

City Agencies

City Retirement System

The San Diego City Employees' Retirement System (SDCERS) FY 2015 proposed budget was presented as a non-action item to its Business and Governance Committee and full Board of Administration in mid-March 2014. The Committee and full Board will consider the budget in May 2014 (which may include minor changes). Upon approval by the Committee on May 8, 2014, the full Board of Administration will consider the budget on May 9, 2014.

The City's FY 2015 Proposed Budget document provides a link to the SDCERS' proposed budget on page 209 of Volume I.

The SDCERS proposed budget is scheduled to be presented as an informational item at the May 5, 2014 hearing of the City's Budget Review Committee.

SDCERS maintains that its budget is approved by its Board of Administration and does not require approval of City Council.

Article XVI, Section 17 of the California Constitution conveys to the Board "plenary authority and fiduciary responsibility for investment of moneys and administration of the [pension] system..." However, per City Attorney's Report to Council 2005-18, the City maintains the authority to examine and audit the Board's accounts and records.

FY 2015 Operating Budget Adjustments

The table below presents a summary, by major category, of the SDCERS proposed budget that was presented to its Board in March 2014.

The \$48.3 million proposed budget presented to the SDCERS Board shows an increase of \$5.3 million, or 12.3%, from the \$43.0 million FY 2014 budget. There are 58.0 budgeted positions, unchanged from FY 2014. Note that approximately 7.0% of the budget is allocated to the Unified Port

SUMMARY OF BUDGET CHANGES

	FY 2014 Budget	FY 2015 Proposed	Increase/ (Decrease)	Percent Change
Salaries and Personnel	\$8,238,000	\$7,845,000	(\$393,000)	-4.8%
Information Technology	2,035,000	1,989,000	(46,000)	-2.3%
Legal/External	2,112,000	1,152,000	(960,000)	-45.5%
General Operations	3,507,000	3,481,000	(26,000)	-0.7%
<i>Subtotal Administrative Expenses</i>	<i>\$15,892,000</i>	<i>\$14,467,000</i>	<i>(\$1,425,000)</i>	<i>-9.0%</i>
Investment Management Expenses	27,126,000	33,841,000	6,715,000	24.8%
<i>Subtotal Investment Management Expenses</i>	<i>\$27,126,000</i>	<i>\$33,841,000</i>	<i>\$6,715,000</i>	<i>24.8%</i>
TOTAL	\$43,018,000	\$48,308,000	\$5,290,000	12.3%

Note that amounts may differ slightly from the budget presented to the SDCERS Board due to rounding.

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District and Airport Authority, with the remainder to the City of San Diego.

Investment Management Expenses represent 70.0% of the total SDCERS FY 2015 proposed budget, at \$33.8 million. SDCERS estimates that Investment Management Expenses will be 0.47% of assets under management, or 47 basis points, for FY 2015. SDCERS also projects Investment Management Expenses to be 0.45% of assets under management for FY 2014. Note that the most recent SDCERS CAFR indicates that for FY 2013, investment returns were higher than the 7.25% assumed rate of return for the pension system, at 13.6%—adding approximately \$715.5 million to the pension system assets.

The FY 2015 Investment Management Expenses budget is increasing over the FY 2014 budget by \$6.7 million, or 24.8% (from \$27.1 million to \$33.8 million). This increase is largely due to increases in private equity and real estate investments—which have relatively higher fees than other investments—as well as assumed increased assets under management with growth in invested assets.

Budgeted Administrative Expenses are decreasing by \$1.4 million, or 9.0%, from \$15.9 million in FY 2014 to \$14.5 million in FY 2015. These expenses are 30.0% of the total SDCERS budget. Components of Administrative Expenses are discussed below.

The Salaries and Personnel budget category reflects a decrease of \$393,000. Of this, the decrease in fringe expenditures is \$290,000, which is largely due to adjustments related to staffing changes and the

decrease in the Actuarially Determined Contribution (ADC) to the pension system.

The budget for salaries is decreasing by \$82,000, which is largely due to the plan to keep the CFO position vacant.

There are no general salary increases budgeted, and the labor concessions that apply to City employees also apply to SDCERS employees. Note that the City manages the payment of SDCERS employees' salaries and fringe, and invoices SDCERS for those costs.

The Information Technology budget for FY 2015 is decreasing by \$46,000 from FY 2014. This is largely due to a decrease in Technical Support Labor associated with the Pension Gold system which is being phased out. This decrease is partly offset with an increase in Pension System Support associated with the new Integrated Retirement Information System (IRIS). Additional information on the pension software system conversion is under the Capital Budget section which follows.

The Legal/External budget category reflects a decrease of \$960,000. This is primarily attributable to a decrease in litigation fees, which is largely due to the decline in workload with the settlement of the substantially equal case with the City.

For General Operations, there is an overall decrease of \$26,000, which includes a number of increases and decreases in component line items. Actuary Services is projected to increase by \$70,000 with the accounting and financial reporting changes required by Governmental Accounting Standards Board (GASB) Statements. Rent ex-

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pense is decreasing by \$122,000 with newly negotiated office lease rates; and fiduciary insurance is decreasing by \$95,000 as a result of negotiations with the insurer.

Capital Budget

In addition to the operating budget, SDCERS presented a proposed capital budget to its Board. The capital budget is decreasing from \$3.1 million in FY 2014 to \$1.2 million in FY 2015, which is largely associated with the near-completion of the pension administration system replacement project. The final payments of \$1.1 million for the project are budgeted for FY 2015.

This is a major software system conversion: from the current system, Pension Gold, to the Integrated Retirement Information System (IRIS). IRIS is anticipated to be placed in service June 2, 2014. Total vendor costs for the project are anticipated to be approximately \$6.8 million.

The pension administration system tracks, records and processes employee contributions and retiree payments. IRIS will have new online features and information about individual retirement benefits through the online Member Portal. Additionally, several internal processes will be automated.

Issues to Consider

In September 2011 the Office of the City Auditor released a performance audit of SDCERS, which provided 12 recommendations, five findings and background information on the retirement system.

The City Auditor's report was discussed at the December 5, 2011 Audit Committee meeting. The report was also presented to the full City Council on February 7, 2012.

SDCERS, and the City, where appropriate, provided responses to the City Auditor's recommendations. The responses are included in the City Auditor's report. Ten of the City Auditor's recommendations were directed toward SDCERS, and SDCERS responses demonstrate past analysis or implementation of the recommendations or anticipated future actions.

Recommendation #4 indicates that once the new pension administration system is implemented, SDCERS should reassess its staffing level. SDCERS responded to this recommendation that when the new system is implemented (currently anticipated for June 2, 2014), they expect to be able to further streamline staffing levels. It has also been conveyed that a possible 7.0 FTEs could be considered for reduction over time as a result of this investment.

SDCERS plans to further evaluate the streamlining of staffing levels after a stabilization period once IRIS goes live. Data cleansing work will also continue past the go-live date.