



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: May 6, 2021

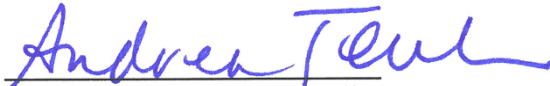
IBA Report Number: 21-11

Budget Review Committee Docket Date: May 11, 2021

Review of City Agencies FY 2022 Budgets: San Diego City Employees' Retirement System

The IBA has reviewed the San Diego City Employees' Retirement System (SDCERS) FY 2022 budget, which is scheduled to be heard Tuesday, May 11th, 2021. Our review is attached.


Lisa Byrne
Fiscal & Policy Analyst


APPROVED: Andrea Tevlin
Independent Budget Analyst

City Agencies: City Retirement System

City Retirement System

The San Diego City Employees' Retirement System (SDCERS) FY 2022 budget was approved by the SDCERS Board of Administration in March 2021. The SDCERS budget is scheduled to be presented as an informational item at the May 11, 2021 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.

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

FY 2022 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 \$14.4 million is increasing by \$484,000, or 3.5%, from the \$13.9 million FY 2021 budget. The FY 2022

budget includes 51.00 FTEs, up 3.00 from the 48.00 FY 2021 budgeted FTEs.

Based on the FY 2020 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 2022 Actuarially Determined Contribution (ADC) pension payment.

Components of SDCERS' FY 2022 administrative budget are outlined below.

Salaries and Benefits

The \$8.4 million Salaries and Benefits budget category is increasing by \$478,000 from the FY 2021 budget. Of that amount, salary/wages increases are \$185,000, which are largely due to the addition of 3.00 budgeted FTE positions, including two for the increased workload related to the unwinding of Proposition B. The remaining \$293,000 is for increased fringe benefits costs.

The City manages the payment of SDCERS employees' salaries and fringe, and invoices SDCERS for those costs. FY 2022 fringe benefits costs are based on rates provided by the

SDCERS ADMINISTRATION - BUDGET CHANGES					
	FY 2020 Actual	FY 2021 Budget	FY 2022 Budget	Increase/ (Decrease)	Percent Change
Budgeted Staff	50.00	48.00	51.00	3.00	6.3%
Salaries and Benefits	\$8,111,000	\$7,873,000	\$8,351,000	\$478,000	6.1%
Information Technology	2,034,000	2,164,000	2,252,000	88,000	4.1%
Legal Fees	268,000	385,000	365,000	(20,000)	(5.2%)
General Operations	3,408,000	3,489,000	3,427,000	(62,000)	(1.8%)
TOTAL	\$13,822,000	\$13,911,000	\$14,395,000	\$484,000	3.5%

NOTE: Table may not total due to rounding.

City Agencies: City Retirement System

City. Because final FY 2022 fringe rates were not available at the time of SDCERS Board approval of the FY 2022 budget, the fringe amounts are anticipated to change.

Non-Personnel Expenditures

The \$2.3 million information technology expenditures budget for FY 2022 is increasing by \$88,000, largely related to systems and technical support.

The \$365,000 legal fees budget is decreasing by \$20,000 and includes costs for litigation, disability, tax, and fiduciary counsel. Fiduciary legal services are projected to increase by \$50,000, while disability and tax/general legal services are anticipated to have offsetting decreases of \$35,000 each.

The \$3.4 million general operations budget is decreasing by \$62,000, but there are some offsetting increases and decreases. The largest decrease is \$64,000 for office operations expenses, largely related to outside printing costs. There is also a decrease of \$45,000 for travel and training, largely due to the effects of COVID-19. The largest offsetting increase is \$31,000 for rent expense.

Capital Budget

In addition to the administrative/operating budget, SDCERS maintains a capital budget. The capital budget is decreasing from \$195,000 in FY 2021 to \$140,000 in FY 2022.

The FY 2021 budget projects include:

- Capacity expansion for storage area network – \$80,000 (projected to be completed at \$78,000)
- Server connectivity switch replacement – \$50,000 (projected to be completed at \$32,000)
- Replacement of applications and

perimeter load balancers – \$25,000 (projected spending is zero for FY 2021; to be completed in FY 2022)

- Office computer equipment replacement – \$25,000 (projected spending is \$25,000)
- Replacement of systems management server – \$15,000 (projected to be completed at \$15,000)

FY 2022 budget projects include:

- Server farm migration – \$40,000
- Virtual Private Network (VPN) migration – \$35,000
- Replacement of applications and perimeter load balancers – \$25,000 (project originally budgeted in FY 2021, but delayed until FY 2022)
- Office computer equipment replacement – \$25,000
- Server replacement – \$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 for the last completed fiscal year, FY 2020, were about 0.56% of the fair value of assets under management, or 56 basis points. (This is slightly different from SDCERS' May 11, 2021 Budget Review Committee materials, which do not include SDCERS' personnel and general operations expenditures in the investment expenses calculation.)

The following table presents SDCERS' long-term strategic target asset allocation

City Agencies: City Retirement System

percentages for each asset category as of June 30, 2020; the FY 2020 fair value of assets under management; FY 2020 investment expenses by asset category; and investment expenses as a percent of the fair value in each asset category. It is anticipated that the SDCERS Board will review capital market assumptions and asset allocation during its May 14, 2021 meeting.

Investment expenses of \$47.3 million in FY 2020 increased by \$8.2 million, from \$39.1 million in FY 2019. The largest portion of this increase was in the Private Equity/Infrastructure asset category, with investment expenses increasing by \$4.4 million (to \$12.3 million in FY 2020). While Private Equity/Infrastructure assets decreased by about \$62 million year-over-year, expenses as a percent of year-end assets in this category increased from 0.65% in FY 2019 to 1.06% in FY 2020.

The second largest portion of the \$8.2 million investment expenses increase was in the Opportunistic Strategies asset category. For this asset category, the investment expenses increase was approximately \$3.1 million (to about \$4.6 million in FY 2020). While Opportunistic Strategies assets increased by about \$150 million year-over-year, expenses as a percent of year-end assets in this category increased from 0.38% in FY 2019 to 0.85% in FY 2020.

Investment Return

The most recent SDCERS Comprehensive Annual Financial Report indicates FY 2020 investment return was 0.5%, with net investment earnings of approximately \$20.5 million. Note that the pension system's rate of return assumed for FY 2020 (in the FY 2019 actuarial valuation) was 6.5%. The return assumption for FY 2021 (in the FY 2020 actuarial valuation) is also 6.5%.

SDCERS FY 2020 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%	\$1.88	\$2,125,000	0.11%
Domestic Equity	17.2%	1.46	5,298,000	0.36%
International Equity	14.2%	1.22	3,909,000	0.32%
Private Equity & Infrastructure	13.0%	1.16	12,317,000	1.06%
Real Estate	11.0%	0.97	9,950,000	1.03%
Opportunistic Strategies	10.0%	0.54	4,552,000	0.85%
Global Equity	8.0%	0.67	3,568,000	0.53%
Emerging Market Debt	5.0%	0.42	2,492,000	0.59%
Cash and Cash Overlay	n/a	0.17	209,000	0.12%
Other Investment Expenses ^{1, 2}	n/a	n/a	2,896,000	0.03%
TOTAL	100.0%	\$8.49	\$47,316,000	0.56%

NOTES: Table may not total due to rounding.

Target asset allocations, asset values, and investment expenses are based on information presented with the FY 2020 Comprehensive Annual Financial Report.

¹ Other Investment Expenses include those 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.