



Finance and Administration Committee Agenda Item 4f

March 15, 2016

Item Name: Semi-Annual Budget and Expenditure Report

Program: Financial Office

Item Type: Information Consent

Executive Summary

This report represents the CalPERS Semi-Annual Budget and Expenditure Report for Fiscal Year (FY) 2015-16. It provides six months of CalPERS budget and expenditure detail from July 1, 2015 through December 31, 2015.

As of December 31, 2015, \$600.6 million of \$1,819.7 million or 33.0 percent of the CalPERS Total Budget was expended, leaving a balance of \$1,219.1 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 2015-16 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 to provide information that meets actuarial practices and supports new Governmental Accounting Standards Board 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 and resolve associated retirement benefit audit findings requiring resolution.

Analysis

The table below provides a summary of the budget and expenditure status for the various CalPERS budgets as of December 31, 2015.

Budget (Dollars in thousands)	FY 2015-16 Annual Budget	Expenditures	Percent Expended	Percent Expended (Previous Year)
Administrative Operating Costs	443,546	192,045	43.3%	42.7%
Investment Operating Costs	82,959	22,644	27.3%	30.8%
Subtotal	\$526,505	\$214,689	40.8%	40.8%
Investment External Mgmt Fees	930,726	223,710	24.0%	20.2%
Total Operating Costs	\$1,457,231	\$438,399	30.1%	26.9%
Enterprise Projects	37,508	7,712	20.6%	10.4%
Headquarters Building Account	30,350	10,026	33.0%	33.5%
Third Party Administrator Fees	294,619	144,481	49.0%	48.6%
CalPERS Total	\$1,819,708	\$600,618	33.0%	30.2%

FY 2015-16 Budget and Expenditures

The CalPERS Total Budget expended \$600.6 million or 33.0 percent of budgeted expenditures which is an increase compared to 30.2 percent during the same period last fiscal year. The FY 2015-16 major changes by budget area are as follows:

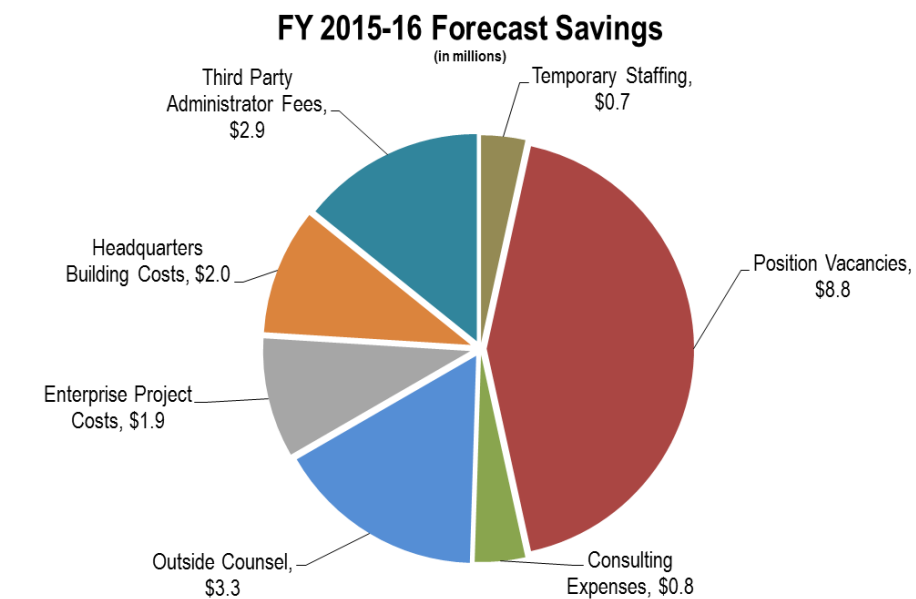
- Administrative Operating Cost percent expended is slightly higher at this time compared to the previous year. This is due to an increase in the hardware refresh plan and data processing services.
- Investment Operating Cost percent expended is lower due to Master Custodian and fund Administration Services Fees as they are in a lag schedule and will be displayed in the third quarter of the fiscal year.
- Enterprise Projects percent expended is low at this time. Some projects are expected to accelerate the rate of expenditure later in the year. The Actuarial Valuation System Redesign timeline has shifted and preliminary work has been able to be done by CalPERS staff which will generate significant savings in the current year.
- Headquarters Building Costs percent expended is similar to prior year, but slightly lower than what the average should be for this point in the fiscal year. Many of the major projects are still in progress. Expenses will be reflected on the second half of the year.

- Investment External Management base and performance fees are volatile and tend to fluctuate during the course of the fiscal year. Timing of performance fees payments are also a key indicator of over/under expenses. Expenses are overall slightly lower than budgeted at this point in time.
- Third Party Administrator Fees are on target at this point in time in the fiscal year.

FY 2015-16 Forecast to Budget

The current FY 2015-16 Forecast is \$1,787.2 million, a decrease of \$20.4 million or 1.1 percent from the FY 2015-16 Approved Mid-Year Budget of \$1,807.6 million. Estimated savings are a result of reductions in Administrative Operating Costs, which include temporary staffing, consulting expenses, position vacancies and outside counsel (\$13.6 million).

Savings also include a delay in Enterprise Project Costs (\$1.9), potential Headquarters Building savings based on current expenditure trend (\$2.0 million), and potential Third Party Administrator savings based on estimates from program areas (\$2.9 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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Chief Financial Officer