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| **SUBJECT/AGENDA TITLE:**  2023 Budget Discussion |

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| **EXECUTIVE SUMMARY:**  The Proposed 2023 Budget presentation will focus on the categories of employee compensation and benefits, and NextLight programs. This communication includes a brief overview of each topic and has been consecutively numbered. This information will be available on the City’s website with the 2023 proposed budget documents should we need to refer back to any information from this communication as we continue to move through the weekly 2023 budget presentations.  <https://www.longmontcolorado.gov/departments/departments-e-m/finance/budget-office/2023-budget-documents> |

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| **COUNCIL OPTIONS:**  Click or tap here to enter text. |

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| **RECOMMENDED OPTIONS:** |

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| **FISCAL IMPACT & FUND SOURCE FOR RECOMMENDED ACTION:** |

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| **BACKGROUND AND ISSUE ANALYSIS:**  Citizens wishing to view the 2023 Proposed Budget, the 2023-2027 Proposed Capital Improvement Program or the 2023 Proposed Pay Plan can access these documents on the City’s website at the following location:  <https://www.longmontcolorado.gov/departments/departments-e-m/finance/budget-office/2023-budget-documents>  **EMPLOYEE COMPENSATION ISSUES**  ***Compensation Plan***  Human Resources staff will present the pay plan which is included in the proposed 2023 information that is available on the City’s website at the above link. Additionally, employee compensation is addressed on pages 33-35 of the Budget Message in the budget document.  ***Defined Benefit Pension Plans***  The City sponsors three defined benefit (DB) pension plans. Two of those plans are closed plans that covered fire and police employees hired before April 8, 1978. The third defined benefit plan is for non-uniformed general employees. Each of these DB plans have their actuarial status measured annually based on actuarial assumptions along with actual membership, contribution and investment performance data. Each are governed by a retirement board and the City Council ultimately approves any plan amendments by ordinance as well as city contributions through the annual budget.  ***Old Hire Fire Pension Plan and Old Hire Police Pension Plan***  Actuarial reviews are performed on the old hire plans every year and the most recent was as of January 1, 2022. These valuations indicate that the Old Hire Fire plan has an unfunded accrued liability of ($536,288) and the Old Hire Police plan has an unfunded accrued liability of ($182,404). The Old Hire Fire plan is considered to be 121.4% funded and the Old Hire Police plan is considered to be 117.0% funded. For 2023, no contributions are required to be made for either plan. ***Attachment A*** is the presentation made to the retirement boards on the 2022 actuarial reports for these two defined benefit plans and is included for your information.  ***General Employees Retirement Plan***  The City sponsors a defined contribution retirement plan and a defined benefit pension plan for each of its non-uniformed general employees. The defined contribution plan is provided to regular employees in lieu of Social Security. The defined benefit plan, called the General Employees Retirement Plan (GERP), is funded through contributions by the City and employees. Historically the City contributed 6% of compensation to the GERP while employees contributed 4.5% of compensation. In the year 2001 the City created a Retirement Health Savings (RHS) plan for employees and the City annually contributes $400 for each regular full time employee to this defined contribution plan. In 2001 the City reduced its funding to the GERP from 6% to 5% to create funding for the RHS plan. The combined contributions of 9.5% (5% city; 4.5% employee) were sufficient to meet the annual actuarially required contribution to the GERP for a number of years as shown below.  The economic downturn in the fall of 2008 had a significant impact on the investment returns of the GERP. When the actuary study was performed in 2009 the full contribution requirement rose from 8.3% to 13.4% of pay. Despite the actuarial approach of smoothing investment returns over five years the funded ratio of the plan dropped from 105.9% to 86.7%. In the 2010 budget the contributions were changed to 13.36% (8.36% city; 5% employee) but there was a transfer of $490,666 from the Health Benefit Fund to the GERP to help meet the General Fund share of the actuarially required contribution. Very strong investment returns in 2009 moved the plan to 96.9% funded and the contribution requirement dropped to 11% (6% city; 5% employee) for 2011. Since then there have been gradual increases in the actuarial contribution requirement that have been split between the city and the employees.  Year Employee Contribution City Contribution  2012 5.0% 6.0%  2013 5.0% 6.0%  2014 5.7% 6.7%  2015 5.7% 6.7%  2016 5.7% 6.7%  2017 5.8% 7.2%  2018 5.8% 7.7%  2019 5.8% 7.7%  2020 6.0% 8.0%  2021 6.0% 8.4%  2022 6.6% 9.0%  The contribution requirement for 2014 rose to 12.5% and the increase was again split so that required contributions were 6.7% city and 5.7% employee. Although there was a drop in the required contribution for 2015 and 2016, the contributions were maintained at this level to move the GERP plan toward a fully funded status. For 2017 the required contribution increased from 11.5% to 11.77%. Also for 2017, the GERP Board adopted a funding policy that amortizes the existing unfunded liability over a closed 30 year period and amortizes subsequent bases (due to gains or losses) over closed 20 year periods. That funding policy increased the current required contribution even further to 11.9%. In order to more aggressively address funding the 2017 budget changed the city contribution requirement from 6.7% to 7.2% and the employee contribution requirement from 5.7% to 5.8%. Then in the 2018 budget the city contribution requirement was raised from 7.2% to 7.7% for the same purpose. No increase was proposed for the 5.8% employee contribution as a reduced city contribution to the Health Benefit Fund more than covered the cost of the contribution increase to the GERP plan. No change in contributions was necessary in 2019. Poor investment returns in 2018 required further adjustments and for 2020 the employee contribution requirement was raised from 5.8% to 6.0% and the city contribution requirement was raised from 7.7 to 8.0%.  An actuarial loss in 2019 caused the need for an increase of city contributions in the 2021 budget from 8.0% to 8.4%. Additionally, because of the timing of the actuarial study always being in arrears we effectively implement the actuarially required contributions a year too late. That caused us to recommend that a lump sum contribution of $400,000 be made from the Health Benefits Fund to the GERP during 2019 and 2020, with a $200,000 contribution recommended in 2021. Employee contributions for 2021 were maintained at 6.0% for pre-2012 employees and 5.0% for post-2011 employees because there were no compensation adjustments budgeted for employees in 2021. In 2021 the GERP Board updated the mortality assumption and lowered the discount rate from 7.5% to 7.0%. Those changes increased the required contribution again and for the 2022 budget contributions were moved for city contributions from 8.4% to 9.0%, pre-2012 employees from 6.0% to 6.6%, and post-2011 employees from 5.0% to 5.6%. With the new assumptions and contribution levels, it is projected that the GERP plan could reach a fully funded status in 2045.  Investment performance in 2021 was strong with a 12.0% market value return. From an actuarial perspective, gains and losses are recognized over five years. Thus, due to prior losses the actuarial value return was only 10.4%. The current GERP actuarial assumption is a 7.0% annual return. While there was an actuarial gain on returns of $5.97 million, there was also an actuarial gain on pay projections of $1.86 million but an actuarial loss on contributions of $1.12 million. They resulted in an overall actuarial gain in 2021. In August the City received the 2022 actuary study, and the actuarially required contribution decreased from 15.9% to 14.9% while the funded ratio increased from 82.7% to 86.3%.  ***Attachment B*** is the presentation made to the GERP Board on the 2022 actuarial report for the plan and is included for your information.  Staff and the GERP retirement board believe that bringing the plan to a funded status needs to continue to be a goal. As long as the plan remains unfunded there can be no cost of living adjustment to the benefits of the retirees. The last adjustment was made in 2009. TABOR requires that any such adjustment cannot be made unless it is fully funded.  ***Police & Fire Retirement Benefits***  In July of 2021 the City Council approved the current collective bargaining agreements for Police & Fire personnel. As part of those agreements the City agreed to allow the sworn Police & Fire who were covered by the City New Hire Police & New Hire Fire retirement plans to make a one-time irrevocable choice to enter into the Colorado Fire and Police Pension Association (FPPA) system. As of November of 2021, all sworn Police & Fire new hires become members of the FPPA defined benefit plan. Employees hired before November of 2021 made a choice in the 4th quarter of 2021 to either enter the FPPA system or remain in the existing City New Hire retirement plans. Those that chose to enter the FPPA retirement system also had a choice to enter the FPPA defined benefit plan or the FPPA hybrid plan which offers both a defined benefit as well as a money purchase benefit. Among the Police employees, 109 chose to stay in the city defined contribution plan, 19 entered the FPPA defined benefit plan, and 19 entered the FPPA hybrid plan. Among the Fire employees, 36 chose to stay in the city defined contribution plan, 18 entered the FPPA defined benefit plan, and 37 entered the FPPA hybrid plan.  For 2023, the FPPA defined benefit plan requires an employer contribution of 9.5% for new hires since November of 2021. For employees prior to November 2021 the employer contribution for the FPPA defined benefit plan will be 11.4%. Employees prior to November 2021 in the FPPA hybrid plan require an employer contribution of 13.7%. Finally for employees prior to November 2021 that remained in the city defined contribution plans the employer contribution for 2023 is 13.7%.  ***Health Benefits Fund***  In the Budget Message beginning on page 35 there is a section on Health and Dental Benefits and it provides a brief summary about the Health Benefits Fund. The following information is presented to help provide an understanding of our projections pertaining to the Health Benefits Fund.  During the budget process staff estimates the annual City cost for all employee health and dental benefit expenditures and converts that cost into a percentage of budgeted salaries for the next budget year. These City contributions to the Health Benefits Fund are transferred monthly from each of the respective funds. Employee contributions for these benefits are withheld from each pay check and transferred into the Health Benefits Fund on a biweekly basis. Retiree contributions are withheld monthly from pension benefit checks. These three sources comprise the majority of the revenues to the Health Benefits Fund. All employee benefit-related expenditures are made from the Health Benefits Fund. ***Attachment C*** is an operating statement for the Health Benefits Fund and it provides a detailed summary of the revenues and expenditures for the fund.  The Health Benefits Fund experienced expenses in excess of annual revenues from 2009 through 2012. City contributions to the Fund were increased from 14.5% of pay to 15.7% in 2013 and then to 17% for 2014. We were able to reduce the city contribution percentage to 16.7% for 2017 and 16% for 2018 but then needed to raise it to 16.5% for 2019, 2020 and 2021. For 2023, there will be a 4.61% decrease in the Kaiser health premium cost. With a minimum 4% to 6%% increase in compensation levels from the 2022 adopted budget to the 2023 proposed budget we project that the level of contributions to the Health Benefit Fund can be lowered to 15.0% and there will still likely be an increase to the fund balance of the Health Benefits Fund.  Since Kaiser became sole carrier in 2007, our average annual aggregate blended premium rate increase has been 3.72% which is substantially below the industry average of around 7%-11%. Besides the provision of health benefits, the Health Benefit Fund is also used to pay premiums for dental, vision, long term disability and life insurance coverage as well as EAP services for our employees. In addition, the fund is used to provide Public Safety wellness exams at a cost of up to $50,000; Public Safety counseling expenses of approximately $50,000; and wellness incentives of up to $87,000 in the form of health benefit premium discounts or rebates.  The Health Benefits Fund fund balance is expected to decrease slightly in 2022 from $9.33 million to $9.01 million. The fund balance had been growing with recent growth in compensation and, thus, contributions to the Health Benefit Fund. Beyond 2023 there are other potential uses for these monies or demands on the Health Benefit Fund that could arise. Those could include the cost of health care in general or the impacts of any further national health care reform. It could also include increases in the other benefits provided through this fund. If we were to return to a self-insured scenario a substantial fund balance would be required. As discussed in regard to the General Employees Retirement Plan (GERP), these monies have been used in the past to help offset an unfunded liability in the GERP. While the Health Benefit Fund has been relatively stable in the last few years, unpredictable changes could quickly destabilize it, and fiscal prudence calls for a minimum fund balance level for optimal future management. As recommended in past years, staff believes three months of expenses from this fund, currently about $4.17 million, should always be maintained to serve as an emergency reserve to guard against a drop in revenues.  **NEXTLIGHT PROGRAMS**  The NextLight budget information begins on page 380 in the 2023 Proposed Budget. NextLight has put together a balanced budget for 2023 with revenues and expense each being roughly $20M.  The expense budget overall represents a slight increase of 2% due to salary increases and some increased investment in marketing and a CRM (customer relationship management) software platform that will help NextLight deliver on its commitment to ‘be easy to do business with’.  The revenue side of the coin also shows a year-over-year increase of 3% as the base of customers continues to grow, yet at a slowing pace.  The focus of NextLight and its resources is on attracting and delighting customers.  This is done by (1) providing an exceptionally fast and reliable network with internet speeds up to 10G, (2) executing a strategic sales and marketing plan with an advanced marketing technology stack, and (3) being a customer-centric organization with a CRM platform to drive favorable customer experiences. |

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| **ATTACHMENTS:**  Attachment A – Longmont Old Hire Pension Presentation  Attachment B – Longmont General Employee Pension Presentation  Attachment C – Health Benefits Fund |