



# Finance and Administration Committee Agenda Item 5a

December 19, 2017

**Item Name:** 2017-18 Mid-Year Budget Revisions (Second Reading)

**Program:** Financial Office

**Item Type:** Action

**Recommendation**

Approve the California Public Employees’ Retirement System Fiscal Year (FY) 2017-18 Mid-Year Total Budget of \$1,675,851,000 and 2,875 positions. **There is no change between the first and second readings of the 2017-18 Mid-Year Budget.**

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 2017 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 2017-18 Mid-Year Budget totals \$1,675,851,000 representing a decrease of \$552,000 (-0.03 percent) from the authorized FY 2017-18 Annual Budget of 1,676,403,000. The budget details are as follows:

**Fiscal Year 2017-18 Mid-Year CalPERS Total Budget**

(\$ in thousands)	FY 2017-18 Annual Budget	Mid-Year Adjustments	FY 2017-18 Proposed Mid-Year Budget	% Change From Annual
Administrative Operating Costs	\$474,441	(\$6,039)	\$468,402	(1.3%)
Investment Operating Costs <sup>1</sup>	91,236		91,236	0.0%
Investment External Management Fees <sup>2</sup>	777,518		777,518	0.0%
Third Party Administrator Fees <sup>3</sup>	282,860	6,051	288,911	2.1%
<b>Subtotal: Operating Costs</b>	<b>\$1,626,055</b>	<b>\$12</b>	<b>\$1,626,067</b>	<b>0.0%</b>
Enterprise Projects Costs	23,302	(564)	22,738	(2.4%)
Headquarters Building Costs	27,046		27,046	0.0%
<b>CalPERS Total Budget</b>	<b><u>\$1,676,403</u></b>	<b><u>(\$552)</u></b>	<b><u>\$1,675,851</u></b>	<b><u>(0.03%)</u></b>
<b>Total Positions</b>	<b>2,875.0</b>		<b>2,875.0</b>	<b>0.0%</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.

<sup>3</sup> The State Controller’s Office contract for FY 17/18 was negotiated for \$1.9 million, savings of \$5.0 million from the prior year contract of \$6.9 million, due to the reductions in printing costs. The item is shown as an increase to the budget, classified for the first time as an operating cost in the budget.

The State Controller's Office (SCO) contract term duration is 7/1/2017-6/30/2017 and the newly negotiated total was reduced substantially to \$9.6 million. Historically, the SCO contract was categorized as related to premiums, and was not included in the operational overhead budget presented to the Committee semi-annually. To improve our transparency related to the reporting of the health program expense the contract was reevaluated and more appropriately defined as a third-party administrator cost that resulted in an increase in the Third Party Administrator Fees and reported in the operational overhead budget to the Committee. Also, CalPERS staff has met with the Department of Finance and is working collaboratively regarding the HCF/CRF funds.

### **Strategic Plan**

This agenda item supports the CalPERS 2017-22 Strategic Plan and the FY 2017-18 Business Plan. The Financial Office analyzes the operational needs of the organization while ensuring alignment with CalPERS strategic goals and business plan. Through the Mid-Year 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 services 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 2017-18 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 must 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 2017-18 forecast for the remainder of the fiscal year.

### **Analysis**

The FY 2017-18 CalPERS Mid-Year Budget of \$1,675,851,000 represents a decrease of \$552,000 (-0.03 percent) from the FY 2017-18 CalPERS Annual Budget of \$1,676,403,000 due to the following proposed changes:

Mid-Year Budget Changes	Dollars (\$ in thousands)	Positions
Approved FY 2017-18 Annual Budget	\$1,676,403	2,875
<b>Additions to FY 2017-18 Annual Budget:</b>		
Statewide Salary and Staff Benefit Adjustments	\$1,461	
Third Party Administrator Fees		
Health Program	5,470	
Long Term Care Program	576	
CERBT	4	
<b>Total Additions</b>	7,512	
<b>SUBTOTAL</b>	<b>\$1,683,915</b>	
<b>Reductions to FY 2017-18 Annual Budget:</b>		
Salary Savings due to Vacancies	(\$7,500)	
Long Term Care Third Party Administrator Project	(564)	
<b>Total Reductions</b>	<b>(8,064)</b>	
<b>Proposed FY 2017-18 Mid-Year Budget</b>	<b>\$1,675,851</b>	<b>2,875</b>
Change from Annual Budget	(\$552)	
Percent Change	(0.03%)	

The attachment provides details and explanations for the FY 2017-18 Mid-Year Budget adjustments.

### **Budget and Fiscal Impacts**

The FY 2017-18 Mid-Year Budget of \$1,675.9 million represents an overall net decrease of \$552,000, or (-0.03) percent, from the FY 2017-18 Annual Budget. Authorized Positions of 2,875 remain the same as in the annual budget process.

### **Benefits and Risks**

The approval of the proposed FY 2017-18 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 2017-18 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 2017-22 Business Plan.

**Attachments**

Attachment 1 – Fiscal Year 2017-18 Mid-Year Budget  
Attachment 2 – Transmittal Letter

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Chief Financial Officer

