



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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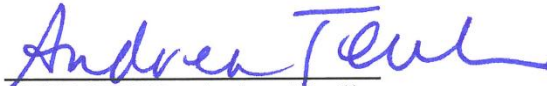
IBA Report Number: 15-17

Budget Review Committee Docket Date: May 6, 2015

Review of City Agencies FY 2016 Budgets: San Diego City Employees Retirement System

The IBA has reviewed the San Diego City Employees' Retirement System (SDCERS) proposed budget which is scheduled to be heard Wednesday, May 6th, 2015. Our review is attached.


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City Retirement System

The San Diego City Employees' Retirement System (SDCERS) FY 2016 proposed budget was approved by the SDCERS Board of Administration in mid-March 2015. The City's FY 2016 Proposed Budget document provides a link to the SDCERS' budget on page 217 of Volume I.

The SDCERS budget is scheduled to be presented as an informational item at the May 6, 2015 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..." 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 2016 Operating Budget Adjustments

The table below presents a summary, by major category, of the FY 2016 SDCERS budget that was approved by its Board in March 2015.

The \$48.7 million FY 2016 budget presented to the SDCERS Board shows an increase of approximately \$2.0 million, or 4.2%, from the \$46.8 million FY 2015 budget. There are 58.0 budgeted positions, unchanged from FY 2015. Note that approximately 7.0% of the budget is allocated to the Unified Port District and Airport Authority, with the remainder to the City of San Diego.

Investment Management Expenses represent 70.8% of the total SDCERS FY 2016 budget, at \$34.5 million. SDCERS estimates that Investment Management Expenses will be 0.46% of assets under management, or 46 basis points, for FY 2016. SDCERS also

SUMMARY OF BUDGET CHANGES

	FY 2015 Budget	FY 2016 Proposed	Increase/ (Decrease)	Percent Change
Salaries and Personnel	\$7,842,000	\$7,671,000	(\$171,000)	-2.2%
Information Technology	1,989,000	1,942,000	(47,000)	-2.4%
Legal/External	1,152,000	978,000	(174,000)	-15.1%
General Operations	<u>3,481,000</u>	<u>3,645,000</u>	<u>164,000</u>	4.7%
<i>Subtotal Administrative Expenses</i>	\$14,464,000	\$14,236,000	(\$228,000)	-1.6%
<i>Investment Management Expenses</i>	<u>32,325,000</u>	<u>34,503,000</u>	<u>2,178,000</u>	6.7%
TOTAL	<u>\$46,789,000</u>	<u>\$48,739,000</u>	<u>\$1,950,000</u>	<u>4.2%</u>

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projects Investment Management Expenses to be 0.47% of assets under management for FY 2015. Note that the most recent SDCERS CAFR indicates that for FY 2014, investment returns were higher than the 7.25% assumed rate of return for the pension system, at 16.8%—with net investment earnings of approximately \$1.01 billion.

The FY 2016 Investment Management Expenses budget is increasing over the FY 2015 budget by \$2.2 million, or 6.7% (from \$32.3 million to \$34.5 million). This increase is largely due to assumed increased assets under management with growth in invested assets, as well as increases in real estate and opportunistic investments—which have relatively higher fees than other investments.

Budgeted Administrative Expenses are decreasing by approximately \$228,000, or 1.6%, from \$14.5 million in FY 2015 to \$14.2 million in FY 2016. These expenses are 29.2% of the total SDCERS budget. Components of Administrative Expenses are discussed below.

The \$7.7 million Salaries and Personnel budget category reflects a decrease of \$171,000. Of this, the decrease in fringe expenditures is \$219,000. This decrease is largely due to the decrease in the Actuarially Determined Contribution (ADC) to the pension system, offset by other fringe increases. The budget for salaries is increasing by \$45,000 due to reclassifications and step increases.

There are no general salary increases budgeted, and the labor terms that apply to City employees also apply to SDCERS employ-

ees. Note that the City manages the payment of SDCERS employees' salaries and fringe, and invoices SDCERS for those costs.

The \$1.9 million Information Technology budget for FY 2016 is decreasing by \$47,000 from FY 2015. This is largely due to a decrease in pension system support associated with the Pension Gold system, as it has been replaced by the Integrated Retirement Information System (IRIS). Additional information on the pension software system conversion is under the Capital Budget section which follows.

The \$1.0 million Legal/External budget category reflects a decrease of \$174,000. This is primarily attributable to a decrease in estimated litigation fees related to Purchase Service Credit (PSC) litigation, which is currently on appeal.

For the \$3.6 million General Operations budget, there is an overall increase of \$164,000. The largest driver of the net increase is an \$216,000 increase in depreciation expense.

Further details on budget changes can be found in SDCERS budget presentation materials.

Capital Budget

In addition to the operating budget, SDCERS presented a proposed capital budget to its Board. The capital budget is decreasing from \$1.2 million in FY 2015 to \$90,000 in FY 2016, which is largely associated with the completion of the pension administration system replacement project.

The replacement project was a major soft-

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ware system conversion: from the Pension Gold system to the Integrated Retirement Information System (IRIS). IRIS was placed in service on May 29, 2014. Total vendor costs for the project are anticipated to be approximately \$6.8 million. Most of the final payments should be made during FY 2015.

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