



CITY OF *Los Angeles*

DEFERRED COMPENSATION PLAN

Board Report 22-21

Date: April 19, 2022

To: Board of Deferred Compensation Administration (Board)

From: Staff

Subject: Proposed Revised Governance Policies/Bylaws, Fiscal Administration Policy

Board of Deferred Compensation Administration
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Recommendation:

That the Board approve proposed revisions to its Governance Policies/Bylaws, “Fiscal Administration Policy.”

A. Background

At its December 21, 2021 meeting, in connection with completing its annual Deferred Compensation Plan (DCP) resource review, the Board requested that staff draft a proposed budget policy. The purpose of the budget policy would be to address roles and responsibilities of the DC Plan Manager and the Board. The policy would also include a timetable for conducting DCP resource reviews, developing annual budget requests to the Mayor and City Council, and engaging with stakeholders in support of its resource objectives.

The Board’s Governance Policies/Bylaws, Section 5, “Fiscal Administration Policy,” as presently constituted addresses such items as the Board’s quarterly reimbursement of staffing expenses, annual adoption of the program budget, and target reserve amount for the DCP Reserve Fund (**Attachment A**). Staff has drafted a revised Section 5 (**Attachment B**) to address the additional budget policy items requested by the Board, as well as to more expansively discuss current and related topics with respect to DCP fiscal administration. For ease of review, as the proposed revisions represent a more comprehensive rewrite, they are not presented in track changes. However, both the current and proposed versions of Section 5 are included in the report.

The proposed changes have been drafted to address key objectives, including:

- Delineating the separate adoption of an annual budget and expenditure plan from the annual program requests for position authorities and other expense items requiring action by the Mayor and City Council as part of the City of Los Angeles annual budget process.
- Providing greater specificity regarding the target balance for the Reserve Fund over a ten-year period.
- Adding the annual resource review process, including identifying the steps and objectives.
- Delineating staff positions which are funded directly through the Deferred Compensation Plan Administrative Fee Trust Fund vs. those funded on a reimbursement basis from the Reserve Fund.
- Creating a timetable to guide staff and the Board in the various process elements required for ongoing fulfillment of the revised policy.

Staff recommends that the Board approve proposed revisions to its Governance Policies/Bylaws, "Fiscal Administration Policy."



Submitted by:

Steven Montagna, Chief Personnel Analyst

CURRENT GOVERNANCE POLICIES/BYLAWS
SECTION 5

5. FISCAL ADMINISTRATION POLICY

Pursuant to LAAC Division 5, Chapter 92, a “Deferred Compensation Plan Trust Fund” has been established for the receipt and retention of fees charged to Plan participants to provide funding for the administration of the Plan. In addition, the Board maintains an account with its third-party-administrator which functions as a repository for administrative fees collected in order to meet the Plan’s contractual fee obligations to the third-party-administrator. Monies maintained in either Fund shall be used to pay for all administrative and operating costs generated by the Plan, as approved by the Board, and under no circumstances may be used for any purpose other than that which accrues to the benefit of Plan participants and their beneficiaries.

- 5.1. On a quarterly basis Personnel Department staff will reconcile the revenues, expenditures, assets and liabilities of the Fund and submit to the Board for approval such fund transfers as may be necessary to reimburse the Personnel Department, and the Office of the City Attorney for their operational expenses in administering the Plan. In its quarterly reports Personnel Department staff will provide and update 5-year projections for Plan revenue/expenses.
- 5.2. At the beginning of each calendar year staff will present, for adoption by the Board, a recommended budget for the Trust Fund for that Plan Year. The Board, in structuring this budget, will maintain a long-term balance between revenues and expenditures that is consistent with avoiding volatility in the collection of participant fees. In furtherance of that objective, the Board shall maintain a prudent reserve in the Trust Fund to protect against fluctuations in Plan assets. The Board’s Plan Year budgets shall be consistent with ongoing 5-year revenue/expense reviews as described in Section 5.1.

PROPOSED REVISED GOVERNANCE POLICIES/BYLAWS SECTION 5

5. FISCAL ADMINISTRATION POLICY

Pursuant to Los Angeles Administrative Code Division 4, Chapter 14, all Deferred Compensation Plan 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) pursuant to LAAC Division 5, Chapter 92, a “Deferred Compensation Plan Trust Fund,” held within the City, from which education-related travel and equipment purchases are made. Together, these two accounts comprise the DCP Reserve Fund (“Reserve Fund”).

The Board manages the assets of the Reserve Fund by adopting an annual Plan budget and expenditure plan and reviewing Plan revenue and expense accounts on a quarterly basis.

Separately, on an annual basis, the Board prepares program requests for position authorities and other expense items requiring action by the Mayor and City Council as part of the City of Los Angeles annual budget process.

- 5.1 Purpose of Reserve Fund - Monies maintained in the Reserve Fund shall be used to pay for all administrative and operating costs generated by the Plan, as approved by the Board, and under no circumstances may be used for any purpose other than that which accrues to the benefit of Plan participants and their beneficiaries.
- 5.2 Target Reserve Fund Net Balance - To maintain stability within the fee structure, the Board shall target a Reserve Fund net balance equal to approximately 50% of annual operating expenses as reflected in projections of net balances over a ten-year period, but with allowances made in its long-term projections, as appropriate, for significant future variables such as plan asset volatility, new staffing and technology, and other major resource needs or revenue drivers.
- 5.3 Annual Resource Review – The Board and Personnel Department staff shall conduct and complete an annual resource review, the objective of which is to consider long-term factors related to managing the ongoing revenues and expenses of the Plan. In connection with its annual resource review, the Board shall review and revise as necessary those primary assumptions (including but not limited to assumed Plan asset growth rates, participant growth rates, and administrative expense growth rates) informing the projections of net balances over a ten-year period. The annual resource review shall be conducted in sufficient time to inform the Board’s submission of program requests as part of the City’s annual budget adoption.
- 5.4 Budget Requests for the City of Los Angeles Annual Budget Adoption – The Board and Personnel Department staff shall, as necessary, prepare and submit program requests for position authorities and other expense items as appropriate in sufficient time to be included with the Personnel Department’s annual budget requests submitted to the Office of the Mayor as part of budget development for the subsequent fiscal year. Such budget requests shall be authorized by the Board prior to their submission.

- 5.5 Quarterly Reserve Fund Reviews and Reimbursements - On a quarterly basis Personnel Department staff shall reconcile the revenues, expenditures, assets and liabilities of the Reserve Fund and submit to the Board for approval such fund transfers as may be necessary to provide reimbursements for Plan administrative costs as may have been advanced by other agencies, including applicable salary costs for the Personnel Department and the Office of the City Attorney. Reimbursements are not provided for those full-time Personnel Department positions for which the position funding source has been aligned to the Deferred Compensation Plan Trust Fund. In its quarterly reports Personnel Department staff will provide and update ten-year projections for Plan revenue/expenses, inclusive of all salary expenditures, including those directly funded by the Deferred Compensation Plan Trust Fund as well as those funded on a reimbursement basis.
- 5.6 Annual Adoption of Plan Year Budget and Expenditure Plan - At the beginning of each calendar year staff will present, for adoption by the Board, a recommended budget and expenditure plan including projected revenues and expenses for that Plan Year.
- 5.7 Ongoing Fiscal Review Timeline – The Board and Personnel Department staff shall use as a guideline the following timetable for conducting key budget development elements included as part of the ongoing administration of its Fiscal Administration Policy:

Time of Year	Process Step
June	Staff Development of Annual Resource Review/Analysis
July	Plan Governance & Administrative Issues Committee Consideration of Annual Resource Review
August	Board Consideration of Annual Resource Review
September	Board Approval of Proposed Requests to the Office of the Mayor for Subsequent Fiscal Year City Budget
October	Submission of Proposed Requests to the Office of the Mayor for Subsequent Fiscal Year City Budget
January	Board Adoption of Annual Plan Budget and Expenditure Plan