



July 17, 2014

To: Members of the Budget Committee
From: Ophelia Basgal, Committee Chair
Subject: **Summary of the July 17, 2014 Budget Committee Meeting**

Budget Committee Chair Ophelia Basgal called the July 17, 2014 Budget Committee meeting to order at 9:37 a.m. Committee members present were Ophelia Basgal, George Dewey, and George Wood. Other Board members present were Dale Amaral, Annette Cain-Darnes, and Alternate Retired member David Safer. Staff present were, Vince Brown, Chief Executive Officer; Kathy Foster, Assistant Chief Executive Officer; Betty Tse, Chief Investment Officer; Harsh Jadhav, Chief of Internal Audit; Victoria Arruda, Human Resource Officer; Rose Kwong, Benefits Manager; and Marguerite Malloy, Associate Counsel.

ACTION ITEMS

1. Discussion and possible motion regarding proposed creation of a contingency fund to address foreseeable workload demands due to changes in operations resulting from the May 2014 Judgment in the *DSA* Litigation.

Kathy Foster, Assistant Chief Executive Officer, presented her July 17, 2014 memo describing the end of the *DSA* Litigation and appellate court **denial** of Petitioners' request for a Stay of the Superior Court's Judgment. Ms. Foster provided the number of retirement applications ACERA received as a result of the implementation of AB 197, reporting 119 retirements in total.

Ms. Foster informed the Committee that since receipt of the final Judgment, the Benefits Department has experienced an increase in workload (*i.e.*, a surge in retirement applications, additional member phone calls, walk-ins, estimate requests, and counseling appointments). Ms. Foster requested a contingency budget amount of \$165,200 for the Benefits Department and the Scanning Unit (PRISM Department) and provided details on how she arrived at the estimated amount.

Even with the addition of the proposed contingency amount, the total budget is within the overall amount approved by the Board. There was some discussion about whether such contingency requests are necessary and if so, when and how they should be made. The Committee proposed that this topic be considered at a future Budget Committee meeting.

After discussion, it was moved by George Dewey and seconded by George Wood that the Budget Committee recommend to the Board of Retirement that the Board approve the \$165,200 appropriation of the proposed contingency fund due to foreseeable staffing/financial impact of the expiration on the Stay of the *DSA* Litigation matter effective July 11, 2014. The motion carried 6 yes (*Amaral, Basgal, Cain-Darnes, Dewey, Wood, Safer*), 0 no, and 0 abstention.

INFORMATION ITEMS

1. Mid-Year Review of 2014 Budget

a. Year-to-Date (Variance Analysis Conducted for the Six-Month Period Ending June 30, 2014)

Vince Brown, Chief Executive Officer, reported that ACERA's operating expenses are currently \$979,000 under budget. However, temporary staffing and overtime costs to date are \$274,000 over budget.

b. End-of-Year (Variance Analysis Conducted for the 2014 Budget Year's Remaining Six-Month Period Ending December 31, 2014)

Mr. Brown reported that ACERA's operating expenses are approximately \$578,000 under budget. However, temporary staffing and overtime costs to date are \$594,000 over budget. Mr. Brown reported that investment expenses are estimated to increase by approximately \$5 million due to an increase in incentive fees, growth in ACERA's portfolio, and additional PEARLS investments.

Betty Tse, Chief Investment Officer, reported that ACERA brought in over 20% gross (or slightly over \$1 billion), which is the largest increase in ACERA's portfolio. As a result, the Asset Management Fees; specifically, in the International Equity Asset Class, is estimated to increase by \$1.5 million. Ms. Tse further reported that the PEARLS Asset Class is the largest increase, which is estimated at \$2 million, plus incentive fees.

RECOMMENDATIONS

1. The Committee recommends, and I move, that the Board of Retirement approve the \$165,200 appropriation of the proposed contingency fund due to foreseeable staffing/financial impact of the expiration on the Stay of the *DSA* Litigation matter effective July 11, 2014.

TRUSTEE/PUBLIC INPUT

Ophelia Basgal, Budget Committee Chair, requested that Staff set up a Dashboard to report back to the Board on its progress regarding the number of retirement applications received.

George Dewey, Board Trustee, thanked Staff for keeping the Committee abreast of the status regarding the number of additional retirement applications received and processed due to the implementation of AB 197.

FUTURE DISCUSSION ITEMS

1. Review of Proposed 2015 ACERA Budget at the Board Off-Site (October 1, 2014).
2. Discussion and Possible Motion re 2015 ACERA Budget (November 20, 2014).

ESTABLISHMENT OF NEXT MEETING DATE

October 1, 2014 at 9:30 a.m. .

ADJOURNMENT

The meeting adjourned at 10:04 a.m.