

TO: HONORABLE MAYOR AND BOARD OF DIRECTORS
FROM: BRUCE T. MOORE, CITY MANAGER 
SUBJECT: POLICE AND FIRE PENSION
DATE: AUGUST 19, 2005

The request was made at the August 9, 2005, Board of Directors Agenda Meeting for staff to provide the following information on the impact of recent legislative actions on public safety pension costs and the effect of declining Insurance Premium Turnback Funds.

Public Safety Pension Costs for the General Fund

Due to the increase in pension benefits granted by the 2005 Legislature, and losses from prior years, the City's pension costs for public safety personnel (as a percentage of payroll) will change as shown below:

	<u>2005 Rates</u>	<u>2006 Rates</u>	<u>Increase</u>
Police	8.37%	12.30%	3.93%
Fire	9.92%	14.50%	4.58%

Based upon initial personnel cost projections for 2006, the City's cost for public safety pensions will increase from \$3,879,647 to \$5,687,606. The increase of \$1,807,959 represents a 47% increase in pension costs for the City. Approximately $\frac{3}{4}$ of the increase is due to the benefit increase enacted by the legislature. About $\frac{1}{4}$ of the increase is due to losses from prior years. According to staff, the projected increase for pension losses was never discussed in the Joint Retirement Committee Meetings. It should be noted; however, that the smoothing method used by Arkansas Local Police & Fire Retirement (LOPFI) may require additional increases in 2007 and 2008 of 0.61% and 0.37%, respectively.

Insurance Premium Turnback Decrease

Arkansas levies a 2.5% tax on various types of insurance policies. The revenue generated is used to pay for police and fire pension costs for Officers covered under LOPFI and under local pension plans. The State determines the amount of population covered by local police or fire departments and then allocates that

percentage of the revenue received into one fund for local police plans and another for local fire plans. After certain deductions are made for special distributions, the remaining amounts are distributed to local governments through two (2) formulas. The first formula uses percentages established in 2002, in which most local governments receive 100% funding; however, under this formula, Little Rock receives about 10% for police pension costs and 21% for fire pension costs. If any insurance premium turnback revenues remain from the first distribution, those revenues are distributed to local governments based upon their ratio of unpaid pensions. For instance, if Little Rock has 40% of the remaining police pension costs, it would receive 40% of the money remaining.

When the distribution plan was adopted in 2003, those local governments who had received more than 100% funding in the past (these governments couldn't use the funds for anything else and had to keep these funds separate) had to use up their surplus before receiving any more insurance premium turnback funds. In the initial year of implementation, this made more money available for the second calculation and Little Rock received \$2,525,328 in 2004. As the surplus funds in the hands of the smaller local governments are used, less money will be available for the second calculation. Furthermore, with the benefit increase passed in 2005, for most smaller cities, the entire cost of the benefit increase will be included in the first calculation leaving even less money available for the second calculation. Thus, in the future, Little Rock will receive less money from the insurance premium turnback even though pension costs have increased by 47%. While most local governments will receive sufficient insurance premium turnback to cover 100% of their 2006 pension costs, insurance premium turnback revenues will cover about 26% of Little Rock's 2006 pension costs.

Staff attempted to determine what percentage of insurance premiums collected in Little Rock were routed to the City of Little Rock; however, at this time, collections by City are not available.

General Fund insurance premium collections for the last few years and estimated 2006 collection are:

<u>Year</u>	<u>General Fund Revenue</u>
2006	\$1,500,000 (est.)
2005	\$2,077,205
2004	\$2,525,328
2003	\$1,834,379
2002	\$1,053,969
2001	\$1,004,583
2000	\$1,313,918

Summary

Increased public safety pension costs -- benefit increase and recapture of losses -- and reduced insurance premium turnback revenues creates an additional

\$2,833,000 demand on the 2006 Budget, which far exceeds any estimate of costs provided during the 2005 Legislative Session. These additional costs and revenue decreases will place a significant strain on the City's already challenging 2006 Budget. In the 2007 Legislative Session, the City should mandate a more fair allocation of insurance premium turnback and significant input into any discussions regarding public safety pension benefit increases.

If additional information is needed, please advise.

cc: Odies Wilson, Intergovernmental Relations Manager