

Fiscal Year 2014-15 Mid-Year Budget Revisions

Second Reading
December 16, 2014

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Background

The Total CalPERS budget is composed of five main areas; the Administrative, Enterprise Projects, Headquarters Building Account, Investment Expenses, and Third Party Administrators Fees. The "One Budget Initiative" consolidates all of these budgets to increase transparency and provide a holistic perspective of the CalPERS' annual administrative costs.

The purpose of the Mid-Year Budget process is to address enterprise critical, unforeseen, and emergency resources not included in the Fiscal Year (FY) 2014-15 Annual Budget. Examples may include: requests to address new legislative mandates, compliance with new laws or regulations, or new Board initiatives. All Formal Budget Requests submitted during were required to meet these criteria for consideration and inclusion in the mid-year budget process.

The Mid-Year Budget process also provides an opportunity to review the current forecasted projections and present adjustments to the authorized budget to provide information that shapes a more realistic 2014-15 annual forecast based on current actual results and anticipated costs for the remainder of the fiscal period.

Summary

The FY 2014-15 Mid-Year Total Budget of \$1.86 billion represents an overall decrease of \$3.8 million (-0.20 percent) from the FY 2014-15 Annual Total Budget. More specifically, this is a \$3.2 million increase to the Administrative Budget offset by a \$3.0 million decrease to the Enterprise Projects Budget and a \$4.0 million decrease to the Third Party Administrator Fees Budget. There is no change being requested to the 2,727 authorized positions approved in the FY 2014-15 Annual Budget.

Major highlights of the FY 2014-15 Mid-Year Budget of \$1.86 billion include:

- Increase of \$3.7 million in administrative technical rate adjustments for employee benefits which include retirement, health and dental coverage.
- Realized net savings of \$450,000 due to favorable lease negotiations on the West Sacramento call center location.
- Deferred costs of \$3.0 million from the My|CalPERS Business Optimization Project (\$1.5 million) and the Actuarial Valuation System Project (\$1.5 million).
- Reduction of \$3.96 million in third party administrator fees for self-funded health programs based on actual cost experience.

A. Total CalPERS Budget

FY 2014-15 Mid-Year Total Budget

(in millions)

	FY 2014-15 Annual Budget	FY 2014-15 Mid-Year Adjustments	FY 2014-15 Mid-Year Proposed Budget	% Change From Annual
Administrative Operating Costs	\$415.1	\$3.2	\$418.3	0.8%
Investment Operating Costs	80.6	0.0	80.6	0.0%
Total Operating Costs	\$495.7	\$3.2	\$498.9	0.6%
Enterprise Projects	27.9	(3.0)	24.9	(10.7%)
Headquarters Building Costs	32.6	0.0	32.6	0.0%
Subtotal	\$556.2	\$0.2	\$556.4	0.0%
Investment External Management Fees ¹	\$1,016.5	\$0.0	\$1,016.5	0.0%
Third Party Administrator Fees	\$289.3	(\$4.0)	\$285.3	(1.4%)
CalPERS Total Budget	<u>\$1,862.0</u>	<u>(\$3.8)</u>	<u>\$1,858.2</u>	<u>(0.2%)</u>
Total Positions	2,727.0	-	2,727.0	0.0%

¹ Investment External Management Fees include both Base and Performance Fees.

B. Mid-Year Budget Revisions

The table below provides a breakdown of the FY 2014-15 Mid-Year Budget revisions.

FY 2014-15 Mid-Year Budget	Dollars (in thousands)	Dollars (in thousands)	Positions
Authorized FY 2014-15 Annual Budget		\$1,861,981	2,727.00
Additions to FY 2014-15 Annual Budget:			
Benefit Rate Adjustments for Retirement, Health & Dental	3,659		
Total Additions		3,659	
SUBTOTAL		1,865,640	
Reductions to 2014-15 Annual Budget:			
West Sacramento Location	(450)		
Actuarial Valuation System (AVS)	(1,500)		
my CalPERS Business Optimization	(1,500)		
Third Party Administrator Fees (Self-Funded Health Program)	(3,960)		
Total Reductions		(7,410)	
Total FY 2014-15 Mid-Year Budget		\$1,858,230	2,727.0
Decrease from annual		(\$3,751)	

The following provides further details on the proposed changes in the FY 2014-15 Mid-Year Budget:

Employee Benefit (Retirement/Health/Dental) Rate Adjustments (\$3.7 million)

Technical adjustments of \$3.7 million for the FY 2014-15 Mid-Year budget reflect rate increases necessary for the cost of employee benefits which include retirement, health and dental coverage. The total cost for FY 2014-15 is \$6.6 million, however, \$2.9 million was anticipated and included in the 2014-15 annual budget, leaving a shortfall of \$3.7 million.

West Sacramento Location (\$450,000)

A component of the current master space plan includes moving the Customer Service and Outreach Division staff into an offsite facility in West Sacramento. Favorable lease negotiations generated one-time lease savings of \$650,000 in the budget for FY 2014-15. These savings were offset by additional costs of \$200,000 in one-time funding to support the installation of new telecommunication circuits required for email, telephone and internet service for the current master space plan movement of the Customer Service and Outreach Division staff into the new location in West Sacramento.

Actuarial Valuation System Project (\$1.5 million)

The Actuarial Valuation System, approved in the FY 2014-15 Annual Budget, was delayed in the initiation phase of the project generating deferred savings of \$1.5 million in the FY 2014-15 budget.

my|CalPERS Business Optimization (\$1.5 million)

The my|CalPERS Business Optimization Project for system enhancements, approved in the FY 2014-15 Annual Budget, had a delay in the start date for the Request for Proposal of consulting services. This resulted in the Information Technology Services Branch identifying one-time deferred savings of \$1.5 million in the FY 2014-15 budget.

Third Party Administrator Fees (\$3.96 million)

With the addition of the five new self-funded health plans, the estimated costs at the FY 2014-15 annual budget process were based on projected costs at that point in time. Now that actual costs have been captured, the costs for FY 2014-15 are being revised based on actual cost experience. The costs are anticipated to be \$285.3 million, a decrease of approximately \$4.0 million from \$289.3 million.

Cost Recovery of GASB 68 Valuation Reports for Employer Financial Reporting

As reported to the Finance & Administrative Committee at the October 2014 meeting, CalPERS will incur incremental costs to prepare information necessary for employers to report in their financial statements for fiscal years beginning after June 15, 2014 in accordance with GASB Statement No. 68. The incremental consulting costs relate to actuarial work needed to prepare the valuation information and independent validation by the external auditor on the census data provided by CalPERS and the external auditor's opinion on the employer allocation schedules. These costs are currently being determined and will be recovered through a service fee to those employers requesting the services, therefore, will be cost neutral for budgetary purposes.

D. Budget Detail by Branch

(in thousands)

Total Budget	FY 2014-15 Annual Budget	FY 2014-15 Mid Year Requests	FY 2014-15 Mid Year Proposed Budget	% Incr/(Decr) From Annual
Total Operating Costs				
Actuarial Office	7,636		7,636	0.0%
Benefit Programs Policy and Planning	25,928		25,928	0.0%
Customer Services and Support	94,647		94,647	0.0%
Executive Office	4,693		4,693	0.0%
Financial Office	23,469		23,469	0.0%
General Counsel	25,177		25,177	0.0%
Investment Office	144,262		144,262	0.0%
Office of External Affairs	12,663		12,663	0.0%
Operations and Technology	125,807		125,807	0.0%
Other	31,385	3,209	34,594	10.2%
Subtotal	\$ 495,665	\$ 3,209	\$ 498,874	0.6%
Enterprise Projects Budget	27,908	(3,000)	24,908	(10.7%)
Headquarters Building Costs	32,630		32,630	0.0%
Investment External Management Fees	1,016,484		1,016,484	0.0%
Third Party Administrator Fees	289,293	(3,960)	285,333	(1.4%)
CalPERS Total Budget	\$ 1,861,981	(\$3,751)	\$ 1,858,230	(0.2%)

E. Administrative Budget by Fund Source

	FY 2013-14 Actual Expenses	FY 2014-15 Annual Budget	FY 2014-15 Mid-Year Proposed Budget	% Incr/(Decr) from Annual
Administrative Budget by Fund				
Public Employees' Retirement Fund (PERF)	\$ 348,805,237	\$ 353,115,000	\$ 353,515,000	0.1%
Public Employees' Contingency Reserve Fund (CRF)	28,606,364	27,130,000	27,554,000	1.6%
Public Employees' Health Care Fund (HCF)	22,958,723	22,835,000	24,166,000	5.8%
Long-Term Care Fund (LTCF)	3,290,200	3,429,000	4,422,000	29.0%
Annuitants' Health Care Coverage Fund (AHCCF)	1,745,208	2,092,000	2,309,000	10.4%
Deferred Compensation Fund (DCF)	1,846,439	2,198,000	1,834,000	(16.6%)
Judges' Retirement Fund (JRF)	1,058,275	1,154,000	1,191,000	3.2%
Judges' Retirement Fund II (JRF II)	878,699	939,000	1,289,000	37.3%
Legislators' Retirement Fund (LRF)	349,749	372,000	417,000	12.1%
Replacement Benefit Custodial Fund (RBF)	8,515	9,000	7,000	(22.2%)
Subtotal	\$ 409,547,408	\$ 413,273,000	\$ 416,704,000	0.8%
Reimbursements	2,086,000	1,825,000	1,604,000	(12.1%)
Total CalPERS	\$ 411,633,408	\$ 415,098,000	\$ 418,308,000	0.8%