



Finance and Administration Committee

Agenda Item 6b

November 19, 2019

Item Name: 2019-20 Mid-Year Budget Revision (1st Reading)

Program: Financial Office

Item Type: Action

Recommendation

Approve the 1st Reading of the 2019-20 Mid-Year Budget in the amount of \$1.898 billion. If the FAC provides no direction to significantly revise the Mid-Year Budget, CalPERS recommends that it bring the 2nd Reading to the Full Board for approval in December.

Executive Summary

At mid-year, CalPERS proposes a \$0.7 million net increase to its 2019-20 budget. As detailed in Attachment 1, this includes a decrease of \$1.5 million in Administrative Costs to reflect more accurate calculations of salary and benefit increases negotiated through the State's collective bargaining process, an increase of \$2.4 million in Third Party Administrator Fees based on updated health plan enrollment data, and a decrease of \$0.2 million in Enterprise Projects due to the cancellation of the Human Resources Management Solution Project. There are no changes proposed to Investment Operating Costs, Investment External Management Fees, or Headquarters Building Costs. Total authorized positions remain unchanged at 2,875.

2019-20 Mid-Year Total Budget

(\$ in thousands)	2019-20 Authorized Annual Budget	Mid-Year Adjustments	2019-20 Proposed Mid-Year Budget	% Change From Annual
Administrative Operating Costs	\$530,299	(\$1,499)	\$528,800	(0.3%)
Investment Operating Costs	120,436	-	120,436	0.0%
Investment External Management Fees	899,791	-	899,791	0.0%
Third Party Administrator Fees	319,273	2,388	321,661	0.7%
Subtotal: Operating Costs	\$1,869,798	\$889	\$1,870,687	0.05%
Enterprise Projects Costs	3,352	(236)	3,116	(7.0%)
Headquarters Building Costs	24,374	-	24,374	0.0%
CalPERS Total Budget	\$1,897,524	\$653	\$1,898,176	0.03%
Total Positions	2,875.0		2,875.0	0.0%

Strategic Plan

This agenda item supports CalPERS' 2017-22 Strategic Plan and the 2019-20 Business Plan in that the mid-year budget revision 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

Each fiscal year, CalPERS engages in two formal budget processes - an annual budget process and a mid-year review. The annual budget process culminates each May with the Board's approval of the budget for the upcoming fiscal year. Subsequently each Fall, CalPERS presents to the Board a Mid-Year Revision to address new, critical, or unforeseen resource needs. CalPERS also presents the final expenditure report for the prior fiscal year to the Board in the Fall.

Analysis

The 2019-20 Mid-Year Budget of \$1.898 billion represents an increase of \$0.7 million, or 0.03 percent, over the Annual Budget approved by the Board in May. The increase reflects adjustments that are common at mid-year, including a recalculation of collectively bargained salary and benefit increases using final, prior-year personal services expenditures, as well as updated fees driven by more current health plan enrollment data. In addition, the adjustment to Enterprise Projects is consistent with the 2018-19 Year-End Expenditure Report as detailed in Attachment 2, which identified the cancellation of the Human Resources Project.

For fiscal year 2018-19, CalPERS expended \$1.637 billion, or 96.4 percent, of the \$1.698 billion total authorized budget. This expenditure level is on target with the Key Performance Indicator to forecast expenditures at or below 10 percent of the budget.

Budget and Fiscal Impacts

This item increases CalPERS' total 2019-20 Authorized Budget by \$0.7 million.

Benefits and Risks

Approval of the 2019-20 Mid-Year Budget will provide necessary funding to meet enterprise needs. The proposed revisions more accurately reflect anticipated expenditures while maintaining the commitments contained in the previously-approved Annual Budget.

Because the overall budget adjustment is relatively insignificant, there is minimal risk that CalPERS will be unable to meet its overall financial commitments if not approved.

Attachments

Attachment 1 – 2019-20 Mid-Year Budget

Attachment 2 – 2018-19 Final Expenditure Report

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