



## Agenda Item 4f

March 17, 2015

**ITEM NAME:** Semi-Annual Budget and Expenditure Report

**PROGRAM:** Financial Office

**ITEM TYPE:** Consent

### **EXECUTIVE SUMMARY**

This report represents the CalPERS Semi-Annual Budget and Expenditure Report for Fiscal Year (FY) 2014-15. It provides six months of CalPERS budget and expenditure detail from July 1, 2014 through December 31, 2014.

As of December 31, 2014, \$561.6 million of \$1,862.0 million or 30.2 percent of the CalPERS Total Budget was expended, leaving a balance of \$1,300.4 million.

### **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**

This agenda item is being presented to the Committee to provide updates and report on any issues related to the CalPERS budget and expenditures, as well as provide important financial information.

Highlights of the FY 2014-15 Budget include:

- Optimization of the my|CalPERS system and ongoing knowledge transfer to realize increased operational efficiencies
- Redesign of the Actuarial Valuation System (AVS) to support Governmental Accounting Standards Board (GASB) reporting requirements
- 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
- Implementation of new financial reporting requirements for GASB and improving financial reporting as commended by the external auditors
- Continued development of Business Intelligence tools to leverage data and information to support decision making
- Ongoing cost saving efforts to insource investment operating functions by transitioning portfolio management activities from investment consultants to State staff; reducing the costs associated with external investment management consultants

- Continued efforts to support the Long-Term Health Care program and employer wellness partnership to improve health cost trends and increase the number of covered participants
- 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 data

## ANALYSIS

The table below provides a summary of the budget and expenditure status for the various CalPERS budgets as of December 31, 2014.

Budget (Dollars in Thousands)	FY 2014-15 Annual Budget	Expenditures	Percent Expended	Percent Expended (Previous Year)
Administrative Operating Costs	\$415,098	\$177,193	42.7%	41.8%
Investment Operating Costs	80,567	24,849	30.8%	27.2%
Total Operating Costs	495,665	202,042	40.8%	39.2%
Enterprise Projects	27,908	2,901	10.4%	33.4%
Headquarters Building Costs	32,630	10,933	33.5%	24.7%
Subtotal	\$556,203	\$215,875	38.8%	45.0%
Investment Expenses	1,016,484	205,112	20.2%	24.6%
Third Party Administrator Fees	289,292	140,566	48.6%	20.2%
CalPERS Total	\$1,861,980	\$561,553	30.2%	30.6%

## FY 2014-15 Budget and Expenditures

The CalPERS Total Budget expended \$561.6 million or 30.2 percent of budgeted expenditures compares favorably to 30.6 percent in the prior year. The FY 2014-15 major changes by budget area are as follows:

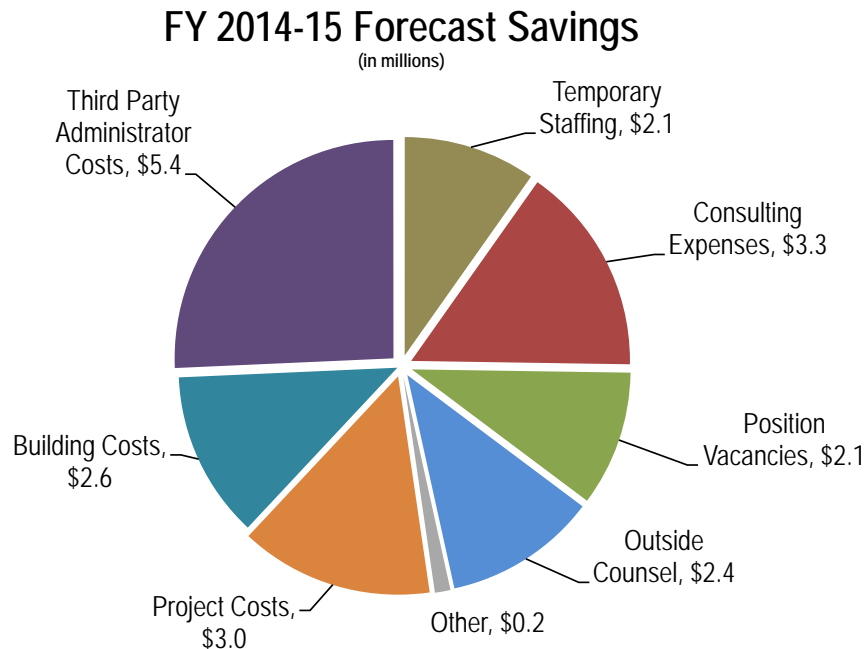
- Administrative Operating Cost percent expended has increased slightly from the previous year due to the hiring of 31.0 positions approved in the FY 2014-15 Annual Budget Process.
- Operating expenses are expected to increase in the second half of the fiscal year due to the delay of equipment purchases that will occur later in the year.
- Investment Operating Cost percent expended is higher compared to prior year due to higher technology expenses attributable to the Investment Office bringing technology in house.

- Enterprise Projects, including the AVS Redesign, mylCalPERS Optimization and Security Roadmap, are expected to accelerate the rate of expenditure in the second half of the year due to projects delays.
- Headquarters Building Costs percent expended is higher compared to last year due to increased security costs, the move of the security lab to the Data Center, and increased building infrastructure improvements.
- Investment External Management base and performance fees are below average levels of expenditure due to a quarterly lag in booking these fees, more specifically, only one quarter of Real Estate is reflected and private equity fees are not reflected.
- Third Party Administrator Fees are on target at this point in the fiscal year. The increase in percent expended from prior year relates to the addition of the five health plans.

**FY 2014-15 Forecast to Budget**

The current FY 2014-15 Forecast is estimated to be \$1,837.4 million, a decrease of \$20.8 million or 1.1 percent from the FY 2014-15 Approved Mid-Year Budget of \$1,858.2 million. Estimated savings are a result of reductions in Administrative Operating Costs, which include temporary staffing, consulting expenses, position vacancies, outside counsel, and other expenses (\$10.1 million).

Savings also include a delay in Project Costs (\$3.0 million), potential Building Costs savings based on current expenditures trend (\$2.6 million), and potential Third Party Administrator Costs savings based on current expenditures trend (\$5.4 million).



**BUDGET AND FISCAL IMPACTS**

This item is provided to the Committee for informational purposes and has no direct impact on the CalPERS budget.

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