

BOARD MEETING AGENDA

JULY 22, 2020 • 9:30AM



LOCATION

Online WebEx Meeting
Visit www.leoff.wa.gov for details

TRUSTEES

DENNIS LAWSON, CHAIR
Central Pierce Fire and Rescue

JASON GRANNEMAN, VICE CHAIR
Clark County Sheriff's Office

ADE' ARIWOOLA
City of Federal Way

MARK JOHNSTON
Vancouver Fire Department

AJ JOHNSON
Snohomish County Fire

SENATOR JEFF HOLY
Spokane Police Department (Ret)

TARINA ROSE-WATSON
Spokane Int'l Airport Police Dept

PAT MCELLIGOTT
City of Dupont

REPRESENTATIVE STEVE BERGQUIST
WA State Representative

WOLF OPITZ
Pierce County

SENATOR ANN RIVERS
WA State Senator

STAFF

Steve Nelsen, Executive Director
Tim Valencia, Deputy Director
Jessie Jackson, Executive Assistant
Jessica Burkhart, Administrative Services Manager
Jacob White, Senior Research and Policy Manager
Karen Durant, Senior Research and Policy Manager
Tammy Sadler, Benefits Ombudsman
Tor Jernudd, Assistant Attorney General
Chantel Won, Research Intern

**THEY KEEP US SAFE,
WE KEEP THEM SECURE.**

- | | | |
|----|---|----------|
| 1. | Approval of Minutes | 9:30 AM |
| | June 2020 | |
| 2. | Rate Setting Adoption | 9:35 AM |
| | Jacob White, Senior Research & Policy Manager | |
| 3. | 2021-2023 Operating Budget | 10:00 AM |
| | Tim Valencia, Deputy Director | |
| 4. | Budget Reduction Options | 10:30 AM |
| | Steve Nelsen, Executive Director | |
| 5. | COVID-19 Update | 11:00 AM |
| | Steve Nelsen, Executive Director | |
| 6. | Administrative Update | 11:30 AM |
| | Steve Nelsen, Executive Director | |

**Lunch is served as an integral part of the meeting.*

In accordance with RCW 42.30.110, the Board may call an Executive Session for the purpose of deliberating such matters as provided by law. Final actions contemplated by the Board in Executive Session will be taken in open session. The Board may elect to take action on any item appearing on this agenda.

Board Meeting Agenda

July 22, 2020



1. Approval of June 2020 Minutes
2. Rate Setting Adoption
3. 2021-2023 Operating Budget
4. Budget Reduction Options
5. COVID-19 Update
6. Administrative Update

Next Meeting:

August 26, 2020 - 9:30am



Rate Setting Adoption

July 22, 2020

Issue

- The Board has the option to adopt new contribution rates for the 2021-23 and 2023-25 biennia

Board Funding Goals and Policies

- The Board sets policies to assist meeting funding goal of stable contribution rates to ensure predictable and adequate rates
- **Short Term Rate Setting Policy**
 - 100% of the current normal cost component of the EANC method
 - This is the policy the Board has used since 2008
- **Long Term Rate Setting Policy**
 - 100% of the normal cost component of the EANC method if funded status equal to or less than 105%
 - 90% of the normal cost component of the EANC method if funded status exceeds 105%
- **4-Year Rate Adoption Policy**
 - Last adopted rates in 2018, based on 2017 valuation
 - May choose to adopt new rates, based on 2019 valuation

Current Funded Status

- Funded status in the 2019 valuation is **111%**
 - Does not recognize remaining net investment gains from 2014 to 2019
 - Increases funding status
 - Does not recognize expected market losses due to Covid-19
 - Decreases funded status

Asset gains left to recognize

Calculation of Actuarial Value of Assets				
LEOFF 2				
<i>(Dollars in Millions)</i>				6/30/2019
Market Value of Assets				\$13,916
Plan Year Ending	Return on Assets	Years Deferred	Years Remaining	Amount Deferred*
6/30/2019	8.89%	2	1	\$97
6/30/2018	9.56%	3	1	85
6/30/2017	14.14%	7	4	387
6/30/2016	2.48%	6	2	(166)
6/30/2014	18.93%	8	2	219
Total Deferral				623
Actuarial Value of Assets**				\$13,294

*Amount of asset gains and (losses) left to recognize, or apply, in future valuations.

**Actuarial Value of Assets can never be less than 70% (\$9,742) or greater than 130% (\$18,091) of the Market Value of Assets.

Impact of Covid-19

- Preliminary investment returns for FY 2020 are 0% as of March 31st
- The Board's current investment assumption is 7.4%

Option 1: 90% Normal Cost

- Member 7.68%; Employer 4.61%; State 3.07%
- Pros
 - Adheres to the Board's long term funding policy
 - Lowering rates to account for funded status
 - Rate reduction helps employers/state/members with budgets impacted by Covid-19
- Cons
 - Lowers rates while the impacts of Covid 19 on investment returns are still unknown
 - Lowers rates while the impacts of potential demographic changes (retirements, layoffs) are unknown

Option 2: 100% Normal Cost

- Member 8.53%; Employer 5.12%; State 3.41%
- Pros
 - Adheres to the Board's short term funding policy
 - Funding method the Board has used since 2008
 - Slight rate reduction helps employers/state/members with budgets impacted by Covid-19
 - Allows the Board to delay lowering rates until the impacts of Covid-19 on investment returns are better known
- Cons
 - Doesn't address the positive funded status of the plan

Option 3: No action - 100% Normal Cost from 2017 valuation

- Member 8.59%; Employer 5.15%; State 3.44%
- Pros
 - Utilizing the 4-year rate adoption policy, the Board is not required to update contribution rates already adopted for the 2021-23 biennium
 - Allows the Board to delay changing rates until the impacts of Covid-19 on investment returns are better known
- Cons
 - Doesn't follow the Board's short term funding policy



Thank You

Jacob White

Senior Research and Policy Manager

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2021–2023 Operating Budget

July 22, 2020

2021-2023 Budget Overview

- Expenditures necessary to meet statutory/fiduciary responsibility
 - Board meetings
 - Member/Stakeholder communications & outreach
 - Professional development
 - Staffing
 - Facilities
 - Contracts for Services
 - Agency Operations

2021 - 2023 Proposed Budget

Biennial Spending Plan (July 2021 - June 2023)	
Expense Category	Budgeted
Salaries & Wages	\$1,615,104
Employee Benefits & Payroll Taxes	\$501,168
State Actuary Services	\$232,752
Rent & Utilities	\$142,008
DES Services	\$111,484
Staff & Trustee Professional Dev	\$180,034
Communications & IT	\$308,569
Contracts	\$75,800
All Other Operating Expenses	\$117,797
Biennium 21-23 TOTAL	\$3,284,716

Salary & Benefits

- Salaries and benefits assumed at the same levels as 2019-21 Biennium
 - Does not include General Wage Increases (GWI)
 - Does not include Furloughs

Professional Development

- Educational Conferences and Training
- Member & Stakeholder Outreach
- Board Meetings

Contracts

- **Projection based on expected need**
 - **Actuarial Audit Services – Fiscal Notes, Outside Actuary**
 - **Legal Services – Outside Tax Counsel, Special Projects**
 - **Communications**

Other Operating Expenses

- **Goods & Services**
- **Other Contractual Services**
 - **Office of the State Actuary (OSA)**
 - **Attorney General (AG)**
 - **Office of Financial Management (OFM)**
 - **Department of Enterprise Services (DES)/Financial Services**
 - **Washington Technology Solutions (WaTech)/Technology Services**
 - **State Auditor (SAO)**

Agency Relocation

- Rent and Utilities
- Board Meeting Space
- Small Agency Technology Allocation Pool
- On-going operational costs



Thank You

Tim Valencia

Deputy Director

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Proposed Spending Plan for 21-23 Biennium

Biennial Spending Plan

(July 2021 - June 2023)

Expense Category	Budgeted
Salaries & Wages	\$1,615,104
Employee Benefits & Payroll Taxes	\$501,168
State Actuary Services	\$232,752
Rent & Utilities	\$142,008
DES Services	\$111,484
Staff & Trustee Professional Dev	\$180,034
Communications & IT	\$308,569
Contracts	\$75,800
All Other Operating Expenses	\$117,797
Biennium 21-23 TOTAL	\$3,284,716

Fiscal Year 2022 Spending Plan

(July 2021 - June 2022)

Expense Category	Budgeted
Salaries & Wages	\$807,552
Employee Benefits & Payroll Taxes	\$250,584
State Actuary Services	\$116,376
Rent & Utilities	\$71,004
DES Services	\$55,369
Staff & Trustee Professional Dev	\$96,267
Communications & IT	\$154,319
Contracts	\$26,000
All Other Operating Expenses	\$60,585
Fiscal Year 2022 TOTAL	\$1,638,056

Fiscal Year 2023 Spending Plan

(July 2022 - June 2023)

Expense Category	Budgeted
Salaries & Wages	\$807,552
Employee Benefits & Payroll Taxes	\$250,584
State Actuary Services	\$116,376
Rent & Utilities	\$71,004
DES Services	\$56,115
Staff & Trustee Professional Dev	\$83,767
Communications & IT	\$154,250
Contracts	\$49,800
All Other Operating Expenses	\$57,212
Fiscal Year 2023 TOTAL	\$1,646,660



Budget Reduction Options

July 22, 2020

Budget Savings Options for Consideration

- Background and Context
- Agency Furloughs
- 3% General Wage Increase
- Temporary Contribution Rate Reduction
- Key Questions, Discussion and Decisions

Background

- Governor Inslee issued Directive 20-08 on June 17, 2020.
- Directive mandates agencies under the Governor's authority to implement furloughs and not implement the 3% 7/1/2020 scheduled general wage increase for select staff.
- Governor will monitor savings associated with furloughs and will direct further furloughs as necessary through the remainder of the fiscal year.
- Governor urged separately elected officials, the Legislature, courts, independent boards and commissions, and higher education institutions to adopt similar measures.

Furloughs

- Governor requested 8 days of furlough for agencies under his authority
 - 4 days between June 28 – July 25 (one day a week)
 - One day in each month August, September, October and November
 - Additional days could be requested
- Fiscal impact of 8 days for LEOFF 2 Board staff is \$25,000 in salary and benefits in a non-appropriated account
- Survey done by the Department of Enterprise Services for client agencies not under the Governor's authority, 50% are offering other reductions in lieu of furloughs
- Cuts in lieu of furloughs for LEOFF 2 Board could be in education/training and travel

3% General Wage Increase

- A 3% general wage increase that was scheduled for implementation 7/1/2020 is canceled for non-represented state employees in Exempt Management Service, Washington Management Service, and non-represented exempt employees making more than \$53,000 a year under the authority of the Governor.
- Governor urged others not under his authority to comply.
- Others not implementing the increase:
 - All legislative agencies
 - All separately elected officials
 - Most judicial agencies
 - Unknown implementation of other independent boards and commissions
- Implementation of scheduled increase could pose a “reputation risk”

Temporary Contribution Rate Reduction

- Should the Board consider adopting a supplemental rate for the remainder of the 2019-21 biennium?
- Each basis point would save approximately \$250K per year
- Legal framework
 - Role of the trustee – Is it appropriate for a trustee to set the rate for the plan based on budget conditions?
 - Could this option work with the statutory funding split?
 - 50% Employee
 - 30% Employer
 - 20% State

Key Questions, Discussion and Decisions

1. What reduction options does the Board want to consider?
2. Next steps?



Thank You

Steve Nelsen

Executive Director

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