



Finance and Administration Committee

Agenda Item 6a

April 16, 2019

Item Name: 2019-20 Annual Budget Proposal (1st Reading)

Program: Financial Office

Item Type: Action

Recommendation

Approve the First Reading of the 2019-20 Annual Budget in the amount of \$1.898 billion and 2,875 positions.

Executive Summary

The total 2019-20 proposed budget is \$1.898 billion; an increase of \$199.4 million, or 11.7 percent, over the 2018-19 authorized budget. Total authorized positions remain unchanged at 2,875. Major drivers of cost increases include salary and benefit increases resulting from the Board's February 2019 action related to Investment Office compensation and the State's collective bargaining process, new tools to improve investment trading and management, and external management fees based on expected market returns and investment strategies.

Displayed in the proposed budget is an update on current-year expenditures. CalPERS' 2018-19 total authorized budget is \$1.698 billion. Of this amount, \$750.4 million, or 44.2 percent, was expended as of December 31, 2018. Based on an analysis of resource utilization at mid-year, CalPERS forecasts that it will end the 2018-19 fiscal year with approximately \$26.8 million in unexpended funds, or 1.6 percent of the total budget.

Strategic Plan

This agenda item supports CalPERS' 2017-22 Strategic Plan and the 2018-19 Business Plan in that the proposed budget represents the financial resources needed to achieve strategic goals and priorities, meet core business needs, and further the mission of delivering retirement and health care benefits to members and their beneficiaries.

Background

For each fiscal year, CalPERS engages in two formal budget processes - an annual budget process and a mid-year review. The annual budget process begins in October each year and includes a review of existing budgeted resources as well as new funding requests to maintain, improve, or implement services, initiatives, and projects. CalPERS presents the budget to the Board in a first reading each April, and a second reading in May. Once approved by the Board, the budget provides CalPERS with necessary expenditure authority for the upcoming fiscal year beginning July 1st. The mid-year review is presented to the Board each Fall.

Analysis

In developing the annual budget, Financial Office budget staff worked collaboratively with each division to understand their organizational structures and business objectives as a basis for maintaining existing funding levels and approving requests for new resources. In addition, CalPERS utilized a formal budget request process to consider, prioritize, and approve new resource requests. Pursuant to the CalPERS Budget Policy, the main criteria used to prioritize requests included:

- Mitigating risk
- Identifying opportunities for cost efficiencies
- Aligning with the Strategic Plan and Business Plan
- Implementing CalPERS Board of Administration decisions and directives
- Complying with legal mandates

Overall, the 2019-20 proposed budget reflects prudent increases that are either mandated or clearly aligned with strategic goals. This includes collectively bargained compensation increases as well as investment-related resources to strengthen and enhance investment capabilities and improve the system's funded status. Careful consideration was given to all new resource requests, and existing resources were redirected to where they are most critically needed within the organization. Because of these efforts, CalPERS limited new project costs and avoided increases in authorized positions.

Budget and Fiscal Impacts

As detailed in the following table, the proposed 2019-20 budget of \$1.898 billion reflects an increase of \$199.4 million, or 11.7 percent, over the 2018-19 authorized budget.

2019-20 Total Budget					
(in thousands)	2017-18 Actual	2018-19 Authorized Budget	2019-20 Proposed Budget	2018 to 2019 Change	
				\$ Increase / (Decrease)	% Increase / (Decrease)
Administrative Operating Costs	\$ 444,065	\$ 498,107	\$ 530,299	\$ 32,192	6.5%
Investment Operating Costs	68,425	93,421	120,436	27,015	28.9%
Investment External Management Fees	727,208	767,009	899,791	132,782	17.3%
Third Party Administrator Fees	288,652	305,612	319,273	13,660	4.5%
Total: Operating Costs	\$ 1,528,350	\$ 1,664,149	\$ 1,869,798	\$ 205,650	12.4%
Enterprise Project Costs	22,366	9,591	3,352	(6,240)	(65.1%)
Headquarters Building Costs	23,603	24,372	24,374	1	0.0%
CalPERS Total Budget	\$ 1,574,319	\$ 1,698,112	\$ 1,897,524	\$ 199,411	11.7%
Authorized Positions	2,875.0	2,875.0	2,875.0	-	0.0%

Benefits and Risks

An approved budget provides CalPERS with the expenditure authority needed to achieve strategic priorities and initiatives, meet core business needs, and further the mission of delivering retirement and health care benefits to members and their beneficiaries. Lack of approval will result in CalPERS' inability to operate and meet its financial obligations.

Attachments

Attachment 1– 2019-20 Annual Budget Proposal (1st Reading)

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