>21,034 21,445</b>	<b>21,445</b>	<b>21,728</b>
<b>60</b>	<b>Premiums</b>	14,867 15,801	15,187	15,946
<b>4102</b>	<b>Miscellaneous</b>	- -		
<b>TOTAL N-P EXPENSES</b>	<b>35,901</b>	<b>41,546</b>	<b>38,532</b>	<b>41,975</b>



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

Fiscal Year 2021-22

21/22 Budgeted Expenditures:	\$	162,496
25% of Budgeted Expenses	\$	40,624
In case off cycle RFP is needed	\$	30,000
Fiduciary Liability Deductible	\$	25,000
Reserve Target	\$	95,624
125% of Target Reserve	\$	119,530

Fiscal Year 2022-23

21/22 Budgeted Expenditures:	\$	166,376
25% of Budgeted Expenses	\$	41,594
In case off cycle RFP is needed	\$	30,000
Fiduciary Liability Deductible	\$	25,000
Reserve Target	\$	96,594
125% of Target Reserve	\$	120,743