



CITY OF *Los Angeles*  
DEFERRED COMPENSATION PLAN

## Board Report 20-22

Date: May 19, 2020  
 To: Board of Deferred Compensation Administration  
 From: Staff  
 Subject: Quarterly Staffing Reimbursements – Fourth Quarter 2019 and First Quarter 2020

Board of Deferred Compensation Administration
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**Recommendation:**

That the Board of Deferred Compensation Administration (Board) approve reimbursements from the Deferred Compensation Plan (DCP) Reserve Fund to the Personnel Department in the amount of **\$320,911.15** and the City Attorney in the amount of **\$76,570.02**, inclusive of the fourth quarter of calendar year 2019 ending December 31, 2019 and the first quarter of calendar year 2020 ending March 31, 2020, for staff providing direct support of the DCP.

**Discussion:**

**A. Quarterly Staffing Reimbursements – Fourth Quarter 2019 and First Quarter 2020**

The proposed reimbursements identified in this report include the total staffing costs (direct and indirect) of Personnel Department and City Attorney positions providing direct support of the DCP during the fourth quarter of 2019 beginning October 1, 2019 and ending December 31, 2019 and the first quarter of 2020 beginning January 1, 2020 and ending March 31, 2020 as follows:

	Personnel Department	City Attorney
<b>Total Salary Reimbursements for Quarter Ending 12/31/2019</b>	\$158,534.28	\$36,139.81
<b>Total Salary Reimbursements for Quarter Ending 3/31/2020</b>	\$166,787.58	\$41,308.80
<b>Adjustments for Quarter Ending 9/30/2019</b>	<i>(\$4,410.71)</i>	<i>(\$878.59)</i>
<b>Total Reimbursement Amount</b>	<b>\$320,911.15</b>	<b>\$76,570.02</b>

Calculations for the fourth quarter 2019 and first quarter 2020 include direct costs (actual salaries for all positions presently supporting the DCP) and indirect costs as calculated according to the City Controller’s Special Rates for Indirect Cost Centers (“Special Rates”). These Special Rates are established on a fiscal year basis. Unique rates are identified by department categories. The most recently published rate is Special Rates 42 for Fiscal Year (FY) 2019-20, which identifies staffing cost reimbursement percentages for the Personnel Department and City Attorney as **93.71%** and **81.99%**, respectively.

**B. Adjustment of Quarterly Staffing Reimbursement – Third Quarter 2019**

At its meeting on February 18, 2020, the Board approved reimbursements from the DCP Reserve Fund to the Personnel Department for **\$154,833.03** and City Attorney for **\$30,163.42** for the third quarter of 2019 beginning July 1, 2019 and ending September 30, 2019. These staffing costs reimbursements were based on Special Rates 41 for FY 2018-19 as the FY 2019-20 Special Rates were not available at the time the staffing costs reimbursements were calculated. The recently published Special Rates 42 for FY 2019-20 resulted in a decrease in the staffing costs reimbursement percentages for the Personnel Department from **99.39%** to **93.71%** and the City Attorney from **87.45%** to **81.99%**. Accordingly, staff has recalculated the staffing costs reimbursements for the third quarter of 2019 based on Special Rates 42. The decrease in the reimbursement percentages results in a difference in staffing costs reimbursements of **(\$4,410.71)** for the Personnel Department and **(\$878.59)** for the City Attorney as detailed in the chart below.

FY	Quarter Ending	FY 18-19 Special Rates (41)				FY 19-20 Special Rates (42)				Adjustments	
		Total Personnel Amount Reimbursed under Special Rates 41	Applied Special Rate	Total City Attorney Amount Reimbursed under Special Rates 41	Applied Special Rate	Total Personnel Reimbursement Amount Calculated per Special Rates 42	Applied Special Rate	Total City Attorney Reimbursement Amount Calculated per Special Rates 42	Applied Special Rate	Personnel	City Attorney
19-20	9/30/2019	\$154,833.03	99.39%	\$30,163.42	87.45%	\$150,422.32	93.71%	\$29,284.83	81.99%	<b>(\$4,410.71)</b>	<b>(\$878.59)</b>

The decrease in staffing costs has been applied as credits to the 2019 fourth quarter and 2020 first quarter staffing reimbursements resulting in net total reimbursements from the DCP Reserve Fund to the Personnel Department in the amount of **\$320,911.15** and to the City Attorney in the amount of **\$76,570.02**. Calculation details including quarterly activity in the DCP’s revenue/expenditure accounts are provided in **Attachment A**.

**C. Reserve Fund Projection**

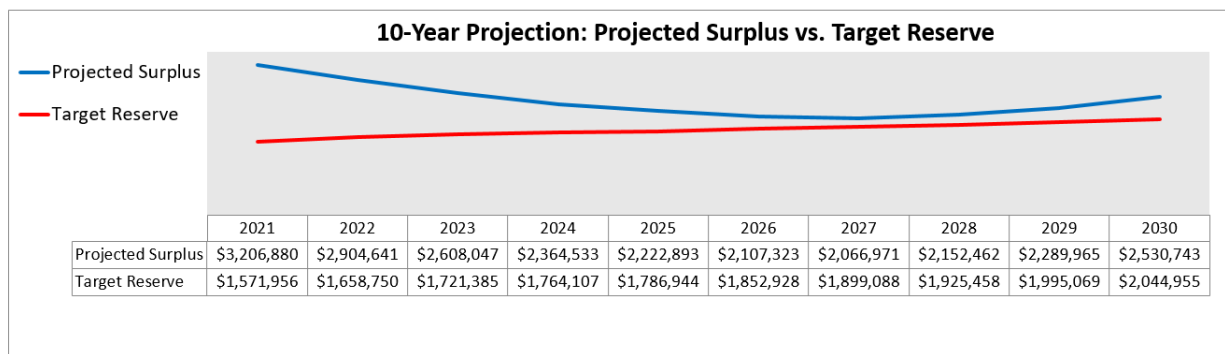
Pursuant to Los Angeles Administrative Code Division 4, Chapter 14, all of the City’s internal administrative costs are required to be paid by participant fees. Two accounts are used to pay expenses: (1) an account held with the Third-Party Administrator (TPA), which acts as a repository for participant fees and from which most DCP expenses are paid; and (2) an account held within the City, from which travel and equipment purchases are made. Together, these two accounts comprise the DCP Reserve Fund (“Reserve Fund”).

To maintain stability within the DCP Reserve Fund and participant fees, the Board established a target reserve amount of 50% of annual DCP operating expenses. Each quarter, when staff submits its accounting and recommendations for reimbursing administrative costs, a long-term projection is updated using assumptions for key variables considered by the Board. This information is generated so the Board can compare the long-term projected surplus to the target reserve.

The Board last reviewed and approved long-term assumptions for DCP revenues and expenditures at its February 18, 2020 meeting, following a fee review and recommendations submitted by the DCP Plan Governance & Administrative Issues Committee. The current key variables used in long-term projections are summarized below:


<i>Expenses Inflation Adjustment Factor</i>	<i>Enrollment Adjustment Factor</i>	<i>Asset Growth Adjustment Factor</i>	<i>Stable Value Funds Interest Assumption</i>	<i>Basis Points Charged Against Participant Accounts</i>	<i>Fee Cap</i>	<i>Personnel Avg. Special Rate</i>	<i>City Attorney Avg. Special Rate</i>
2.0%	3.0%	7%	2.0%	0.09%	\$115	115.0%	115.0%

With each quarterly review, staff provides a ten-year projection of the Reserve Fund balance. Following is the rolling ten-year forecast of the DCP’s Reserve Fund balance updated with plan asset data as of March 31, 2020. The plan asset data reflects a decrease in plan assets and corresponding participant fee revenue due to the impact of the COVID-19 pandemic. Additionally, the forecast includes the approval of a one-time 50% reduction in the quarterly fee assessed on participant accounts (“fee holiday”) approved by the Board in February 2020 and subsequently delayed to at least the fourth quarter of 2020 per the Board’s action at its March 2020 meeting. These long-term assumptions may be further adjusted based on a review of the impact of the pandemic on these key variables including the timing and advisability of the fee holiday.



As indicated in the chart above, the surplus is projected to be above the target reserve over the entire ten-year period. The lowest projected surplus amount above the target reserve is approximately **\$2.1 million** in 2027, increasing to approximately **\$2.5 million** in 2030.

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Approved by:   
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DEFERRED COMPENSATION PLAN QUARTERLY REVIEW OF REVENUES & EXPENSES				
	Pending	Pending	Adopted	Adopted
	Ending	Ending	Ending	Ending
REVENUE & EXPENSE LINE ITEMS	3/31/2020	12/31/2019	9/30/2019	6/30/2019
<b>STARTING BALANCE</b>				
City Fund 896 Starting Balance	\$ 114,548.51	\$ 122,858.82	\$ 34,810.04	\$ 446,654.17
TPA Fund Starting Balance	\$ 3,965,355.25	\$ 3,951,373.34	\$ 3,916,787.82	\$ 3,801,531.93
Total	\$ 4,079,903.76	\$ 4,074,232.16	\$ 3,951,597.86	\$ 4,248,186.10
<b>REVENUES</b>				
Interest Earnings on Fund 896	\$ 680.85	\$ 594.63	\$ 707.42	\$ 195.56
Fund 896 Deposit: Salary Reimbursements	\$ -	\$ -	\$ 388,106.76	\$ -
Fund 896 Deposit: Other	\$ -	\$ -	\$ 100,000.00	\$ -
Miscellaneous Credits To Fund 896	\$ -	\$ -	\$ -	\$ 1,048.40
Interest Earnings on TPA Fund	\$ 26,288.94	\$ 26,839.70	\$ 26,921.80	\$ 26,183.51
Revenue from Fees Deducted from Participant Accounts	\$ 710,288.80	\$ 692,392.59	\$ 686,920.78	\$ 676,989.03
Miscellaneous Credits to TPA Fund	\$ 7,099.01	\$ -	\$ -	\$ -
Total Revenue/Fees	\$ 744,357.60	\$ 719,826.92	\$ 1,202,656.76	\$ 704,416.50
<b>TOTAL ASSETS (STARTING BALANCE + REVENUE/FEES)</b>				
	\$ 4,824,261.36	\$ 4,794,059.08	\$ 5,154,254.62	\$ 4,952,602.60
<b>EXPENDITURES</b>				
2130 Travel/Training/Education	\$ -	\$ (8,347.01)	\$ (8,165.37)	\$ (2,658.55)
6010 Consulting Costs	\$ (5,992.50)	\$ -	\$ -	\$ -
6010 Office and Administrative: Reimb Staff Support	\$ -	\$ -	\$ (388,106.76)	\$ (409,670.32)
6010 Office and Administrative: Other	\$ (1,000.00)	\$ (557.93)	\$ (4,493.27)	\$ (1,257.56)
Contractual Fees Paid to TPA	\$ (400,900.75)	\$ (395,612.75)	\$ (390,868.75)	\$ (386,484.75)
Transfer to Fund 896: Salary Reimbursements	\$ (184,996.45)	\$ -	\$ (187,523.31)	\$ (200,583.45)
Transfer to Fund 896: Other	\$ -	\$ -	\$ (100,000.00)	\$ -
Consulting Costs	\$ (27,796.10)	\$ (300,697.63)	\$ -	\$ -
Communications	\$ -	\$ (8,340.00)	\$ (865.00)	\$ (848.45)
Training/Education/Travel Paid by TPA	\$ -	\$ (600.00)	\$ -	\$ -
Elections Administration	\$ -	\$ -	\$ -	\$ -
TOTAL EXPENDITURES	\$ (620,685.80)	\$ (714,155.32)	\$ (1,080,022.46)	\$ (1,001,503.08)
Actual City Fund 896 Ending Balance	\$ 108,236.86	\$ 114,548.51	\$ 122,858.82	\$ 34,311.70
Actual TPA Fund Ending Balance	\$ 4,095,338.70	\$ 3,965,355.25	\$ 3,951,373.34	\$ 3,916,787.82
ACTUAL TOTAL ENDING BALANCE	\$ 4,203,575.56	\$ 4,079,903.76	\$ 4,074,232.16	\$ 3,951,099.52
<b>ENCUMBRANCES/LIABILITIES</b>				
Outstanding Reimbursements from Prior Quarter(s)	\$ (184,996.46)	\$ (184,996.46)	\$ (0.00)	\$ (194,752.13)
Quarterly Personnel Direct/Indirect Costs	\$ (320,911.15)	\$ -	\$ (154,833.03)	\$ (151,180.71)
Quarterly City Attorney Direct/Indirect Costs	\$ (76,570.02)	\$ -	\$ (30,163.42)	\$ (36,342.60)
Net Ending Balance Owed	\$ (582,477.63)	\$ (184,996.46)	\$ (184,996.46)	\$ (382,275.44)
Funds in Transit from TPA Fund to City Fund 896	\$ 184,996.45	\$ -	\$ -	\$ 200,583.45
TOTAL ENDING BALANCE LESS LIABILITIES	\$ 3,806,094.38	\$ 3,894,907.30	\$ 3,889,235.70	\$ 3,729,264.51

Summary of Salary Reimbursements For Current Quarter		
	Personnel Department	City Attorney
Total Direct/Indirect Costs for Quarter Ending 12/31/2019	\$ 158,534.28	\$ 36,139.81
Total Direct/Indirect Costs for Quarter Ending 3/31/2020	\$ 166,787.58	\$ 41,308.80
Adjustment for Quarter Ending 9/30/2019	\$ (4,410.71)	\$ (878.59)
Total Reimbursement Amount	\$ 320,911.15	\$ 76,570.02

Legend
City Fund 896
TPA Reserve Fund

Total Quarterly Personnel and City Attorney Direct/Indirect Costs	\$ 397,481.17
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