Worksession

Agenda Item #	6
Meeting Date	November 30, 2009
Prepared By	Barbara B. Matthews City Manager
Approved By	

Discussion Item	Follow up to Audit Presentation and Discussion of Various Financial Matters
Background	On November 23, 2009, Clifton Gunderson LLP presented the results of the fiscal year 2009 audit. The November 30 worksession will provide an opportunity for the City Council to continue its discussion of the Comprehensive Annual Financial Report (CAFR). In addition to the continued review of the CAFR, staff would like to discuss certain financial and budgetary issues. These issues are outlined below. **<u>Police Employees' Retirement Plan</u>** The City of Takoma Park Police Employees' Retirement Plan covers sworn police officers who are employed on a regular full-time basis. Plan provisions include retirement, disability, and death benefits to plan members and their beneficiaries. The Retirement Plan Committee, which serves as the Plan Administrator, recently received and discussed the actuarial valuation as of June 30, 2009. At the worksession, staff will highlight the key aspects of the actuarial valuation. **<u>State Retirement System</u>** The majority of the City's non-sworn employees are covered by the State Retirement System. The City has an unfunded liability/deficit that has been amortized over 40 years; payments increased by 15 percent for the first five years, and five percent thereafter. The annual payment is accounted for in the non-departmental budgetary unit. Based on the most recent information from the State Retirement System, the deficit amount was approximately $1.4 million. As part of the worksession discussion, staff would like to raise an alternative way of addressing this deficit instead of the current installment payment process. **<u>CSAFE Program</u>** The Maryland International Corridor CSAFE Program is a community based crime prevention initiative. The majority of the program funding is provided by the Maryland Governor's Office of Crime, Control, and Prevention; additional funding is provided by the City of Takoma Park ($15,000) and Montgomery County ($30,000). Prince George's County participates in CSAFE activities and provides staffing support but makes no monetary contribution to the program. Historically, community outreach has been a significant component of the CSAFE Program. Over the past two years, the State has shifted the emphasis of the program to crime analysis and the arrest of parole and probation violators. The Governor's

Office of Crime, Control, and Prevention has essentially eliminated funding for community outreach efforts.

Chief Ricucci believes that the current focus of the CSAFE Program in Takoma Park is accommodated through the day-to-day activities of the Takoma Park Police Department. He recommends that the City not apply for State funding for FY 2011. The November 30 workession will provide the Council with the opportunity to discuss Chief Ricucci's recommendation and to provide direction to staff.

Police Accreditation

The Police Department received accredited status from the Commission on Accreditation for Law Enforcement Agencies (CALEA) in March 2006. The City Council subsequently approved the creation of a part-time accreditation officer position in the FY 2007 budget. The filling of this position was delayed due to the retirement of Chief Creamer and the Police Department's focus on filling the numerous vacant patrol positions at that time. The part-time accreditation officer position was filled by Chief Ricucci in late summer 2007.

In February 2008, the Council was advised that the City was unlikely to meet the CALEA deadlines. In addition to the loss of progress due to staffing transitions, there was also a change in CALEA standards, necessitating mandatory compliance with 44 new standards. After consulting with the CALEA Program Manager, a decision was made to immediately withdraw from the accreditation process and sign a re-entry agreement.

Given the recent State budget reductions and the resulting impact on the City's operating revenues, the City Manager recently met with members of the management team to identify areas where General Fund expenditures could be reduced. Police accreditation was one of the areas identified during these discussions; both the City Manager and the Chief of Police recommend that the City discontinue its pursuit of CALEA accreditation for the reasons outlined below.

While there are many benefits to CALEA accreditation, many agencies have found the associated workload to be onerous and costly. The majority of law enforcement agencies dedicate at least one full-time staff member and administrative support staff to the accreditation effort.

The City's accreditation officer is budgeted at 20 hours per week. As funding has allowed, he has been authorized to periodically work more hours. The accreditation officer has minimal administrative support.

The City's continued pursuit of accreditation will require that the accreditation officer position be made full-time. Other Police Department staffing resources will also need to be dedicated to the effort. Given the City's budgetary constraints, staff does not believe this is financially viable.

The most valuable aspect of the accreditation process is that it provides a framework for a continual improvement process whereby the department's policies and procedures are reviewed. Under Chief Ricucci's leadership, that process has been established and can be sustained under the present part-time staffing configuration. Chief Ricucci recommends that the City continue to utilize the services of the

	individual currently employed as the accreditation officer to assist with policy and procedure matters. The Chief has identified an existing grant opportunity that could be used to pay for the employee for two years, thereby reducing General Fund expenditures.
Policy	The City Council determines how funds are expended and the services to be provided by City government.
Fiscal Impact	None
Attachments	Actuarial Valuation as of June 30, 2009 for the City of Takoma Park Police Employees' Retirement Plan
Recommendation	Discuss the various financial issues and, as appropriate, provide direction to staff
Special Consideration	

CITY OF TAKOMA PARK
POLICE EMPLOYEES'
RETIREMENT PLAN

ACTUARIAL VALUATION
AS OF
JUNE 30, 2009

Bolton Partners, Inc.

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BOLTON PARTNERS, INC.

August 21, 2009

PERSONAL & CONFIDENTIAL
Ms. Barbara Matthews
City Administrator
City of Takoma Park
7500 Maple Avenue
Takoma Park, MD 20912

Re: *City of Takoma Park Police Employees' Retirement Plan Valuation*

Dear Barb:

The following report sets forth the actuarial valuation of the City of Takoma Park Police Employees' Retirement Plan. The valuation is as of June 30, 2009 and is based on participant data as submitted by the City of Takoma Park and asset information submitted by PNC Institutional Investments.

PLAN ASSETS

The market value of plan assets as of June 30, 2009 was $4,035,510.

PRINCIPAL RESULTS

The principal purpose of the valuation is to set forth the City's contributions for the fiscal year ending June 30, 2011. In addition, the report sets forth the information on the plan for the City's financial statements and for the plan's own financial statements.

The total recommended employer contribution for the plan year and fiscal year ending June 30, 2011 is 34.82% of covered payroll. This is in addition to employee contributions of 7% of pay. Recommended contributions are based on a 20-year amortization of the unfunded liability. It is anticipated that the contribution will be paid in December 2010 and will equal 34.82% of the rate of pay for covered employees at that time. Details of the contribution calculation are provided later in this report. A statement of funding progress under GASB 25 is also included. The contribution reflects the changes in plan provisions and actuarial assumptions as detailed later in this report.

I, Thomas Lowman, am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

BOLTON PARTNERS, INC.

Thomas B. Lowman, FSA

Mark Kelbaugh, ASA

Participant Summary

SERVICE - SALARY DATA AS OF JUNE 30, 2009

Age	Number of Employees	Average Service	Average Salary
Under 20	0	0.00	$ 0.00
20 - 24	1	2.08	$ 45,640.43
25 - 29	5	1.75	$ 48,162.16
30 - 34	9	4.82	$ 56,036.99
35 - 39	13	9.83	$ 61,458.24
40 - 44	7	14.94	$ 76,305.73
45 - 49	4	13.92	$ 70,412.83
50 - 54	2	23.92	$ 76,162.56
55 - 59	1	2.33	$113,213.70
Averages		9.35	$ 63,596.94

AGE - SALARY DATA
AS OF JUNE 30, 2009

Service	Number of Employees	Average Age	Average Salary
Under 2	5	30.40	$46,907.40
2	7	35.23	$59,566.60
3	4	32.96	$53,452.20
4	2	37.08	$55,423.71
5 - 9	7	37.96	$59,776.58
10 - 14	7	39.28	$70,963.46
15 - 19	4	42.36	$71,459.15
20 - 24	5	44.64	$82,969.29
25 & over	1	54.83	$79,048.78
Averages		37.92	$63,596.94

AGE - SERVICE DATA
AS OF JUNE 30, 2009

Salary	Number of Employees	Average Age	Average Service
\$20,000 - \$29,999	0	0.00	0.00
\$30,000 - \$39,999	0	0.00	0.00
\$40,000 - \$49,999	8	31.06	1.92
\$50,000 - \$59,999	12	34.87	5.08
\$60,000 - \$69,999	11	38.49	11.75
\$70,000 & over	11	45.67	17.00
Averages		37.92	9.35

	Active	Terminated Vested	Retired/ Disabled	Total
Participants as of July 1, 2008	42	1	15	58
New Participants	0	N/A	N/A	0
Terminated Vested	0	0	N/A	0
Terminated Non-Vested	0	N/A	N/A	0
Terminated Paid Out	0	0	N/A	0
Retired	0	0	0	0
Deceased	0	0	(1)	(1)
Beneficiaries	0	0	0	0
Data Adjustments	0	(1)	1	0
Participants as of July 1, 2009	42	0	15	57

Asset Information

ASSET STATEMENT FOR THE PLAN YEAR ENDED JUNE 30, 2009

Market Value as of July 1, 2008	$4,500,963
Receipts:	
Employer Contributions	$ 748,832
Employee Contributions	180,958
Other Receipts	0
Investment Return	122,069
Realized Gain/(Loss)	(22,944)
Unrealized Gain/(Loss)	(607,541)
	$ 421,374
Disbursements:	
Benefit Payments	$ 814,973
Administrative Expenses	71,854
	$ 886,827
Net Increase in Assets	$ (465,453)
Market Value as of June 30, 2009	$4,035,510

Actuarial Costs

ACTUARIAL COSTS

	7/1/2008	7/1/2009
Valuation Rate	8.00%	8.00%
Number of Participants		
Active	42	42
Retired	15[1]	15[1]
Terminated Vested	1	0
Total	58	57
Active Payroll	$2,383,190	$2,671,071
1. Actuarial Accrued Liability		
Active	$6,328,991	$7,745,709
Retired	2,860,646	2,919,386
Disabled	4,133,049	3,690,760
Terminated Vested	79,986	0
Total	$13,402,672	$14,355,855
2. Market Value of Assets	$4,500,963	$4,035,510
3. Unfunded Liability (1) – (2)	$8,901,709	$10,320,345
Amortization Factor at 8% and increasing 5%/year over 20 years	15.5066	15.5066
4. Amortization of Unfunded Liability	$ 574,059	$ 665,545
5. Amortization of Unfunded as a Percentage of Payroll	24.09%	24.92%
6. Employer Normal Cost	$ 252,920	$ 264,349
7. Employer Normal Cost as a Percentage of Payroll	10.61%	9.90%
8. Total Employer Contribution (4) + (6)	$ 826,979	$ 929,894
9. Total Employer Contribution as a Percentage of Payroll (5) + (7)	34.70%	34.82%

[1] *Includes 8 disabilities, 1 alternate payee and 1 beneficiary.*

Assumptions and Methods

ASSUMPTIONS AND METHODS

Funding Method: Projected Unit Credit. Costs are determined as a percentage of payroll based on the assets and liabilities on the valuation date. The liability for disability benefits is fully accrued for participants hired before July 1, 2003. Disability attribution method for those hired on or after July 1, 2003 is linear to decrement. Rate of pay data provided for the valuation is assumed to be equal to the pay for the coming year.

Asset Method: Market Value.

Interest: 8% compounded annually.

Post Retirement COLA Increases: 3% compounded annually, no limit.

Mortality: RP-2000 Combined Healthy Table with blue collar adjustment. For disabled participants, the table is set forward 3 years.

Salary Increases: 5.5% compounded annually.

Disability: Sample rates are:

Age	Rate
25	0.55%
35	1.02%
45	2.64%

Half the disability benefits are assumed to be line-of-duty. One-third of the line-of-duty disabilities are assumed to be catastrophic and two-thirds are considered non-catastrophic.

Turnover: 80% of the Table T-5 rates of the Actuaries Pension Handbook adjusted for service. Sample T-5 rates are:

	Rates by Service		
Age	0 - 9	10 – 14	15 and over
25	7.724%	5.793%	1.545%
35	6.276%	4.707%	1.255%
45	3.975%	2.981%	0.795%

ASSUMPTIONS AND METHODS
(continued)

Turnover: *(continued)*	Rates are 75% of the initial rates between 10 and 15 years of service and 20% of the initial rates after 15 years. Employees that quit before age 50 are assumed to withdraw their contributions.
Retirement:	Probabilities of retirement are: 70% at 25 years, 10% at 26-29 years, and 100% at 30 years.
Sick Leave:	Accrued benefit loaded 3.4% for sick leave.
Pay Limit:	None.
Pre-Employment Military Service:	Actual service credit.
Marriage Assumption:	80% of participants are assumed to be married. Husbands 3 years older.
Change in Assumptions:	Turnover: changed from Table T-5 to 80% of Table T-5 to reflect smaller likelihood of turnover due to improvement in the Normal Benefit. Retirement: rates changed to those above from 100% at Normal Retirement.
Compensation:	Compensation provided to us was assumed to be base pay for the 12 months ending on the valuation date.
Change in Methods:	None.

Plan Provisions

PLAN PROVISIONS

Normal Retirement Age:	25 years of service, or age 62 with 5 years of service, if earlier.
Normal Form of Benefit:	Single Life Annuity with death benefit of undistributed employee contributions plus accumulated interest at retirement. Other forms are the actuarial equivalent.
Post Retirement Cost of Living Increases:	CPI index, but no more than would cause the participant's benefit to exceed an amount equal to the original benefit compounded at 3% per year.
Employee Contributions:	7% of base pay.
Average Compensation:	Average of base pay for 36 highest consecutive months.
Benefit Formula:	2% of average compensation for each year of service earned. Total service is limited to 30 years. The above amount will be increased by 2% of average compensation for each year of service attributable to unused sick leave (limited to 2 years.) Note: prior to the latest plan amendment effective 7/1/2009, each year of service earned prior to 7/1/2000 was credited with 1.5% of average compensation. Total service was limited to 25 years.
Service:	Service includes: 1. Time as an active member contributing to the plan. 2. Unused sick leave (22 days = 1 month). 3. Service prior to July 1, 2001 under the State plan that was transferred to this plan at its inception. 4. For employees hired before July 1, 2001, up to five years of pre-employment military service if eligible under the State plan. If not eligible under the State plan, up to five years of pre-employment

PLAN PROVISIONS
(continued)

	military service may be credited after 10 years of credited service with the plan.
Early Retirement:	Age 55 with at least 15 years of service. Benefit is reduced actuarially from normal retirement date.
Termination Prior to Retirement:	Return of employee contributions with 5% interest or if vested (after five years of service) an annuity beginning age 62 (or at the early retirement date, actuarially reduced.)
Line of Duty Disability:	
Catastrophic disability:	The greater of: (a) the benefit due to employee contributions or (b) 66 2/3% of base pay.
Non-Catastrophic disability:	The greater of: (a) the benefit due to employee contributions or (b) 50% of base pay. Note: prior to the latest plan amendment effective 7/1/2009, those hired before 7/1/2001 received the greater of (a) and 66 2/3% of base pay.
Ordinary (Non-Line of Duty) Disability:	5 Years of Service is required for this benefit. The benefit is equal to the accrued benefit, without actuarial reduction. If a participant is under age 62, or has earned less than 25 years of credited service as of the disability date, the years of credited service are projected. They include both the actual years of credited service, plus any credited service which would have otherwise been earned as of the earlier of the participant's 62nd birthday or the date the participant would have earned 25 years of credited service.

PLAN PROVISIONS
(continued)

Line of Duty Pre-Retirement Death Benefit:

If the participant is unmarried at his date of death, his beneficiary is entitled to receive a refund of the participant's contributions with interest, plus a single lump sum equal to the participant's compensation as of the date of death.

If the participant is married or has a registered domestic partner at the date of death and is eligible for normal or early retirement, his surviving spouse or partner may receive the benefit described above, or an annuity for the spouse's or partner's lifetime or earlier remarriage/re-registration, equal to a 66 2/3% of base pay. Upon the death or remarriage/re-registration of the surviving spouse or domestic partner, a benefit equal to 50% of base pay will be paid to the surviving children.

If the participant is not married and has designated one or more child as the primary beneficiary, the surviving children will receive an aggregate annuity equal to 50% of base pay. This benefit ceases upon the attainment of age 18, or 23 if a full-time student.

Ordinary (Non-Line of Duty) Pre-Retirement Death Benefit:

If the participant is unmarried at his date of death, his beneficiary is entitled to receive a refund of the participant's contributions with interest, plus a single lump sum equal to the participant's compensation as of the date of death.

PLAN PROVISIONS
(continued)

If the participant is married or has a registered domestic partner at the date of death and is eligible for normal or early retirement, his surviving spouse or partner may receive the benefit described above, or an annuity for the spouse's or partner's lifetime, equal to the Joint and 100% Survivor benefit that would have been payable upon the participant's death.

Statement No. 25 of the GASB

STATEMENT NO. 25 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Schedules of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - PUC (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
7/1/2001	$1,225,888	$ 5,717,108	$4,491,220	21.4%	$1,857,977	241.7%
7/1/2002	$1,434,950	$ 5,934,249	$4,499,299	24.2%	$1,923,210	233.9%
7/1/2003	$1,860,531	$ 7,245,960	$5,385,429	25.7%	$1,856,566	290.1%
7/1/2004	$2,388,059	$ 8,309,009	$5,920,950	28.7%	$1,876,807	315.5%
7/1/2005	$2,849,268	$ 8,910,824	$6,061,556	32.0%	$1,919,819	315.7%
7/1/2006	$3,371,139	$ 9,609,655	$6,238,516	35.1%	$1,961,026	318.1%
7/1/2007	$4,287,464	$10,772,448	$6,484,984	39.8%	$2,204,862	294.1%
7/1/2008	$4,500,963	$13,402,672	$8,901,709	33.6%	$2,383,190	373.5%
7/1/2009	$4,035,510	$14,355,855	$10,320,345	28.1%	$2,671,071	386.4%