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# DEFERRED COMPENSATION PLAN BOARD REPORT 06-13



Date: March 9, 2006

To: Board of Deferred Compensation Administration

From: Staff

Subject: Deferred Compensation Plan Budget Status Report - Quarter Ending 12/31/05

Recommendation:

That the Board of Deferred Compensation Administration (a) receive and file the following status report on Deferred Compensation Plan budget accounts for the quarter ending 12/31/05; and (b) approve reimbursement from the Deferred Compensation Plan Trust Fund #896 to the Personnel Department for \$48,758.31 for the quarter ending 12/31/05.

Discussion:

Staff has completed its budgetary review and reconciliation of administrative fees/expenses for the quarter ending 12/31/05. Based on prior staff reports and Board action, staff has consolidated reporting for the Payroll Fee Trust Fund and Administrative Fee Reserve Fund as part of a Plan-wide budget.

**Reimbursements** - Staff is recommending reimbursement to the Personnel Department from the Payroll Fee Trust Fund #896 in the amount of \$48,758.31. The Personnel Department is reimbursed for:

- Salaries for the 2.5 positions presently servicing the Plan;
- Retirement on salaries using a percentage (19.94%) derived from the Fringe Benefits CAP rate for retirement costs only for the 05/06 fiscal year
- Office supplies for staff using a standard Department formula (\$1,000 per full-time person annually);
- Overhead of 3.4% of the expenses listed above that line (see footnote)<sup>1</sup>.

<sup>1</sup> This is the last known City overhead rate, since this percentage is no longer computed. As discussed at a Board meeting in October 1997, the General City Overhead rate and Retirement rate were previously supplied on Schedule G of the CAO's Fees for Special Services instructions. Schedule G was one of two methods used in cost accounting for special service programs; the other method involved what are called Cost Allocation Plan ("CAP") rates. Beginning with the 96/97 fiscal year, the Schedule G method was eliminated and all programs were directed to use the CAP rates. Because the Council had previously (in 1993) specified that the Plan would only be billed for direct costs (i.e. retirement and General City overhead), staff recommended, and the Board approved, billing the program for the last known General City Overhead rate and each fiscal year's Retirement rate (which can be derived from the Fringe Benefits CAPS rate) until such time as this matter is revisited by Council.

**Rolling Four-Quarter Projected Income/Expenses** - Following is an updated rolling four-quarter forecast of revenue/expenses for the Deferred Compensation Plan budget accounts. The projected surplus in the Fund over a one-year period has risen from the prior projected surplus (based on the Board's adopted budget for Plan year 2006) of \$1,794,226 to the current \$2,126,166, an 18.5% increase.

The following table provides a breakdown of estimated revenues/expenses over the next 4-quarter cycle:

<b>PROJECTED REVENUE/EXPENSES: 1/1/06-12/31/06</b>		
<b>REVENUE</b>		
Projected Fifty-Cent Fees to Payroll Fee Trust Fund	\$	338,000
Projected Deposits to Administrative Fee Reserve Fund	\$	473,786
Interest	\$	18,000
Total	\$	<b>829,786</b>
<b>ANNUAL EXPENSES</b>		
Personnel Reimbursements	\$	(202,736)
NAGDCA Dues/Conference Expenses	\$	(25,000)
Consulting Fees	\$	(300,000)
Quarterly Fee - Asset Allocation Funds	\$	(18,000)
Total	\$	<b>(445,736)</b>
Annual Revenue Less Annual Expenses	\$	<b>384,050</b>
<b>CURRENT SURPLUS</b>		
Current Surplus	\$	1,842,116
Projected Total Surplus:12/31/06	\$	<b>2,126,166</b>

As Board members may recall from the original budget report, staff deliberately employed very conservative assumptions in its estimates since the budget involved increased staffing and consulting expenses and staff wished to be cautious in ensuring the Plan did not take on new obligations it could not afford on an ongoing basis. Following is an update with respect to various revenue/expense items and the staff assumptions used in developing them.

**Revenues** - Revenues from the bi-weekly fifty-cent fees paid by participants making contributions to the Plan represent a fairly stable number, as do projected interest earnings. Deposits to the Administrative Fee Reserve Fund (held by the Plan Administrator) are more volatile because they are driven by Plan assets. In the most recent quarter, deposits increased from \$139,347 in the third quarter '05 to \$162,407 in the fourth quarter, a 16.6% increase. In projecting future revenues in this category, staff takes the average deposits over the last four quarters and projects them forward (to guard against the potential for a decline in Plan assets). However, should Plan assets stay at current levels or continue growing, actual revenues are likely to continue exceeding projections.

**Expenses: Staffing** – Projected reimbursements to the Personnel Department for calendar year 2006 assume hiring an additional one and one-half positions mid-year. However, it is presently unknown whether these positions will be included in the Mayor's budget for Fiscal Year 06/07. Assuming they are, in 2007 an additional \$65,000, minimally, of salary and related costs would be added to Personnel Department reimbursements. These reimbursements could range higher depending on whether several positions are hired into or remain in lieu of their position authority, vs. being hired/promoted to their full position authority.

Consulting – The adopted budget also included an increase in consulting costs to \$300,000 annually. Although it is unlikely that in 2006 consulting expenses will reach that level, staff has retained this estimate in its current projections. The largest potential source of additional consulting expense would come from an increased level of investment review, a topic to be discussed at the first meeting of the Board’s Investments Committee on March 23<sup>rd</sup>.

**Reserve Status** – The Board adopted a target reserve of \$1 million. Given staff’s projections of a \$2.1 million by the end of calendar year 2006, the target amount presently has a substantial margin.

**Ongoing Revenue vs. Ongoing Expenses** – One of the most critical numbers to monitor is the calculation of ongoing revenue vs. ongoing expense. To the extent that revenues continue exceeding expenses by a wide margin, and so long as the reserve target has been met, the Board may wish to contemplate a fee reduction. As previously indicated by staff to the Board, the first place to look to reduce fees would likely be the bi-weekly fifty-cent fee, since it represents a revenue that is only supplied by individuals making contributions to the Plan (excluding retirees and non-contributing active employees). However, given some of the uncertainties already noted (with Plan assets, staffing, etc.) staff still believes it would be premature to reduce or eliminate the fifty-cent fee. If present favorable trends continue, and once staffing issues are clarified, staff may discuss with the Board the possibility of a phased-elimination of the fifty-cent fee.

Submitted by: \_\_\_\_\_  
Steven Montagna

Approved by: \_\_\_\_\_  
Maryanne Keehn

<b>DEFERRED COMPENSATION PLAN QUARTERLY BUDGET REVIEW</b>	
<b>ADMINISTRATIVE AND OPERATING EXPENSES</b>	
<b>QUARTER ENDING 12/31/05</b>	
<b>STARTING BALANCE</b>	
Payroll Fee Trust Fund Ending Balance - 9/30/05	\$ 443,611
Administrative Fee Reserve Fund Balance - 9/30/05	\$ 1,239,346
Total	\$ 1,682,957
<b>REVENUES/FEES</b>	
City Administrative ("Fifty Cent") Fees	\$ 54,708
DWP Administrative ("Fifty Cent") Fees	\$ 21,797
Interest Earnings on Payroll Fee Trust Fund	\$ 3,574
Administrative Fee Reserve Fund Deposits	\$ 162,407
Interest Earnings on Administrative Fee Reserve Fund	\$ 14,650
Total Revenue/Fees	\$ 257,135
<b>STARTING BALANCE + REVENUE/FEES</b>	<b>\$ 1,940,093</b>
<b>EXPENDITURES</b>	
Personnel Department Reimbursements	\$ (50,469)
Consulting Costs	\$ (38,749)
NAGDCA	\$ 3,053
Office & Admin	\$ (732)
Quarterly Fee - Asset Allocation Funds	\$ (9,000)
TOTAL EXPENDITURES	\$ (95,897)
<b>ACTUAL BALANCE AS OF 12/31/05</b>	<b>\$ 1,844,196</b>
<b>ENCUMBRANCES/LIABILITIES</b>	
Reimbursements: (Personnel: 3 Mos. Ending 9/30/05)	\$ (48,838)
Reimbursements: (Personnel: 3 Mos. Ending 12/31/05)	\$ 46,758
TOTAL LIABILITIES	\$ (2,080)
<b>ASSETS LESS EXPENDITURES/LIABILITIES</b>	<b>\$ 1,842,116</b>

<b>PAYROLL FEE TRUST FUND ACTIVITY REPORT</b>			
<b>Quarterly Summary - 12/31/05</b>			
<b>OCTOBER '05</b>			
Opening Balance	10/01/05	\$	443,611.20
CR-CITY ADMIN FEES	10/13/05	\$	10,707.50
CR-DWP ADMIN FEES	10/12/05	\$	2,287.00
CR-DWP ADMIN FEES	10/25/05	\$	2,281.00
CR-CITY ADMIN FEES	10/27/05	\$	10,704.50
OFFICE & ADMIN (RFP advertising)	10/06/05	\$	(16.90)
OFFICE & ADMIN (RFP advertising)	10/31/05	\$	(715.29)
REIMBURSEMENTS - PERSONNEL	10/31/05	\$	(50,469.05)
NAGDCA (refund)	10/21/05	\$	236.93
NAGDCA (refund)	10/27/05	\$	1,181.46
NAGDCA (refund)	10/27/05	\$	552.04
NAGDCA (refund)	10/21/05	\$	400.92
JV-INTEREST	10/12/05	\$	1,392.26
	Subtotal->	\$	422,153.57
<b>NOVEMBER '05</b>			
CR-DWP ADMIN FEES	11/22/05	\$	2,287.50
CR-CITY ADMIN FEES	11/29/05	\$	10,661.00
CR-DWP ADMIN FEES	11/08/05	\$	2,290.50
CR-CITY ADMIN FEES	11/10/05	\$	10,677.50
NAGDCA (refund)	11/09/05	\$	276.75
NAGDCA (refund)	11/17/05	\$	28.84
NAGDCA (refund)	11/09/05	\$	376.12
OFFICE & ADMIN (RFP advertising)	11/18/05	\$	(715.29)
CONSULTING (Mercer)	11/03/05	\$	(9,886.25)
CONSULTING (Mercer)	11/08/05	\$	(13,745.11)
CONSULTING (Mercer)	11/22/05	\$	(6,006.00)
JV-INTEREST	11/01/05	\$	82.45
JV-INTEREST	11/08/05	\$	1,010.32
	Subtotal->	\$	419,491.90
<b>DECEMBER '05</b>			
CR-CITY ADMIN FEES	12/06/05	\$	2,271.50
CR-DWP ADMIN FEES	12/14/05	\$	10,584.00
CR-CITY ADMIN FEES	12/22/05	\$	9,685.50
CR-DWP ADMIN FEES	12/14/05	\$	2,067.00
CONSULTING (Mercer)	12/19/05	\$	(9,111.25)
OFFICE & ADMIN (canceled payment)	12/15/05	\$	715.29
JV-INTEREST	12/14/05	\$	1,088.87
	Subtotal->	\$	436,792.81
<b>QUARTERLY SUMMARY</b>			
OPENING BALANCE		\$	443,611.20
TOTAL CITY ADMIN FEES		\$	54,707.50
TOTAL DWP ADMIN FEES		\$	21,797.00
TOTAL INTEREST		\$	3,573.90
DEPARTMENTAL REIMBURSEMENTS		\$	(50,469.05)
CONSULTING-MERCER		\$	(38,748.61)
NAGDCA		\$	3,053.06
OFFICE & ADMIN		\$	(732.19)
ENDING BALANCE		\$	436,792.81

