

2020 DRAFT Operating & Capital Expenditures Budget - Discussion

October, 2019

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Objectives for Today

- Review proposed draft budget document
- Questions / requests for December meeting

- No action required today

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Layout of budget document

3 sections:

- Section 1 – Strategic Plan and budget
- Section 2 – High-level summary analysis
- Section 3 – Details of 5 budget categories (with focus on “new” items)
- Appendices – Detailed support

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Section 1 –

- 2019 Goals Accomplished and Alignment of 2020 Budget with TMRS' Strategic Plan

Accomplishments in 2019

- Passage of SB 1337 (May 21, 2019)
- Created Crisis Management Plan for TMRS
- Created Data Breach Response Plan
- Developed an RFP and selected the consultant to perform the assessment of TMRS' pension administration system needs (final report was presented to Board at their September meeting)
- Recertification of TMRS' Records Retention Schedule (by the Texas State Library and Archives Commission)
- Development of an operational governance process to facilitate the selection and management of projects that TMRS undertakes
- Completed on-line sexual harassment training for all employees

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2019 Projects in progress:

- Continued assessment and determining timelines for the Pension Administration System Modernization (PASMod)
- Data Privacy Policy for TMRS employees and associated Privacy Notice for external stakeholders
- Improvements to MyTMRS online security – implementing online fraud detection/prevention and identity verification tools
- Selection of a vendor to replace TMRS' current phone system
- Rollout of MyTMRS Direct Deposit updates for retirees
- Migration of Investments Data Warehouse to the Oracle cloud
- Performance Management software selected

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Goal 1:

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

- Continue to provide for the actuarial retainer, and funds for legislative studies
- \$125,000 was included in 2019 for 4-year Experience Study
- TMRS Board and management developed legislation and rule amendments (“TMRS Act Review”), to clarify certain aspects of the TMRS Act. SB 1337 was passed in 2019.
- During the interim (2020), Board and staff will determine its legislative agenda

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Goal 2:

Strengthen TMRS through excellent customer service and effective communication

- Beginning in 2014 - Straight-Through Processing
“from enrollment to retirement” by offering self-service capabilities in MyTMRS and City Portal
- \$200,000 was budgeted in 2019 for consulting services to conduct an overall assessment of TMRS’ Pension Administration System (PAS). A final report and recommendations were presented to the Board at the September meeting.
- For 2020, \$2.4 million is being requested for the Pension Administration System Modernization (PASMod) effort
 - TMRS staff are continuing to refine the initiatives, timeline and costs for this estimated four-year project
 - Final budget costs will be presented at the December meeting

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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.

- During 2019, the Board made progress in:
 - Updating roles/responsibilities of the Board chair/vice-chair
 - Authorization/delegation for investment manager selections
 - Defining investment beliefs

- 2020 will continue efforts with governance consultant to review bylaws and policies

As in 2019, 2020 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-house)
- Create and implement a leadership development plan in 2019-2020 (\$20,000 – consulting)
- Elevate employee engagement (2018-2020) - \$40,000 included in consulting for 2020 engagement survey

2020 includes 6 new positions

- 2019 included 5 new positions (1 part-time)

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Section II – Comparison of 2019 budget to 2020 proposed

- Proposed 2020 of \$37.6 million for administrative and capital expenditures
- The “new” column totals \$5.6 million

	Total 2019	Baseline 2020	New 2020	Total 2020	Year-to-Year Change	
Total Operating Expenses	\$ 32,492,033	\$ 32,045,585	\$ 4,714,005	\$ 36,759,590	\$ 4,267,557	13%
Total Capital	\$ 143,000	\$ -	\$ 894,000	\$ 894,000	751,000	525%
GRAND TOTAL	\$ 32,635,033	\$ 32,045,585	\$ 5,608,005	\$ 37,653,590	\$ 5,018,557	15%
Excluding PASMod:						
Operating Expenses	\$ 32,492,033	\$ 32,045,585	\$ 3,141,810	\$ 35,187,395	\$ 2,695,362	8%
Capital	143,000	-	64,000	64,000	(79,000)	(55%)
	\$ 32,635,033	\$ 32,045,585	\$ 3,205,810	\$ 35,251,395	\$ 2,616,362	8%

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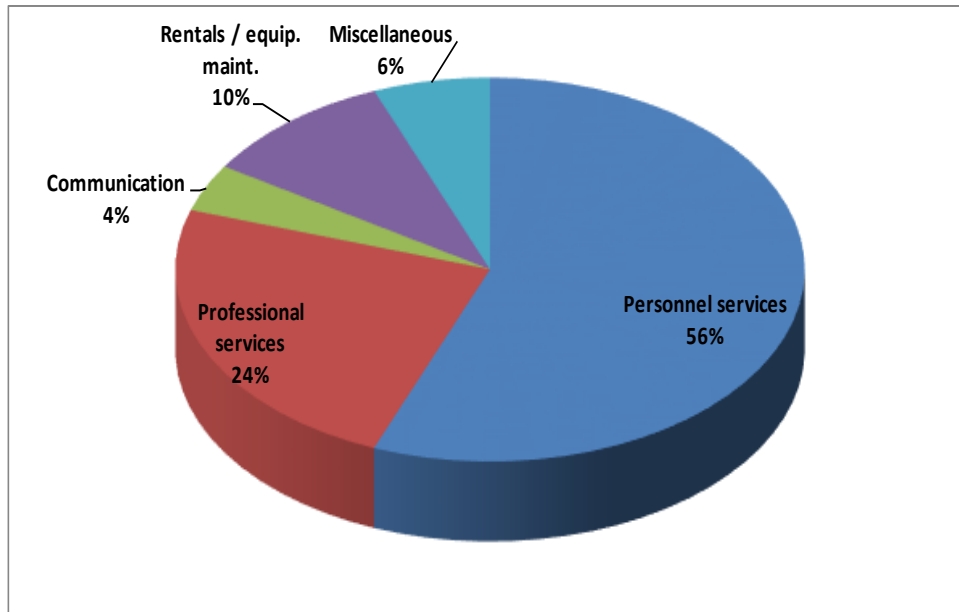
Section II – Comparison of 2019 budget to 2020 proposed, continued

- Approximately 43% of the new funds are for the PASMod

	New Personnel 2020	New Budget Items 2020	PASMod Budget 2020	Total New
Total Operating Expenses	\$ 1,022,465	\$ 2,119,345	\$ 1,572,195	\$ 4,714,005
Total Capital	\$ 2,500	\$ 61,500	\$ 830,000	\$ 894,000
GRAND TOTAL	\$ 1,024,965	\$ 2,180,845	\$ 2,402,195	\$ 5,608,005
% of Grand Total	18%	39%	43%	100%
Total Excluding PASMod	\$ 1,024,965	\$ 2,180,845		\$ 3,205,810
	32%	68%		

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2020 Operating Budget – main categories



	2019	2020
Personnel services	55%	56%
Professional services	25%	24%
Communication	4%	4%
Rentals / equip. maint.	11%	10%
Miscellaneous	5%	6%

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Personnel Services –

- continues to be largest category at approximately 56% of the total budget

2020 budget includes:

- 6 new positions (see Appendix A)
- Approximately \$270,000 “new” funds allocated for merit adjustments (mid-year)
- “New” funds of \$759,000 for contract labor/temporary assistance (PASMod)
- Maintaining full retirement rate from 2019 (higher than 2020 calculated rate)
16.14% combined rate, including SDB
- Same benefit package
(assumes rate increases for Sept-Dec 2020)
- Includes same scale for retiree medical coverage

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Professional Services – 24% of the total proposed budget

		Total 2019	Baseline 2020	New 2020	Total 2020	% of budget
Professional Services:						
	Consulting & other prof svcs	\$ 3,640,374	\$ 3,051,551	1,689,500	4,741,051	53 %
	Actuarial	857,200	638,600	-	638,600	7
	Banking services	2,140,000	2,141,600	-	2,141,600	24
	Legal services	994,500	1,041,000	20,000	1,061,000	12
	Medical services	60,000	50,000	-	50,000	1
	Audit	275,450	278,375	-	278,375	3
	TOTAL	\$ 7,967,524	\$ 7,201,126	1,709,500	\$ 8,910,626	100 %

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(Professional Services, continued)

Consulting and Other Professional Services: (approximately 53% of Professional Services category)

New Consulting & Other Professional Services	Vendor / Provider	New Budget Request 2020
Recruiting for Executive Director	Hudepohl & Associates, Inc.	\$ 130,000
Recruiting for Deputy CIO	TBD	110,000
Website accessibility audit	TBD	15,000
Perceptive Content Upgrade	Hyland	32,500
Death Processing Workflow	Shamrock Solutions	5,000
Email Integration Workflow & Statistics Gathering	Shamrock Solutions	5,000
e-Discovery Response Plan	TBD	30,000
Privacy Training Content & Videos	TBD	37,000
Data Breach 3rd Party Services	TBD	80,000
Private Credit Consultant	TBD	500,000
2020 Phone System Replacment Implementation	TBD	50,000
Pension Administration System Modernization (PASMod):		
Project management (full-time)	TBD	170,000
Organizational Change Management	TBD	75,000
Project Oversight IV & V	TBD	450,000
Total New Consulting & Other Professional Services		\$ 1,689,500

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Rentals and Equipment Maintenance – 10% of the total proposed budget

	Total 2019	Baseline 2020	New 2020	Total 2020	% of budget
Rentals & Equipment Maintenance					
Data processing	\$ 988,115	\$ 733,725	213,009	946,734	26 %
Online services	2,192,990	2,171,927	213,830	2,385,757	65
Equipment service/repair	6,100	5,000	5,000	10,000	0
Office and equipment rental	115,600	113,100	10,100	123,200	3
Offsite record storage	151,000	161,000	21,120	182,120	5
TOTAL	\$ 3,453,805	\$ 3,184,752	463,059	\$ 3,647,811	100 %

\$463,000 of “new” funds requested

- Approximately \$100,000 for required hardware and software for new employees and temporary staffers for PASMod
- Additional \$100,000 for license upgrades: virtual desktops; endpoint protection (antivirus/antimalware); Windows for Office 365; file transfer/secure gateway for cities and members
- \$172,000 for additional online services (ORTEC; security monitoring enhancements; helpdesk system; phone system)
- \$21,000 increase in offsite record storage for electronic records (ransomware and insider protection)

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Miscellaneous –

6% 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

2020 budget category is approximately \$280,000 or 16% higher than 2019

- \$116,000 increase in the training line-item
 - HR included higher allotments for employee tuition reimbursement program (\$16,000) and required manager training (\$20,000)
 - “new” funds for Agile training as part of PASMod (\$80,000)
- \$25,000 increase in the Board expenses line-item, anticipating increased training and possible new board member appointments
- \$138,000 increase in the supplies line-item, anticipating iPad and iPhone replacements (\$53,000) and new phones and headsets (\$74,000) with the addition of the new phone system

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Capital Expenditures

2020 “new” funds are included for:

- Furniture (\$22,500)
- Replacement of firewalls (\$41,500)
 - Two firewalls (act as our external firewall and “first line of defense”) due for replacement
- PASMMod (\$830,000)
 - First part of City Contribution System replacement

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New Personnel (*Appendix A*)

Budget request of \$1 million (approximately \$892,000 for salaries and benefits) assuming various hire dates in 2020

- 3 Investment Department positions
 - Deputy CIO
 - Investment Analyst - ARS
 - Investment Analyst – Real Assets

- QA / QC Analyst

- Business Process Analyst

- Internal Auditor (specialty focus on information technology)

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Additional items to be presented in December:

- Overall review/estimate of 2019 expenses
- Possible adjustments to PASMmod requested funds, as more information/estimates are obtained
- Five-year budget projections

Questions and Discussion