2017 DRAFT Operating & Capital Expenditures Budget - Discussion

October 21, 2016

Presented by: Rhonda Covarrubias
Director of Finance, TMRS
Objectives for Today

- Review proposed draft budget document
- Questions / requests for December meeting
Proposed 2017 Draft Budget

Section 1 –

- 2016 Goals Accomplished and Alignment of 2017 Budget with Strategic Plan
Accomplishments in 2016

- Straight-through processing – MyTMRS rollouts
  - Tax withholding updates (retirees); tax document and member statement downloads; communication preferences
- Switch from FileNet electronic document management system to Lexmark Content
- Updates to business continuity plans for each TMRS department
- Replacement of TMRS’ online data backup application/replication solution
- Introduction of “Executive Workshops” across the state
- Completion of Asset / Liability Study
- Continued portfolio diversification
  - 29 managers approved in 2016
    - 17 have been funded, for total commitment of approximately $3.15 billion
Proposed 2017 Draft Budget

Goal 1:

Ensure the financial stability and long-term viability of the Plan.

- Continues to provide for the actuarial retainer ($447,000), and contingency funds for legislative studies.

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retainer</td>
<td>$435,000</td>
<td>$447,000</td>
</tr>
<tr>
<td>Board member meetings</td>
<td>$25,800</td>
<td>$17,200</td>
</tr>
<tr>
<td>IRC 415 testing - contingency</td>
<td>$15,000</td>
<td>$15,000</td>
</tr>
<tr>
<td>Legislative studies - contingency</td>
<td>$75,000</td>
<td>$75,000</td>
</tr>
<tr>
<td>Total recurring</td>
<td>$550,800</td>
<td>$554,200</td>
</tr>
<tr>
<td>GASB 74 / 75 planning &amp; implementation</td>
<td>$30,000</td>
<td>$25,000</td>
</tr>
<tr>
<td>Rate stabilization study</td>
<td>$25,000</td>
<td>-</td>
</tr>
<tr>
<td>Asset/liability study</td>
<td>$25,000</td>
<td>-</td>
</tr>
<tr>
<td>Total other services</td>
<td>$55,000</td>
<td>$25,000</td>
</tr>
<tr>
<td>Total Actuarial Services</td>
<td>$605,800</td>
<td>$579,200</td>
</tr>
</tbody>
</table>
Goal 2: Continue to provide excellent customer service and communications to members, annuitants, employers, and other constituencies.

2014 through 2016 budgets have included funds to implement Straight-Through Processing (STP) “from enrollment to retirement” by expanding the delivery of self-service capabilities in MyTMRS (Member Portal) and TMRS City Portal.
2017 will continue with the TMRSDirect project

- Contingency funds ($25,000) are included; however, projects will be completed mainly by internal staff in 2017 and 2018.

Continued consulting for 2017 includes city contribution process reengineering ($161,000; $178,500 in 2016)

Continue with “Executive Workshops” across the state; introduced in 2016 and found to be successful by the membership
Goal 4

Foster a culture within TMRS of open communication, where collaboration is encouraged and innovation is rewarded.

2016 included 3 new positions (one filled with two part-time employees)

2017 includes 8 new positions. See Appendix A.

2018 – 2022 projected new positions are also included in Appendix D.
Section II – Comparison of 2016 budget to 2017 proposed

- Proposed 2016 of $30.6 million for administrative and capital expenditures.
- The “new” column totals $3.2 million
  - 82% - administrative  18% - capital
  - Within administrative:  40% for new personnel; 60% new items/projects

<table>
<thead>
<tr>
<th></th>
<th>New personnel</th>
<th>New items/projects</th>
<th>2017 Total New</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Admin. Expenses</td>
<td>$1,054,618</td>
<td>$1,637,655</td>
<td>$2,692,273</td>
</tr>
<tr>
<td></td>
<td>39%</td>
<td>61%</td>
<td>100%</td>
</tr>
<tr>
<td>Total Capital Expenditures</td>
<td>-</td>
<td>$600,000</td>
<td>$600,000</td>
</tr>
<tr>
<td>GRAND TOTAL</td>
<td>$1,054,618</td>
<td>$2,237,655</td>
<td>$3,292,273</td>
</tr>
</tbody>
</table>
Proposed 2017 Draft Budget

2017 Operating Budget – main categories

<table>
<thead>
<tr>
<th>Category</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel services</td>
<td>53%</td>
<td>53%</td>
</tr>
<tr>
<td>Professional services</td>
<td>30%</td>
<td>31%</td>
</tr>
<tr>
<td>Communication</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Rentals / equip. maint.</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>6%</td>
<td>6%</td>
</tr>
</tbody>
</table>
Personnel Services –
- continues to be largest category at approximately 53% of the total budget

2017 budget includes:
- 8 new positions
- Decrease 0.19% in full retirement rate
  (from 16.91% to 16.72%, including SDB)
- $218,000 allocated for merit adjustments
- Same benefit package
  (assumes rate increases for Sept-Dec 2017)
- Includes same scale for retiree medical coverage
Proposed 2017 Draft Budget

Professional Services – 31% of the total proposed budget

- 3-year comparison of Consulting – see Appendix B

<table>
<thead>
<tr>
<th>Professional Services:</th>
<th>2016 Budget</th>
<th>&quot;new&quot;</th>
<th>2017 Proposed</th>
<th>% of budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consulting &amp; other prof svcs</td>
<td>$ 2,973,365</td>
<td>713,000</td>
<td>$ 3,291,135</td>
<td>36%</td>
</tr>
<tr>
<td>Actuarial</td>
<td>605,800</td>
<td>-</td>
<td>579,200</td>
<td>6%</td>
</tr>
<tr>
<td>Banking services</td>
<td>706,750</td>
<td>-</td>
<td>2,007,750</td>
<td>22%</td>
</tr>
<tr>
<td>Legal services</td>
<td>1,635,425</td>
<td>-</td>
<td>1,180,975</td>
<td>13%</td>
</tr>
<tr>
<td>Medical services</td>
<td>40,000</td>
<td>-</td>
<td>60,000</td>
<td>1%</td>
</tr>
<tr>
<td>Audit</td>
<td>338,700</td>
<td>-</td>
<td>278,500</td>
<td>3%</td>
</tr>
<tr>
<td>Online services</td>
<td>1,640,855</td>
<td>181,155</td>
<td>1,796,205</td>
<td>20%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$ 7,940,895</td>
<td>894,155</td>
<td>$ 9,193,765</td>
<td>100%</td>
</tr>
</tbody>
</table>
Consulting and Other Professional Services:

Descriptions for higher-dollar items included with Appendix B:

- Continue with City Contribution Re-engineering ($161,000)
- Entity-wide Compensation Study ($80,000)
- Electronic Records Management Project ($150,000)
- Lexmark Content upgrade ($75,000)
- Secure Chat ($75,000)
- Cloud Strategy ($75,000)
  - Business case provided
Rentals and Equipment Maintenance –
Only 5% of the total proposed budget

87% of this category is for IT’s data processing needs (hardware and software purchases and maintenance)

Data processing line-item:
- “New” software – $690,000 (see Appendix C)

Descriptions for higher-dollar items on page 16:
Vmware NSX (network security) Software - $125,000
- To address some of the high and medium priority findings from recent network security audits.
See Business Case “Network Micro-Segmentation with VMWare NSX”
Miscellaneous –

6% of the total proposed budget

Captures items requested by all departments that support employees professional growth (association/membership dues, subscriptions, publications, training)

20% of this category includes the Supplies line-item

- Includes $80,000 to replace up to 30 laptops
Capital Expenditures

Carry-over of 2016 funds for a fifth-floor controls system and lock replacements ($40,000)

2017 “new” funds are included for:

- SAN and physical server replacement ($500,000)
  - See “Private Cloud Replacement” business case
- Fortigate firewall replacement ($90,000)
New Personnel *(Appendix A)*

Budget request of $1 million (approximately $950,000 for salaries and benefits)

- Assume hire dates ranging from January through May 2017

- 3 Investment Department positions
  - Operations Manager
  - Operations Analyst
  - Performance Analyst

- Senior Internal Auditor
- Assistant Director – Information Resources
- Network Security Analyst
- Support Services Analyst
- Administrative Assistant (Legal)
Future Projected Personnel (Appendix D)

Shows anticipated needs for new personnel in the future

- 2018 – 7 positions
- 2019 – 5 positions
- 2020 – 2 positions

- Future costs are provided *
- Brief/summary job duties

* Projections for salaries at current compensation structure; taxes at current limits; retirement contributions at 2017 rate; insurance at 2017 premiums.
Future Major Items *(Appendix E)*

Shows anticipated “new” major items, classified into the main five sub-categories

**Professional Services:**
Note trending decrease over the next five years, with completion of STP / TMRSDirect

Human Resource projects include a compensation study (every 3 years - 2020), and succession planning consulting

Actuarial Services include an experience study (2019) and funds for asset/liability or asset allocation studies (every 3 years)
Future Major Items (Appendix E) - continued

Rentals and Equipment Maintenance:
Higher-dollar items in Data Processing line-item for Oracle database licensing and Application Server licensing (2020)

Capital:
- SAN and physical server replacement is anticipated again in 2022
- Anticipate network switches to be replaced in 2018

A comprehensive 3-5 year budget projection will be provided in December.
Questions and Discussion