

2019 DRAFT Operating & Capital Expenditures Budget - Discussion

October 26, 2018

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Proposed 2019 Draft Budget

Objectives for Today

Review proposed draft budget document

Questions / requests for December meeting

No action required today

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Section 1 –

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

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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

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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
- Development of an RFP to select a consultant to perform an assessment of TMRS' pension administration system / needs
- Recertification of TMRS' Records Retention Schedule by the Texas State Library & Archives Commission

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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.

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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 (PAS). Management is currently finalizing 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.

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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 (\$20,000 – 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 membership analysts into full-time position

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Section II – Comparison of 2018 budget to 2019 proposed

Proposed 2019 of \$32.5 million for administrative and capital expenditures.

The New items for 2019 total \$2.3 million

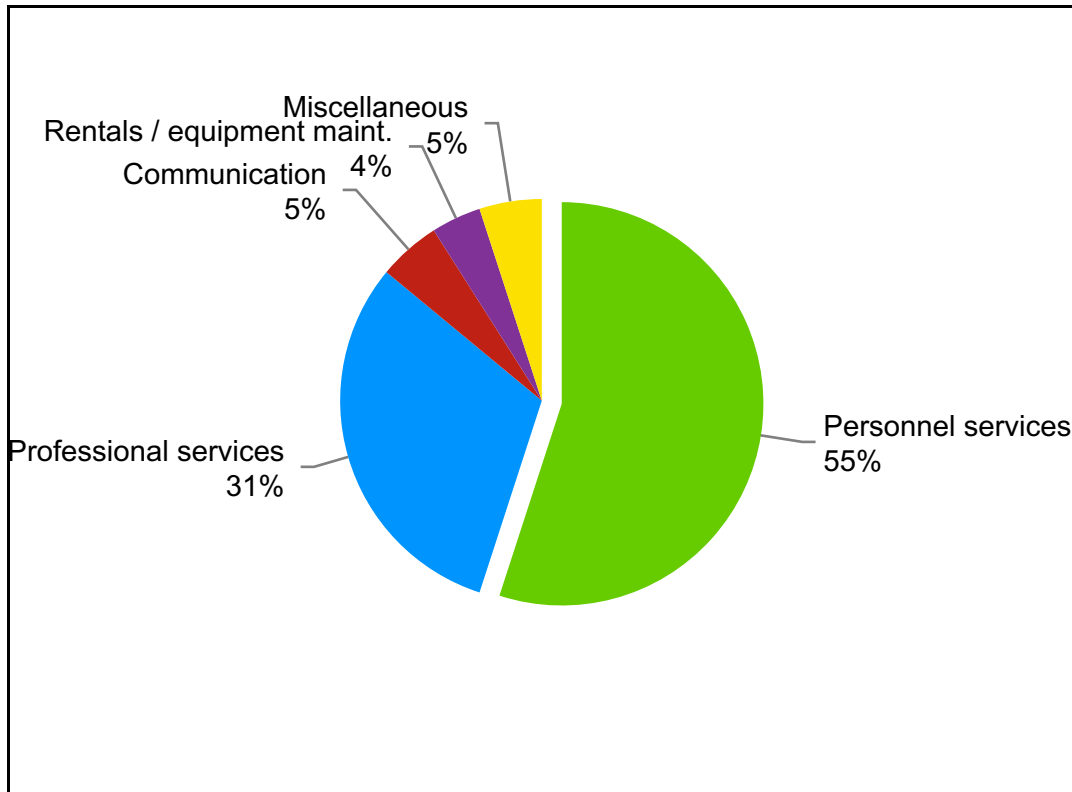
94% - administrative; 6% - capital

Within administrative: 26% for new personnel; 74% for new items/projects

	New Personnel	New items / projects	2019 Total New	
Total Admin. Expenses	\$ 564,747	\$ 1,581,872	\$ 2,146,619	94%
	26%	74%	100%	
Total Capital Expenditures	\$ —	\$ 143,000	\$ 143,000	6%
Total Operating & Capital	\$ 564,747	\$ 1,724,872	\$ 2,289,619	100%

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2019 Operating Budget main categories



	2018	2019
Personnel services	55%	55%
Professional services	31%	31%
Communication	4%	5%
Rentals / equipment maint.	4%	4%
Miscellaneous	6%	5%

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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)
- \$252,633 allocated for merit adjustments
- Same benefit package
(assumes rate increases for Sept-Dec 2019)
- Includes same scale for retiree medical coverage

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Professional Services – 31% of the total proposed budget

	2019 baseline	New	2019 Proposed	% of category
Professional Services:				
Consulting Fees	\$ 2,732,374	\$ 821,000	\$ 3,553,374	36%
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	22%
Total Professional Services:	<u>\$ 8,956,914</u>	<u>\$ 1,013,000</u>	<u>\$ 9,969,914</u>	

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Consulting and Other Professional Services: (36% of Professional Services category)

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	
Strategic Contact	Phone System Replacement RFP Development	
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		\$ 821,000

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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:	<u>\$ 1,009,210</u>	<u>\$ 287,205</u>	<u>\$ 1,296,415</u>	

New data processing line-item relates to new software:

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

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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 \$101,858 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

\$14,535 increase in building/grounds maintenance (garage powerwash; cubicle relocation)

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

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New Personnel (*Appendix A*)

Budget request of \$464,867 (\$322,715 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)

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Capital Expenditures

New 2019 funds are included for:

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

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

New vehicle (\$30,000)

Furniture

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December, 2018 Budget document

Additional items to be presented in December:

- Overall review/estimate of 2018 expenses
- Possible adjustments to consulting requested funds, as more information/ estimates are obtained
- Five-year projections for personnel and line-item expenses

Questions and Discussion