



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: May 4, 2016

ATTENTION: Budget Review Committee
Agenda of May 10, 2016

SUBJECT: Financial Management Technical Review of San Diego City Employees' Retirement System Budget

REFERENCE: Fiscal Year 2017 Departmental and Outside Agencies Budget Hearing

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 2017 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 San Diego City Employees' Retirement System (SDCERS) was established in 1927 by the City of San Diego to administer retirement benefits for its members. Two additional Plan Sponsors were added when employees of the San Diego Unified Port District became members of SDCERS in 1963, and employees of the San Diego County Regional Airport Authority became members in 2003. SDCERS administers its defined benefit retirement plan in accordance with the California State Constitution Article XVI, Section 17, the San Diego City Charter Article IX Sections 141—148.1 and Article X, Section 1, and the San Diego Municipal Code Sections 24.0100 et seq. SDCERS provides a comprehensive range of member services to its nearly 20,000 active, retired and deferred members, including the administration of retirement, health, disability and death benefits.

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' budget process is separate from the City's formal budget development process and City Council does not approve SDCERS' budget. Since SDCERS staff are City employees, their respective positions receive an allocation of fringe benefits through the budget development process administered by the Financial Management Department. This technical review of the SDCERS budget includes details on budgeted expenditures, salary information, and funding sources. Agencies were asked to provide actual expenditures and revenues for Fiscal Year 2015 (either audited or unaudited), budgeted and projected expenditures and revenues for Fiscal Year 2016, and the proposed budget for Fiscal Year 2017.

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The Fiscal Year 2017 Proposed Budget discussed in this report is based on the budget presented to the SDCERS Board of Administration on March 11, 2016.

BUDGET REVIEW

SDCERS is proposing a \$46.9 million budget for Fiscal Year 2017, which is a net \$1.8 million or a 3.7 percent decrease from the Fiscal Year 2016 Budget. This decrease is primarily attributed to a \$1.1 million or 3.3 percent decrease in investment management expenses. Administrative expenses decreased by \$700,000 or 4.7 percent compared to the Fiscal Year 2016 Budget. Table 1 includes the budgetary changes for these two components.

TABLE 1: SDCERS BUDGET SUMMARY – FISCAL YEARS 2015 – 2017

	FY 2015 Actual	FY 2016 Budget	FY 2016 Projected	FY 2017 Proposed Budget	FY 2016-2017 Budget Change	FY 2016-2017 Percent Change
POSITIONS	58.00	58.00	58.00	54.00	(4.00)	(6.9%)
Personnel Expenditures						
Salaries & Wages	\$4,398,787	\$4,684,594	\$4,363,864	\$4,549,085	\$(135,509)	(2.9)%
Overtime	\$17,637	\$25,500	\$13,500	\$14,500	\$(11,000)	(43.1)%
Fringe Benefits	\$2,998,196	\$2,961,144	\$2,857,952	\$2,936,144	\$(25,000)	(0.8)%
Subtotal:	\$7,414,620	\$7,671,238	\$7,235,316	\$7,499,729	\$(171,509)	(2.2)%
Non-Personnel Expenditures						
Information Technology	\$1,883,414	\$1,942,242	\$1,943,097	\$1,974,092	\$31,850	1.6%
Legal/External	\$362,308	\$977,700	\$737,630	\$550,300	\$(427,400)	(43.7)%
General Operations	\$1,589,539	\$3,645,035	\$3,714,825	\$3,540,768	\$(104,267)	(2.9)%
Subtotal:	\$3,835,261	\$6,564,977	\$6,395,552	\$6,065,160	\$(499,817)	(7.6)%
TOTAL ADMINISTRATIVE EXPENSES	\$11,249,881	\$14,236,215	\$13,630,868	\$13,564,889	\$(671,326)	(4.7)%
TOTAL INVESTMENT MANAGEMENT EXPENSES	\$29,902,369	\$34,503,138	\$30,723,113	\$33,369,933	\$(1,133,205)	(3.3)%
GRAND TOTAL	\$52,402,131	\$48,739,353	\$44,353,981	\$46,934,822	\$(1,804,531)	(3.7)%

Investment management expenses are budgeted at \$33.4 million for Fiscal Year 2017, which is a decrease of \$1.1 million or 3.3 percent from the Fiscal Year 2016 budget. The net decrease in investment management fees were driven by lower real estate fees, due to the use of a new fee estimation model for funds in the wind-down phase, and lower public market fees, reflecting a reduction in the allocation of investments to the public markets as a result of continued investment in private equity and infrastructure. The annual growth in assets under management is based on the SDCERS' actuarially assumed rate of 7.125 percent. This assumption was reduced from 7.25 percent and will drop to 7.00 percent in Fiscal Year 2017 as approved by the SDCERS Board in November 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 \$6.9 billion for Fiscal Year 2017. Investment fees paid by SDCERS to investment managers, as calculated in basis points (bps) for the portfolio, are projected to be 44 bps for Fiscal Year 2017 compared to a budgeted 46 bps for Fiscal Year

2016. This reflects the use of the improved methodology for calculating expected real estate fees for funds in the disposition phase and the projected fair value growth in private equity.

Administrative expenses are comprised of the following expenditure categories: personnel, information technology, legal/external, and general operations. SDCERS' administrative expenses are funded by each of the plan sponsors based upon the ratio of their members to the total membership of the pension system. Approximately \$0.92 of each administrative dollar is funded by the City of San Diego, while investment expenses are deducted from pension system investment earnings. Administrative expenses are budgeted at \$13.6 million for Fiscal Year 2017, which is a decrease of \$671,326 or 4.7 percent from the Fiscal Year 2016 Budget. The net change in administrative expenses is described in more detail below.

Personnel expenses for Fiscal Year 2017 decreased by \$171,509 or 2.2 percent compared to Fiscal Year 2016, primarily due to a reduction of \$135,509 in salary & wages expenses. The decrease is due to realized cost savings SDCERS attributes to the implementation of the Integrated Retirement Information System (IRIS). These cost savings allow SDCERS to continue with four positions that were vacant in Fiscal Year 2016. The IRIS pension system replaces an older pension system which automated and improved retirement processes which previously required more staff. There is a decrease of \$11,000 budgeted in overtime, which is determined based on the specific needs of each division. Fringe expenses account for \$25,000 of the personnel expenses reduction. The Fiscal Year 2017 fringe expense of \$2.9 million is a pass-through cost from the City, primarily composed of pension benefits, health benefits, taxes and an allocation of the City's Fiscal Year 2017 Actuarially Determined Contribution (ADC) payment. The allocation of these fringe expenses may change based upon the completion of the City's annual budget.

Information Technology (IT) expenditures are budgeted at \$2.0 million for Fiscal Year 2017, which is a \$31,850 or 1.6 percent increase from the Fiscal Year 2016 Budget. This is primarily due to increases for technical support labor and pension system support related to year-to-year contractual increases.

Legal/External expenditures are budgeted at \$550,300 for Fiscal Year 2017, which is a \$427,400 or 43.7 percent decrease from the Fiscal Year 2016 Budget. The decrease is primarily driven by the anticipated completion of the Purchase Service Credit (PSC) litigation. The Fiscal Year 2017 budget reflects a general provision for litigation expenses.

General Operations expenditures are budgeted to decrease by \$104,267 or 2.9 percent, primarily due to a decrease of \$100,000 in actuary services reflecting the completion of an experience study in Fiscal Year 2016, lower fiduciary insurance rates, and decreased depreciation expenses. Office operational expenses increased \$86,000 for temporary labor to support an electronic filing/scanning project underway, and a provision for a competitive benchmarking study comparing SDCERS to like-sized pension systems. Finally, contractual rent expenses increased, adding \$32,000 to the Fiscal Year 2017 Proposed Budget.

Total expenditures for Fiscal Year 2016 are projected to be \$4.4 million or 9.0 percent under budget. Savings are primarily due to investment management expenses that are projected to be under budget by \$3.8 million or 11.0 percent from the Fiscal Year 2016 Budget of \$34.5 million. The primary causes of the projected variance are lower than expected portfolio values due to the current investment climate, the timing of funding for new real estate funds, and the maturity of certain funds with lower actual fees, which were originally forecasted to be higher. There are projected savings of \$435,922 or 5.7% in personnel expenditures due to department vacancies. The number of employees was reduced from 58 to 54 in Fiscal Year 2017

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to account for these vacancies. Legal/external expenditures are anticipated to have savings of \$240,070 or 24.6% primarily due to projected completion of the Purchase Service Credit (PSC) litigation cases in Fiscal Year 2016.

The Fiscal Year 2017 Proposed Budget includes a total of 54 positions, which is a net decrease of 4.00 positions in the Fiscal Year 2016 Budget. Details regarding salaries, overtime, and salary changes by position title for the Fiscal Year 2016 Budget and the Fiscal Year 2017 Proposed Budget are displayed in Table 2.

TABLE 2: SDCERS SALARY SCHEDULE

Position Title	FY 2016 Budget					FY 2017 Proposed Budget				
	FTE	Base Salary Subtotal	Salary Increases (Merit, Bonus, etc.)	Salary Total	Fringe Benefits	FTE	Base Salary Subtotal	Salary Increases (Merit, Bonus, etc.)	Salary Total	Fringe Benefits
Accountant 4	2.00	166,911		166,911	54,800	2.00	166,601		166,601	91,814
Administrative Aide 2	1.00	52,208		52,208	45,820	1.00	52,790		52,790	47,297
Assoc Mgmt Analyst	8.00	487,659		487,659	271,813	7.00	429,942		429,942	253,650
Assoc Mgmt Analyst (Ret Fncl Spec 2)	2.00	81,666		81,666	65,405	1.00	65,333		65,333	54,533
Asst Retirement Administrator						1.00	180,000		180,000	133,071
Asst Investment Ofcr	2.00	235,000		235,000	121,589	2.00	246,885		246,885	129,071
Asst Retirement General Counsel	1.00	138,326		138,326	33,049	1.00	120,000		120,000	36,000
Benefits Rep 2	1.00	39,811		39,811	21,752	1.00	39,811		39,811	20,249
Clerical Asst 2	1.00	34,520		34,520	20,240	1.00	38,235		38,235	17,206
Executive Secretary	1.00	54,759		54,759	45,336	1.00	52,666		52,666	46,770
Info Sys Analyst 4	1.00	80,891		80,891	62,350	1.00	82,571		82,571	67,164
Investment Officer	1.00	200,000		200,000	142,413	1.00	200,000		200,000	142,699
Legal Secretary 2	1.00	52,074		52,074	22,919	1.00	41,558		41,558	20,779
Management Trainee *						2.00	146,624		146,624	113,888
Medical Review Officer	1.00	101,500		101,500	77,855	1.00	102,485		102,485	84,604
Paralegal (Ret Paralegal)	2.00	133,978		133,978	102,340	2.00	133,977		133,977	108,878
Payroll Audit Spec 1						1.00	43,958		43,958	42,631
Payroll Audit Spec 2	2.00	96,138		96,138	85,320	1.00	48,069		48,069	44,080
Payroll Spec 1	1.00	37,680		37,680	21,951	1.00	39,972		39,972	21,661
Principal Accountant	2.00	261,000		261,000	67,864	2.00	271,000		271,000	70,646
Program Coordinator	4.00	472,200		472,200	331,180	4.00	487,532		487,532	360,852
Program Manager	4.00	486,000		486,000	351,015	3.00	348,750		348,750	222,827
Public Info Clerk	4.00	148,157		148,157	115,205	4.00	160,275		160,275	119,352
Retirement Administrator	1.00	229,551		229,551	144,162	1.00	236,545		236,545	159,260
Retirement Assistant	6.00	301,831		301,831	202,312	3.00	144,644		144,644	101,064
Retirement General Counsel	1.00	207,779		207,779	126,365	1.00	183,462		183,462	43,000
Sr Mgmt Analyst (Ret Fncl Spec 3)	4.00	281,350		281,350	189,823	4.00	261,450		261,450	180,297
Sr Paralegal	1.00	73,581		73,581	54,590	1.00	69,410		69,410	56,366
Supv Mgmt Analyst	3.00	230,025		230,025	111,268	2.00	154,540		154,540	80,809

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Position Title	FY 2016 Budget					FY 2017 Proposed Budget				
	FTE	Base Salary Subtotal	Salary Increases (Merit, Bonus, etc.)	Salary Total	Fringe Benefits	FTE	Base Salary Subtotal	Salary Increases (Merit, Bonus, etc.)	Salary Total	Fringe Benefits
Fringe - POB Allocation					62,408					55,626
Overtime		25,500		25,500			14,500		14,500	
Recognition Program					10,000					10,000
TOTAL	58.00	4,710,094		4,710,094	2,961,144	54.00	4,563,585		4,563,585	2,936,144

SDCERS' capital budget for Fiscal Year 2017 is \$100,000. This is an increase of 11.1% from the \$90,000 capital budget in Fiscal Year 2016. The Fiscal Year 2017 projects include an upgrade to the SIRE Board Agenda and Voting software, and computer hardware replacements. The Fiscal Year 2016 projected budget of \$250,000 for Board Room HD Video Upgrade, will be funded by Public, Education, and Government (PEG) funds provided through the City of San Diego. The entire video upgrade project is eligible for these funds and will allow SDCERS to recover the project costs in FY 2016. Table 3 includes the budgetary changes for SDCERS Capital Expense Budget.

TABLE 3: SDCERS CAPITAL EXPENSE BUDGET

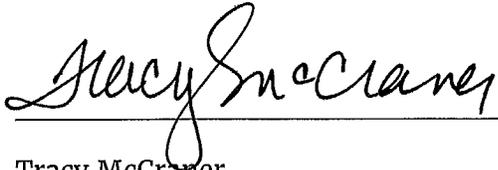
	FY 2016 Budget	FY 2016 Projected	FY 2017 Proposed Budget	FY 2016-2017 Budget Change	FY 2016-2017 Percent Change
Pension Administration System Replacement	\$40,000	\$140,000	\$0	(\$40,000)	(100.0)%
Call Center Voice Monitoring & Recording System	-	17,000	-	-	-
SIRE Board Agenda & Voting System Update	-	-	75,000	75,000	100.0%
Equipment Replacement	-	-	25,000	25,000	100.0%
Board Room HD Video Upgrade	50,000	250,000	-	(50,000)	(100.0)%
GRAND TOTAL	\$90,000	\$407,000	\$100,000	(\$10,000)	11.1%

CONCLUSION

The Fiscal Year 2017 Proposed Budget for SDCERS is \$46.9 million, which is a net decrease of \$1.8 million or 3.7 percent from the Fiscal Year 2016 Budget. This overall decrease is primarily due to a decrease of \$1.1 million or 3.3% in investment management expenses due to lower Real Estate fees resulting from the use of a new fee estimation model for funds in the disposition phase and lower public market fees reflecting a reduction in the allocation of investments to the public markets as the result of continued investment in private equity and Infrastructure. Administrative expenses decreased by \$671,326 or 4.3 percent, primarily due to decreases in outside legal fees, a reduction in employees, and lower fiduciary insurance rates. This budget includes 54 budgeted positions, which is a decrease of 4 positions from

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Fiscal Year 2016. There is no general salary increase for pensionable pay or bonuses included in the Fiscal Year 2017 Proposed Budget.



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