



Agenda Item 7b

March 17, 2015

ITEM NAME: Fiscal Year 2015-16 Annual Budget Proposal (First Reading)

PROGRAM: Financial Office

ITEM TYPE: Action

RECOMMENDATION

Approve the Fiscal Year (FY) 2015-16 Annual Budget Proposal as a First Reading in the amount of \$1,819,708,000 and 2,765 positions. This represents a FY 2015-16 Annual Budget Proposal as follows:

- (1) Total Operating Costs which include \$443,546,000 in Administrative Operating Costs and \$82,959,000 in Investment Operating Costs
- (2) Enterprise Projects Costs of \$37,508,000
- (3) Headquarters Building Costs of \$30,350,000
- (4) Investment External Management Fees of \$930,726,000
- (5) Third Party Administrator Fees of \$294,619,000
- (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 2014, 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: Total Operating Costs, Enterprise Projects, Headquarters Building Costs, Investment External Management Fees and Third Party Administrator Fees.

The FY 2015-16 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 2015-16 Budget to achieve efficiencies, identify and implement cost-saving measures, manage risks, 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 2015-16 CalPERS Total Budget of \$1,819.7 million represents an overall decrease of \$38.5 million, or 2.1 percent, from the FY 2014-15 CalPERS Total Budget. The total decrease of \$88.1 million, in Headquarters Building Costs and Investment External Management Fees, is offset by an increase of \$49.5 million in Total Operating Costs, Enterprise Projects and 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 2015-16 CalPERS Total Budget (in millions)

	FY 2014-15 Approved Budget ¹	FY 2014-15 Forecast	FY 2015-16 Proposed Budget	FY 2016-17 Projection	Budget to Budget	
					\$ Change Incr / (Decr)	% Change Incr / (Decr)
Administrative Operating Costs	\$418.3	\$408.2	\$443.5	\$455.4	\$25.2	6.0%
Investment Operating Costs	80.6	80.6	83.0	83.0	2.4	3.0%
Total Operating Costs	\$498.9	\$488.8	\$526.5	\$538.4	\$27.6	5.5%
Enterprise Projects	24.9	21.9	37.5	31.2	12.6	50.6%
Headquarters Building Costs ²	32.6	30.0	30.3	31.0	(2.3)	(7.0%)
Subtotal	\$556.4	\$540.7	\$594.4	\$600.6	\$37.9	6.8%
Investment External Management Fees	\$1,016.5	\$1,016.5	\$930.7	\$930.7	(\$85.8)	(8.4%)
Subtotal	\$1,572.9	\$1,557.2	\$1,525.1	\$1,531.3	(\$47.8)	(3.0%)
Third Party Administrator Fees	\$285.3	\$279.9	\$294.6	\$306.6	\$9.3	3.3%
CalPERS Total Budget	\$1,858.2	\$1,837.1	\$1,819.7	\$1,837.9	(\$38.5)	(2.1%)
Total Positions	2,727.0	-	2,765.0		38.0	1.4%

¹ FY 2014-15 Midyear budget approved by CalPERS Board of Administration on December 16, 2014

² For FY 2014-15 Approved Budget, the \$32.6M does not include a \$3.2M offset in rental revenue; for FY 2015-16 Proposed Budget, \$3.2M in rental revenue is included

BACKGROUND

The annual budget process is designed to review the organization's existing operational resource needs to maintain current service levels, as well as prioritize resource requests for new services, initiatives, and projects required to meet CalPERS mission, strategic goals, and business plan priorities. The budget process begins in October of each year with submission of the Financial Office's annual budget memo to enterprise management that provides a universal message detailing instructions, budget policy direction, and communicates expectations and objectives.

The Financial Office works collaboratively with divisions through this process to analyze the operational needs of the organization while ensuring alignment with CalPERS strategic goals and business plan. Programs requesting resources related to new services, initiatives and projects submit detailed formal budget request documents. The Financial Office budget staff conducts thorough analysis of the requests and in collaboration with senior management ranks the requests through a prioritization exercise which uses criteria related to workload capacity, business plan initiatives, board or legislative mandates and risk mitigation to CalPERS. The resource request analysis and prioritization is presented to executive management for review, and in February, an executive review panel allows program management the opportunity to present their requests prior to executives finalizing the allocation of funding and proposed budget for submittal to the Board. The proposed budget is reviewed by the Board in an open public forum in March and April, as first and second readings, respectively. The Board approves and adopts the annual budget in April with an annual budget effective date of July 1 of the new fiscal year.

ANALYSIS

The proposed budget provides the annual financial plan for FY 2015-16 with projections for FY 2016-17. 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 2015-17 Business Plan, and is based on the departmental review of operations. This budget was built upon five key areas:

- Innovative approaches to improving benefit services and continued customer focus
- Effective information technology solutions and strong data governance
- Cost efficiencies and workload capacity
- Effective risk management and compliance
- Sound management practices and leadership development

Major highlights of the CalPERS Total Budget include:

- Ongoing cost saving efforts to transition investment portfolio management activities from consultants to State staff
- Reduction in investment performance fees due to the removal of the Absolute Return Strategy asset class
- Optimization of the myCalPERS system and ongoing knowledge transfer to realize increased operational efficiencies
- Redesign of the Actuarial Valuation System (AVS) to provide information that meets actuarial practices and supports new Governmental Accounting Standards Board (GASB) reporting requirements
- Continued efforts to support the development of an enterprise treasury management function to enhance cash controls, cash integrity, and liquidity management
- Continued development and efforts for the security and protection of our members' data through the Security Roadmap project
- Establishment of a Data Governance framework to set the foundation of a Business Intelligent organization that will be able to better leverage data and information to support decision making
- Continued program improvements in the Health Program related to increased analysis to develop innovative healthcare models
- Implement efficiencies to increase the number and effectiveness of Public Agency Audit Reviews (PAAR) and resolve associated retirement benefit audit findings requiring resolution

BUDGET AND FISCAL IMPACTS

The Fiscal Year (FY) 2015-16 Annual Budget Proposal as a First Reading totals \$1,819,708,000 and 2,765 positions.

- Total Operating Costs which include \$443,546,000 in Administrative Operating Costs and \$82,959,000 in Investment Operating Costs
- Enterprise Projects Costs of \$37,508,000
- Headquarters Building Costs of \$30,350,000
- Investment External Management Fees of \$930,726,000
- Third Party Administrator Fees of \$294,619,000

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 2015-17 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 2015-16 Annual Budget Proposal

Attachment 2 – Transmittal Letter

ROSE MCAULIFFE, Chief
Financial Planning, Policy and Budgeting Division

CHERYL EASON
Chief Financial Officer