



Finance and Administration Committee Agenda Item 5a

April 17, 2018

Item Name: 2018-19 Annual Budget Proposal (First Reading)

Program: Financial Office

Item Type: Action

Recommendation

Approve the Fiscal Year (FY) 2018-19 Annual Budget Proposal as a First Reading in the amount of \$1,680,636,000 and 2,875 positions, and 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 2017, 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: Administrative and Investment Operating Costs, Investment External Management Fees, Third Party Administrator Fees, Enterprise Project Costs, and Headquarters Building Costs.

The FY 2018-19 Annual Budget Proposal in the amount of \$1,680,636,000 is comprised of the following:

- (1) Operating Costs which include \$497,557,000 in Administrative Operating Costs, \$93,421,000 in Investment Operating Costs, \$767,009,000 in Investment External Management Fees, and \$288,686,000 in Third Party Administrator Fees
- (2) Enterprise Project Costs of \$9,591,000
- (3) Headquarters Building Costs of \$24,372,000

The FY 2018-19 Annual Budget Proposal is focused on core business needs necessary to CalPERS long-term strategy and on furthering our mission of building retirement and health security for those who serve California. The FY 2018-19 Annual Budget specifies the anticipated resources required to achieve efficiencies, identify and implement cost-saving measures, manage risks, deliver quality customer service, and provide strong affordable health care programs to effectively deliver retirement and health security for the public workers of California.

The FY 2018-19 CalPERS Total Budget of \$1,680,636,000 represents an overall total net increase of \$4.8 million (0.3 percent) from the FY 2017-18 CalPERS Total Budget. The increase of \$34.8 million in Administrative and Investment Operating Costs is offset by a decrease of \$30.0 million in Enterprise Project Costs, Investment External Management Fees, Headquarter Building Costs, and Third Party Administrator Fees.

Fiscal Year 2018-19 Annual CalPERS Total Budget

(in thousands)	FY 2017-18 Approved Budget ¹	FY 2017-18 Forecast	FY 2018-19 Proposed Budget	Budget to Budget		FY 2017-18 Budget to Forecast	
				\$	%	\$	%
				Change Incr / (Decr)	Change Incr / (Decr)	Change Incr / (Decr)	Change Incr / (Decr)
Administrative Operating Costs	\$ 468,402	\$ 451,744	\$ 497,557	\$ 29,155	6.2%	(\$16,658)	(3.6%)
<i>Salary & Benefits</i>	350,104	334,397	370,991	20,887	6.0%	(15,706)	(4.5%)
<i>Discretionary</i>	118,298	117,346	114,756	(3,543)	(3.0%)	(952)	(0.8%)
<i>Baseline Admin. FBRs</i>			8,174	8,174			
<i>One-time Admin. FBRs</i>			3,636	3,636			
Investment Operating Costs ²	91,236	91,236	93,421	2,185	2.4%	-	0.0%
Investment External Management Fees	777,518	777,518	767,009	(10,509)	(1.4%)	-	0.0%
Third Party Administrator Fees ³	288,911	288,911	288,686	(225)	(0.1%)	-	0.0%
Total: Operating Costs	\$ 1,626,067	\$ 1,609,409	\$ 1,646,672	\$ 20,606	7.2%	(\$16,658)	(1.0%)
Enterprise Project Costs	22,738	22,179	9,591	(13,147)	(57.8%)	(559)	(2.5%)
Headquarters Building Costs	27,046	27,046	24,372	(2,674)	(9.9%)	-	0.0%
CalPERS Total Budget	\$ 1,675,851	\$ 1,658,633	\$ 1,680,636	\$ 4,785	0.3%	(\$17,218)	(1.0%)
Total Positions	2,875.0		2,875.0	-	0.0%		

¹ FY 2017-18 Mid-Year Budget approved by the CalPERS Board of Administration on December 19, 2017.

² Investment operating expenses are not part of CalPERS Administrative Operating Costs and therefore should not be included in CalPERS pro-rata assessment.

³ The Administrative Services Fees in this report are initial proposals from health insurance carriers and may change, as they are negotiated each year during the health plan rate development process.

Note: Numbers may not add exactly due to rounding of budget detail.

Strategic Plan

This agenda item supports the CalPERS 2017-22 Strategic Plan and the FY 2018-19 Business Plan. The Financial Office works collaboratively with divisions through this process to analyze the operational needs of the organization while ensuring alignment with the CalPERS strategic goals and business plan. Program areas submit formal budget requests to identify the funding and staffing required to achieve the goals set forth in the CalPERS strategic plan and business plan, as well as to address new services, initiatives, and projects consistent with the priorities of the organization. The proposed budget is reviewed by the Finance and Administration Committee of the Board of Administration in April and May, as a first and second reading. Upon approval of the annual budget by the Board of Administration, the approved budget becomes effective July 1st of the new fiscal year.

Background

The annual budget process is designed to review the organization's existing operational resource needs to maintain and/or enhance 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 the release of the Financial Office's annual budget memo communicated to enterprise management that provides a universal message detailing instructions, budget policy direction, and expectations and objectives.



The CalPERS Total Budget is comprised of five main cost areas: Administrative and Investment Operating Costs, Investment External Management Fees, Third Party Administrator Fees, Enterprise Project Costs, and Headquarters Building Costs.

Analysis

The Financial Office Budget staff conducts a thorough analysis of the formal budget requests as part of the technical preparation of the budget. All program areas participate in the budget preparation process, including the development of programs and services consistent with the CalPERS strategic and business plans, development of budget requests specifying resources anticipated to carry out those programs and services while considering strategic planning goals and objectives, cost efficiencies, risks, business planning initiatives, board or legislative mandates, and workload capacity.

In discussions and collaboration with divisional senior management, all submissions are reviewed and discussed with budget team members and senior management before a final presentation, review for enterprise considerations and approval by the executive leadership team. Once all approvals are completed, the final proposed budget is submitted to the Finance and Administration Committee of the Board of Administration for review and approval.

The proposed budget provides the annual financial plan for FY 2018-19. 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 FY 2017-18 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
- Cost efficiencies and workload capacity
- Effective risk management and compliance
- Sound management practices and leadership development

Major highlights of the CalPERS Total Budget include:

- Reductions in Investment External Management Fees (\$10.5 million).
- Reductions in the enterprise's discretionary costs (temporary help and benefits, overtime, and operating expenses & equipment) by \$3.5 million.
- No new positions are proposed as the organization will continue to address resource needs through the redirection of existing positions as a result of an enterprise position pooling concept.
- An enterprise-wide reduction in blanket positions from 347 positions in 2013 to 21 positions in 2018.
- The my|CalPERS Business Optimization Project is scheduled to be completed in FY 2017-18. The maintenance and operation costs for the my|CalPERS system will move to the Operating Budget.
- Continuation of the Actuarial Valuation System (AVS) Redesign project to provide information that meets actuarial practices and supports new Governmental Accounting Standards Board (GASB) reporting requirements.
- Replacement of the current Human Resources Management System with a modern cloud-based system that will meet CalPERS business needs and requirements.



- Transition of the Contact Center platform to a cloud-based platform to reduce the complexity of the current multi-vendor Contact Center application.

Budget and Fiscal Impacts

The FY 2018-19 CalPERS Total Budget of \$1,680,636,000 represents an overall total net increase of \$4.8 million (0.3 percent) from the FY 2017-18 CalPERS Total Budget. Authorized positions remain at 2,875 from FY 2017-18.

Benefits and Risks

The benefits of the Committee recommending approval of the proposed budget, and the Board of Administration subsequently approving the recommendation, will allow CalPERS to meet resource needs, fulfill the objectives set in the CalPERS 2017-18 Business Plan, and align the organization with our long-term strategies as stated in the CalPERS 2017-22 Strategic Plan.

The risks of not approving the proposed budget include potential resource shortfalls which may inhibit the enterprise's ability to achieve our organizational goals, deliver on customer service, reduce reliance on outside consultants, and proactively monitor public agencies for compliance.

Attachments

Attachment 1 – FY 2018-19 Annual Budget Proposal

Attachment 2 – Transmittal Letter

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