



Finance and Administration Committee Agenda Item 5a

December 20, 2016

Item Name: 2016-17 Mid-Year Budget (Second 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 \$1,786,873,000 and 2,880 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 \$1,786,873,000 which reflects a decrease of \$1,627,000 (-0.09 percent) from the authorized FY 2016-17 Annual Budget of \$1,788,500,000 and a decrease of \$361,000 for 6.0 positions from the First Reading of the 2016-17 Mid-Year Budget. 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 Annual Budget	Mid-Year Adjustments	FY 2016-17 Proposed Mid-Year Budget	% Change From Annual
Administrative Operating Costs	\$455,771	\$3,019	\$458,790	0.7%
Investment Operating Costs ¹	90,538	(1,000)	89,538	(1.1%)
Investment External Management Fees ²	896,705		896,705	0.0%
Third Party Administrator Fees	272,809		272,809	0.0%
Subtotal: Operating Costs	\$1,715,823	\$2,019	\$1,717,842	0.1%
Enterprise Projects Costs	41,382	(3,646)	37,736	(8.8%)
Headquarters Building Costs	31,295		31,295	0.0%
CalPERS Total Budget	\$1,788,500	(\$1,627)	\$1,786,873	(0.09%)
Total Positions	2,872.0	8.0	2,880.0	0.3%

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

² 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. 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. Furthermore, another mid-year request will be addressed with current resources. This included 6.0 positions in the Financial Office for employer contracts management.

Analysis

The FY 2016-17 CalPERS Mid-Year Budget of \$1,786,873,000 represents a decrease of \$1,627,000 (-0.09 percent) from the FY 2016-17 CalPERS Annual Budget of \$1,788,500,000 due to the following proposed changes:

Mid-Year Budget Changes	Dollars (in thousands)	Positions
Approved FY 2016-17 Annual Budget	\$ 1,788,500	2,872.0
Additions to FY 2016-17 Annual Budget:		
Statewide Salary and Staff Benefit Increases	\$ 10,500	
Formal Budget Request:		
Investment Office: Global Equity Realignment	747	5.0
Investment Office: Sustainable Investment Realignment	379	3.0
Operations: Additional Voting Methods for Board Elections	393	
Total FBRs	\$ 1,519	8.0
Total Additions	12,019	
Subtotal	\$ 1,800,519	
Reductions to FY 2016-17 Annual Budget:		
Salary Savings due to Vacancies	(\$8,000)	
Enterprise Projects Savings	(3,646)	
External Legal Costs	(2,000)	
Total Reductions	(13,646)	
Proposed FY 2016-17 Mid-Year Budget	\$ 1,786,873	2,880.0
Change from Annual Budget	(\$1,627)	8.0
Percent Change	(0.09%)	0.3%



During the First Reading of the FY 2016-17 Mid-Year Budget in November 2016, committee members expressed concerns about new position requests. As a result of this discussion, the Financial Office reassessed their resource needs for this new workload and 6.0 positions originally requested in the Mid-Year Budget for employer contract management activities have been withdrawn. The Financial Office received support from the organization where 2.0 positions were redirected from the enterprise due to enterprise pooling efforts. For the remaining 4.0 positions, the Financial Office will look to accomplish this new workload by streamlining current processes, consolidating functions, and assessing technological opportunities to automate functions.

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 \$1,786.9 million represents an overall net decrease of \$1.6 million, or 0.09 percent, from the FY 2016-17 Annual Budget. The request for 2,880 positions is an increase of 8 positions (0.3 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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