2017 Proposed Operating & Capital Expenditures Budget

December 9, 2016

Presented by: Rhonda Covarrubias
Director of Finance, TMRS
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
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.

<table>
<thead>
<tr>
<th>Actuarial</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>
</tbody>
</table>

| | $55,000 | $25,000 |
| GASB 74 / 75 planning & implementation | $30,000 | Rate stabilization study |
| Rate stabilization study | $25,000 | Asset/liability study |
| Total other services | $55,000 | $25,000 |

| $605,800 | Total Actuarial Services | $579,200 |
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 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 budget

- 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

<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>$1,312,481</td>
<td>$3,511,616</td>
<td>$4,824,097</td>
</tr>
<tr>
<td></td>
<td>27%</td>
<td>73%</td>
<td>100%</td>
</tr>
<tr>
<td>Total Capital Expenditures</td>
<td>$-</td>
<td>$600,000</td>
<td>$600,000</td>
</tr>
<tr>
<td>GRAND TOTAL</td>
<td>$1,312,481</td>
<td>$4,111,616</td>
<td>$5,424,097</td>
</tr>
</tbody>
</table>

- GRAND TOTAL: $5,424,097

- 89% of total administrative expenditures (New personnel: $1,312,481; New projects: $3,511,616)

- 11% of total capital expenditures (New items: $600,000)

**New items:**

- 30% for new personnel
- 70% for new projects
2017 Proposed 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>54%</td>
</tr>
<tr>
<td>Professional services</td>
<td>30%</td>
<td>30%</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 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
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
“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

<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>638,000</td>
<td>3,251,635</td>
<td>36 %</td>
</tr>
<tr>
<td>Actuarial</td>
<td>605,800</td>
<td>579,200</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Banking services</td>
<td>706,750</td>
<td>1,300,000</td>
<td>2,007,750</td>
<td>22</td>
</tr>
<tr>
<td>Legal services</td>
<td>1,635,425</td>
<td>-</td>
<td>1,190,975</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>181,455</td>
<td>1,763,118</td>
<td>19</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$7,940,895</td>
<td>2,119,455</td>
<td>$9,131,178</td>
<td>100 %</td>
</tr>
</tbody>
</table>
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”
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
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 $1.3 million (mainly for salaries and benefits)

- assume hire dates ranging from January through April 2017

- 3 Investment Department positions
  - Operations Manager
  - 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
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 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 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 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.
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)
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.

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

Highlights by category are in Appendix H.

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