

MEETING
STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
FINANCE & ADMINISTRATION COMMITTEE

ROBERT F. CARLSON AUDITORIUM
LINCOLN PLAZA NORTH
400 P STREET
SACRAMENTO, CALIFORNIA

TUESDAY, MAY 14, 2019
1:00 P.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 10063

A P P E A R A N C E S

COMMITTEE MEMBERS:

Ms. Theresa Taylor, Chairperson

Mr. David Miller, Vice Chairperson

Ms. Margaret Brown

Mr. Henry Jones

Ms. Fiona Ma, represented by Mr. Matthew Saha

Mr. Jason Perez

Ms. Betty Yee, represented by Ms. Lynn Paquin

BOARD MEMBERS:

Ms. Lisa Middleton

Ms. Eraina Ortega

Mr. Ramon Rubalcava

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Michael Cohen, Chief Financial Officer

Mr. Matthew Jacobs, General Counsel

Ms. Jennifer Harris, Chief, Financial Planning, Policy and
Budgeting Division

Ms. LaRiesha Simmons, Committee Secretary

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P R O C E E D I N G S

CHAIRPERSON TAYLOR: Sorry about that. I'm calling the Finance and Administration Committee meeting to order. And let's start with roll.

COMMITTEE SECRETARY SIMMONS: Theresa Taylor?

CHAIRPERSON TAYLOR: Here.

COMMITTEE SECRETARY SIMMONS: David Miller?

VICE CHAIRPERSON MILLER: Here.

COMMITTEE SECRETARY SIMMONS: Margaret Brown?

COMMITTEE MEMBER BROWN: Here.

COMMITTEE SECRETARY SIMMONS: Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY SIMMONS: Matthew Saha for Fiona Ma?

ACTING COMMITTEE MEMBER SAHA: Here.

COMMITTEE SECRETARY SIMMONS: Jason Perez?

COMMITTEE MEMBER PEREZ: Here.

COMMITTEE SECRETARY SIMMONS: Lynn Paquin for Betty Yee?

ACTING COMMITTEE MEMBER PAQUIN: Here.

CHAIRPERSON TAYLOR: Okay. All right. Let's move on to the approval of the May 14th, 2019 Finance and Administration Committee timed agenda.

VICE CHAIRPERSON MILLER: So moved.

CHAIRPERSON TAYLOR: Moved by Mr. Miller.

1 COMMITTEE MEMBER BROWN: Second.

2 CHAIRPERSON TAYLOR: Seconded by Ms. Brown.

3 All those in favor?

4 (Ayes.)

5 CHAIRPERSON TAYLOR: All those opposed?

6 All right. Motion passes.

7 And Agenda Item 3, our Executive Report. Mr.
8 Cohen.

9 CHIEF FINANCIAL OFFICER COHEN: Thanks, Chair
10 Taylor. Michael Cohen with CalPERS. Just one item to
11 highlight and that's the State budget. Last week, the
12 Governor released the May revision. Just for you and the
13 members of the public, the May revision does continue to
14 include \$3 billion supplemental State deposit to CalPERS,
15 so that's very good.

16 Just procedurally now, it's in the Legislature's
17 hands to pass a budget by June 15th. So at our next
18 meeting we should have a much better idea of whether or
19 not the 3 billion stays in the State budget.

20 CHAIRPERSON TAYLOR: Cross your fingers.

21 CHIEF FINANCIAL OFFICER COHEN: Yeah.

22 CHAIRPERSON TAYLOR: All right. So we are moving
23 on to our action consent items.

24 COMMITTEE MEMBER JONES: Move approval.

25 CHAIRPERSON TAYLOR: Thank you, Mr. Jones.

1 VICE CHAIRPERSON MILLER: Second.

2 CHAIRPERSON TAYLOR: Seconded by Mr. Miller.

3 All those in favor?

4 (Ayes.)

5 CHAIRPERSON TAYLOR: All those opposed?

6 All right. And the action consent items included
7 approval of the minutes, Treasury Management Policy, and
8 Treasury Management Reserve Policy.

9 Information consent items, I have not received a
10 request to pull anything off.

11 So we are moving on to Agenda Item 6a, vacancy
12 rate assumptions. Mr. Cohen.

13 CHIEF FINANCIAL OFFICER COHEN: Yes. So this is
14 a follow up from our April discussion on the budget. You
15 received the other budget items that had supplemental
16 information requests. But this is an item we agendized.
17 I'm going to turn it over to Jennifer to walk you through.
18 It was a good exercise for us to go back and take a look
19 at our assumptions. But we'd like to, as a
20 recommendation, stay with our original presentation to you
21 from April.

22 CHAIRPERSON TAYLOR: Okay. Great. Ms. -- thank
23 you, Jennifer.

24 FINANCIAL PLANNING, POLICY & BUDGETING DIVISION

25 CHIEF HARRIS: Good afternoon, Madam Chair, members of the

1 Committee. Jennifer Harris with the Financial Office.

2 For Agenda Item 6a, the vacancy rate assumption,
3 I'm going to provide you with some background on the
4 methodology historically utilized by CalPERS to calculate
5 personal services expenditures, and then walk you through
6 the new methodology that we used for the 2019-20 proposed
7 budget.

8 We'll discuss the fiscal impacts of calculating
9 personal services expenditures these two ways, and then
10 talk about the reasons why CalPERS recommends the new
11 methodology as proposed.

12 So for several years, CalPERS estimated personal
13 services expenditures using estimated payroll figures
14 included in the salaries and wages supplement. This is a
15 document published by the Department of Finance. It
16 starts with actual payroll data reported from the State
17 Controller's office, and then estimates future year's
18 payroll assuming 100 percent continuous occupancy for all
19 positions.

20 So it takes the positions whatever salaries they
21 were making in the prior year, and for those folks who
22 aren't quite at the top step of their levels adds 5
23 percent merit salary increases.

24 Beginning in 2013-14, CalPERS then would reduce
25 its personal services expenditures for savings resulting

1 from anticipated vacancies. And this is commonly referred
2 to as salary savings.

3 The way that we would do this is we could look at
4 each division specifically. We would analyze each
5 division's current and historical vacancy rates. We would
6 make assumptions about future hiring decisions, and then
7 we would reduce each division's budget accordingly. Over
8 the last 6 years, this effort resulted in salary savings
9 reductions ranging from 4.2 percent to 6.9 percent, as
10 displayed in the table on page 2 of your agenda.

11 In the past, other State departments also reduced
12 their personal services expenditures for salary savings.
13 However, the State abandoned this practice in fiscal year
14 2012-13.

15 In 2019-20, CalPERS revised its methodology to
16 align with current State budgeting practices and to
17 implement a more streamlined consistent budgeting
18 approach. This included using the mid-step salaries as
19 published by the California Department of Human Resources,
20 or CalHR. This lowered expenditures and reflects that not
21 all positions will be filled at all times, and that some
22 employees will be paid at the bottom step of the salary
23 range, while some will be paid at a higher step. This is
24 consistent with how other State departments budget their
25 salaries for positions.

1 Using the mid-step does result in lower
2 expenditures. And it also reduced workload in the budget
3 shop, because we were no longer having to analyze specific
4 division's vacancy rates, and then making assumptions and
5 reducing their budgets.

6 CalPERS did not in 2019-20 then reduce personal
7 services expenditures for more salary savings. Again, the
8 mid-step already reflects lower expenditures. And again,
9 the State abandoned this practice several years ago.

10 At the direction of the Finance Committee last
11 April, we did recalculate expenditures using the historic
12 methodology, which was those higher payroll figures as
13 published in the salaries and wages supplement. The older
14 methodology increased salaries and wages expenditures
15 \$19.7 million or 4.7 percent. Because this 4.7 percent is
16 within that range of those historical salary savings
17 targets that we had seen over the past 6 years, we feel
18 that it is a reasonable proxy for what salary savings may
19 have been had we performed those division-by-division
20 specific analyses.

21 The table on page 3 of your agenda restates our
22 personal services expenditures with the higher salaries
23 and then the reduction for salary savings. As you can
24 see, there's no fiscal impact using this approach. Again,
25 though, we do note that it did result in some efficiencies

1 in the Budget Office. And this efficiency, along with
2 some other newly implemented approaches, enabled the
3 budget office to reduce its position count by two PYs,
4 which were redirected to the position pool and will be
5 available for redirection in the organization if other
6 critical needs arise.

7 Under either methodology, we want you to know
8 that funds remain in the PERF until actual expenditures
9 are incurred. So if, at the end of the fiscal year, there
10 are still some savings because there were additional
11 vacancies, those funds remained available for investment.

12 And we do review all expenditures on a quarterly
13 basis, and monitor the transfer of funds from affiliates
14 to the PERF for those reimbursements.

15 CalPERS does recommend that you approve the
16 2019-20 proposed budget as presented in April. This
17 utilized that new methodology. This captured salary
18 savings, but in a different way, with the added benefit of
19 resulting in some streamlining efficiencies, as well as
20 consistency with the State budgeting practices.

21 This approach, as we mentioned, reduced in two PY
22 position reduction in the Budget Office, and it also
23 avoids concerns that divisions have when we reduce their
24 budgets, while they're endeavoring to fill their
25 positions, and at the same time meet their salary savings

1 targets.

2 I'm happy to answer any questions that you have.

3 CHAIRPERSON TAYLOR: Sure. And I do have one
4 questions. Mr. Jones.

5 COMMITTEE MEMBER JONES: Yeah. Thank you, Madam
6 Chair.

7 First of all, I want to thank you for the report.
8 It's very clear and explains the methodology that you're
9 using. And my ultimate goal was to assure that the
10 savings were recognized. And so, at the process that you
11 used, seemed to be more efficient, so that's fine. My
12 goal was to make sure that monies that would be coming out
13 of the PERF and ended up not in the PERF within a year
14 would reduce our ability to invest those funds during the
15 course of the year.

16 And just looking at your chart here through --
17 from 2013 to 2018, that was \$144 million saved due to
18 salary savings. And if you had not done the salary
19 savings in some kind of method, that's \$144 million that
20 would not have been invested in returns for the Investment
21 staff.

22 So again, I appreciate you providing this report,
23 and accomplished the goal, and it's more efficient.

24 So I move the recommendation.

25 COMMITTEE MEMBER BROWN: Second.

1 CHAIRPERSON TAYLOR: Moved by Mr. Jones, seconded
2 by Ms. Brown.

3 I have one more. Ms. Paquin.

4 ACTING COMMITTEE MEMBER PAQUIN: Thank you, Madam
5 Chair.

6 Thank you for the report. I appreciate the
7 background and the history of the analysis. I just had a
8 question. I was curious why CalPERS had continued to use
9 the old methodology long after the State -- other State
10 departments had moved to a different alternative.

11 CHIEF FINANCIAL OFFICER COHEN: I think neither
12 of us were here. But my instinct just is that CalPERS has
13 tended to kind of do its own thing, given its
14 constitutional autonomy. And so one of the things you'll
15 see both of us continue to bring you I think in the next
16 couple years is some additional changes that sort of bring
17 the State more into line with State practices.

18 ACTING COMMITTEE MEMBER PAQUIN: Okay. Great.
19 Thank you

20 CHAIRPERSON TAYLOR: Great. And I want to thank
21 you both for this report. So we have a motion on the
22 floor and a second.

23 All those in favor?

24 (Ayes.)

25 CHAIRPERSON TAYLOR: All those opposed?

1 Okay. Motion carries.

2 And we move on to 6b, the annual budget proposal,
3 second reading

4 CHIEF FINANCIAL OFFICER COHEN: Thank you.

5 And that vote makes this item very easy. The
6 document is exactly the same as what you saw in April.
7 One of the reasons that we do the first and the second
8 reading is to give interested parties the opportunity to
9 provide us comments and provide you any feedback. As far
10 as at a staff level, we haven't received any substantive
11 comments on the budget, so would recommend approval --

12 CHAIRPERSON TAYLOR: And the only thing that --

13 CHIEF FINANCIAL OFFICER COHEN: -- consistent
14 with your April vote.

15 CHAIRPERSON TAYLOR: And then the only thing you
16 had to add was if we get the \$3 billion, it might change
17 the budget.

18 CHIEF FINANCIAL OFFICER COHEN: I don't think it
19 would change the budget. It would change the State's sort
20 of, you know, actuarial projections going forward, but --

21 CHAIRPERSON TAYLOR: So you're fine with that.

22 CHIEF FINANCIAL OFFICER COHEN: Yeah, we'd be
23 fine.

24 CHAIRPERSON TAYLOR: And --

25 COMMITTEE MEMBER BROWN: Moved approval.

1 VICE CHAIRPERSON MILLER. Second

2 CHAIRPERSON TAYLOR: It's been moved by Mr.
3 Jones, seconded by Mr. Miller. So we've moved the
4 recommendation to approve the second reading.

5 All those in favor?

6 (Ayes.)

7 CHAIRPERSON TAYLOR: Okay. All those opposed?

8 Okay. It passes unanimously. So there we go.
9 That was easy. We didn't -- and let me move on to Item
10 7a, which it doesn't sound like we had any.

11 CHIEF FINANCIAL OFFICER COHEN: No. You nailed
12 it. Thank you very much.

13 CHAIRPERSON TAYLOR: You want to give him some
14 direction? Go ahead, Margaret.

15 (Laughter.)

16 CHAIRPERSON TAYLOR: Just kidding.

17 So we don't have any summary of committee
18 direction. And I do not have any public comment. If
19 anybody wants to make public comment, you can come up.

20 If not, this Committee has been adjourned.

21 Thank you.

22 (Thereupon the California Public Employees'
23 Retirement System, Board of Administration,
24 Finance & Administration Committee meeting
25 adjourned at 1:12 p.m.)

C E R T I F I C A T E O F R E P O R T E R

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Finance & Administration Committee meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California;

That the said proceedings was taken before me, in shorthand writing, and was thereafter transcribed, under my direction, by computer-assisted transcription.

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 19th day of May, 2019.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
License No. 10063