

2019 Proposed Operating & Capital Expenditures Budget

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Proposed 2019 Budget

Objectives for Today

- Review proposed 2019 budget document
- Brief review of estimated budget expenses for 2018
- Board adoption of the 2019 budget

Proposed 2019 Budget

Section 1 –

2018 Goals Accomplished and Alignment of
2019 Budget with TMRS' Strategic Plan

Proposed 2019 Budget

Accomplishments in 2018

- RFP's completed and selections made
 - CLA – External auditor (Financial statement audit; SOC audit)
 - GRS – System actuary
- Added GASB Stmt. 75 (OPEB) reporting packages to “Eye on GASB” section of our website; first cities implemented in July, 2018.
- Implemented new compensation structures for TMRS staff
- Implemented several benefit-related initiatives from Employee Engagement survey
 - Adjustments to vacation schedule, to more closely match State of Texas
 - Annually, ability to convert 24 hours of sick leave to personal leave
- Moved closer to investment target allocation
 - Continued portfolio diversification
 - 29 managers approved (17 funded) as of 9/30; allocating approximately \$3.6 billion

Proposed 2019 Budget

2018 Projects in progress:

- Rollout of MyTMRS Direct Deposit updates for retirees
- Development of an operational governance process to facilitate the selection and management of projects that TMRS undertakes
- RFP to select a consultant to perform an assessment of TMRS' pension administration system / needs has been issued; review and possible selection by end of year
- Recertification of TMRS' Records Retention Schedule by the Texas State Library & Archives Commission

Proposed 2019 Budget

Goal 1:

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

- Continues to provide for the actuarial retainer (\$555,000), and funds for legislative studies.
- \$125,000 is included in 2019 for 4-year Experience Study

	<u>Actuarial Services</u>	
	2018	2019
Recurring Projects:		
Retainer	\$ 462,000	\$ 555,000
Individual Board Member Meetings	17,200	17,200
Legislative Actuarial Cost Studies	<u>75,000</u>	<u>75,000</u>
	554,200	647,200
Other Services:		
GASB 74/75 planning and implementation	75,000	—
IRC 415 Testing	20,000	—
GRS Dashboard	13,000	—
4-year Experience Study	—	125,000
Asset Allocation / Asset/Liability Study	<u>25,000</u>	<u>25,000</u>
	133,000	150,000
Total Actuarial Services	<u>\$ 687,200</u>	<u>\$ 797,200</u>

- TMRS Board and management are currently working to develop legislation (“TMRS Act Review”) to clarify certain aspects of the TMRS Act. The Board will determine its legislative agenda in late 2018.

Proposed 2019 Budget

Goal 2:

Strengthen TMRS through excellent customer service and effective communication

2014 through 2016 budgets included funds to implement Straight-Through Processing *“from enrollment to retirement”* by offering self-service capabilities

<u>MyTMRS (Member Portal)</u>	and	<u>TMRS City Portal</u>
Address update		New Member enrollment
Account balance statement		Estimates
Withholding update		Online forms upload
Annuity verification		
Communication preference		
Beneficiary updates		

Future enhancements are now being completed mainly by internal staff.

New for 2019 - Funds budgeted for consulting services to conduct an overall assessment of TMRS' Pension Administration System (PASA). Management issued an RFP; anticipate selecting a vendor by year-end 2018.

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Goal 3:

Identify and implement the best governance and management structure

Many of these initiatives will be completed by Board and staff:

- Formalize committee charters (including Budget Committee and Compensation Committee)
- Implement process for Board to review the role of their current consultants
- Adopt a framework to monitor and report on organization-wide risk (internal audit – 2021)
- Develop/implement a framework for monitoring and managing operations compliance throughout the organization (legal department – 2021)

As in 2018, 2019 budget includes funds in the professional services category (audit line-item) for co-source audit engagements to be managed by the TMRS internal auditor.

Proposed 2019 Budget

Goal 4:

Transform the TMRS culture to one of innovation, collaboration, and open communication.

TMRS' strategic plan includes:

- Succession plan for key leadership positions in 2019 (\$70,000 – consulting)
- Create and implement a leadership development plan in 2019-2020 (\$15,000 – consulting)
- Elevate employee engagement (2018-2020) - \$30,000 included in consulting for 2019

2019 includes 5 new positions (1 part-time)

2018 included 4 new positions, and conversion of two part-time call center analysts into one full-time position

Proposed 2019 Budget

Section II – Comparison of 2018 budget to 2019 proposed

Proposed 2019 of \$32.6 for administrative and capital expenditures.

The New items for 2019 total \$2.3 million

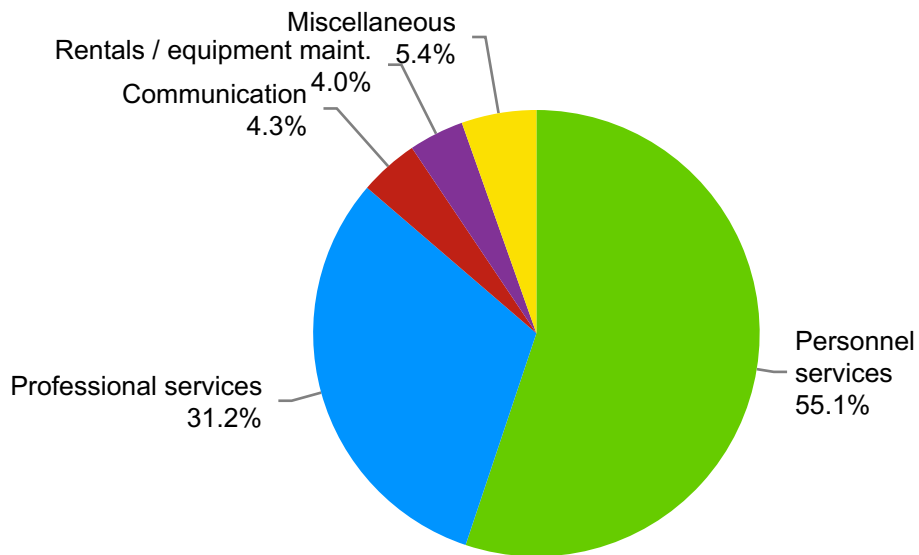
94% - administrative; 6% - capital

Within administrative: 25% for new personnel; 75% for new items/projects

	New Personnel	New items / projects	2019 Total New	
Total Admin. Expenses	\$ 564,747	\$ 1,675,154	\$ 2,239,901	94%
	25%	75%	100%	
Total Capital Expenditures	\$ —	\$ 143,000	\$ 143,000	6%
Total Operating & Capital	\$ 564,747	\$ 1,818,154	\$ 2,382,901	100%

Proposed 2019 Budget

2019 Operating Budget main categories



	2018	2019
Personnel services	55.4%	55.1%
Professional services	30.5%	31.2%
Communication	4.5%	4.3%
Rentals / equipment maint.	4.1%	4.0%
Miscellaneous	5.5%	5.4%

Proposed 2019 Budget

Personnel Services –

continues to be largest category at approximately 55% of the total budget

2019 budget includes:

- 5 new positions (one part-time; no benefits)
- Decrease 0.35% in full retirement rate
(from 16.47% to 16.12%, including SDB)
- \$253,718 allocated for merit adjustments
- Same benefit package
(assumes rate increases for Sept-Dec 2019)
- Includes same scale for retiree medical coverage

Proposed 2019 Budget

Professional Services – 31% of the total proposed budget

	<u>2019 baseline</u>	<u>New</u>	<u>2019 Proposed</u>	<u>% of category</u>
Professional Services:				
Consulting Fees	\$ 2,795,374	\$ 913,000	\$ 3,708,374	37%
Actuarial	797,200	—	797,200	8%
Banking Services	2,140,000	—	2,140,000	21%
Legal Counsel	986,500	—	986,500	10%
Medical Services	60,000	—	60,000	1%
Audit	275,450	—	275,450	3%
Online services	1,965,390	192,000	2,157,390	21%
Total Professional Services:	<u>\$ 9,019,914</u>	<u>\$ 1,105,000</u>	<u>\$ 10,124,914</u>	

Proposed 2019 Budget – (Professional Services, continued)

Consulting and Other Professional Services:

- 37% of Professional Services category

Numerous items recur annually:

	<u>Investment consultants</u>		
Albourne	Real Return and Absolute Return Consultant	\$	590,000
StepStone	Private Equity Consultant		500,000
RVK	General Investment Consultant		343,332
StepStone (f/k/a Courtland)	Real Estate Consultant		289,792
		<u>\$</u>	<u>1,723,124</u> 62%
Total baseline/recurring		<u><u>\$</u></u>	<u><u>2,795,374</u></u>

Other items include: Business continuity; Legislative; Governance/strategic planning; annual security audit; executive team coaching; insurance/risk consultant

See listing and narratives for each item in Section III - Professional Services and Appendix B.

Proposed 2019 Budget – (Professional Services - Consulting/other prof svcs, continued)

New consulting items for 2019:

Consultant	Project Description	
TBD	Pension Administration System Assessment	
TBD	Expert Quality Assurance / Testing Resource	
CEM	Benchmarking Study	
ThreatMetrix	Digital Identity Verification Service	
TBD	Cloud Strategy Consulting	
Contoural	Electronic (Unstructured) Data Placement Strategy	
Virtual Corporation, Inc.	Crisis Management / Cybersecurity Breach Response Plan	
Strategic Contact	Phone System Replacement RFP Development	
EFL Consulting	Executive Search Firm (Deputy Dir for Administrative Services)	
TBD	Document Management Invoice Approval Workflow Development	
TBD	Oracle Cloud for Investments Implementation	
Catapult Systems	Microsoft & Office 365	
Contoural	Information Governance (IG) Policy Development	
iBridge Consulting	Kofax Support	
Total New Consulting		<u>\$ 913,000</u>

- Pension Administration System Assessment (PASA) - RFP issued with responses due to TMRS by Dec. 5th.
- Expert Quality Assurance / testing resource - business case provided under separate cover

Proposed 2019 Budget - (Professional Services, continued)

	2019 baseline	New	2019 Proposed	% of category
Professional Services:				
Consulting Fees	\$ 2,795,374	\$ 913,000	\$ 3,708,374	37%
Actuarial	797,200	—	797,200	8%
Banking Services	2,140,000	—	2,140,000	21%
Legal Counsel	986,500	—	986,500	10%
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Audit	275,450	—	275,450	3%
Online services	1,965,390	192,000	2,157,390	21%
Total Professional Services:	<u>\$ 9,019,914</u>	<u>\$ 1,105,000</u>	<u>\$ 10,124,914</u>	

Online services are utilized by various departments within the organization.

Proposed 2019 Budget - (Professional Services, continued)

	2018 Budget	2019 baseline/ recurring	2019 New	2019 Total Budget	% of category
Investments	\$ 1,622,329	\$ 1,670,695	\$ 50,000	\$ 1,720,695	80%
Info Resources/Mbr Services	188,900	188,100	97,000	285,100	13%
Finance	106,801	106,595	—	106,595	5%
Human Resources	15,000	—	45,000	45,000	2%
Total Online Services	<u>\$ 1,933,030</u>	<u>\$ 1,965,390</u>	<u>\$ 192,000</u>	<u>\$ 2,157,390</u>	<u>100%</u>

80% of Online Services line-item is for services utilized by the Investments department.

- Risk management & reporting tools make up over one-half of the investment dept. subtotal

IT & Member Services - includes security monitoring, address search

New funds for MyTMRS security enhancements (ThreatMetrix; TOAS; LexisNexis instant ID)

Complete details and narratives can be found in Appendix C

Proposed 2019 Budget

Rentals and Equipment Maintenance – 4% of the total proposed budget

	2019 baseline	New	2019 Proposed	% of category
Rentals / Equipment Maintenance:				
Data Processing	\$ 739,010	\$ 284,705	\$ 1,023,715	79%
Equipment Service and Repair	6,100	—	6,100	—%
Office Equipment	113,100	2,500	115,600	9%
Offsite Record Storage	\$ 151,000	—	\$ 151,000	12%
Total Rentals / Equip. Maint:	\$ 1,009,210	\$ 287,205	\$ 1,296,415	

New data processing line-item relates to new software:

- Additional Oracle database licensing - \$150,000
- CrowdStrike Endpoint Protection & Endpoint Detection/Response - \$41,000

Proposed 2019 Budget

Miscellaneous –

5% of the total proposed budget

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

Also includes utilities, building/grounds maintenance, supplies and board expenses.

2019 budget category is \$92,196 or 6% higher than 2018

\$22,450 increase in building security (longer hours; higher hourly rate)

\$54,900 increase in bonds/insurance for increase in Fiduciary liability coverage

\$13,945 for dues/training/supplies for new personnel

Proposed 2019 Budget

Capital Expenditures

New 2019 funds are included for:

FireEye Incident Detection & Prevention (\$53,000)

Additional host/physical server – VMware (\$46,000)

Replace TMRS vehicle (\$30,000)

Furniture

Proposed 2019 Budget

New Personnel (*Appendix A*)

Budget request of \$564,747 (464,867 for salaries and benefits)
assume hire dates in first quarter, 2019

- 2 Investment Department positions
 - Private Equity Analyst
 - Operations Analyst
- 2 Member Services Department positions
 - Retirement Analyst
 - Part-time Receptionist
- Administrative Assistant (Legal & Executive departments)

Future Projections

Future Projected Personnel (Appendix F)

- 5-year history of FTE's by department
- Projections for 2020 (2 FTE's) and 2021 (1 FTE), with associated costs for personnel services category

Staff is reviewing how it develops future staffing requests.

Positions considering for the future:

- Procurement Manager ; Procurement Specialist
- Project Manager
- Business Process Analyst
- Investment Data Analyst; Investment Operations Analyst
- Government Relations Asst. Director
- Enterprise Risk Manager

The new Deputy Director for Administrative Services will be involved, as numerous previously proposed positions fall under this position.

Review of 2018 Budget expenses

Estimated Budget Expenses for 2018 (Appendix G)

\$30.5 million operating budget

Included \$2 million in "new" funds:

- \$684,000 in Personnel Services for four new FTE's and mid-year merit
- \$748,000 in Professional Services for new consulting projects (Electronic Records Program foundation; UPS installation; employee engagement) and online services (ORTEC - dynamic scenario generator for Investment dept.)
- \$180,000 in Rentals/Equipment Maintenance for new hardware and software, in the data processing line-item

Review of 2018 Budget expenses - (continued)

Anticipate expenses at approximately 91% of budget

	Budget for 2018	Estimated expenses for 2018	Estimated (over) / Under	
Total Admin. Expenses	<u>\$ 30,125,334</u>	<u>\$ 27,533,670</u>	<u>\$ 2,591,664</u>	<u>8.6%</u>
Total Capital	<u>\$ 361,000</u>	<u>\$ 325,679</u>	<u>\$ 35,321</u>	<u>9.8%</u>
Total Budget	<u><u>\$ 30,486,334</u></u>	<u><u>\$ 27,859,349</u></u>	<u><u>\$ 2,626,985</u></u>	<u><u>8.6%</u></u>

Appendix G provides budget to expected expenses for each line item.

Review of 2018 Budget expenses - (continued)

	Budget for 2018	Estimated expenses for 2018	Estimated (Over) / Under		
Personnel Services	\$ 16,689,391	\$ 15,852,432	\$ 836,959	5.0%	32.3%
Professional Services	9,177,081	8,220,342	956,739	10.4%	36.9%
Communication	1,354,390	1,207,442	146,948	10.8%	5.7%
Rentals / Equipment Maint.	1,234,370	915,653	318,717	25.8%	12.3%
Miscellaneous	1,670,102	1,337,801	332,301	19.9%	12.8%
	<u>\$ 30,125,334</u>	<u>\$ 27,533,670</u>	<u>\$ 2,591,664</u>		<u>100.0%</u>

Appendix G provides budget to expected expenses for each line item.

70% of the budget excess is in the Personnel Services and Professional Services categories.

Excess remains in the Personnel Services category: several positions were either not filled during the year, or were partially filled.

Review of 2018 Budget expenses - (continued)

	Budget for 2018	Estimated Expense for 2018	Estimated (Over) / Under
Consulting & Other Prof Svcs	\$ 3,213,351	\$ 2,615,859	\$ 597,492
Actuarial Services	687,200	560,699	126,501
Banking Services	2,047,000	2,012,542	34,458
Legal Counsel	952,000	1,096,737	(144,737)
Medical Services	60,000	35,300	24,700
Audit	284,500	284,500	—
Online services	1,933,030	1,614,705	318,325
Total Professional Services	<u>\$ 9,177,081</u>	<u>\$ 8,220,342</u>	<u>\$ 956,739</u>

Specific items are listed in Appendix G, including higher-dollar items that were not completed or completed with savings realized. Several projects were put on hold during the year, as efforts were focused on online security and operational governance.

Excess / unused funds from the 2018 budget will be used to off-set the 2019 budget transfer.

Questions and Board Adoption