



# Finance and Administration Committee Agenda Item 5b

November 15, 2016

**Item Name:** 2016-17 Mid-Year Budget (First Reading)

**Program:** Financial Office

**Item Type:** Action

**Recommendation**

Approve the California Public Employees' Retirement System Fiscal Year (FY) 2016-17 Mid-Year Total Budget of \$1,787,234,000 and 2,886 positions.

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 2016 Budget Act, and to the Legislative Analyst's Office, Government Operations Agency, and the Office of the Legislative Counsel.

**Executive Summary**

The CalPERS proposed FY 2016-17 Mid-Year Budget totals \$1,787,234,000, representing a decrease of \$1,266,000 (-0.07 percent) from the authorized FY 2016-17 Annual Budget of \$1,788,500,000. It is also the sixth formal budget process in which the budget has been reduced. The budget details are as follows:

Fiscal Year 2016-17 Mid-Year CalPERS Total Budget

| (in thousands)                                   | FY 2016-17<br>Annual<br>Budget | Mid-Year<br>Adjustments | FY 2016-17<br>Proposed<br>Mid-Year Budget | %<br>Change<br>From Annual |
|--|--------------------------------|-------------------------|---|----------------------------|
| Administrative Operating Costs                   | \$455,771                      | \$3,380                 | \$459,151                                 | 0.7%                       |
| Investment Operating Costs <sup>1</sup>          | 90,538                         | (1,000)                 | 89,538                                    | (1.1%)                     |
| Investment External Management Fees <sup>2</sup> | 896,705                        |                         | 896,705                                   | 0.0%                       |
| Third Party Administrator Fees                   | 272,809                        |                         | 272,809                                   | 0.0%                       |
| <b>Subtotal: Operating Costs</b>                 | <b>\$1,715,823</b>             | <b>\$2,380</b>          | <b>\$1,718,203</b>                        | <b>0.1%</b>                |
| Enterprise Projects Costs                        | 41,382                         | (3,646)                 | 37,736                                    | (8.8%)                     |
| Headquarters Building Costs                      | 31,295                         |                         | 31,295                                    | 0.0%                       |
| <b>CalPERS Total Budget</b>                      | <b>\$1,788,500</b>             | <b>(\$1,266)</b>        | <b>\$1,787,234</b>                        | <b>(0.07%)</b>             |
| <b>Total Positions</b>                           | <b>2,872.0</b>                 | <b>14.0</b>             | <b>2,886.0</b>                            | <b>0.5%</b>                |

<sup>1</sup> Investment operating expenses are not part of CalPERS Administrative Operating Costs and therefore should not be included in CalPERS pro-rata assessment.

<sup>2</sup> Investment External Management Fees consist of both Base Fees and Performance Fees.

## Strategic Plan

This agenda item supports Goal B of the CalPERS 2012-2017 Strategic Plan, which is to cultivate a high-performing, risk-intelligent and innovative organization. Through the Mid-Year Budget process, budget adjustments aid in addressing and mitigating budget risks to ensure sufficient funding to meet operational requirements and the continued delivery of quality and efficient service to our members and employers.

## Background

The purpose of the Mid-Year Budget process is to address enterprise critical, unforeseen, and emergency resources not included in the FY 2016-17 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 the mid-year process are required to meet these criteria for consideration and inclusion in the Mid-Year Budget process.

The Mid-Year Budget process provides an opportunity to review current financial information and adjust the authorized budget based on a more accurate 2016-17 forecast for the remainder of the fiscal year. Only one mid-year request was deferred until the 2017-18 Annual Budget process. It was related to recent legislation requiring mandatory training for managers and Career Executive Appointments which is pending further direction from the California Department of Human Resources.

## Analysis

The FY 2016-17 CalPERS Mid-Year Budget of \$1,787,234,000 represents a decrease of \$1,266,000 (-0.07 percent) from the FY 2016-17 CalPERS Annual Budget of \$1,788,500,000 due to the following proposed changes:

| FY 2016-17 Mid-Year Budget Changes                        | Dollars<br>(in thousands) | Positions      |
|---|---------------------------|----------------|
| Approved FY 2016-17 Annual Budget                         | \$ 1,788,500              | 2,872.0        |
| <b>Additions to FY 2016-17 Annual Budget:</b>             |                           |                |
| Statewide Salary and Staff Benefit Increases              | \$ 10,500                 |                |
| Formal Budget Requests (FBRs):                            |                           |                |
| Investment Office: Global Equity Realignment              | 747                       | 5.0            |
| Investment Office: Sustainable Investment Realignment     | 379                       | 3.0            |
| Financial Office: Employer Contracts Management           | 361                       | 6.0            |
| Operations: Additional Voting Methods for Board Elections | 393                       | 0.0            |
| Total FBRs  | \$ 1,880                  |                |
| <b>Total Additions</b>                                    | <b>12,380</b>             | <b>14.0</b>    |
| <b>SUBTOTAL</b>   | <b>\$ 1,800,880</b>       | <b>2,886.0</b> |
| <b>Reductions to FY 2016-17 Annual Budget:</b>            |                           |                |
| Salary Savings due to Vacancies                           | (\$8,000)                 |                |
| Enterprise Projects Savings                               | (3,646)                   |                |
| External Legal Costs                                      | (2,000)                   |                |
| Total Reductions  | (13,646)                  |                |
| <b>Proposed FY 2016-17 Mid-Year Budget</b>                | <b>\$ 1,787,234</b>       | <b>2,886.0</b> |
| Change from Annual Budget                                 | (\$1,266)                 | 14.0           |
| Percent Change  | (0.07%)                   | 0.5%           |



The attachment provides details and explanations for the FY 2016-17 Mid-Year Budget adjustments.

### **Budget and Fiscal Impacts**

The FY 2016-17 Mid-Year Budget of \$1,787.2 million represents an overall net decrease of \$1.3 million, or 0.07 percent, from the FY 2016-17 Annual Budget. The request for 2,886 positions is an increase of 14 positions (0.5 percent) over the current approved positions of 2,872.

### **Benefits and Risks**

The approval of the proposed FY 2016-17 Mid-Year Budget will provide necessary funding to meet enterprise needs. It also reflects the anticipated adjustments necessary to more accurately reflect the forecasted costs for FY 2016-17 while still meeting the commitments contained in the original submission.

The risk of not approving the proposed Mid-Year Budget includes potentially limiting the organization's ability to achieve the initiatives and meet the strategic goals and objectives of the enterprise as set out in the CalPERS 2015-17 business plan.

### **Attachments**

Attachment 1 – Fiscal Year 2016-17 Mid-Year Budget  
Attachment 2 – Transmittal Letter

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