



Finance Department Memorandum

Date: September 21, 2010

To: Mayor Perrin

From: Jim Eagan, Assistant Finance Director

Subject: a) 2009 Actuarial Valuation of Jonesboro Paid Fire Combined Plans
b) Levy of Millage during 2011 to fund Local Firemen's Relief and Pension Fund

The actuarial valuation of the Jonesboro Paid Fire Combined Plans was received from Gabriel, Roeder, Smith & Company. The valuation contains important information regarding the City's funding of the Local Firemen's Relief and Pension Fund and the Arkansas Local Police and Fire Retirement System (LOPFI). 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 Local Firemen's Fund, referred to as the "Closed 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 firemen. This vote was carried out in accordance with laws which have been re-codified under A.C.A. 24-11-812. 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 24-11-812).

In 1997, the City Council approved Ordinance 97:1731 providing for future administration of the Closed Fund to be carried out by LOPFI. Since that time, all funds received from the millage tax have been forwarded to LOPFI as invoices are received (24-11-8112(f)).

Fire department employees hired after December 31, 1982 are provided pension benefits solely by LOPFI.

Valuation Results

The valuation determines a contribution rate percentage for the combination of the LOPFI and Closed Fund. A contribution rate percentage for the LOPFI only plan is also provided, so the contribution rate for the Closed Fund can also be determined. The contribution rate percentages (which are applied to the total payroll of the active Fire Department to convert to dollar amounts) are as follows:

Combined Rate	32.69%	(\$1,642,273)
LOPFI Paid Fire Rate	<u>17.49%</u>	<u>(878,659)</u>
Closed Fund Rate	15.20%	(\$ 763,614)

While the percentage contribution for the Closed Fund is lower than the 15.38% rate for the previous year, the dollar amount increased \$94,349 due to an increase in the payroll base (see attached chart). Also impacting the total contribution was a change in actuarial assumptions in 2008 and legislated benefit increases.

Combined actuarial accrued liabilities totaled \$20,452,446. Total reported assets are \$14,157,685, leaving a total of \$6,294,761 as unfunded accrued liabilities. The unfunded liabilities are amortized over a period of 30 years, with the exception of those associated with the Closed Fund. The financing period for Closed Fund liabilities is 27 years (from December 31, 2009).

Calculation of Millage Rate

Along with the increase in the required contribution, the other factor that must be considered prior to calculation of the annual millage levy is the amount of insurance premium turnback that will be provided by LOPFI. Last year, the 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 1 mill 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.

Without insurance turnback, the contribution for the local fund remains at a minimum of \$763,614. Based on previous year's collections (at .5 mills) and the projected tax base, it is recommended that the millage levy be increased to the maximum allowed by law of 1 mill.