



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Review of City Agencies FY 2026 Budgets: San Diego City Employees' Retirement System

The IBA has reviewed the San Diego City Employees' Retirement System (SDCERS) FY 2026 budget, which is scheduled to be heard Thursday, May 8, 2025. Our review is attached.

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City Retirement System

The San Diego City Employees' Retirement System (SDCERS) FY 2026 budget was approved by the SDCERS Board of Administration in March 2025. The SDCERS budget is scheduled to be presented as an informational item at the May 8, 2025 hearing of the City's Budget Review Committee.

SDCERS' 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.

This review covers the SDCERS' operating and capital budgets, as well as a brief discussion on investments and investment expenses.

FY 2026 Operating Budget

SDCERS' operating budget, or administrative budget, is summarized in the table below. We discuss highlights of the budget changes in the following sections.

The \$19.2 million administrative budget is

increasing by \$919,000, or 5.0%, from the \$18.3 million FY 2025 budget. The FY 2026 budget includes 50.00 FTEs, down 3.00 from the 53.00 included in the FY 2025 budget.

Based on the FY 2024 actuarial valuations, 9.3% of shared administrative expenses are allocated to the other SDCERS plan sponsors (the Unified Port District and Airport Authority), with the remainder to the City of San Diego. These administrative expenses will be charged to the City and other plan sponsors with the FY 2026 Actuarially Determined Contribution (ADC) pension payments.

Components of SDCERS' FY 2026 administrative budget are outlined below.

Salaries and Benefits

The \$12.2 million Salaries and Benefits budget category is increasing by \$421,000 from the FY 2025 budget. This includes a \$266,000 increase in salaries and a \$153,000 increase in budgeted fringe benefits. Note that the City manages payment of SDCERS employees' salaries and fringe, and invoices SDCERS for those costs.

The \$153,000 fringe benefits budget increase is based on FY 2025 fringe rates provided by the City, as the FY 2026 rates were not

SDCERS ADMINISTRATIVE BUDGET					
	FY 2024	FY 2025	FY 2026	Increase/	Percent
	Actual	Budget	Budget	(Decrease)	Change
Budgeted Staff	53.00	53.00	50.00	(3.00)	(5.7%)
Salaries and Benefits	\$ 10,691,000	\$ 11,816,000	\$ 12,237,000	\$ 421,000	3.6%
Information Technology	2,704,000	3,089,000	3,227,000	138,000	4.5%
Legal Fees	393,000	400,000	400,000	-	-
General Operations	3,441,000	2,994,000	3,354,000	360,000	12.0%
TOTAL	\$ 17,229,000	\$ 18,299,000	\$ 19,218,000	\$ 919,000	5.0%

NOTE: Table may not total due to rounding.

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available at the time the SDCERS budget was approved. As such, the actual fringe amounts are anticipated to vary from the approved budget.

As mentioned, budgeted salaries are increasing by \$266,000, or 3.4% (from \$7.8 million to \$8.0 million). However, the 3.4% growth includes the reduction of 3.00 currently vacant FTE budgeted positions; the FY 2026 budget includes 50.00 budgeted FTEs, compared to 53.00 in the FY 2025 budget.

After removing the reduced positions, salaries for the remaining 50.00 FTEs are increasing by \$626,000, or 8.5%. Of the three position reductions, two are no longer needed because SDCERS transferred the retiree healthcare program to the City during FY 2025. The other position is being reduced after implementation of operational efficiencies in the processing of disability applications.

The 8.5% increase in salaries is primarily related to assumed general salary increases, consistent with negotiated FY 2026 terms in the City's Memorandum of Understanding (MOU) with the Municipal Employees Association (MEA), merit increases, promotions, and raises for unrepresented staff.

Non-Personnel Expenditures

Non-personnel expenditures are included in the information technology, legal fees, and general operations budget categories. The \$3.2 million information technology expenditures budget is increasing by \$138,000, or 4.5%, which is largely related to contractual increases for services. Budget line items with the highest increases are in Technical Support

Labor (an increase of \$65,000, to \$1.8 million) and Network Services (an increase of \$44,000, to \$325,000). SDCERS leverages the terms and rates in certain City IT contracts, including for application services and data center and desktop support.

The total \$400,000 legal fees budget remains unchanged from FY 2025. However, there is a \$140,000 increase for existing litigation (to \$210,000), which is offset by several decreases, including anticipated costs for disability and administrative hearings (\$65,000); fiduciary counsel (\$55,000); and compliance, including with privacy laws (\$20,000).

The \$3.4 million general operations budget is increasing by \$360,000, or 12.0%. The largest component of this increase is for actuary services (an increase of \$134,000, to \$509,000), which is related to the triennial experience study¹ and an audit of the actuarial services that SDCERS receives from its current actuary, Cheiron.

Also under general operations, the insurance budget is increasing by \$92,000 to \$480,000, related to cyber and property insurance costs; and depreciation is increasing by \$90,000. Then next largest increase in the general operations budget relates to building expenses (rent), for which budget is increasing in accordance with SDCERS' office space contract, by \$46,000 (from \$880,000 to \$926,000).

Capital Budget

In addition to the administrative/operating budget, SDCERS maintains a capital budget.

¹ An experience study involves historical analysis of pension plan assumptions and a consideration of future expectations and trends, including the rate of investment returns, wage inflation, and retirement and mortality rates. The plan experience study is the basis for the actuary's recommended changes to the plan's actuarial assumptions.

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The capital budget is decreasing by \$1,000, from \$704,000 to \$703,000. SDCERS' capital budget is primarily associated with information technology infrastructure.

FY 2026 budgeted projects include:

- Microsoft 365 Migration (Phases 1 & 2) – \$200,000
- IRIS (pension administration system) workflow engine replacement – \$120,000
- Boardroom Modernization – \$120,000
- Network Infrastructure Updates – \$103,000
- Security monitoring – \$75,000

- Annual computer equipment replacement – \$45,000
- Financial System Upgrade – \$40,000

Investments

Investment Expenses

Investment expenses are authorized periodically as various investments and investment consultant contracts are brought to the SDCERS Board. Investment expenses are paid with SDCERS investment earnings and are not included as part of the budget approved by the Board.²

The following table presents SDCERS' long-term strategic target asset allocation percentages for each asset category as of June 30,

SDCERS FY 2024 Investment Information				
Asset Category	Long-Term Target Asset Allocation	Fair Value of Assets (\$ in billions)	Expenses Paid	Expenses as % of Fair Value of Asset Category
Domestic Fixed Income	22.0%	\$2.70	\$2,883,000	0.11%
Domestic Equity	18.0%	2.46	1,370,000	0.06%
Private Equity & Infrastructure	14.0%	1.57	8,538,000	0.54%
International Equity	12.0%	1.54	3,502,000	0.23%
Real Estate	11.0%	1.11	12,434,000	1.12%
Global Equity	6.0%	0.77	3,289,000	0.43%
Return-Seeking Fixed Income Strategies	5.0%	0.59	1,452,000	0.25%
Private Debt	5.0%	0.21	1,431,000	0.67%
Diversifying Strategies	4.0%	0.42	5,180,000	1.23%
Opportunistic Strategies	3.0%	0.02	37,000	0.16%
Cash and Cash Overlay	n/a	0.16	185,000	0.12%
Other Investment Expenses ^{a, b}	n/a	n/a	3,672,000	0.03%
TOTAL	100.0%	\$11.56	\$43,973,000	0.38%

NOTES: Table may not total due to rounding.

Target allocations, asset values, and investment expenses are based on information presented with the FY 2024 Annual Comprehensive Financial Report.

^a Other Investment Expenses include \$1.4m for certain SDCERS personnel expenses, as well as fees for investment consultants, taxes, expenses related to cash holdings, and other expenses.

^b For Other Investment Expenses, "Expenses as % of Fair Value of Asset Category" is as a percent of total fair value of assets.

² Certain personnel expenses associated with SDCERS administrative budget are presented as investment expenses in the Annual Comprehensive Financial Report. These totaled \$1.4 million for FY 2024.

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2024; the FY 2024 fair value of assets under management by asset category; FY 2024 investment expenses by asset category; and investment expenses as a percent of the fair value of assets in each asset category. Investment expenses for FY 2024 were about 0.38% of the fair value of assets under management, or 38 basis points.³

Investment Return

The most recent SDCERS Annual Comprehensive Financial Report indicates the FY 2024 investment return was 7.2%; and net investment income was \$778.4 million. Note that the pension system's rate of return assumed for FY 2024 in the FY 2023 actuarial valuation was 6.5%. The return assumption for FY 2025 (in the FY 2024 actuarial valuation) is also 6.5%.

³ The investment expenses at 0.38% of the fair value of assets is slightly different from the 0.37% included in SDCERS' March 13, 2025 budget materials presented to the SDCERS Board, which do not include certain SDCERS' personnel and general operations expenditures in the investment expenses calculation.