

2017 Proposed Operating & Capital Expenditures Budget

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2017 Proposed Budget

Objectives for Today

- Review proposed 2017 budget document
- Brief review of budget expenses for 2016
- Board adoption of the 2017 budget

2017 Proposed Budget

Section 1 –

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

2017 Proposed Budget

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

2017 Proposed 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.

		Actuarial		
2016			2017	
\$ 435,000	Retainer		\$ 447,000	
25,800	Board member meetings		17,200	
15,000	IRC 415 testing - contingency		15,000	
75,000	Legislative studies - contingency		75,000	
\$ 550,800	Total recurring		\$ 554,200	
\$ -	GASB 74 / 75 planning & implementation		\$ 25,000	
30,000	Rate stabilization study		-	
25,000	Asset/liability study		-	
\$ 55,000	Total other services		\$ 25,000	
\$ 605,800	Total Actuarial Services		\$ 579,200	

2017 Proposed Budget

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 Proposed Budget (Goal 2 cont.)

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

2017 Proposed Budget

Goal 4

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

2016 included 4 new positions (one filled with two part-time employees)

2017 includes 9 new positions. See Appendix A.

2018 – 2022 projected new positions are also included in Appendix D.

2017 Proposed Budget

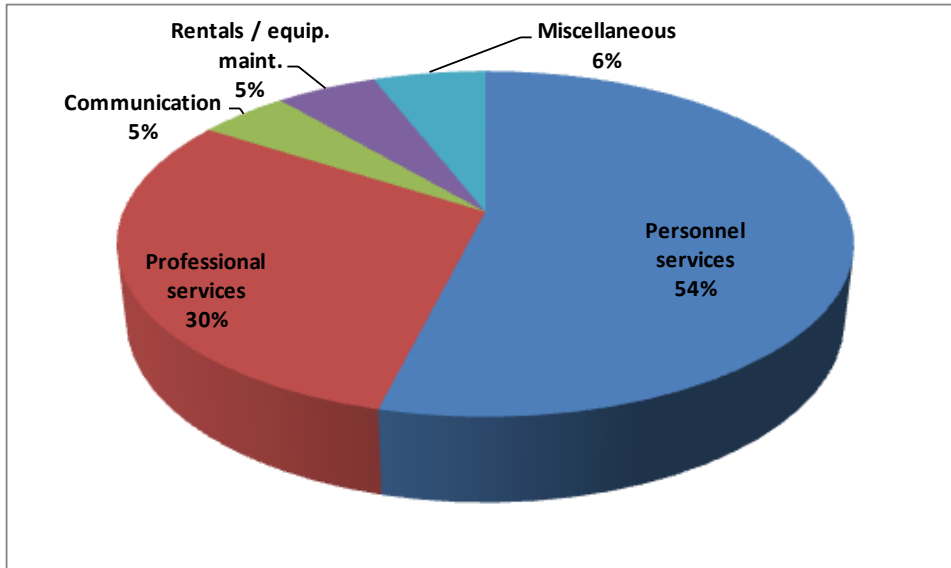
Section II – Comparison of 2016 budget to 2017 proposed

- Proposed 2016 of \$30.9 million for administrative and capital expenditures.
- The “new” column totals \$5.4 million
 - 90% - administrative 10% - capital
 - Within administrative: 30% for new personnel; 70% new items/projects

	New personnel	New items/ projects	2017 Total New	
Total Admin. Expenses	\$ 1,312,481	\$ 3,511,616	\$ 4,824,097	89%
	27%	73%	100%	
Total Capital Expenditures	\$ -	\$ 600,000	\$ 600,000	11%
GRAND TOTAL	\$ 1,312,481	\$ 4,111,616	\$ 5,424,097	100%

2017 Proposed Budget

2017 Operating Budget – main categories



	2016	2017
Personnel services	53%	54%
Professional services	30%	30%
Communication	6%	5%
Rentals / equip. maint.	5%	5%
Miscellaneous	6%	6%

2017 Proposed Budget

Personnel Services –

- continues to be largest category at approximately 54% of the total budget

2017 budget includes:

- 9 new positions
- Decrease 0.19% in full retirement rate
(from 16.91% to 16.72%, including SDB)
- \$226,000 allocated for merit adjustments
- Same benefit package
(assumes rate increases for Sept-Dec 2017)
- Includes same scale for retiree medical coverage

2017 Proposed Budget

Professional Services – 30% of the total proposed budget

General Recurring – 67% of total consulting funds

- Investment consultants - \$1.7 million or 52% of total consulting funds
- Governance/Strategic planning
- State of TX Governmental Relations
- Disaster Recovery – retainer and testing
- Network security audit

Non-Recurring –

- \$161,000 to continue with City Contribution process re-engineering
- Entity-wide Compensation study (completed every 3 years)
- Succession planning

2017 Proposed Budget –

(Professional Services, continued)

“New funds” of \$638,000 or 20% of Total Consulting

- Contingency (\$100,000) for possible legislative changes
- Electronic records management projects – (\$150,000)
- Lexmark Content upgrade – (\$75,000)
- Cloud strategy consulting – (\$75,000) – *Business case provided*

- 3-year comparison of Consulting – see Appendix B

	2016 Budget	"new "	2017 Proposed	% of budget
Professional Services:				
Consulting & other prof svcs	\$ 2,973,365	638,000	3,251,635	36 %
Actuarial	605,800	-	579,200	6
Banking services	706,750	1,300,000	2,007,750	22
Legal services	1,635,425	-	1,190,975	13
Medical services	40,000	-	60,000	1
Audit	338,700	-	278,500	3
Online services	1,640,855	181,455	1,763,118	19
TOTAL	\$ 7,940,895	2,119,455	\$ 9,131,178	100 %

2017 Proposed Budget

Rentals and Equipment Maintenance –

Only **5%** of the total proposed budget

86% of this category is for IT's data processing needs (hardware and software purchases and maintenance)

Data processing line-item:

- “New” software – \$748,000 (see Appendix D)

Descriptions for higher-dollar items on page 30 of budget document:

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”*

2017 Proposed Budget

Miscellaneous –

6% of the total proposed budget

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

18% of this category includes the **Supplies** line-item

- Includes \$80,000 to replace up to 30 laptops

2017 Proposed Budget

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)

2017 Proposed Budget

New Personnel (*Appendix A*)

Budget request of \$1.3 million (mainly for salaries and benefits)

➤ assume hire dates ranging from January through April 2017

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

- Senior Internal Auditor
- Assistant Director – Information Resources
- Network Security Analyst
- Support Services Analyst
- Assistant General Counsel
- Special Assistant to the Executive Director

Future Projections – 2018 to 2022

Administrative Expenses: 3-5 Year Projections (*Appendix E*)

As part of the budget process, each department projected their respective line-items for the 3-5 year period.

This Appendix combines all departmental projections.
Shows annual increases ranging from \$460,000 to \$1.6 million.

- Fluctuations from year-to-year are noted as:
 - Future new personnel (*Appendix F*)
 - Major items/projects (*Appendix G*)

NOTE: Management has not determined that these items will be requested in the future. This analysis was performed only for possible projections in the 3-5 year future, for informational/discussion purposes only.

Future Projections – 2018 to 2022 (continued)

Future Projected Personnel (*Appendix F*)

Shows anticipated needs for new personnel in the future

- 2018 – 8 positions
- 2019 – 4 positions
- 2020 – 2 positions

- Future costs (annual salary) 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 Projections – 2018 to 2022 (continued)

Future Major Items (*Appendix G*)

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 Projections – 2018 to 2022 (continued)

Future Major Items (*Appendix G*) - 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.

Review of 2016 Budget

Estimated Budget Expenses for 2016 (see Appendix H)

\$26 million operating expenses budget

Included \$1.9 million in “new” funds

- 4 new personnel
- Consulting:
 - \$178,000 for City contribution process reengineering
 - \$60,000 for asset/liability study
 - \$60,000 for payroll and invoice approval workflow (moved to 2017)

Review of 2016 Budget (continued)

Actuarial:

- \$55,000 for asset/liability study and rate stabilization study

Online Services:

- Approximately \$200,000 in new investment-related services
- Approximately \$200,000 contingency for Identity & Access Management services subscription – funds not needed (lower-cost alternative found)

Data Processing:

- Veeam licenses for DRaaS
- Call Center monitoring & reporting software (moved to 2017)

Offsite Record Storage:

- Approximately \$280,000 for DRaaS – implemented under-budget with less-expensive and better alternative

Review of 2016 Budget (continued)

Anticipate expenses at approximately 87% of budget.

	Budget for 2016	Estimated Exp for 2016	Estimated (Over)/Under	
Total Admin. Expenses	\$ 26,150,598	\$22,590,576	\$ 3,560,022	13.6 %
Total Capital Expenditures	\$ 159,485	\$ 372,742	\$ (213,257)	(133.7) %
Total Budget	\$ 26,310,083	\$22,963,318	\$ 3,346,765	12.7 %

Highlights by category are in Appendix H.

	Budget for 2016	Estimated Exp for 2016	Estimated (Over)/Under	
Personnel Services	\$ 13,887,268	\$13,416,708	\$ 470,560	3.4%
Professional Services	7,940,895	6,007,375	1,933,520	24.3%
Communication	1,460,670	1,168,284	292,386	20.0%
Rentals/ Equipment Maint.	1,309,966	826,416	483,550	36.9%
Miscellaneous	1,551,799	1,171,794	380,005	24.5%
	<u>\$ 26,150,598</u>	<u>\$22,590,576</u>	<u>\$ 3,560,022</u>	<u>13.6%</u>

Questions and Board Adoption