

Finance Department Memorandum

Date: September 21, 2010

To: Mayor Perrin

From: Jim Eagan, Assistant Finance Director

Subject: a) 2009 Actuarial Valuation of the Jonesboro Police Pension Fund
b) Levy of Millage during 2011 to fund Jonesboro Police Pension Fund

The actuarial valuation of the Jonesboro Police Pension Fund was received from Osborn, Carreiro & Associates, Inc. The valuation contains important information regarding the City's funding of the pension fund for uniformed officers hired prior to 1983. The following is a discussion of this report. The funding requirements shown in the report also serve as the basis for determining the amount of millage tax to be levied to support the Fund.. A discussion of the millage tax levy for 2011 is also included.

Background

In 1947, an election was held for the passage of a millage tax to fund a local pension and relief fund for policemen. This vote was carried out in accordance with laws which have been re-codified under A.C.A. 24-11-404. The measure passed and the City has continued to levy millage taxes since that time, per an annual resolution of the City Council (as provided in Section (a)(2) of 24-11-404).

Police Department employees hired after December 31, 1982 are provided pension benefits solely by LOPFI.

Valuation Results

The results of the valuation show a contribution of \$929,963 will be required for 2011, versus the contribution of \$872,577 for 2009. It was noted that a required change in actuarial assumptions increased the unfunded actuarial accrued liability by \$3,036,656, thus increasing the required contribution by \$660,926 (since the unfunded liability must be paid over a five-year period).

It should also be noted that the increase in unfunded liability reduced the funded percentage below 97%, resulting in the plan being considered actuarially unsound and failing to meet the minimum asset management standards defined in A.C.A. 24-11-216.

Insurance Turnback

Fire and police pensions receive funding from a tax on insurance premiums levied by the State. These monies are forwarded to LOPFI and distributed according to regulations to cities having local pension funds. Last year, the local police pension fund received \$272,940 in insurance turnback. However, it is likely that insurance turnback will be subject to legislative changes, and future receipt of insurance turnback will be limited. One idea being considered is a leveling of pension costs among all cities, requiring a levy of 1mill of taxes being contributed to local pensions before receipt of assistance from LOPFI in any form, including insurance turnback. Due to the likelihood that insurance turnback will be limited or non-existent in the future, we have excluded it in the calculations.

District Court Fines

In addition to insurance premium turnback, the local police pension receives 10% of District Court fines for funding. A schedule is attached which shows the total budgeted amount of District Court fines for 2011, and the anticipated amount of \$124,000 to be provided to the local police pension fund.

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Calculation of Millage Levy

After consideration of the other funding sources, a total of \$805,963 in millage collections is needed to provide the required contribution. Based on previous years' collections and the local tax base, the minimum levy was calculated at .93 mills. Due to the fact that additional collections are needed to reduce the actuarial unfunded liability in a timely manner it is recommended that the millage levy be increased to the maximum allowed by law of 1 mill.

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