

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

May 13, 2014

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: Recommendations of the Budget and Legislative Analyst for Amendment of the Mayor's Fiscal Year 2014-2015 to Fiscal Year 2015-2016 Budget.

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Descriptions for Departmental Budget Hearing, May 15, 2014 Meeting, 10:00 a.m.

RET Retirement System1

BUDGET REVIEW EXECUTIVE SUMMARY

YEAR ONE: FY 2014-15

Budget Changes

The department's proposed \$27,909,428 budget for FY 2014-15 is \$5,502,664 or 24.6% more than the original FY 2013-14 budget of \$22,406,764.

Personnel Changes

The number of full-time equivalent positions (FTE) budgeted for FY 2014-15 are 106.82 FTEs, which are 9.33 FTEs more than the 97.49 FTEs in the original FY 2013-14 budget. This represents a 9.6% change in FTEs from the original FY 2013-14 budget.

Revenue Changes

The Department's revenues of \$27,909,428 in FY 2014-15 are \$5,502,664 or 24.6% more than FY 2013-14 revenues of \$22,406,764.

YEAR TWO: FY 2015-16

Budget Changes

The department's proposed \$25,886,464 budget for FY 2015-16 is \$2,022,964 or 7.3% less than the Mayor's proposed FY 2014-15 budget of \$27,909,428.

Personnel Changes

The number of FTE budgeted for FY 2015-16 are 110.57 FTEs, which are 3.75 FTEs more than the 106.82 FTEs in the Mayor's proposed FY 2014-15 budget. This represents a 3.5% increase in FTEs from the Mayor's proposed FY 2014-15 budget.

Revenue Changes

The Department's revenues of \$25,886,464 in FY 2015-16, are \$2,022,964 or 7.3% less than FY 2014-15 estimated revenues of \$27,909,428.

**RECOMMENDATIONS OF THE BUDGET & LEGISLATIVE ANALYST
FOR AMENDMENT OF BUDGET ITEMS
FY 2014-15 AND FY 2015-16**

DEPARTMENT: RET – RETIREMENT SYSTEM

RECOMMENDATIONS

YEAR ONE: FY 2014-15

The Budget and Legislative Analyst’s recommended reductions to the proposed budget total \$1,684,406 in FY 2014-15. Of the \$1,684,406 in recommended reductions, \$739,046 are ongoing savings and \$945,360 are one-time savings. These reductions would still allow an increase of \$3,818,258 or 17.1% in the Department’s FY 2014-15 budget.

YEAR TWO: FY 2015-16

The Budget and Legislative Analyst’s recommended reductions to the proposed budget total \$689,517 in FY 2015-16, all of which are ongoing savings.

**RECOMMENDATIONS OF THE BUDGET & LEGISLATIVE ANALYST
FOR AMENDMENT OF BUDGET ITEMS
FY 2014-15 AND FY 2015-16**

DEPARTMENT: RET – RETIREMENT SYSTEM

SUMMARY OF PROGRAM EXPENDITURES:

Program	FY 2013-2014 Budget	FY 2014-2015 Proposed	Increase/ Decrease from FY 2013-2014	FY 2015-2016 Proposed	Increase/ Decrease from FY 2014-2015
RETIREMENT SYSTEM					
ADMINISTRATION	1,590,839	2,184,652	593,813	2,319,125	134,473
EMPLOYEE DEFERRED COMP PLAN	1,116,513	1,201,610	85,097	1,129,364	(72,246)
INVESTMENT	3,201,735	4,310,219	1,108,484	5,222,340	912,121
RETIREMENT SERVICES	16,497,677	20,212,947	3,715,270	17,215,635	(2,997,312)
RETIREMENT SYSTEM	22,406,764	27,909,428	5,502,664	25,886,464	(2,022,964)

FY 2014-15

The Department’s proposed FY 2014-15 budget has increased by \$5,502,664 largely due to:

- A major shift from the current consultant-driven investment model to a staff-driven investment model, in which the Retirement System proposes to hire five new Investment Division positions in FY 2014-15 to implement new investment strategies, including hedge funds and alternative equities. The Retirement System advises that the proposed hedge fund strategy should provide superior risk-return and the alternative equities strategy should earn higher returns by investing in more differentiated ways, as compared to the Retirement System’s current traditional equity and fixed income investment strategies. The proposed increases of in-house investment staff are intended to result in higher returns on investment, ability to invest in alternative strategies that are not currently available and protection against downside risk.
- The proposed budget for approval by the Board of Supervisors does not include the non-personnel investment division budget which includes outside private (a) investment management fees of approximately \$56 million annually and (b) investment consultant fees of approximately \$6 million annually, which provide investment expertise for the San Francisco Employees Retirement System (SFERS) Trust of approximately \$19 billion. Therefore, the proposed budget does not reflect any offsetting reductions in such outside investment management or investment consultant fees, although the department indicates that such costs may be able to be reduced in future years.
- An additional three new permanent positions to provide additional administrative and analytical support, increased temporary salaries, upward substitutions, incentive pay for investment staff and across-the-board cost of living salary and fringe benefit increases.
- Increased ongoing lease costs and one-time expenditures in FY 2014-15 for tenant improvements, Department of Technology’s (DT) service installation costs, equipment and furnishings, and moving expenses to relocate the Retirement System from their existing City-owned space at 30 Van Ness to leased space at 1145 Market Street.

**RECOMMENDATIONS OF THE BUDGET & LEGISLATIVE ANALYST
FOR AMENDMENT OF BUDGET ITEMS
FY 2014-15 AND FY 2015-16**

DEPARTMENT: RET – RETIREMENT SYSTEM

FY 2015-16

The Department's proposed FY 2015-16 budget has decreased by \$2,022,964 largely due to:

- Continued shift from the current consultant-driven investment model to a staff-driven investment model, in which the Retirement System annualizes the five new Investment Division positions hired in FY 2014-15 and hires two additional new Investment Division positions in FY 2015-16.
- Annualization of the positions hired in FY 2014-15, one new position added in FY 2015-16 and additional cost of living salary and fringe benefit cost increases.
- Reductions primarily due to the one-time costs incurred in FY 2014-15 for the tenant improvements, DT's costs, equipment and furnishing, and moving expenses.

SUMMARY OF DEPARTMENT POSITION CHANGES:

FY 2014-15

The number of full-time equivalent positions (FTE) budgeted for FY 2014-15 are 106.82 FTEs, which are 9.33 FTEs more than the 97.49 FTEs in the original FY 2013-14 budget. This represents a 9.6% increase in FTEs from the original FY 2013-14 budget.

The proposed new positions include:

- One 0943 Manager VIII – Managing Director for Alternative Equity
- One 0942 Manager VII – Director of Portfolio Strategy
- One 0941 Manager VI – Senior Portfolio Manager for Real Assets
- One 4331 Security Analyst – Security Analyst for Alternative Equity
- Two 1842 Management Assistants
- One 1824 Principal Administrative Analyst
- One 1844 Senior Management Assistant

In addition, the department proposes to add over \$200,000 of additional temporary salary funds to assist with special projects and provide as-needed staff.

FY 2015-16

The number of FTE budgeted for FY 2015-16 are 110.57 FTEs, which are 3.75 FTEs more than the 106.82 FTEs in the Mayor's proposed FY 2014-15 budget. This represents a 3.5% increase in FTEs from the Mayor's proposed FY 2014-15 budget.

The proposed new positions include:

**RECOMMENDATIONS OF THE BUDGET & LEGISLATIVE ANALYST
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FY 2014-15 AND FY 2015-16**

DEPARTMENT: RET – RETIREMENT SYSTEM

- One 0942 Manager VII – Director of Portfolio Strategy
- One 4331 Security Analyst for Direct and Co-investments (Real Estate)
- One 1060 Principal Programmer Analyst

In addition, the department will be annualizing the positions added in FY 2014-15.

DEPARTMENT REVENUES:

FY 2014-15

The Department's revenues of \$27,909,428 in FY 2014-15 are \$5,502,664 or 24.6% more than FY 2013-14 revenues of \$22,406,764. The Department does not receive General Fund revenues. The Department is fully supported by the SFERS Trust, which as noted above, currently totals approximately \$19 billion.

FY 2015-16

The Department's revenues of \$25,886,464 in FY 2015-16 are \$2,022,964 or 7.3% less than FY 2014-15 estimated revenues of \$27,909,428. The Department is fully supported by the SFERS Trust and does not receive any General Fund revenues.

RECOMMENDATIONS:

FY 2014-15

The Budget and Legislative Analyst's recommended reductions to the proposed budget total \$1,684,406 in FY 2014-15. Of the \$1,684,406 in recommended reductions, \$739,046 are ongoing savings and \$945,360 are one-time savings. These reductions would still allow an increase of \$3,818,258 or 17.1% in the Department's FY 2014-15 budget.

FY 2015-16

The Budget and Legislative Analyst's recommended reductions to the proposed budget total \$689,517 in FY 2015-16, all of which are ongoing savings.

**Recommendations of the Budget and Legislative Analyst
For Amendment of Budget Items in the FY 2014-15 and FY 2015-16 Two-Year Budget**

RET - Retirement System

Object Title	FY 2014-15						FY 2015-16					
	FTE		Amount		GF	IT	FTE		Amount		GF	IT
	From	To	From	To			From	To	From	To		
FDD - Retirement Services												
Attrition Savings	(5.02)	(7.23)	(\$454,433)	(\$654,433)	\$200,000		(5.02)	(7.18)	(\$463,557)	(\$663,557)	\$200,000	
Mandatory Fringe Benefits			(\$206,951)	(\$298,094)	\$91,143				(\$203,096)	(\$290,770)	\$87,674	
			<i>Total Savings</i>		\$291,143				<i>Total Savings</i>		\$287,674	
Increase Attrition Savings due to projected salary savings of over \$700,000 in FY 2013-14 and significant increases in temporary salaries and permanent salaries in FY 2014-15.												
Management Assistant	1.00	0.00	\$78,587	\$0	\$78,587		1.00	0.00	\$80,164	\$0	\$80,164	
Mandatory Fringe Benefits			\$37,318	\$0	\$37,318				\$36,497	\$0.00	\$36,497	
			<i>Total Savings</i>		\$115,905				<i>Total Savings</i>		\$116,661	
Delete existing vacant 1842 Management Assistant. The proposed budget includes one new 1844 Senior Management Assistant position, a higher level position that can provide additional support for the Deputy Executive Director. We recommend approval of the new 1844 position.												
Principal Admin Analyst	0.50	0.00	\$57,645	\$0	\$57,645		1.00	0.00	\$117,605	\$0	\$117,605	
Mandatory Fringe Benefits			\$24,353	\$0	\$24,353				\$47,577	\$0.00	\$47,577	
			<i>Total Savings</i>		\$81,998				<i>Total Savings</i>		\$165,182	
Delete requested new 1824 Principal Administrative Analyst. The proposed budget also includes one new 1842 Management Assistant position. We recommend approval of the new 1842 position.												
Training			\$67,300	\$42,300	\$25,000				\$67,300	\$47,300	\$20,000	
Reduce training budget. The proposed reduction still allows for an increase of 60% in training funds.												
Professional & Specialized Services			\$1,113,400	\$888,400	\$225,000				\$913,400	\$813,400	\$100,000	
Reduce professional service contract services based on historical under-expenditures and proposed increased contractual services in FY 2014-15, including one-time moving costs that are overbudgeted by \$100,000.												
Ongoing adjusted savings.												

**Recommendations of the Budget and Legislative Analyst
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RET - Retirement System

Object Title	FY 2014-15				FY 2015-16													
	FTE		Amount		FTE		Amount											
	From	To	From	To	From	To	From	To										
Real Estate Services			\$2,010,000	\$1,064,640														
<p>Based on a recently approved 10-year office space lease for the Retirement System at 1145 Market Street, the cost of the tenant improvements are up to \$3,007,980. These tenant improvements include up to \$1,946,340 to be paid by the landlord and up to \$1,061,640 to be paid by the Retirement System. Rather than paying the up to \$1,061,640 total Retirement System share in FY 2014-15, the lease allows the Retirement System to reimburse the landlord over the initial 10-year term of the lease at 6% interest, or a total of \$1,414,366, which is approximately \$142,000 annually. The proposed reduction assumes the Retirement System pays the total cost in FY 2014-15, such that if the Retirement System decides to pay the tenant improvement costs over the initial 10-year term, the savings in FY 2014-15 will be significantly greater.</p>																		

FY 2013-14

Total Recommended Reductions

	One-Time	Ongoing	Total
General Fund	\$0	\$0	\$0
Non-General Fund	\$945,360	\$739,046	\$1,684,406
Total	\$945,360	\$739,046	\$1,684,406

FY 2014-15

Total Recommended Reductions

	One-Time	Ongoing	Total
General Fund	\$0	\$0	\$0
Non-General Fund	\$0	\$689,517	\$689,517
Total	\$0	\$689,517	\$689,517