



Memorandum

**TO: Board of Administration for the
Police and Fire Plan**

FROM: Benjie Chua Foy

**SUBJECT: Consideration of Proposed Budget
for Fiscal Year 2023-2024**

DATE: February 22, 2023

Approved

Date

RECOMMENDATION

Discussion and action on the proposed budget for fiscal year 2023-2024.

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 \$230,120,000.

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 FY24 contribution amounts assume the Board's adoption in April/May, as shown in the June 30, 2022 actuarial reports for pension and healthcare, using the beginning of the year amounts if the City prefunds the Police and Fire Tier 1 and healthcare contributions, similar to the prior year.

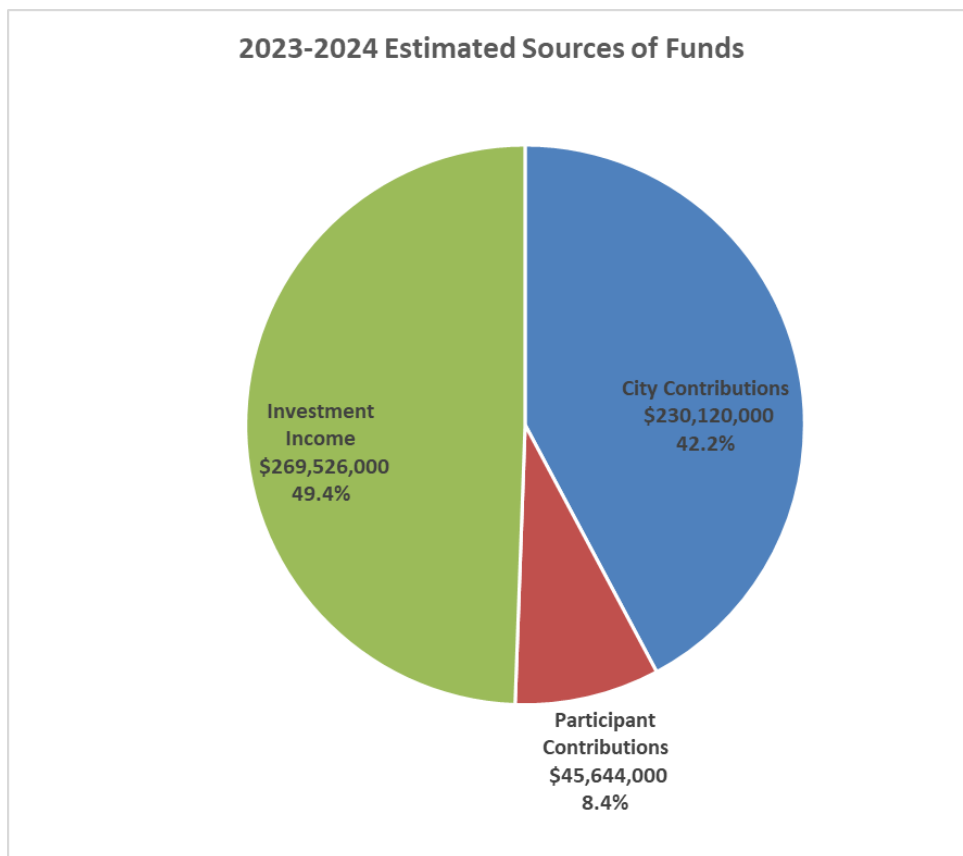
PARTICIPANT CONTRIBUTIONS

Total member contributions are estimated at \$45,644,000, a 1.11% increase from the 2022-2023 adopted amount. Member contributions are calculated based on the contribution rate for each tier. Police Tier 1 contribution rates for pension increased slightly going from 10.99% to 11.09% while their covered payroll

decreased from \$77.5 million to \$70.0 million. Fire Tier 1 contribution rates for pension decreased slightly from 12.11% to 12.00% while covered payroll decreased from \$68.7 million to \$64.2 million. Police Tier 2 contribution rates for pension decreased slightly from 14.37% to 14.35% and covered payroll increased from \$84.2 million to \$96.5 million. Fire Tier 2 contribution rates for pension decreased slightly from 15.18% to 15.11%, while covered payroll increased from \$29.7 million to \$37.2 million. Healthcare contribution rates remain at 8.0% per the Municipal Code for Tier 1 members, while Tier 2 members are required to go into the VEBA.

INVESTMENT INCOME

Investment earnings are calculated based on the actuarial assumed rate of return of 6.625%. 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 \$282,656,000, an increase of \$14,393,000 over the forecast, or 5.37%, 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 \$25,719,000, a decrease of \$304,000 over the forecast, or 1.17%, which is the average change 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 2021-2022 and future withdrawals are expected to be minimal, if any.

ADMINISTRATIVE EXPENSE BUDGET

The proposed administrative expenses budget of \$6,871,000 is a net increase of \$545,000 or 8.62% from the prior year adopted budget of \$6,326,000.

PERSONNEL SERVICES

The budget for personnel services was increased to \$4,839,000, an increase of \$376,000, or 8.42% over the prior year adopted budget of \$4,463,000. 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 increase to 45 from 43 due to the proposals. The proposed personnel changes for FY23-24 are to: 1) add a Medicare Analyst in the Health section of the Benefits division, 2) add a Senior Office Specialist to the front desk in the Benefits division, 3) upgrade the vacant Office Specialist to a Senior Office Specialist in the front desk in the Benefits division, and 4) upgrade the soon to be vacant Account Tech to an Accountant I/II in the Accounting division to address the increasing and more challenging workloads. Besides the proposed changes, the other reasons for the increase in personnel services is due to the increased benefit rates, as well as having three, instead of two, reemployed retirees for the maximum time allowed per the Municipal Code.

NON-PERSONNEL / EQUIPMENT

The budget for non-personnel / equipment was increased to \$859,000, an increase of \$64,000, or 8.05% from the prior year adopted budget of \$795,000. This category includes rent, insurance, information technology hardware/software, pension administration annual maintenance fee, postage and printing, training, travel, and other office expenses. The increase is mainly due to the proposed change in financial software in IT hardware/software, the cubicle reconfiguration for the Benefits division, and to account for general increases across the board.

PROFESSIONAL SERVICES

The budget for professional services was increased to \$903,000, a decrease of \$95,000, or 10.5% from the prior year modified budget of \$998,000. The adopted budget was modified to increase legal services by \$150,000 and temp services by \$50,000. If it had not been modified, current year proposed budget would be \$903,000, an increase of \$105,000, or 13.2% from the prior year adopted budget of \$798,000. Core professional services comprise of actuarial services, financial audit services, legal services, and temporary staffing services. The increase is mainly due to the increase in temp services for the Benefits division to backfill for vacancies and assist with peak periods, as well as increases in actuarial and legal services to account for the rise in the need of their services in the past few years.

MEDICAL SERVICES

The budget for medical services remained steady at \$270,000. This category is for expenses related to the processing of disability applicants, which include costs for medical services from independent medical examiners (IME). The contract with the medical advisor has been terminated so all services will be from the independent medical examiners.

