



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: May 6, 2022

IBA Report Number: 22-11

Budget Review Committee Docket Date: May 10, 2022

Review of City Agencies FY 2023 Budgets: San Diego City Employees' Retirement System

The IBA has reviewed the San Diego City Employees' Retirement System (SDCERS) FY 2023 budget, which is scheduled to be heard Tuesday, May 10, 2022. 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 2023 budget was approved by the SDCERS Board of Administration in March 2022. The SDCERS budget is scheduled to be presented as an informational item at the May 10, 2022 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 2023 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 administrative budget of \$16.6 million is increasing by \$2.2 million, or 15.5%, from the \$14.4 million FY 2022 budget. The FY 2023 budget includes 51.00 FTEs, unchanged from

FY 2022.

Based on the FY 2021 actuarial valuations, 8.7% 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 2023 Actuarially Determined Contribution (ADC) pension payment.

Components of SDCERS’ FY 2023 administrative budget are outlined below.

Salaries and Benefits

The \$10.4 million Salaries and Benefits budget category is increasing by \$2.1 million from the FY 2022 budget. Of that amount, salary/wages increases are \$1.1 million, or 21.8%, which are largely due to salary increases based on market comparisons for unrepresented employees, as well as FY 2022 and FY 2023 negotiated wage increases for represented employees. FY 2022 salary and wage increases were not known before the FY 2022 budget was approved by the SDCERS Board.

The remaining \$985,000 increase is for fringe benefits costs. FY 2022 budgeted fringe

SDCERS ADMINISTRATION - BUDGET CHANGES					
	FY 2021	FY 2022	FY 2023	Increase/	Percent
	Actual	Budget	Budget	(Decrease)	Change
Budgeted Staff	48.00	51.00	51.00	0.00	-
Salaries and Benefits	\$8,474,000	\$8,351,000	\$10,429,000	\$2,078,000	24.9%
Information Technology	2,004,000	2,252,000	2,754,000	502,000	22.3%
Legal Fees	451,000	365,000	320,000	(45,000)	(12.4%)
General Operations	3,482,000	3,427,000	3,125,000	(301,000)	(8.8%)
TOTAL	\$14,411,000	\$14,395,000	\$16,628,000	\$2,233,000	15.5%

NOTE: Table may not total due to rounding.

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benefits costs were based on City projections at the time the operating budget was approved by the Board, but actual costs were higher. Additionally, SDCERS has indicated that fringe benefits costs for FY 2023 are also increasing.

The City manages the payment of SDCERS employees' salaries and fringe, and invoices SDCERS for those costs. FY 2023 fringe benefits costs are based on rates provided by the City. Because final FY 2023 fringe rates were not available at the time of SDCERS Board approval of the FY 2023 budget, the fringe amounts are anticipated to change.

Non-Personnel Expenditures

The \$2.8 million information technology expenditures budget for FY 2023 is increasing by \$502,000, or 22.3%, largely related to the new data center and desktop support contract with Zensar Technologies and the new application services contract with CGI Technologies and Solutions. SDCERS leverages the same terms and rates as the City for these contracts.

The \$320,000 legal fees budget is decreasing by \$45,000 and includes costs for litigation, disability, tax, and fiduciary counsel. Fiduciary legal services budget is decreasing by \$60,000, with a partially offsetting \$15,000 increase to disability services counsel.

The \$3.1 million general operations budget is decreasing by \$301,000, or 8.8%, which includes one large decrease with partially offsetting increases. SDCERS rent expense is decreasing by \$732,000, from \$1.2 million to \$433,000, primarily due to a move to a smaller leased space within the building SDCERS is

currently located. Partially offsetting increases include \$231,000 for office operations expenses, largely related to executive recruitment and outside printing costs; \$134,000 for actuarial services, largely related to the triennial experience study;¹ \$40,000 for fiduciary insurance premiums, and \$22,000 for travel and training.

Capital Budget

In addition to the administrative/operating budget, SDCERS maintains a capital budget. The capital budget is increasing by \$578,000, from \$140,000 to \$718,000. SDCERS' capital budget is primarily associated with information technology infrastructure.

The FY 2022 budget projects include:

- Server farm migration – budgeted at \$40,000, but actual cost was \$28,000
- Virtual Private Network (VPN) migration – \$35,000 is budgeted as well as projected
- Replacement of applications and perimeter load balancers – \$25,000 (project originally budgeted in FY 2021, but delayed until FY 2023)
- Office computer equipment replacement – \$25,000 is budgeted as well as projected
- Annual server replacements – \$15,000 is budgeted as well as projected

Another capital expense item for FY 2022, the implementation of systems monitoring software, is a transition cost associated with the new Zensar contract. This was not budgeted in FY 2022 but is projected to cost \$47,000 in

¹ An experience study involves historical analysis of pension plan assumptions and a consideration of future expectations and trends, including the rate of investment return, salary 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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FY 2022.

\$25,000

FY 2023 budget projects include:

- Equipment relocation to 8th floor – \$250,000 (In addition, \$67,000 is anticipated to be spent in FY 2022.)
- Sagitec pension process and application workflow development project – \$188,000 (In addition, \$140,000 is anticipated to be spent in FY 2022.)
- Sagitec IRIS (pension system) framework architecture upgrade – \$180,000
- Email server migration – \$35,000
- Replacement of applications and perimeter load balancers – \$25,000 (project originally budgeted in FY 2021, but delayed until FY 2023)
- Office computer equipment replacement –

- Annual server replacements – \$15,000

Investments

Investment Expenses

Investment expenses are authorized periodically as various investment 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.

Investment expenses for the last completed fiscal year, FY 2021, were about 0.41% of the fair value of assets under management, or 41 basis points. (This is slightly different from the 0.40% included in SDCERS' March 11, 2022 budget materials presented to the SDCERS Board, which do not include SDCERS' personnel and general operations expenditures in the investment expenses

SDCERS FY 2021 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	21.6%	\$2.03	\$2,461,000	0.12%
Domestic Equity	17.2%	1.98	2,371,000	0.12%
International Equity	14.2%	1.66	3,851,000	0.23%
Private Equity & Infrastructure	13.0%	1.49	7,889,000	0.53%
Real Estate	11.0%	0.98	11,534,000	1.18%
Opportunistic Strategies	10.0%	0.67	4,853,000	0.73%
Global Equity	8.0%	0.96	4,429,000	0.46%
Emerging Market Debt	5.0%	0.46	2,536,000	0.55%
Cash and Cash Overlay	n/a	0.27	253,000	0.09%
Other Investment Expenses ^{1, 2}	n/a	n/a	2,944,000	0.03%
TOTAL	100.0%	\$10.50	\$43,121,000	0.41%

NOTES: Table may not total due to rounding.

Target asset allocations, asset values, and investment expenses are based on information presented with the FY 2021 Annual Comprehensive Financial Report.

¹ Other Investment Expenses include \$1.2m for certain SDCERS personnel expenses, investment consultants, legal services, taxes, expenses related to cash holdings, and other expenses.

² For Other Investment Expenses "Expenses as % of Fair Value of Asset Category" is as a percent of the total fair value of assets.

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calculation.)

The table on the previous page presents SDCERS' long-term strategic target asset allocation percentages for each asset category as of June 30, 2021; the FY 2021 fair value of assets under management; FY 2021 investment expenses by asset category; and investment expenses as a percent of the fair value in each asset category.

Investment expenses of \$43.1 million in FY 2021 decreased by \$4.2 million, from \$47.3 million in FY 2020, primarily due to decreases in Private Equity & Infrastructure and Domestic Equity expenses, which were partially offset with increases to expenses for Real Estate and other asset categories.

Investment Return

The most recent SDCERS Annual Comprehensive Financial Report indicates FY 2021 investment return was 24.9%, with net investment earnings of approximately \$2.2 billion. Note that the pension system's rate of return assumed for FY 2021 (in the FY 2020 actuarial valuation) was 6.5%. The return assumption for FY 2022 (in the FY 2021 actuarial valuation) is also 6.5%.