



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: May 5, 2015 REPORT NO:
ATTENTION: Budget Review Committee
SUBJECT: Technical Review of San Diego City Employees' Retirement System Budget
REFERENCE: Fiscal Year 2016 Proposed Budget

REQUESTED ACTION: This is an information item. No action is required.

SUMMARY:

This report is the Financial Management Department's technical review of the San Diego City Employees' Retirement System's Fiscal Year 2016 Proposed Budget. This report is submitted to the Budget Review Committee in order to show the changes in year-to-year Agency budgeting and spending.

OVERVIEW AND BACKGROUND

The City of San Diego publishes a City Agencies section within Volume I of the Proposed and Adopted Budgets. This section consists of website links to the respective Agency Budgets published for the public's information; among the Agencies included in this section is the San Diego City Employees' Retirement System (SDCERS). The City does not play a role in either constructing or monitoring the Agency budgets; however, due to the fact that SDCERS staff are City employees, the respective positions receive an allocation of fringe benefits.

These technical reviews of the Agency budgets include details on budgeted expenditures, salary information, and funding sources. Agencies were asked to provide actual expenditures and revenues for Fiscal Year 2014 (either audited or unaudited), budgeted and projected expenditures and revenues for Fiscal Year 2015, and the proposed budget for Fiscal Year 2016.

The Fiscal Year 2016 Proposed Budget discussed in this report is based on the budget presented to the SDCERS' Board of Administration on March 13, 2015. SDCERS anticipates presenting any significant changes to fringe rates, as allocated by Financial Management, to the Board in May 2015.

BUDGET REVIEW

SDCERS is proposing a \$48.7 million budget for Fiscal Year 2016, which is a net \$2.0 million or a 4.2 percent increase from the Fiscal Year 2015 Budget. This increase is primarily attributed to a \$2.2 million or 6.7 percent increase in investment management expenses. Administrative

expenses decreased by \$226,783 or 1.6 percent compared to the Fiscal Year 2015 Budget. Table 1 includes the budgetary changes for these two components.

TABLE 1: SDCERS BUDGET SUMMARY – FISCAL YEARS 2014 – 2016

	FY 2014 Actual	FY 2015 Budget	FY 2015 Projected	FY 2016 Proposed Budget	FY 2015- 2016 Budget Change	FY 2015- 2016 Percent Change
POSITIONS	58.00	58.00	58.00	58.00	-	-
Personnel Expenditures						
<i>Salaries & Wages</i>	\$4,351,608	\$4,639,331	\$4,328,030	\$4,684,594	\$45,263	1.0%
<i>Overtime</i>	\$18,290	\$19,500	\$24,175	\$25,500	\$6,000	30.8%
<i>Fringe Benefits</i>	\$3,190,433	\$3,182,924	\$2,997,030	\$2,961,144	\$(221,780)	(7.0)%
Subtotal:	\$7,560,331	\$7,841,755	\$7,349,235	\$7,671,238	\$(170,517)	(2.2)%
Non-Personnel Expenditures						
<i>Information Technology</i>	\$1,749,671	\$1,988,712	\$1,979,612	\$1,942,242	\$(46,470)	(2.3)%
<i>Legal/External</i>	\$1,055,056	\$1,152,000	\$619,772	\$977,700	\$(174,300)	(15.1)%
<i>General Operations</i>	\$2,817,289	\$3,480,531	\$3,726,442	\$3,645,035	\$164,504	4.7%
Subtotal:	\$5,622,016	\$6,621,243	\$6,325,826	\$6,564,977	\$(56,266)	(0.8)%
TOTAL ADMINISTRATIVE EXPENSES	\$13,182,347	\$14,462,998	\$13,675,061	\$14,236,215	\$(226,783)	(1.6)%
TOTAL INVESTMENT MANAGEMENT EXPENSES	\$31,203,833	\$32,324,735	\$31,800,953	\$34,503,138	\$2,178,403	6.7%
GRAND TOTAL	\$44,386,180	\$46,787,733	\$45,476,014	\$48,739,353	\$1,951,620	4.2%

Investment management expenses are budgeted at \$34.5 million for Fiscal Year 2016, which is an increase of \$2.2 million or 6.7 percent from the Fiscal Year 2015 budget. The net increase in investment management fees were driven by increases in assets under management and strategic changes in the investment portfolio, including new investments in Real Estate, resulting in a \$2.6 million increase in fees, and new strategies in the Opportunity Fund, resulting in a \$1.4 million increase in fees. These increases were partially offset by a decrease of \$1.7 million in Private Equity fees primarily due to the negotiation of a new investment management fee structure in November 2014. It should be noted that the fee structure is typically negotiated every three years, dependent on the type of investment and associated commitment cycle. The annual growth in assets under management is based on the SDCERS' actuarially assumed rate of 7.25 percent, which is unchanged from Fiscal Year 2015. The asset growth projection is applied to the current contractual fee schedules of SDCERS' investment managers and is calculated on projected average assets of approximately \$7.2 billion for Fiscal Year 2016 (average assets were projected at \$6.8 billion for Fiscal Year 2015). Investment fees paid by SDCERS to investment managers, as calculated in basis points (bps) for the portfolio, are projected to be 46 bps for Fiscal Year 2016 compared to a projected 47 bps for Fiscal Year 2015. This decrease is primarily due to the negotiation of a more favorable fee structure for private equity.

Administrative expenses are comprised of the following expenditure categories: Personnel, Information Technology, Legal/External, and General Operations. Administrative expenses are budgeted at \$14.2 million for Fiscal Year 2016, which is a decrease of \$226,783 or 1.6 percent from the Fiscal Year 2015 Budget. The net change in administrative expenses is described in more detail below.

Personnel Expenses for Fiscal Year 2016 decreased by \$170,517 or 2.2 percent compared to Fiscal Year 2015, primarily due to a reduction of \$221,780 in fringe benefit expenses. Fringe expenses are paid by SDCERS as a pass-through to the City to cover pension benefits, health benefits, taxes, and changes in the City's Fiscal Year 2016 Actuarially Determined Contribution (ADC) to the retirement system. The Fiscal Year 2016 Budget includes an increase of \$45,263 in salaries and wages due to the anticipated filling of open positions and reclassifications of clerical to mid-level positions. There is no general salary increase for pensionable pay or bonuses budgeted for Fiscal Year 2016. There is a minimal increase of \$6,000 budgeted in overtime, which is determined based on the specific needs of each division. Finally, the Fiscal Year 2016 Budget includes \$10,000 for the employee recognition program, which is a decrease of \$3,000 or 23.1 percent from Fiscal Year 2015.

Information Technology (IT) expenditures are budgeted at \$1.9 million for Fiscal Year 2016, which is a \$46,470 or 2.3 percent decrease from the Fiscal Year 2015 Budget. This is primarily due to decreased pension system support contract costs as IRIS will be the solely supported pension system.

Legal/External expenditures are budgeted at \$977,700 for Fiscal Year 2016, which is a \$174,300 or 15.1 percent decrease from the Fiscal Year 2015 Budget. The decrease is primarily driven by the \$180,000 decrease in litigation expenses, which are related to the Purchase Service Credit (PSC) litigation cases that are currently in appeals following the summary judgment at Superior Court. The budgeted Fiscal Year 2016 litigation amounts reflect the possibility of trial should the plaintiffs prevail on appeal.

General Operations expenditures are budgeted to increase by \$164,504 or 4.7 percent primarily due to a budgeting correction of approximately \$216,000 for depreciation, which was under-budgeted in Fiscal Year 2015. This increase is partially offset by a decrease of \$56,000 in fiduciary insurance renewal rates.

Total expenditures for Fiscal Year 2015 are projected to be \$1.3 million or 2.8 percent under budget. Savings are primarily due to administrative expenditures that are projected to be under budget by \$787,937 or 5.4 percent from the Fiscal Year 2015 Budget of \$14.5 million. The primary causes of the projected variance are savings of \$492,520 in personnel expenses due to vacant positions and savings of \$532,228 in projected legal/external costs largely due to the summary judgment of the PSC cases, partially offset by \$199,000 in depreciation expenses, which were under-budgeted in Fiscal Year 2015. Investment management expenses are projected to be \$523,782 or 1.6 percent below the Fiscal Year 2015 Budget of \$32.3 million, primarily due to the decrease in private equity fees of \$2.0 million due to the negotiation of a more favorable fee structure, which is slightly offset by increased real estate fees of \$1.6 million as a result of new real estate investments.

The Fiscal Year 2016 Proposed Budget includes a total of 58 positions, which is the same number of positions in the Fiscal Year 2015 Budget. Details regarding salaries, overtime, and salary increases by position title for the Fiscal Year 2015 Budget and the Fiscal Year 2016 Proposed Budget are displayed in **Table 2**.

TABLE 2: SDCERS SALARY SCHEDULE

Position Title	FY 2015 Budget					FY 2016 Proposed Budget				
	FTE	Base Salary	Salary Increases	Salary Subtotal	Fringe Benefits	FTE	Base Salary	Salary Increases	Salary Subtotal	Fringe Benefits
Accountant 3	1.00	\$77,501		\$77,501	\$22,244				\$-	
Accountant 4	1.00	\$86,769		\$86,769	\$26,637	2.00	\$166,911		\$166,911	\$54,800
Administrative Aide 2	1.00	49,862		49,862	43,962	1.00	52,208		52,208	45,820
Assoc Mgmt Analyst	8.00	538,352		538,352	348,240	8.00	487,659		487,659	271,813
Assoc Mgmt Analyst (Ret Fnc'l Spec 2)	2.00	120,195		120,195	96,117	2.00	81,666		81,666	65,405
Asst Investment Ofcr	2.00	230,000		230,000	166,322	2.00	235,000		235,000	121,589
Asst Retirement General Counsel	1.00	130,300		130,300	33,224	1.00	138,326		138,326	33,049
Benefits Rep 2	1.00	39,811		39,811	19,596	1.00	39,811		39,811	21,752
Clerical Asst 2	2.00	75,432		75,432	67,372	1.00	34,520		34,520	20,240
Executive Secretary	1.00	52,666		52,666	42,220	1.00	54,759		54,759	45,336
Info Sys Analyst 4	1.00	86,000		86,000	60,360	1.00	80,891		80,891	62,350
Investment Officer	1.00	190,000		190,000	131,002	1.00	200,000		200,000	142,413
Legal Secretary 2	1.00	43,555		43,555	39,333	1.00	52,074		52,074	22,919
Medical Review Officer	1.00	101,500		101,500	78,182	1.00	101,500		101,500	77,855
Paralegal (Ret Paralegal)	2.00	132,714		132,714	100,213	2.00	133,978		133,978	102,340
Payroll Audit Spec 2	2.00	95,995		95,995	83,181	2.00	96,138		96,138	85,320
Payroll Spec 1	1.00	39,832		39,832	38,405	1.00	37,680		37,680	21,951
Principal Accountant	2.00	255,000		255,000	67,329	2.00	261,000		261,000	67,864
Program Coordinator	5.00	546,471		546,471	409,302	4.00	472,200		472,200	331,180
Program Manager	4.00	483,063		483,063	347,083	4.00	486,000		486,000	351,015
Public Info Clerk	3.00	110,239		110,239	106,768	4.00	148,157		148,157	115,205
Retirement Administrator	1.00	216,301		216,301	146,599	1.00	229,551		229,551	144,162
Retirement Assistant	7.00	331,794		331,794	260,714	6.00	301,831		301,831	202,312
Retirement General Counsel	1.00	201,275		201,275	125,207	1.00	207,779		207,779	126,365
Sr Mgmt Analyst (Ret Fnc'l Spec 3)	2.00	138,057		138,057	79,247	4.00	281,350		281,350	189,823
Sr Paralegal	1.00	73,581		73,581	55,644	1.00	73,581		73,581	54,590
Supv Mgmt	3.00	193,067		193,067	122,260	3.00	230,025		230,025	111,268

FY 2015 Budget						FY 2016 Proposed Budget				
Position Title	FTE	Base Salary	Salary Increases	Salary Subtotal	Fringe Benefits	FTE	Base Salary	Salary Increases	Salary Subtotal	Fringe Benefits
Analyst										
Fringe - POB Allocation				-	53,161				-	62,408
Overtime		19,500		19,500			25,500		25,500	
Recognition Program				-	13,000				-	10,000
TOTAL	58.00	\$4,658,831	\$-	\$4,658,831	\$3,182,924	58.00	\$4,710,094	\$-	\$4,710,094	\$2,961,144

SDCERS' capital budget for Fiscal Year 2016 is \$90,000. This is a decrease of 92.3% from the \$1.2 million capital budget in Fiscal Year 2015. The decrease is due to the estimated completion of IRIS, the pension administration system replacement project. In Fiscal Year 2016, projects include \$40,000 in IRIS enhancements and \$50,000 for the SDCERS Board Room HD video upgrade. **Table 3** includes the budgetary changes for SDCERS Capital Expense Budget.

TABLE 3: SDCERS CAPITAL EXPENSE BUDGET

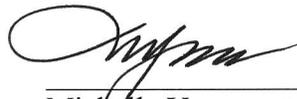
	FY 2015 Budget	FY 2015 Projected	FY 2016 Proposed Budget	FY 2015-2016 Budget Change	FY 2015-2016 Percent Change
Pension Administration System Replacement	\$1,100,000	\$984,000	\$40,000	(\$1,060,000)	(96.4)%
Website Redesign	35,000	37,000	-	(35,000)	(100.0)%
SAN Storage Space Expansion	20,000	19,000	-	(20,000)	(100.0)%
Accounting Software System Update	20,000	22,000	-	(20,000)	(100.0)%
Board Room HD Video Upgrade	-	-	50,000	50,000	-
GRAND TOTAL	\$1,175,000	\$1,062,000	\$90,000	(\$1,085,000)	(92.3)%

CONCLUSION

The Fiscal Year 2016 Proposed Budget for SDCERS is \$48.7 million, which is a net increase of \$2.0 million or 4.2 percent from the Fiscal Year 2015 Budget. This overall increase is primarily due to an increase of \$2.2 million in investment management expenses due to increases in assets under management and new investments in real estate. Administrative expenses decreased by \$226,783 or 1.6 percent, primarily due to decreases in outside legal fees, fringe benefit costs, and fiduciary insurance. This budget includes 58 budgeted positions, which remains unchanged from Fiscal Year 2015. There is no general salary increase for pensionable pay or bonuses included in the Fiscal Year 2016 Proposed Budget.



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