



THE CITY OF SAN DIEGO

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**OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT**

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## **Review of City Agencies FY 2027 Budgets: San Diego City Employees' Retirement System**

The IBA has reviewed the San Diego City Employees' Retirement System (SDCERS) FY 2027 budget, which is scheduled to be heard Thursday, May 7, 2026. Our review is attached.

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# City Agencies: City Retirement System

## City Retirement System

The San Diego City Employees' Retirement System (SDCERS) FY 2027 budget was approved by the SDCERS Board of Administration in March 2026. The SDCERS budget is scheduled to be presented as an informational item at the May 7, 2026 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 2027 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 \$19.5 million administrative budget is

increasing by \$232,000, or 1.2%, from the \$19.2 million FY 2026 budget. The FY 2027 total budgeted full-time equivalent (FTE) positions is unchanged from FY 2026, at 50.00 FTEs.

Based on the FY 2025 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 2027 Actuarially Determined Contribution (ADC) pension payments.

Components of SDCERS' FY 2027 administrative budget are outlined below.

### Salaries and Benefits

The \$12.4 million Salaries and Benefits budget category is increasing by \$159,000 from the FY 2026 budget. This includes a \$100,000 increase in salaries and a \$59,000 increase in budgeted fringe benefits. Note that the City manages payment of SDCERS employees' salaries and fringe, and invoices SDCERS for those costs.

The \$59,000 fringe benefits budget increase is based on FY 2026 fringe rates provided by

SDCERS ADMINISTRATIVE BUDGET					
	FY 2025 Actual	FY 2026 Budget	FY 2027 Budget	Increase/ (Decrease)	Percent Change
<b>Budgeted Staff</b>	<b>53.00</b>	<b>50.00</b>	<b>50.00</b>	<b>-</b>	<b>-</b>
Salaries and Benefits	\$ 11,597,000	\$ 12,238,000	\$ 12,397,000	\$ 159,000	1.3%
Information Technology	2,825,000	3,226,000	3,313,000	87,000	2.7%
Legal Fees	513,000	400,000	415,000	15,000	3.8%
General Operations	2,992,000	3,354,000	3,325,000	(29,000)	(0.9%)
<b>TOTAL</b>	<b>\$ 17,927,000</b>	<b>\$ 19,218,000</b>	<b>\$ 19,450,000</b>	<b>\$ 232,000</b>	<b>1.2%</b>

NOTE: Table may not total due to rounding.

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the City, as the FY 2027 rates were not 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, the net increase in budgeted salaries is \$100,000, or 1.2% (from \$8.0 million to \$8.1 million). Although the total 50.00 FTEs in the FY 2027 budget is unchanged from FY 2026, SDCERS plans to add one information technology position and reduce a vacant payroll processing position as a result of efficiencies.

## Non-Personnel Expenditures

Non-personnel expenditures are included in the information technology, legal fees, and general operations budget categories.

The \$3.3 million information technology expenditures budget is increasing overall by \$87,000, or 2.7%, which is largely related to contractual increases for services. Budget line items with the highest increases are pension system support (increase of \$208,000, to \$850,000) and network services (increase of \$77,000, to \$264,000). The largest offsetting decrease is technical support labor (decrease of \$196,000, to \$1.6 million). SDCERS leverages the Master Service Agreements the City negotiated with CGI Technologies and Solutions and Zensar Technologies as a baseline, and then negotiates its own riders and agreements directly with the vendors for services such as application support, network services, data center and cloud services, and service desk/help desk support.

The total \$415,000 legal fees budget is increasing by \$15,000. Within this category there is a \$45,000 increase for fiduciary counsel (to \$140,000), which is partially offset by litigation fees (decreasing by \$25,000, to

\$185,000), as well as tax, compliance, and general services (decreasing by \$5,000 to \$35,000). Although budget for litigation fees is decreasing, timing of cases through the courts could potentially increase actual costs.

The \$3.3 million general operations budget is decreasing by \$29,000, or 0.9%, overall. This expenditure category has a variety of components and multiple offsetting budget changes. Building expenses (rent) is the largest component in the general operations category, with a FY 2027 budget of \$955,000. Decreasing components in this category include fiduciary and other insurance (\$55,000), depreciation (\$45,000), and travel and training (\$34,000). Increasing components include actuary services (50,000), rent (\$29,000), and office operating expenses (\$24,000).

## **Capital Budget**

In addition to the administrative/operating budget, SDCERS maintains a capital budget. The capital budget is decreasing by \$8,000, from \$703,000 to \$695,000. SDCERS' capital budget is primarily associated with information technology infrastructure.

FY 2027 budgeted projects include:

- Network Infrastructure Updates – \$180,000
- Security monitoring – \$100,000
- Annual computer equipment replacement – \$25,000
- Portal Modernization – \$175,000
- Microsoft 365 Collaboration – \$150,000
- Training Tools – \$65,000

# City Agencies: City Retirement System

## 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 administrative budget approved by the Board.<sup>1</sup>

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

2025; the FY 2025 fair value of assets under management by asset category; FY 2025 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 2025 were about 0.37% of the fair value of assets under management, or 37 basis points.<sup>2</sup>

### Investment Return

The most recent SDCERS Annual Comprehensive Financial Report indicates the FY 2025 investment return was 9.4%; and net

SDCERS FY 2025 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%	\$2.89	\$4,170,000	0.14%
Domestic Equity	18.0%	2.73	1,515,000	0.06%
Private Equity & Infrastructure	14.0%	1.52	7,603,000	0.50%
International Equity	12.0%	1.81	4,972,000	0.28%
Real Estate	11.0%	1.22	12,118,000	1.00%
Global Equity	6.0%	0.80	3,773,000	0.47%
Return-Seeking Fixed Income	5.0%	0.66	1,460,000	0.22%
Private Debt	5.0%	0.26	1,542,000	0.60%
Diversifying Strategies	4.0%	0.42	5,322,000	1.27%
Opportunistic Fund Strategies	3.0%	0.01	9,000	0.09%
Cash and Cash Overlay	n/a	0.19	233,000	0.12%
Other Investment Expenses <sup>a, b</sup>	n/a	n/a	4,025,000	0.03%
<b>TOTAL</b>	<b>100.0%</b>	<b>\$12.50</b>	<b>\$46,742,000</b>	<b>0.37%</b>

NOTES: Table may not total due to rounding.

Target allocations, asset values, and investment expenses are based on information presented with the FY 2025 Annual Comprehensive Financial Report.

<sup>a</sup> Other Investment Expenses include \$1.5m for certain SDCERS personnel expenses, as well as fees for investment consultants, taxes, expenses related to cash holdings, and other expenses.

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

<sup>1</sup> Certain personnel expenses associated with SDCERS administrative budget are presented as investment expenses in the Annual Comprehensive Financial Report. These totaled \$1.5 million for FY 2025.

<sup>2</sup> The investment expenses at 0.37% of the fair value of assets is slightly different from the 0.36% included in SDCERS' March 12, 2026 budget materials presented to the SDCERS Board, which do not include certain SDCERS' personnel and general operations expenditures in the investment expenses calculation.

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investment income was \$1.05 billion. Note that the pension system's rate of return assumed for FY 2025 in the FY 2024 actuarial valuation was 6.5%. The return assumption for FY 2026 (in the FY 2025 actuarial valuation) is also 6.5%.