



Agenda Item 7a

March 18, 2014

ITEM NAME: Fiscal Year 2014-15 Annual Budget Proposal (First Reading)

PROGRAM: Financial Office

ITEM TYPE: Action

RECOMMENDATION

Approve recommendation of the Fiscal Year (FY) 2014-15 Annual Budget Proposal as a First Reading in the amount of \$1,865,105,000 and 2,727 positions detailed as follows:

- (1) Total Operating expenses of \$498,765,000, which includes Investment Operating costs of \$80,567,000
- (2) Enterprise Projects expenses of \$27,908,000
- (3) Headquarters Building costs of \$32,632,000
- (4) Investment External Management Fees of \$1,016,500,000
- (5) Third Party Administrator Fees of \$289,300,000
- (6) 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 2013, and to the Legislative Analyst's Office, Government Operations Agency, and the Office of the Legislative Counsel

EXECUTIVE SUMMARY

The CalPERS Total Budget is composed of five main cost areas: Administrative Operating (including Investment Expense Operating Costs), Enterprise Projects, Headquarters Building, Investment External Management Fees and Third Party Administrator Fees.

The FY 2014-15 Budget Proposal is focused on core business needs critical to CalPERS long-term strategy and on furthering our mission of building retirement and health security for those who serve California. The following pages outline the initiatives proposed in the FY 2014-15 Budget to achieve efficiencies, identify and implement cost-saving measures, manage risks, and deliver quality customer service and strong affordable health care programs to effectively deliver retirement and health security for the public workers of California.

The FY 2014-15 CalPERS Total Budget of \$1,865.1 million represents an overall decrease of \$23.0 million, or 1.2 percent, from the FY 2013-14 CalPERS Total Budget. The total decrease of \$37.7 million, in four of the five cost areas, is offset by an increase of \$14.8 million related to Third Party Administrator Fees.

STRATEGIC PLAN

This agenda item supports Goal B of the CalPERS 2012-17 Strategic Plan, which is to cultivate a high-performing, risk-intelligent and innovative organization. Through the annual budget process, CalPERS staff can address and mitigate certain risks throughout the enterprise. The end result of this process allows for the enhancement of business process, ultimately heightening the quality and efficiency of service to our members and employers.

Fiscal Year 2014-15 CalPERS Total Budget

(in millions)

	FY 2013-14 Approved Budget ¹	FY 2014-15 Proposed Budget	\$ Change Incr / (Decr)	% Change Incr / (Decr)
Administrative Operating Costs	\$425.2	\$418.2	(\$7.0)	(1.6%)
Investment Operating Costs	84.4	80.6	(\$3.8)	(4.5%)
Total Operating Costs²	\$509.6	\$498.8	(\$10.8)	(2.1%)
Enterprise Projects	33.3	27.9	(5.4)	(16.2%)
Headquarters Building Costs	40.7	32.6	(8.1)	(19.8%)
Subtotal	\$583.6	\$559.3	(\$24.3)	(4.2%)
Investment External Management Fees³	\$1,030.0	\$1,016.5	(\$13.5)	(1.3%)
Third Party Administrator Fees⁴	\$274.5	\$289.3	\$14.8	(5.4%)
CalPERS Total Budget	<u>\$1,888.0</u>	<u>\$1,865.1</u>	<u>(\$23.0)</u>	<u>(1.2%)</u>
Total Positions	2,696	2,727	31	1.1%

¹ FY 2013-14 Midyear budget approved by CalPERS Board of Administration on December 18, 2013

² Effective FY 2014-15, investment related expenses are now reflected with all CalPERS Administrative Operating Costs.

³ Investment External Management Fees consist of both Base Fees and Performance Fees

⁴ Third Party Administrator Fees for FY 2013-14 include six month projections of \$159.7 million based on fees approved by the board for financial reporting comparisons which are for the newly implemented self funded health plans with an effective start date of January 1, 2014

ANALYSIS

The proposed budget provides the annual financial plan for FY 2014-15 with projections for FY 2015-16. CalPERS is committed to maintaining efficient and effective administration that is accountable and transparent to its stakeholders. The document compiles the financial data needed to support CalPERS goals, is aligned with the proposed initiatives outlined in the CalPERS proposed 2014-16 Business Plan, and is based on the departmental review of operations. This budget was built upon five key areas:

- Sound organizational governance
- Alignment of the budget to the CalPERS strategic goals and business initiatives
- Realistic cost containment
- Expanded use of technology
- Strong customer focus

Major highlights of the CalPERS Total Budget include:

- Redesign of the Actuarial Valuation System (AVS) to meet evolving actuarial practices, including changes required for employers to comply with new standards as required by the Government Accounting Standards Board (GASB).
- Resources to develop and implement strategies for the continued growth of the California Employers' Retiree Benefit Trust (CERBT) Program.
- Development of an enterprise treasury management function to enhance cash controls, cash integrity, and liquidity management.
- Continued development of Business Intelligence tools to leverage data and information to support decision making through data integration and business-focused analytics.
- Optimization of the myCalPERS system to realize increased operational efficiencies and enhance system functionality.
- Ongoing cost saving efforts to transition portfolio management activities from investment consultants to State staff.
- Continued efforts to support the Long-Term Health Care program and employer wellness partnerships to improve health cost trends and increase the number of covered lives.
- Additional lease space for relocation of call center staff to accommodate expanding workspace requirements.
- Continuation of Security Roadmap Phase III effort to protect and secure CalPERS technology and information through data loss prevention and information/event management controls.

BENEFITS/RISKS

The benefits of the Committee recommending the proposed budget, and the Board of Administration subsequently approving the recommendation, consist of having the ability to meet CalPERS resource needs, fulfilling objectives set in the CalPERS 2014-16 Business Plan, and aligning the organization with our long-term strategies.

The risks of not approving the proposed budget include potential resource shortfalls which may inhibit the ability to achieve our organizational goals, missed opportunity to achieve full cost savings by not hiring positions and risk in the ability to deliver customer service and proactively monitor public agencies for compliance.

ATTACHMENTS

Attachment 1: FY 2014-15 Annual Budget Proposal
Attachment 2: Transmittal Letter

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