



Memorandum

**TO: Board of Administration for the
Police and Fire Department Retirement
Plan (Plan)**

FROM: Benjie Chua Foy

**SUBJECT: Consideration of Proposed Budget
for Fiscal Year 2026-2027**

DATE: March 23, 2026

Approved

Date

RECOMMENDATION

Discussion and action on the proposed administrative budget for fiscal year 2026-2027.

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 \$254,955,000.

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 FY27 contribution amounts assume the Board's adoption in May, as shown in the June 30, 2025 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.

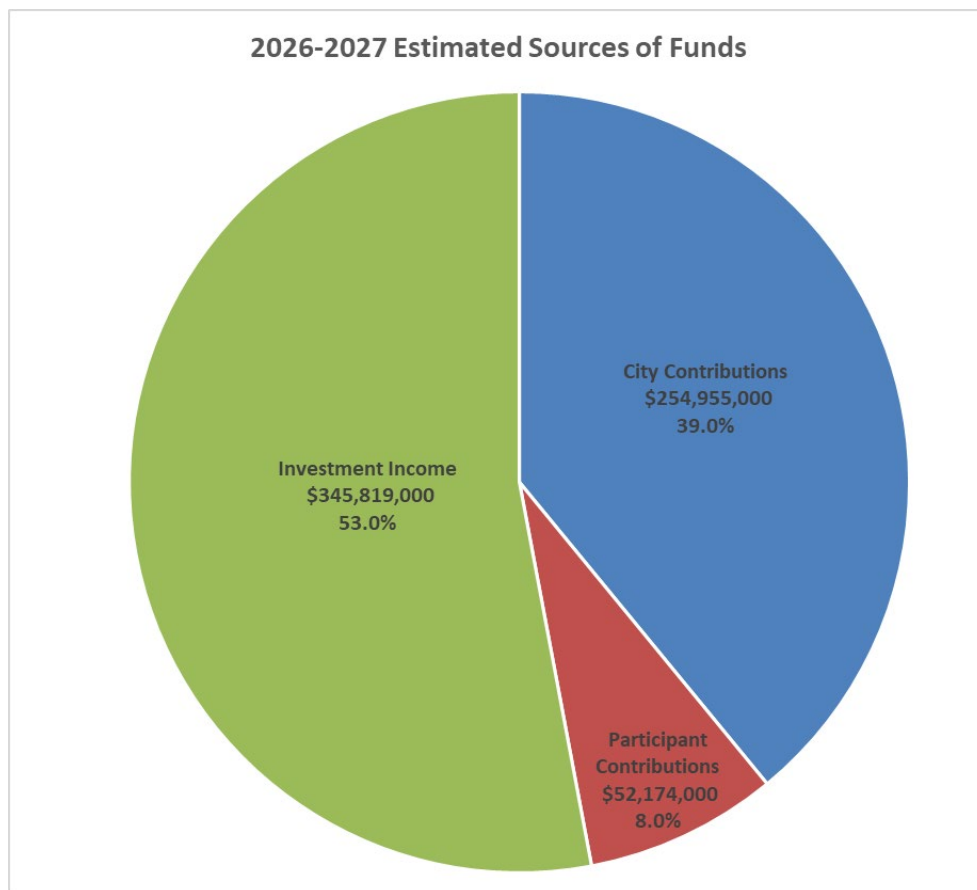
PARTICIPANT CONTRIBUTIONS

Total member contributions are estimated at \$52,174,000, an 8.8% increase from the 2025-2026 adopted amount. Member contributions are calculated based on the contribution rate for each tier. Police Tier 1 contribution rates for pension increased from 10.39% to 11.44% while their covered payroll decreased slightly from \$67.7 million to \$65.7 million. Fire Tier 1 contribution rates for pension decreased slightly

from 12.00% to 11.88% while covered payroll increased slightly from \$64.5 million to \$65.0 million. Police Tier 2 contribution rates for pension increased from 13.55% to 14.64% and covered payroll increased from \$114.4 million to \$127.6 million. Fire Tier 2 contribution rates for pension decreased slightly from 15.01% to 14.55%, while covered payroll increased from \$47.3 million to \$53.6 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 \$335,444,000, an increase of \$17,274,000 over the forecast, or 5.43%, 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 \$40,383,000, an increase of \$2,884,000 over the forecast, or 7.69%, 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 \$8,799,000 is a net increase of \$282,000 or 3.31% from the prior year adopted budget of \$8,517,000.

PERSONNEL SERVICES

The budget for personnel services was increased to \$5,895,000, an increase of \$314,000, or 5.63% above the prior year adopted budget of \$5,581,000. The Budget Office's labor distribution report (LDR) 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 increase by one due to the following proposals. The proposed personnel changes for FY26-27 are to 1) add a Deputy Chief Investment Officer, 2) delete one of the Senior Investment Officer positions, and 3) make the over-strength Program Manager in the Benefits division permanent. The add / delete in Investments will result in a net increase of approximately \$20,000 while the Benefits division additions will increase the budget by approximately \$213,000 for the 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. Furthermore, additional funding was added for expenses not included in the LDR such as funding for interns, rehired retirees, overtime, higher-class assignments and vacation sellbacks.

NON-PERSONNEL / EQUIPMENT

The budget for non-personnel / equipment was increased to \$835,000, an increase of \$11,000, or 1.33% from the prior year adopted budget of \$824,000. 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 overall increase of \$11,000 is primarily attributable to the completion of the 5th-floor expansion, which resulted in a \$74,000 reduction in costs, along with an additional \$13,000 savings in printing expenses due to the planned transition to electronic distribution of payroll remittance advices. These savings were partially offset by \$69,000 in new IT-related expenses, including ACFR software, upgraded audio/visual equipment for Board meetings, penetration testing, a chatbot for the website and costs associated with a bank transition. The budget also reflects \$20,000 in additional rent related to the expansion and a \$10,000 increase in the travel budget, along with minor adjustments based on FY25–26 projections.

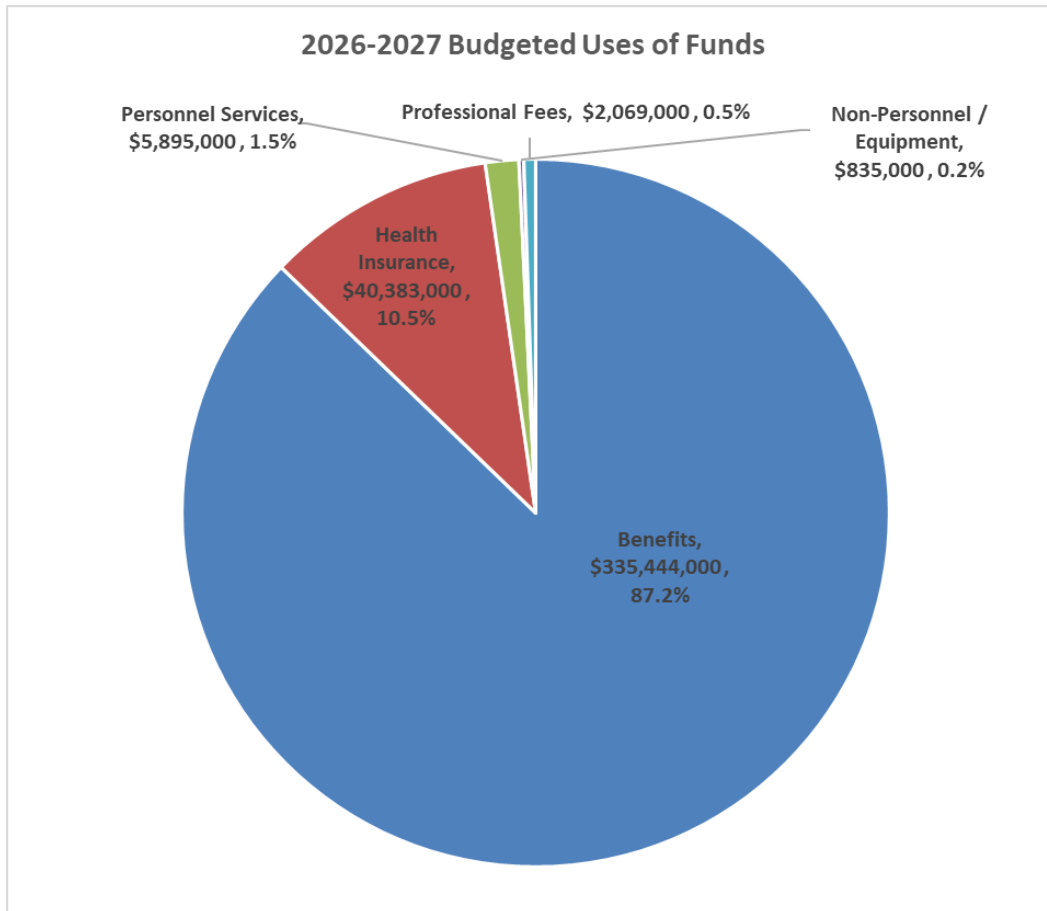
PROFESSIONAL SERVICES

The budget for professional services of \$1,649,000, is a decrease of \$103,000, or 5.88% from the prior year adopted budget of \$1,752,000. Professional services comprise of actuarial services, financial audit services, legal services, governance services, and temporary staffing services. This net reduction reflects a \$40,000 decrease in legal services based on the three-year average, a \$40,000 reduction in temporary staffing agency costs due to a planned full vacancy, a \$35,000 reduction for a cybersecurity IT specialist consultant, a \$30,000 decrease in actuarial services due to no experience study being scheduled, and a \$29,000 reduction for the death audit vendor based on a new contract. These decreases were partially offset by a \$35,000

addition for outsourced internal audit services under contract and a \$21,000 addition for an executive search firm, with the remaining difference attributable to CPI increases.

MEDICAL SERVICES

The budget for medical services increased by \$60,000 or 16.67% from the prior year budget of \$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). A new contract was signed with a new vendor, resulting in an increase to the budget.



Attachment: Proposed Budget for Fiscal Year 2026-2027