



Date: May 15, 2016

To: Ann Ritzma – Chairman; Finance Committee

From: Jim Hill, Risk Management Officer

Subject: **PLAN Administration Fund – 2016/17 FY Preliminary Budget**

Action: **Approval of PLAN Administrative Budget as presented.**

Recommendation:

Staff recommends the Finance Committee approve the Administrative budget, as presented in the amount of \$2,397,859.

Summary

The PLAN Administrative Budget for FY 2016-17 is attached for review, discussion and approval by the committee. The budget considers the ongoing utilization of York Risk Services as the program claims administrator. PLAN is entering into the third year of the contract. The 3% annual cost escalator has been incorporated into the budget. We are requesting renewal pricing estimates for the next three years during this fiscal year. We are also contemplating accrual of the annual cost to address budget timing differences caused in part by York’s quarterly billing cycle (billing in arrears).

PLAN operating costs including all direct and indirect expenses are detailed in an exhibit attached to this report. ABAG indirect overhead rate of 44.95% is unchanged from the prior fiscal year. The indirect cost equates to \$504,845. ABAG’s current cost allocation methodology continues to be evaluated within the context of the ABAG/MTC merger discussions.

The proposed Administrative Budget reflects a balanced budget which focuses on the preservation of program assets and required program surplus (contingency fund). PLAN Capital Reserve Fund and Contingency Reserve Policy continue to be managed very effectively. The current Admin Fund contingent reserve is \$667,362 or 27.8% of admin fund revenue. The admin fund contingent reserve exceeds the minimum requirement of 25% of our operating budget. Program administrative surplus is very healthy as reported by the PLAN Financial Officer.

PLAN Administration Fund – 2016/17 FY Preliminary Budget (cont.)

Administrative Budget Highlights

The PLAN Administrative budgets presented to the Committee this year is \$2,397,859. The budget is \$60,729 (2%) below prior year budget. The variance is a function of a reduction in Personnel Costs achieved by making adjustments to align direct costs to the average actual costs/hours incurred over the past two years.

Personnel Costs

As noted above, ABAG Personnel costs have decreased **6%** this budget cycle. Of note is the temporary reduction of hours for PLAN Risk Manager which is supplemented by utilization of the interim Risk Manager at lower cost through March 2017. There were also increases in hours for the PLAN Risk Analyst who will convert to full time with the departure of the interim Risk Manager. Legal expense was reduced a function of the recalculation of annual hours (actual) billed to the program.

The Executive Committee will resume the recruitment of a replacement Risk Manager as the decision to integrate the two agencies progresses. No additional recruitment costs are being contemplated at this time as PLAN alternatives are being explored.

Direct Expense and Other Direct Charges

Overall, direct expense and other direct charges are projected to increase **\$34,623 or (5%)**. The increase is driven by the annual TPA cost escalator (**3%**) and an increase in technical consultant fees. PLAN Technical consulting fees are currently budgeted at **\$25K** which includes contract fees for Risk Console/Safety Logic platform. Addition of a new expense category for Board/Committee expense is now being recognized. The new expense category will be used to record board/committee meeting expense, including annual board meeting and retreat. Audit fees (Financial) and Actuary fees are expected to remain the same.

Other direct charges are projected to increase by **\$3,000 (8%)** overall. While there are slight increases noted in travel and telephone, there are corresponding reductions for repositioning some of the expenses. The changes are relatively nominal and should not raise any concerns. There was a decrease in training due to the underutilization of this budget category. In the final analysis, the changes in direct and other expenses are unremarkable.