

FIRE AND POLICE PENSION FUND

BASIS FOR THE PROPOSED BUDGET

The 2003-04 Proposed Budget for the Fire and Police Pension Fund relates to current year funding as follows:

2002-03			2003-04
Adopted Budget	Estimated Expenditures		Proposed Budget
\$ 500,000	\$ 500,000	General Fund	\$ 500,000
86,475,431	86,475,431	2003 Tax and Revenue Anticipation Notes	129,809,056
\$ 86,975,431	\$ 86,975,431	Total	\$ 130,309,056

The General Fund contribution in 2003-04 is the additional contribution that the City agreed to pay in a settlement agreement with the United Fire Fighters of Los Angeles City (UFLAC). This contribution is in addition to the amount required under the Charter, which will be funded through the issuance of tax revenue anticipation notes.

By funding this contribution through the issuance of notes, the City will be able to make the entire contribution at the beginning of the fiscal year rather than spreading payments throughout the year as in the past. As a result, the pension fund will gain additional interest earnings which can be used to discount the City contribution by 4.5% while maintaining the required level of annual receipts.

This discount will reduce the required City contribution by \$6.1 million. The discounted contribution will be debt-financed and deposited in the pension fund in July 2003. The appropriation for the payment of the debt service on these notes, which will be approximately \$133.0 million, is in the 2003 Tax and Revenue Anticipation Notes, Debt Service Fund.

The increase in the City contribution from 2002-03 (\$43,333,625 or 49.8%) is due to actuarial-valued asset losses of 330,516,917 from the prior year and the additional benefits provided for Tier 5 employees. The actuarial investment rate of return was (2.7)% versus an assumed investment rate of 8.5% in 2001-02. Because of these asset losses, the System's funded ration decreased from 115.0% to 105.1% as of June 30, 2002. Expressed as a percentage of payroll, the City contribution is 13.3% in 2003-04 compared to 9.6% in 2002-03.

The Tier 5 pension plan was created to enhance the City's ability to recruit and retain employees by allowing a maximum pension benefit of 90% after 33 years of service. Existing sworn employees, as of December 31, 2001 were given the opportunity to transfer to this Plan by December 31, 2002. In addition, all new sworn employees hired after January 1, 2003 must join this pension plan.

Code	Subfunction
FJ	Pensions and Retirement

Fire and Pensions Fund

	2002-03 Budget	2003-04 Proposed Budget	Change from 2002-03 Budget
CITY CONTRIBUTION:			
Actuarial Requirements:			
Fire and Police Pension Plans - Tier 1			
Current Service Liability	\$ 14,428	\$ --	\$ (14,428)
Prior Service Liability	26,453,474	25,034,595	(1,418,879)
Health Plan Subsidy	<u>965,104</u>	<u>1,119,131</u>	<u>154,027</u>
Subtotal	<u>\$ 27,433,006</u>	<u>\$ 26,153,726</u>	<u>\$ (1,279,280)</u>
Fire and Police Pension Plans - Tier 2			
Current Service Liability	\$ 8,622,597	\$ 31,666,930	\$ 23,044,333
Prior Service Liability	(91,724,325)	(39,822,342)	51,901,983
Health Plan Subsidy	<u>16,205,573</u>	<u>22,416,320</u>	<u>6,210,747</u>
Subtotal	<u>\$ (66,896,155)</u>	<u>\$ 14,260,908</u>	<u>\$ 81,157,063</u>
Fire and Police Pension Plans - Tier 3			
Current Service Liability	\$ --	\$ 59,519,839	\$ 59,519,839
Prior Service Liability	--	(16,328,798)	(16,328,798)
Health Plan Subsidy	<u>--</u>	<u>(2,310,310)</u>	<u>(2,310,310)</u>
Subtotal	<u>\$ --</u>	<u>\$ 40,880,731</u>	<u>\$ 40,880,731</u>
Fire and Police Pension Plans - Tier 4			
Current Service Liability	\$ --	\$ 23,132,289	\$ 23,132,289
Prior Service Liability	--	(7,746,215)	(7,746,215)
Health Plan Subsidy	<u>--</u>	<u>726,761</u>	<u>726,761</u>
Subtotal	<u>\$ --</u>	<u>\$ 16,112,835</u>	<u>\$ 16,112,835</u>
Fire and Police Pension Plans - Tier 5			
Current Service Liability	\$ 138,780,318	\$ 40,760,239	\$ (98,020,079)
Prior Service Liability	(21,533,837)	(9,205,607)	12,328,230
Health Plan Subsidy	<u>12,766,858</u>	<u>6,962,881</u>	<u>(5,803,977)</u>
Subtotal	<u>\$ 130,013,339</u>	<u>\$ 38,517,513</u>	<u>\$ (91,495,826)</u>
UFLAC Settlement Contribution (General Fund)	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ --</u>
Discount for Early Payment	<u>\$ (4,074,759)</u>	<u>\$ (6,116,657)</u>	<u>\$ (2,041,898)</u>
TOTAL CITY CONTRIBUTION	<u>\$ 86,975,431</u>	<u>\$ 130,309,056</u>	<u>\$ 43,333,625</u>
Financing Source			
General Fund	\$ 500,000	\$ 500,000	\$ --
Tax and Revenue Anticipation Notes	<u>86,475,431</u>	<u>129,809,056</u>	<u>43,333,625</u>
TOTAL	<u>\$ 86,975,431</u>	<u>\$ 130,309,056</u>	<u>\$ 43,333,625</u>