



Agenda Item 5a

December 12, 2012

ITEM NAME: Fiscal Year 2012-13 Mid-Year Budget Revisions (Second Reading)

PROGRAM: Administration

ITEM TYPE: Action

RECOMMENDATION

Approve recommendation of the Fiscal Year (FY) 2012-13 Mid-Year Budget Proposals as listed below.

- (1) Accept the proposed California Public Employees' Retirement System (CalPERS) FY 2012-13 Mid-Year increase of 86.0 positions, increasing CalPERS total authorized positions to 2,571, along with increasing the Administrative Budget by \$16,302,000 to \$373,892,000, and recommend the Board of Administration (Board) approve the Budget as a second reading.
- (2) Accept the proposed CalPERS FY 2012-13 Mid-Year increase of \$41,026,000 to the Enterprise Projects Budget for a total budget of \$84,596,000 and recommend the Board approve the Budget as a second reading.
- (3) Accept the FY 2012-13 cost allocation adjustments to the Public Employees' Retirement Fund (PERF), and other funds, and recommend the Board approve the cost allocation adjustments as a second reading.
- (4) Approve the transmittal of this agenda item to the Joint Legislative Budget Committee, fiscal committees of the Legislature, State Controller, and Department of Finance, in accordance with the Budget Act of 2012, and to the Legislative Analyst's Office, State and Consumer Services Agency, and the Office of the Legislative Counsel.

EXECUTIVE SUMMARY

Programs submitted Mid-Year Formal Budget Requests (FBR) demonstrating unforeseen and critical needs to the Enterprise during the FY 2012-13 Annual Budget process. Executive Staff considered mid-year resource requests, which met the specific criteria, taking into account current organizational initiatives and resource demands. The recommendations were primarily associated with Board initiatives related to the Information Technology (IT) workload conversion of consultant resources to State staff, the Investment Office Roadmap, Medicare Compliance, Long-Term Care oversight, and the expansion of the Public Agency Audit Program.

No changes have been made to the proposed FY 2012-13 Mid-Year FBRs or the technical adjustments since the first reading to the Finance & Administration Committee on November 14, 2012.

STRATEGIC PLAN

This agenda item supports Goal A of the CalPERS 2012-17 Strategic Plan, which is to improve long-term pension and health benefit sustainability. Specifically, it meets the objectives of educating employers and other stakeholders to make informed decisions about retirement security and health care, delivering target risk-adjusted investment returns, and ensuring high-quality, accessible and affordable health benefits. This agenda item also supports Goal B of the CalPERS 2012-17 Strategic Plan, which is to cultivate a high-performing, risk-intelligent and innovative organization. Specifically, it meets the objective to deliver superior end-to-end customer service that is adaptive to customer needs, recruiting, retaining, developing and empowering a broad range of talents against organizational priorities, and actively managing business risks with an enterprise-wide view.

BACKGROUND

The purpose of the Mid-Year Budget process is to address critical, unforeseen and emergency resource needs not included in the FY 2012-13 Annual Budget process.

ANALYSIS

The recommendation of \$16,302,000 and 86.0 positions will increase CalPERS current FY 2012-13 Administrative Budget from \$357,590,000 to \$373,892,000 and authorized positions from 2,485 to 2,571. The recommended increase of \$41,026,000 to the Enterprise Projects Budget will increase expenditure authority from \$43,570,000 to \$84,596,000.

Administrative Budget

Formal Budget Requests:

There was a total of \$41,846,000 and 177.0 positions requested during the Mid-Year FBR Process. Of these requests, \$11,630,000 and 86.0 positions were identified as being critical to Enterprise needs. Of the 86.0 positions, 52.0 address the IT staffing models for my|CalPERS as presented at the August 2012 Finance and Administration Committee meeting. Of the 34 remaining positions, 8.0 were identified by the Investment Office to be directly tied to \$6 million in contract reduction savings and 7.0 were identified to expand the Public Agency Audit Review Program. The remaining 19.0 positions are those which were identified as critical for: Business Control and Regulatory Compliance; Health Contract Medicare Compliance; Financial Analysis and Planning; and Long-Term Care contract monitoring (Attachment 1).

There was \$30.4 million and 94.0 authorized positions requested that were not recommended for approval in the Administrative Budget. These 94.0 positions were not identified as critical, unforeseen, or related to Board initiatives, nor was \$25.2 million of the \$30.4 million. There were no foreseeable risks identified in denying these requests. Of the \$30.4 million, \$5.2 million was directly related to the my|CalPERS system and has been recommended to be funded out of the Enterprise Projects Budget (Attachment 2 and 4).

Cost Allocation Update:

CalPERS staff uses a cost allocation methodology to equitably distribute Administrative Program costs across CalPERS funds. This methodology classifies CalPERS divisions as Program or Administrative. Program division expenses are charged directly to funds they support; while Administrative division expenses are allocated to each fund based on the level of support they provide to program divisions.

The Fiscal Services Division surveys Administrative divisions on an annual basis to determine their level of support from the prior fiscal year. The workload results are then applied to the current year's budget to determine each fund's share of administrative costs. The cost allocation model was completed in October 2012 with current year line item budget information and mid-year budget adjustments entered for each division. As a result of those adjustments, approval of the revised fund appropriation levels is recommended (Attachment 3).

Technical Adjustments:

In addition to the proposed FY 2012-13 Mid-Year resource request amount of \$11,630,000, there is a technical adjustment of \$4,672,000 needed to fund retirement and health premium increases effective January 1, 2013. The technical adjustment also includes a reduction of \$411,000 to the Contingency Reserve Fund for the one day Personal Leave Program.

Enterprise Projects Budget

The current budget for Enterprise Projects is \$43,570,000 and is appropriated to the my|CalPERS and Enterprise Transition Management projects.

In August 2012, the Board agreed to extend the Accenture contract to continue demands for improvements to the my|CalPERS system. As a result, additional consultant services, hardware and software costs, and extended backfill resources are being requested. The proposed Enterprise Project Budget increase of \$41,026,000 includes the following:

- \$15 million for the extension of the Accenture contract
- \$9.4 million for the extension of other external consultants
- \$4.2 million in extended backfill resources
- \$1.3 million in hardware and software costs
- \$773,000 in temporary State staff continuation & operating expenses
- \$700,000 in independent project oversight consulting and legal expenses
- \$200,000 in Member Self-Service
- \$4.3 million in resources to implement Pension Reform legislation
- \$5.2 million was identified from requests to the Administrative budget that qualify as Enterprise Project Budget expenses

This incremental amount of \$41,026,000 will increase the total budget to \$84,596,000 (Attachment 4).

CalPERS Headquarters Building Account Budget

There are no proposed changes to the CalPERS Building Account Budget for FY 2012-13. The total CalPERS Building Account remains at \$41,811,000.

BENEFITS/RISKS

If positions are not approved, divisions will be unable to respond to new mission critical program needs, increase in workload demands, and opportunities for contract savings. Without approving the new IT positions, knowledge transfer to State staff from IT consultants will be compromised and the reliance on external consultants will remain. Secondly, the delay in Investment positions will compromise our ability to reduce the contract expenses the enterprise was hoping to achieve.

Without new public agency audit staff, there will be further delay in the enterprise's efforts to mitigate our current risk and exposure. As many of the positions are related to the reduction of overall CalPERS costs, the enterprise will be unable to achieve the identified savings.

ATTACHMENTS

The following attachments contain detail for the FY 2012-13 proposed Mid-Year Administrative Budget.

- Attachment 1- FY 2012-13 Administrative Mid-Year FBR recommendations
- Attachment 2- FY 2012-13 Administrative Mid-Year FBRs not recommended
- Attachment 3- Budget by Fund Source
- Attachment 4- FY 2012-13 Enterprise Projects Mid-Year FBR Requests
- Attachment 5- CalPERS Administrative Budget 10-Year Growth
- Attachment 6- CalPERS Position History 10-Year Growth
- Attachment 7- Summary of Budgeted Positions
- Attachment 8- Draft Transmittal Letter

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