



Agenda Item 3b

September 16, 2014

ITEM NAME: Year-End Budget and Expenditure Report

PROGRAM: Financial Office

ITEM TYPE: Action Consent

RECOMMENDATION

Finance and Administration Committee recommend the approval of the transmittal letter and submission of the Year-End Budget and Expenditure Report for Fiscal Year 2013-14 to the Joint Legislative Budget Committee, fiscal committees of the Legislature, State Controller, and Department of Finance, in accordance with the 2013 Budget Act, and to the Legislative Analyst's Office, Government Operations Agency, and the Office of the Legislative Counsel.

EXECUTIVE SUMMARY

For fiscal year (FY) 2013-14, actual expenditures of \$2.0 billion exceeded the approved budget of \$1.89 billion by \$117.0 million (6.2%), mainly as a result of higher investment expenses (\$228.9 million) related to higher than anticipated investment returns of 18.4%.

| Expenses (\$ in Thousands) | FY 2013-14 Budget | FY 2013-14 Actual | \$ Under (Over) | Percent Expended | FY 2012-13 Actual |
|-----------------------------------|----------------------|----------------------|--------------------|---------------------|----------------------|
| Administrative Operating Costs | \$425,209 | \$411,633 | \$13,576 | 96.8% | \$351,677 |
| Enterprise Projects | 33,288 | 32,740 | 548 | 98.4% | 83,562 |
| Headquarters Building Account | 40,676 | 32,048 | 8,628 | 78.8% | 31,721 |
| Subtotal | \$499,173 | \$476,421 | \$22,752 | 95.4% | \$466,960 |
| External Mgmt. Fees | 1,029,969 | 1,258,838 | (228,869) | 122.2% | 1,216,190 |
| Other Investment Expenses | 84,387 | 73,814 | 10,573 | 87.5% | 83,941 |
| Third-Party Administrator Fees | 274,538 | 196,021 | 78,517 | 71.4% | 105,421 |
| Total Budget | \$1,888,067 | \$2,005,094 | \$(117,027) | 106.2% | \$1,872,511 |

The FY 2013-14 budget variance increase of \$228.9 million due to investment expenses was offset by lower than projected expenses of \$111.8 million for Administrative Operating costs (\$13.6 million), Enterprise Project costs (\$0.5 million), Headquarters Building Account costs (\$8.6 million), Other Investment costs (\$10.6 million) and Third-Party Administrator Fees (\$78.5 million).

Lower than anticipated costs (\$111.8 million) were a result of lower salary, maintenance, self-funded health plan costs and lower Administrative Operating costs related to salary savings due to delays in hiring, lower Headquarters Building costs related to savings from reduction or suspension of various maintenance activities. In addition, there were savings from the Third Party Administrator Fees due to the new Self-Funded Health Plans. The Total Budget included preliminary projections for these new plans and the actual costs were lower than anticipated by the health program.

STRATEGIC PLAN

CalPERS 2012-2017 Strategic Plan, Goal B supports the agenda item: to cultivate a high-performing, risk intelligent and innovative organization by actively managing business risks with an enterprise-wide view.

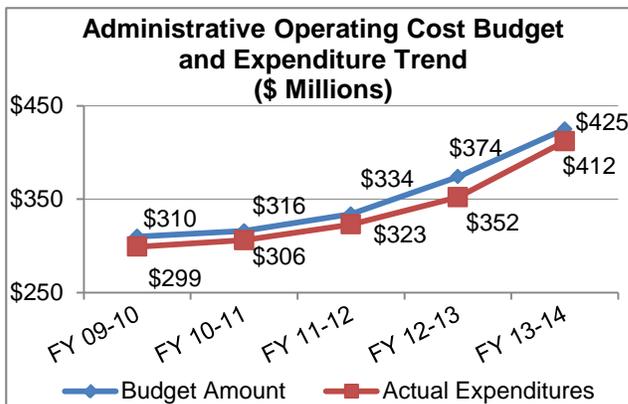
BACKGROUND

The CalPERS Total Budget is comprised of five main areas: Administrative Operating Costs, Enterprise Projects, Headquarters Building Account, Investment Expense, and Third Party Administrator Fees. The CalPERS Total Budget is reviewed and approved by the CalPERS Board of Administration.

In accordance with the 2013 Budget Act which is Assembly Bill 110 (Chapter 20, Statutes of 2013), CalPERS will submit its Year-End Budget and Expenditure Report for FY 2013-14 to the Legislature no later than October 1, 2014, upon approval by the Finance and Administration Committee and the CalPERS Board of Administration.

ANALYSIS

Administrative Operating Costs

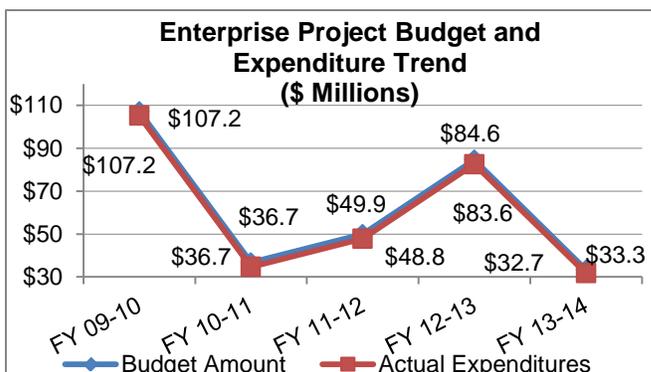


Administration operating costs of \$425.2 million were \$13.6 million (3.2%) less than the budgeted costs of \$411.6 million due mainly to salary savings (\$4.7M) as a result of delays in hiring as well as the reduction in temporary staff and external consultants (\$4.5M).

Compared to last year's 2012-13 expenses of \$351.7 million, there was an increase of \$59.9 million mainly due to the 114.0 new positions approved in

the FY 2013-14 Annual Budget (\$40.4M), transition of temporary staff into the administrative budget (\$3.6M) and higher consultant services due to transition to a new health data warehouse service (\$8.8M).

Enterprise Projects

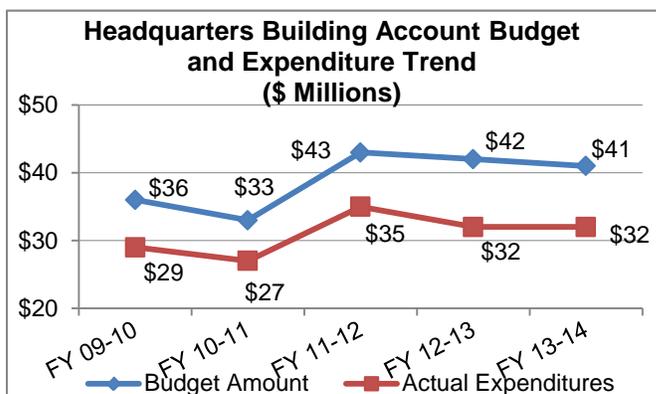


Of the total \$33.3 million Enterprise Projects Budget, CalPERS expended \$32.7 million, which was \$0.5 million or 1.6% less due to savings on equipment that was determined to be no longer necessary.

Compared to last year's 2012-13 expenses of \$83.6 million, there was a reduction of \$50.8 million due to the completion of the Pension System Resumption (\$42.7M), Enterprise

Transition Management (\$3.7M), Legacy Support (\$4.7M) and Contact Center Upgrade (\$8.9M) Projects.

Headquarters Building Account

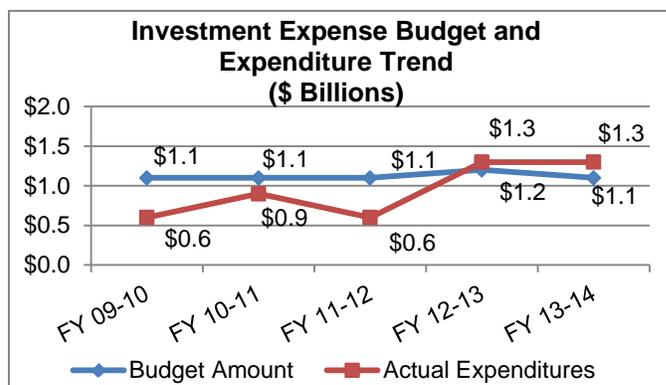


Of the total \$40.7 million Headquarters Building Account Budget, CalPERS expended \$32.0 million, which was \$8.6 million or 21.2% under budget due to postponed building improvements to the 1800 3rd Street Building and reduction or suspension of various activities such as window washing and electricity use, as well as decrease in 3rd Street Building occupancy resulting in lower

expenses in janitorial services, utilities use, maintenance and repairs.

Compared to last year's 2012-13 expenses of \$31.7 million, there was an increase of \$0.3 million due to engineering salaries, engineering continuing education, security, management fees and increases in workstations and ancillary furniture purchases related to the Master Space Plan moves.

Investment Expense

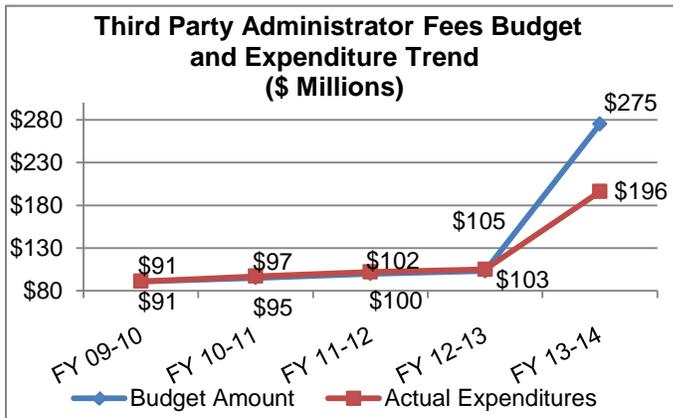


Of the total \$1.1 billion Investment Expense Budget, CalPERS expended \$1.3 billion, which was \$218.3 million or 19.6% over the projection due to base fees and performance fees being higher than projected as a result of better than anticipated investment returns.

Compared to last year's 2012-13

expenses of \$1.3 billion, there was an increase of \$32.5 million due to higher base and performance fees (\$42.6M) offset by lower consulting and operating expenses (\$10.1M) as a result of less than anticipated legal costs and the insourcing of key investment management functions.

Third Party Administrator Fees



Of the total \$274.5 million Third Party Administrator Fees of \$274.5 million were \$78.5 million less than the approved budget of \$196.0 million due to lower than anticipated costs for the five new health plans.

Compared to last year's 2012-13 expenses of \$105.4 million, there was an increase of \$90.6 million mainly due to the ability to more accurately display administrative costs for the five new health plans.

In the past, health plan administrative costs were included in the premiums but beginning in FY 2013-14, administrative costs are included as part of the total budget.

BUDGET AND FISCAL IMPACTS

There are no costs associated with the approval of this item.

BENEFITS/RISKS

Failure to approve the transmittal letter and submit to the respective legislative offices could put CalPERS at risk of noncompliance with the control language in the 2013 Budget Act.

ATTACHMENTS

Attachment 1 – Transmittal Letter to the Joint Legislative Budget Committee

ROSE MCAULIFFE
 Division Chief

CHERYL EASON
 Chief Financial Officer