

# CITY AUDITOR'S REPORT

## MONDAY, NOVEMBER 10, 2014

### 2014 UNEMPLOYMENT COMPENSATION-3<sup>rd</sup> QUARTER

THE UNEMPLOYMENT COMPENSATION EXPENSES FOR THE 3<sup>rd</sup> QUARTER OF 2014 WERE \$8,155.28. THE YEAR TO DATE COSTS ARE \$39,924.17. THE 2014 BUDGET ALLOCATES \$100,000 FOR UNEMPLOYMENT COMPENSATIONS COSTS AS DOES THE MAYOR'S 2015 PROPOSED BUDGET.

THE FOLLOWING CHART ILLUSTRATES THE UNEMPLOYMENT COSTS OF THE CITY FOR YEARS 1996- 2014-3<sup>RD</sup> Q.:

YEAR	BUDGET	ACTUAL EXPENSE	VARIANCE
1996	\$44,856.00	\$40,732.38	\$4,123.62
1997	\$55,000.00	\$94,088.09	<b>-\$39,088.09</b>
1998	\$55,000.00	\$25,086.87	\$29,913.13
1999	\$55,000.00	\$26,085.08	\$28,914.92
2000	\$55,000.00	\$123,742.39	<b>-\$68,742.39</b>
2001	\$55,000.00	\$42,710.14	\$12,289.86
2002	\$55,000.00	\$33,494.50	\$21,505.50
2003	\$12,000.00	\$60,765.63	<b>-\$48,765.63</b>
2004	\$100,000.00	\$166,192.84	<b>-\$66,192.84</b>
2005	\$100,000.00	\$72,140.44	\$27,859.56
2006	\$100,000.00	\$52,913.27	\$47,086.73
2007	\$100,000.00	\$62,466.08	\$37,533.92
2008	\$80,000.00	\$58,968.37	\$21,031.63
2009	\$100,000.00	\$133,061.92	<b>-\$33,061.92</b>
2010	\$755,000.00	\$465,816.47	\$289,183.53
2011	\$475,000.00	\$227,164.19	\$247,835.81
2012	\$275,000.00	\$133,050.01	\$141,949.99
2013	\$150,000.00	\$37,836.85	\$112,163.15
2014-3 <sup>RD</sup> Q.	\$100,000.00	\$39,924.17	

**BOLD INDICATES DEFICIT.**

## **2004 - 2015 MINIMUM MUNICIPAL OBLIGATION**

THE FOLLOWING CHARTS ILLUSTRATE THE CITY OF READINGS MINIMUM MUNICIPAL OBLIGATION (MMO) FROM 2004-2015. THE MMO IS A STATE REQUIREMENT PER THE MUNICIPAL PENSION PLAN FUNDING & RECOVERY ACT (**ACT 205 OF 1984**). THIS ACT REQUIRES THAT MUNICIPALITIES MUST PROPERLY FUND THEIR MUNICIPAL PENSION PLANS AND THAT THE STATE WILL ALSO ASSIST BY GIVING FINANCIAL AID.

THE COMPLEX MMO CALCULATION REQUIRES SUCH INFORMATION AS NORMAL AND ADMINISTRATIVE COSTS AND PERCENTAGES, ESTIMATED ANNUAL PAYROLL, ALLOWANCES FOR ACTUARILY OVER/UNDER FUNDED PLANS, AS WELL AS EMPLOYEE CONTRIBUTIONS. PENSION PLAN GAINS AND LOSSES AND ACTUARIAL ASSUMPTIONS ARE ALSO INCLUDED IN THIS CALCULATION.

IN 2004, THE TOTAL MMO WAS \$3,955,157. THE STATE AID RECEIVED THAT YEAR WAS \$3,083,125. THE STATE AID RECEIVED BY THE CITY WAS THEN PAID INTO OUR MUNICIPAL PENSION PLANS. THE DIFFERENCE OF \$872,032 WAS THE CITY'S NET OBLIGATION. BEGINNING IN 2005, THERE WAS AN ENORMOUS INCREASE IN THE MMO TOTAL AND BALANCES DUE FIGURES. IN 2005, THE TOTAL MMO WAS \$5,314,058. THE STATE AID RECEIVED IN 2005 YEAR WAS \$3,046,770. THE DIFFERENCE OF \$2,267,288 WAS THE CITY'S NET OBLIGATION. FOR 2014 THE CITY'S NET OBLIGATION AGAIN INCREASED DRAMATICALLY. IN 2014, THE TOTAL MMO WAS \$11,103,535. THE STATE AID WAS \$3,194,961. THE DIFFERENCE OF **\$7,908,574** IS THE CITY'S NET OBLIGATION.

**IN 2015, THE MMO WILL BE \$14,528,711. THE ESTIMATED STATE AID IS APPROXIMATELY \$3.15 MILLION, WHICH REDUCES THE CITY'S NET OBLIGATION TO APPROXIMATELY \$11.38 MILLION DOLLARS, WHICH IS NEARLY \$3.5 MILLION MORE THAN LAST YEAR'S AMOUNT.**

THE VARIOUS CITY FUNDS THAT HAVE EMPLOYEES, ALL CONTRIBUTE THEIR FAIR SHARE TOWARDS THAT NET OBLIGATION. THEREFORE, NOT ONLY DOES THE CITY GENERAL FUND CONTRIBUTE, BUT ALSO THE WATER, SEWER, COMMUNITY DEVELOPMENT AND OTHER FUNDS.

### **THE MAJOR REASONS FOR THE SUBSTANTIAL INCREASES ARE AS FOLLOWS:**

- PRIOR YEARS NEGATIVE INVESTMENT RETURNS IN ALL THREE PLANS
- INCREASES IN BENEFITS (CONTRACTS)
- HIGHER PAYROLL COSTS
- USING THE UPDATED 2013 ACTUARY REPORTS
- ALL THREE PLANS HAVE GONE FROM THE ACTUARIAL STATUS OF FULLY-FUNDED TO UNDER-FUNDED
- UPDATED MORTALITY TABLES
- INTEREST RATE ASSUMPTION CHANGES
- NO CURRENT STATE LEGISLATIVE FUNDING RELIEF ACT(S) PASSED

## 2004 - 2015 MINIMUM MUNICIPAL OBLIGATION (continued)

### THE FOLLOWING TWO (2) CHARTS ILLUSTRATE:

1. THE MMO BY PENSION FUND
2. THE BALANCE DUE AFTER APPLYING STATE AID

<b>MMO</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
POLICE PENSION	2,583,681	2,497,175	3,496,058	3,203,156	1,705,470	2,428,329
FIRE PENSION	0	1,479,698	1,268,949	1,209,423	1,289,485	1,346,126
O&E PENSION	1,371,476	1,337,185	1,650,339	1,933,737	598,539	775,359
<b>TOTAL</b>	<b>3,955,157</b>	<b>5,314,058</b>	<b>6,415,346</b>	<b>6,346,316</b>	<b>3,593,494</b>	<b>4,549,814</b>

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
TOTAL MMO	3,955,157	5,314,058	6,415,346	6,346,316	3,593,494	4,549,814
STATE AID	3,083,125	3,046,770	3,205,886	3,289,757	3,307,410	2,843,364
<b>BALANCE DUE</b>	<b>872,032</b>	<b>2,267,288</b>	<b>3,209,460</b>	<b>3,056,559</b>	<b>286,084</b>	<b>1,706,450</b>

<b>MMO</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015 EST.</b>
POLICE PENSION	2,607,362	3,932,110	3,663,429	6,057,188	6,051,235	8,398,280
FIRE PENSION	1,380,603	1,976,423	1,903,883	2,286,856	2,282,337	2,956,620
O&E PENSION	800,416	1,376,733	1,488,269	2,836,234	2,769,963	3,173,811
<b>TOTAL</b>	<b>4,788,381</b>	<b>7,285,266</b>	<b>7,055,581</b>	<b>11,180,278</b>	<b>11,103,535</b>	<b>14,528,711</b>

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015 EST.</b>
TOTAL MMO	4,788,381	7,285,266	7,055,581	11,180,278	11,103,535	<b>14,528,711</b>
STATE AID	2,972,820	4,487,287	2,689,235	3,068,643	3,194,961	<b>3,150,000</b>
<b>BALANCE DUE</b>	<b>1,815,561</b>	<b>2,797,979</b>	<b>4,366,346</b>	<b>8,111,635</b>	<b>7,908,574</b>	<b>11,378,711</b>