

Memorandum

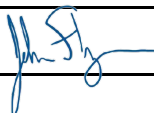
**TO: Board of Administration for the
Police and Fire Plan**

FROM: Benjie Chua Foy

**SUBJECT: Consideration of Proposed Budget
for Fiscal Year 2025-2026**

DATE: April 3, 2025

Approved



Date

March 26, 2025

RECOMMENDATION

Discussion and action on the proposed administrative budget for fiscal year 2025-2026.

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 \$248,934,000.

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 FY26 contribution amounts assume the Board's adoption in May, as shown in the June 30, 2024 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.

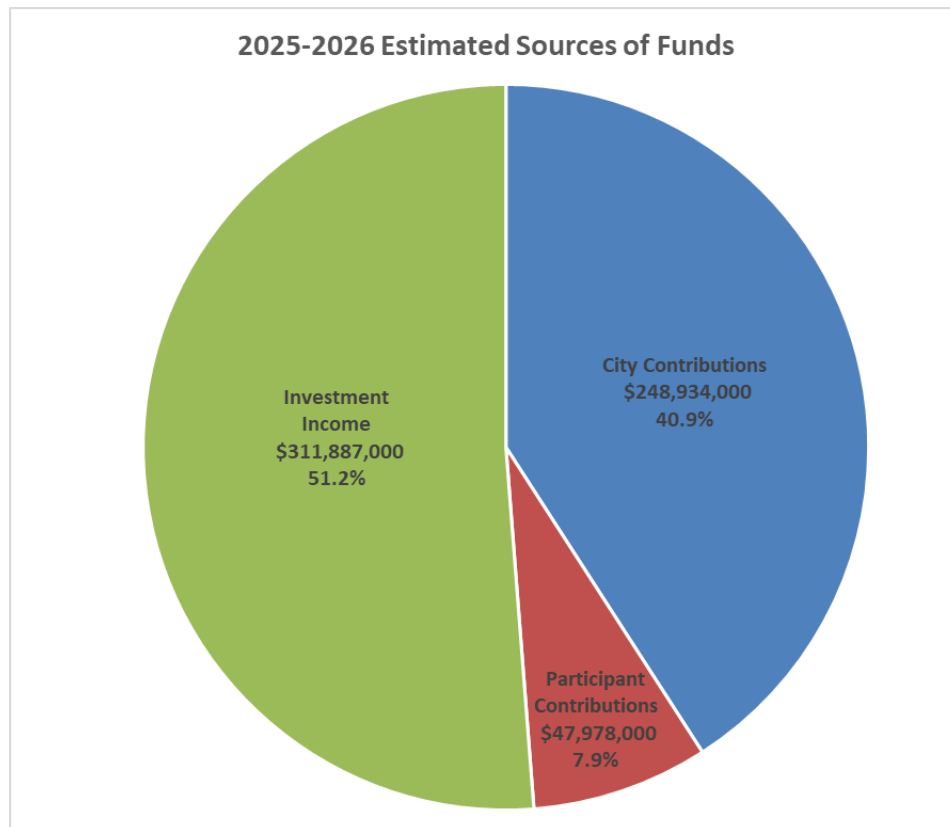
PARTICIPANT CONTRIBUTIONS

Total member contributions are estimated at \$47,978,000, a 3.4% increase from the 2024-2025 adopted amount. Member contributions are calculated based on the contribution rate for each tier. Police Tier 1 contribution rates for pension decreased slightly going from 10.59% to 10.39% while their covered payroll decreased slightly from \$74.3 million to \$67.7 million. Fire Tier 1 contribution rates for pension increased slightly from 11.81% to 12.00% while covered payroll remained steady at \$64.5 million. Police Tier 2

contribution rates for pension decreased slightly from 13.65% to 13.55% and covered payroll increased from \$100.1 million to \$114.4 million. Fire Tier 2 contribution rates for pension increased slightly from 14.90% to 15.01%, while covered payroll increased from \$41.3 million to \$47.3 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 \$320,371,000, an increase of \$17,003,000 over the forecast, or 5.60%, 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 \$34,332,000, an increase of \$1,774,000 over the forecast, or 5.45%, which is the average change for the past five years. Health insurance includes health and dental insurance subsidies, as well as Medicare reimbursements.

ADMINISTRATIVE EXPENSE BUDGET

The proposed administrative expenses budget of \$8,517,000 is a net increase of \$296,000 or 3.60% from the prior year adopted budget of \$8,221,000.

PERSONNEL SERVICES

The budget for personnel services was reduced to \$5,581,000, a decrease of \$117,000, or 2.05% below the prior year adopted budget of \$5,698,000. 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 headcount at Retirement Services will remain the same despite the proposals. The proposed personnel changes for FY25-26 are to 1) add a Deputy Director in Investments, 2) delete one of the Senior Investment Officer positions, 3) add an Administrative Officer, and 4) delete the Senior Internal Auditor position. The add / delete in Investments will result in a net increase of approximately \$12,000 while the other add / delete will result in a net savings of approximately \$18,000 for this fiscal year. In addition, Staff is continuing funding for an overstrength position for one year for a Staff Specialist in the Administrative division and continuing the funding for 50% of the Cybersecurity IT Specialist. The decrease for this fiscal year was due to the removal of an overstrength position in the Benefits division for four months, the removal of one month funding for a CEO for the transition, and the reduction in the annual compensation for the new CEO, all totaling \$147,000. Netting against the decreases are increased benefit rates. In addition, there are four re-employed retirees in Benefits that are included in the budget for the maximum time allowed per the Municipal Code.

NON-PERSONNEL / EQUIPMENT

The budget for non-personnel / equipment was reduced to \$824,000, a decrease of \$43,000, or 4.96% from the prior year adopted budget of \$867,000. This category includes rent, insurance, information technology hardware/software (other than pension administration system-related expenses), postage and printing, training, travel, and other office expenses. The decrease in expenses is primarily attributed to several factors. First, approximately \$123,000 in pension administration system-related expenses was reallocated to professional services. Additionally, there was a reduction of \$20,000 for postage and printing, as the quarterly newsletters will now be distributed electronically. Insurance premiums also decreased by \$12,000. However, these savings were partially offset by an increase of \$60,000 for the expansion of the 5th floor, as well as an additional \$15,000 required for an upgrade to the document management system. Furthermore, CPI-driven cost increases contributed to the overall rise in expenses.

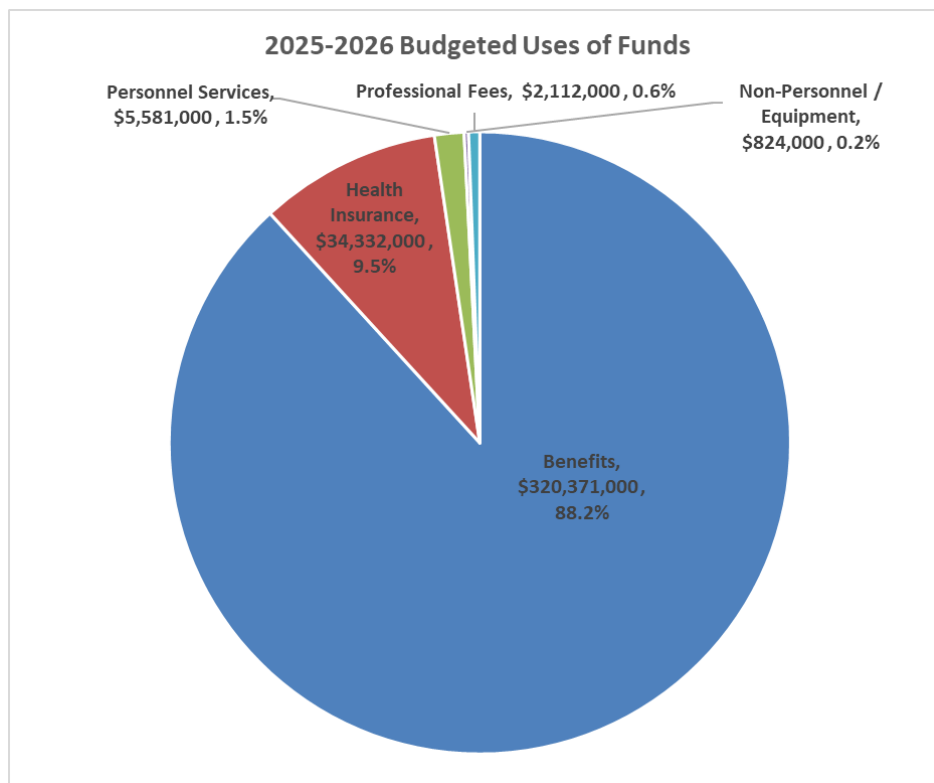
PROFESSIONAL SERVICES

The budget for professional services was increased to \$1,752,000, an increase of \$456,000, or 35.19% from the prior year adopted budget of \$1,296,000. Professional services comprise of actuarial services, financial audit services, legal services, governance services, and temporary staffing services. The increase from the prior year adopted budget is mainly due to increases in legal services of \$160,000, the reallocation of \$123,000 in pension administration system-related expenses, an addition for the outsourced internal audit of \$90,000, an increase of \$50,000 for governance services, a reduction of \$30,000 in temporary staffing services and a net increase in other services of \$63,000. The increase in legal services is to accommodate the growing demand for their services: \$81,000 for domestic relations orders and disability legal services and \$30,000 for general and fiduciary legal services based on a 3-year average. Governance services was increased to account for the strategic planning support. The internal audit position is planned on being

outsourced since the personnel position is being deleted. Other services include the rise in actuarial services due to an experience study scheduled for the fiscal year, the Cybersecurity IT specialist consultant, CEM benchmarking and CPI increases, offset by a \$30,000 reduction in temporary staffing agencies as the office is nearly fully staffed. A budget for temporary staffing is still included since one analyst is planning on retiring mid-year and for other contingencies.

MEDICAL SERVICES

The budget for medical services remained steady at \$360,000. 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.



Attachment: Proposed Budget for Fiscal Year 2025-2026