

DATE: September 24, 2010

SUBJECT: Administrative and Directed Commissions Budgets for 2011-2012

TO: Members of the Audit/Budget Committee

FROM: Brian S. Carl, CPA, CTP
Chief Financial Officer

Sydna Boyer
Office of Financial Management
Annuitant Accounting & Budget Division

At the October 7, 2010 Audit/Budget Committee meeting, the 2011-2012 Administrative and Directed Commissions Budget Request will be presented.

2011-2012 Budget Request Summary

The proposed Administrative Budget for the 2011-2012 fiscal year totals \$44,412,306 compared to \$43,528,000 for the current year. The increase in the Administrative Budget when compared to the current year is 2.0%; primarily driven by rising benefit factors within the Personnel Services control level, which will be further discussed during the presentation. There are no new positions included in the proposed budget.

The Directed Commissions Recapture Program Budget for 2011-2012 totals \$2,000,000, an increase from \$1,000,000 in the current year. The increase is a placeholder due to the unknowns involved with pending pension legislation.

Attached you will find:

- A summary of the 2011-2012 Administrative Budget request with a comparison to the 2010-2011 rebudget and the actual expenditures to date for the 2009-2010 year.
- Line item notes of explanation for the 2011-2012 Administrative Budget.
- The 2011-2012 Directed Commissions Recapture Program Budget.
- A power point presentation.
- A proposed resolution recommending Board approval of the 2011-2012 Administrative Budget and the 2011-2012 Directed Commissions Budget.

Copies of the item-by-item details of the 2011-2012 Administrative Budget will be available at the Audit/Budget meeting on October 7, 2010. If any Board member would like an advance copy, please contact Barbara Flurie (717-720-4617) and it will be provided.

Budget Process

The budget process is similar to past years. The Audit/Budget Committee will review the proposed budget at its meeting on October 7, 2010. The presentation to the Committee will cover the Administrative Budget and the directed Commissions Recapture Program Budget for the 2011-2012 fiscal year. Analysis of relevant changes will be provided, along with details of major categories of proposed expenditures. It is anticipated that the Board of Trustees will consider the budget at the full Board meeting, on October 8, 2010. Following approval by the Board, the budget will be submitted, as required, to the Governor's Office of the Budget by the October 13, 2010 due date. The Governor's Budget Office will review PSERS' budget request and prepare a recommended budget amount which is preliminarily scheduled to be presented on March 8, 2011. It is expected that the Legislature will hold budget hearings after that time at which time PSERS' Board Chair, Executive Director and Chief Investment Officer may be asked to appear before the House and/or Senate Appropriations Committee to provide information on the budget or any other matters regarding PSERS. Upon passage of the budget appropriation by the Legislature and approval by the Governor; PSERS modified budget request (rebudget) will be approved by the Office of the Budget. The rebudget is PSERS opportunity to recast the initial budget amounts, thereby conforming to the final amount appropriated by the Legislature and approved by the Governor.

If you have any questions before the meeting on October 7, please call either Brian Carl at 717-720-4905 or Sydna Boyer at 717-720-4654.

Public School Employees' Retirement System

**Budget Request
Fiscal Year 2011-2012**



Budget Request 2011-2012

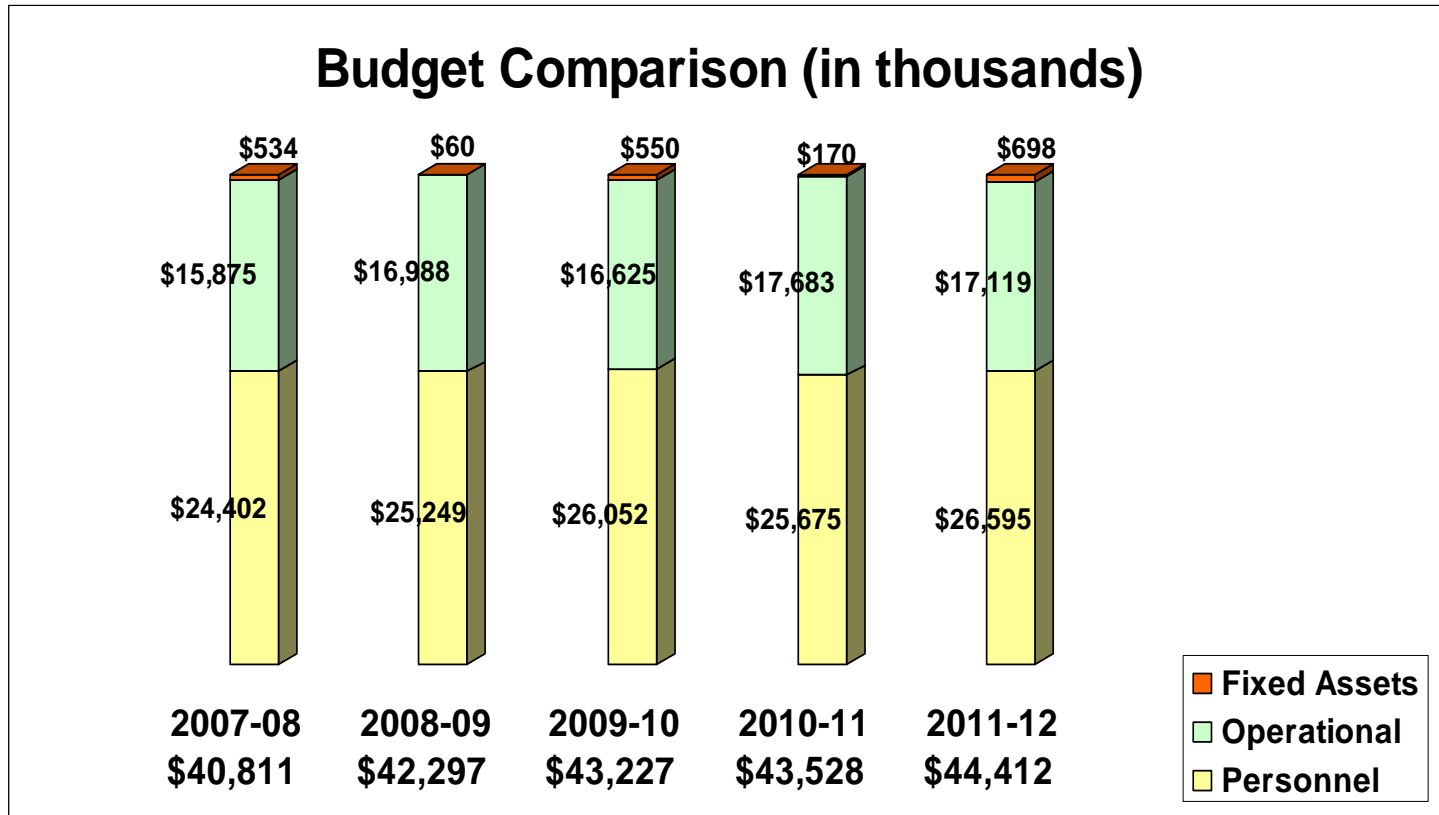
- **Instructions from Office of the Budget:**
 - “Baseline”, or, “Cost-to-Carry”
 - Mandatory costs (Legal, contractual, statutory and required)

- **Formal worksheets/template due to Office of the Budget on October 13**
 - Upon Board approval of the Resolution – staff will continue preparation of all required schedules and templates to meet this due date

2011-2012 Administrative Budget Request

\$ 26,595,306	Personnel
17,119,000	Operational
<u>698,000</u>	Fixed Assets
<u>\$ 44,412,306</u>	TOTAL

2011-2012 Administrative Budget Request



2011-2012 Administrative Budget Request

- **Personnel** \$26,595,306
3.6% Increase from 2010-2011
- **Operational & Fixed Assets** \$17,817,000
0.2% decrease from 2010-2011
- **Total** Increase is 2.0%

2011-2012 Administrative Budget Request

□ Personnel Services

- No General Pay or Longevity increases
- Wages and Overtime combined
 - 18.9% less than 2010-2011
- Increases to Benefit factors
 - 5 - Retiree Health to \$240 from \$200
 - 8 - Retirement contribution to 7.07% from 4.11%
 - 10 - Life Insurance to \$4.65 from \$4.30
 - 11 - Active Health to \$440 from \$400
 - 13 - Leave payout assessment same at 1.8%

2011-2012 Administrative Budget Request

- Total Personnel Costs as distributed within the Administrative, Health Insurance Account, and Health Options Program Budgets:

Number of Personnel	Administrative Budget	Health Insurance Account Budget	Health Options Program Budget	Total Personnel Budget
302	26,595,306	712,636	237,561	\$ 27,545,503
8		488,155	162,721	650,876
310	26,595,306	1,200,791	400,282	\$ 28,196,379

2011-2012 Administrative Budget Request

□ Operational

■ Contractual

- 27 - Ongoing contract with ViTech - \$3,888,000
- 27 - Data Powerhouse – \$2,000,000
- 32 - Real Estate Rental - \$1,980,000

■ Statutory

- 24 - Board elections - \$75,000
- 52 - Treasury - \$1,600,000

■ Required

- 23 - Interagency services - \$439,000
- 24 - Body of Knowledge - \$425,000
- 44 - Postage - \$1,450,000

2011-2012 Administrative Budget Request

- Fixed Assets includes
 - Required
 - 53 - Automobiles - \$50,000
 - 56 - Telephone System - \$648,000

2011-2012 Administrative Budget Request

In Summary –

Budget Request Total is
\$44,412,306

2011-2012 Directed Commissions Recapture Program

Directed Commissions Appropriation Budget

- \$2,000,000
 - Budgetary Reserve
 - Is \$1,000,000 for 2010-2011
 - Increase as a placeholder for pending pension legislation
- ❖ Note: Investment Information Services are paid through the Investment Related Expenses Appropriation

QUESTIONS?



PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
2011-2012 Administrative Budget Request

9/24/10 7:42 AM

Actual Expenditures as of
 September 21, 2010 -
 2009/2010

Rebudget Allocation -
 2010/2011

Budget Request -
 2011/2012

Percentage
 +/(-)

COMMITMENT
ITEM #

DESCRIPTION

COMMITMENT ITEM #	DESCRIPTION	Actual Expenditures as of September 21, 2010 - 2009/2010	Rebudget Allocation - 2010/2011	Budget Request - 2011/2012	Percentage +/-
6000000	<i>Budgetary Reserve</i>			0	
1 6111000	Salaries	16,072,602	17,106,106	17,182,004	0.4%
2 6113000	Higher Classification Pay	8,289	4,800	4,800	0.0%
3 6121000	Wages	244,160	567,891	590,196	3.9%
4 6131000	Overtime	599,284	789,120	510,720	-35.3%
5 6142000	Hospitalization - State Share	1,693,546	1,472,793	1,764,444	19.8%
6 6143000	Social Security Contributions - State Share	973,717	1,142,155	1,130,999	-1.0%
7 6144000	Medicare - State Share	247,843	267,114	264,507	-1.0%
8 6145000	Retirement Contributions - State Share	548,689	735,080	1,249,675	70.0%
9 6146000	State Workers Insurance Fund - State Share	321,424	281,098	300,608	6.9%
10 6147000	Employee Life Insurance - State Share	29,280	31,662	34,186	8.0%
11 6148000	Health Benefits - State Share	2,386,512	2,945,584	3,234,813	9.8%
12 6149000	Unemployment Compensation - State Share	26,989	0	0	0.0%
13 6151000	Leave Payout Assessment	344,534	331,593	328,353	-1.0%
	PERSONNEL SERVICES TOTAL	\$23,496,869	\$25,674,996	\$26,595,306	3.6%
	Health Insurance Account Share	840,377	916,000	950,197	
	TOTAL Personnel Expenses	\$24,337,246	\$26,590,996	\$27,545,503	

**09/10 Actual Expenses
 plus balance of Open
 Commitments as of
 September 21, 2010**

Rebudget Allocation -
 2010/2011

Budget Request -
 2011/2012

Percentage
 +/(-)

COMMITMENT
ITEM #

DESCRIPTION

COMMITMENT ITEM #	DESCRIPTION	09/10 Actual Expenses plus balance of Open Commitments as of September 21, 2010	Rebudget Allocation - 2010/2011	Budget Request - 2011/2012	Percentage +/-
14 6311000	Travel	101,511	212,004	205,000	-3.3%
15 6321000	Training & Conference Registration	86,414	133,000	131,000	-1.5%
16 6331100	Telecomm - Recurring	601,389	651,000	650,000	-0.2%
17 6331200	Telecomm - Non recurring	5,595	15,000	15,000	0.0%
18 6331300	Telephone - Equipment	0	6,000	5,000	-16.7%
19 6332300	Electricity	44,985	60,000	60,000	0.0%
20 6341100	Consultant Services - Non EDP	861,290	927,000	870,000	-6.1%
21 6341200	Consultant Services - EDP	0	0	15,000	100.0%
22 6342100	Legal Services/Fees	118,870	106,000	16,000	-84.9%
23 6343100	Specialized Services	432,218	443,000	439,000	-0.9%
24 6343117	Other Specialized Services	139,642	344,000	539,000	56.7%
25 6343200	Advertising	1,921	10,000	10,000	0.0%
26 6343300	Medical, Mental, & Dental Services	1,258	2,000	2,000	0.0%
27 6344100	Contracted EDP Svcs - Vendor Provided	6,127,346	6,677,000	6,147,000	-7.9%
28 6344300	Contracted Maintenance Services - EDP	81,537	118,000	85,000	-28.0%
29 6344400	Contracted Maintenance Non EDP	202,485	228,000	238,000	4.4%
30 6344600	Contracted Repairs - Non EDP	10,000	44,000	35,000	-20.5%
31 6351100	EDP Rental (Equipment & Software)	803,249	932,000	946,000	1.5%
32 6351200	Real Estate Rental	1,904,515	1,979,000	1,980,000	0.1%
33 6351300	Vehicle Rental	2,369	4,000	4,000	0.0%

**09/10 Actual Expenses
plus balance of Open
Commitments as of
September 21, 2010**

COMMITMENT			Rebudget Allocation -	Budget Request -	Percentage	
ITEM #	DESCRIPTION		2010/2011	2011/2012	+ / (-)	
34	6351400	Office Equipment Rental	308,512	281,000	294,000	4.6%
35	6351500	Other Rentals	8,380	10,000	6,000	-40.0%
36	6361100	Office Supplies	218,134	339,000	335,000	-1.2%
37	6361300	Educational Supplies (Books)	15,439	16,000	21,000	31.3%
38	6362100	Medical Supplies	2,340	0	1,000	100.0%
39	6371000	EDP Software	274,436	100,000	135,000	35.0%
40	6372000	Other Computer Equipment	173,738	83,000	85,000	2.4%
41	6373000	Furniture and Fixtures	30,625	51,000	51,000	0.0%
42	6374000	Other Equipment	12,006	5,000	32,000	540.0%
43	6380710	Motorized Equipment Supplies	29,360	40,000	40,000	0.0%
44	6391010	Postage	1,054,449	1,478,000	1,450,000	-1.9%
45	6391020	Freight	6,618	15,000	15,000	0.0%
46	6391030	Printing	384,200	492,000	470,000	-4.5%
47	6391040	Subscriptions	34,982	62,000	40,000	-35.5%
48	6391050	Membership Dues	30,309	37,000	42,000	13.5%
49	6391070	Conference Expense	32,398	80,000	75,000	-6.3%
50	6391120	Insurance, Surety & Fidelity Bonds	21,211	23,000	24,000	4.3%
51	6399998	Graphic Services	0	1,000	1,000	0.0%
52	6399999	Other Operational Expenses	1,395,497	1,679,000	1,610,000	-4.1%
		OPERATING EXPENSES TOTAL	\$15,559,229	\$17,683,004	\$17,119,000	-3.2%
53	6450210	Automobiles	0	75,000	50,000	-33.3%
54	6450280	EDP - Computers and Peripherals	575,977	40,000	0	-100.0%
55	6450310	Office Equipment	99,685	30,000	0	-100.0%
56	6450350	Telecommunications Equipment	44,759	25,000	648,000	2492.0%
		FIXED ASSETS TOTAL	\$720,421	\$170,000	\$698,000	310.6%
		TOTAL	\$39,776,519	\$43,528,000	\$44,412,306	2.0%
* Operational Expenses and Fixed Asset combined increase %			17,853,004	17,817,000		-0.2%

2011-2012 Administrative Budget Request --- Notes of Explanation

Line #	Commitment Item Number & Description		Notes:
1	6111000	Salaries	302 existing Positions including 19 vacancies funded at 13 pay periods. No new positions were requested. Includes the effect on 2011 due to the 2010 general salary increase of 4%, effective in October 2010, as well as the longevity increases effective January 2011. *Non-Union received 1% in October 2010. Note: 8 Positions funded by Health Insurance Account for Premium Assistance, or 310 overall.
2	6113000	Higher classification pay	An estimate
3	6121000	Wages	Board Per Diem. Legal (2 Summer Interns for 12 weeks), 1 Intern each semester to work 10-15 hours a week during the school year. 4 Limited Term Clerk Positions. 8 Limited Term Clerk 3's and One Retiree - Emergency Return. 12 Gov Svc Interns (975 hrs). PSERS has traditionally participated in the Office of Administration's program by funding a Pennsylvania Management Associate or a Human Resources Management Trainee. Funds are requested in the event the programs continue for FY 11-12. Total of 29 positions..
4	6131000	Overtime	Overtime funds are needed to sufficiently support the implementation of Agency Strategic Projects and to continue support of the on-going maintenance of the pension system (V3), processing of backlogs in Finalized Retirements, Death Process, NQPT, and the cyclical backlogs in Audit require staff to work overtime. To meet Retirement Code time frames for payment within 60 days (8505(g)), overtime is needed to handle the peak season where the bulk of retirements are scheduled for the end of the school year, generally June 30th.
5	6142000	Hospitalization - State Share	REHP - Annuitant group health program costs. \$240 per person/pay - Is \$200 for 10-11.
6	6143000	Social Security Contributions - State Share	.062 - same as 10-11.
7	6144000	Medicare - State Share	.0145 - same as 10-11.
8	6145000	Retirement Contributions - State Share	7.07% - is 4.11% in 10-11.
9	6146000	State Workers Insurance Fund - State Share	1.648% - is 1.526 in 10-11.
10	6147000	Employee Life Insurance - State Share	\$4.65/person/pay - is \$4.30 in 10-11 (up to \$1,000 of payroll/month -- up to a \$40,000 salary limit).
11	6148000	Health Benefits - State Share	Active employee group health program costs of \$440/person/pay - is \$400 in 10-11 rebudget.
12	6149000	Unemployment Compensation - State Share	No estimate
13	6151000	Leave Payout Assessment	.018 of Salary and OT - same as 10-11.
14	6311000	Travel	An estimate - travel to attend various conferences, meetings and benefit counseling sessions.
15	6321000	Training & Conference Registration	An estimate - includes GFOA, Public Pension Financial Forum, Oracle World, VM Users group, IFEBP, CPE courses, ARMA, Disaster preparedness, Aqualogic, and OA (including leadership) training as part of Personal Training inventories.
16	6331100	Telecomm - Recurring	An estimate - all telephony,data services and circuits from Verizon and AT&T.
17	6331200	Telecomm - Non Recurring	An estimate - used for charges that are not covered under contract nor do they occur every month. This would include things such as field office moves to cover any installation expenses (such as cabling) and any other expenses that would not be covered under the contract for adds, moves and changes.
18	6331300	Telephone - Equipment	An estimate - used for the purchase of telephones, headsets, phone cords and to replace broken and/or stock equipment.
19	6332300	Electricity	Electricity estimate for the computer room. 2009-2010 was the first year with the rate hike from deregulation.
20	6341100	Consultant Services - Non EDP	Includes the yearly audit (Clifton Gunderson), actuarial services (Buck Consultants), and medical services related to disability retirement applications. Reduction from 2010-2011 because that year contained actuarial audit & 5 year actuarial experience study.
21	6341200	Consultant Services - EDP	Consultant to update/maintain Financial institution name, address, routing number.
22	6342100	Legal Services/Fees	Includes an estimate for Duane Morris, Court fees, reporting services, hearing examiners, service to monitor Security Class Actions, as well as, offset from the Municipal Retirement System.
23	6343100	Specialized Services	Includes interagency billings: including Civil Service, HR services, Labor relations, Classification & Pay, IES, Comptroller, Payroll & Travel Services, Clerical Pool, and SEAP.
24	6343117	Other Specialized Services	Includes Board Elections, GFOA Award filing, and the Body of Knowledge Project (to implement and maintain benefit related rules for member services).
25	6343200	Advertising	An estimate for ads in newspapers for recruiting.
26	6343300	Medical, Mental, & Dental Services	Maintenance of AED (Automated External Defibrillator) equipment.
27	6344100	Contracted EDP Svcs - Vendor Provided	Includes Pension System, Data Powerhouse services, as well as, networking and Aqualogic services. ("Aqualogic" is web portal software that is the Commonwealth's standard.) Decrease from 2010-11 is due to the the declining Data Powerhouse contracted cost, as well as discontinuance of staff augmentation services.
28	6344300	Contracted Maintenance Services - EDP	Includes Voice Mail Maintenance, Turrent System Support & Voice Logger System, Firewall Support, PC Maintenance, UPS Maint Contract 4th Floor Trade Room (Uninterrupted Power Supply) – This is the large battery backup in the server room and in the investment office if power goes out; air compressor and maintenance for 2 PDU's (Power Distribution Unit). PDU is similar to a specialized circuit box - used to regulate voltage and power amps needed to run different computer equipment.

Line #	Commitment Item Number & Description		Notes:
29	6344400	Contracted Maintenance Non EDP	Includes Bell & Howell Duplicators and 5 Reader/Printers Maintenances, Fax Machines, PowerPoint Projector Maintenance and wireless scanners.
30	6344600	Contracted Repairs - Non EDP	An estimate that includes services provided by an electrical service contractor and estimates for Headquarter/Field Office renovations.
31	6351100	EDP Rental (Equipment & Software)	Maintenance support and license renewal for database development and analysis software used by the PSERS' critical business applications and support personnel. Also, for maintenance and support for financial and work management application software.
32	6351200	Real Estate Rental	Includes building, parking and storage rentals.
33	6351300	Vehicle Rental	Vehicle lease for the Mail Center, temporary transportation when required, and leasing service costs.
34	6351400	Office Equipment Rental	Copier and printer leases.
35	6351500	Other Rentals	Includes Priority Systems, Hasler - Field Postage, Pitney Bowes - Postage, ADT Monitoring and 14 water cooler rentals and water.
36	6361100	Office Supplies	Miscellaneous office supplies and post processing equipment supplies.
37	6361300	Educational Supplies (Books)	An estimate including reference material for the Chief Counsel's Office.
38	6362100	Medical Supplies	First Aid kit supplies.
39	6371000	EDP Software	Includes Web Ex license. Web Ex is on-line conferencing used for training, presentations and conferences for groups at difference locations.
40	6372000	Other Computer Equipment	Purchase of new and replacement PCs.
41	6373000	Furniture and Fixtures	An estimate of furniture requirements - chair replacements within the agency, replacement of worn furniture and/or to purchase new items for BOCC headquarters/regional offices.
42	6374000	Other Equipment	Purchase of new postage mailing machines and meter bases for each field office.
43	6380710	Motorized Equipment Supplies	An estimate - fuel purchases for PSERS vehicles.
44	6391010	Postage	An estimate of postage requirements that includes Board Election (Active Certified and Annuitant Members).
45	6391020	Freight	An estimate of United Parcel Service.
46	6391030	Printing	Printing costs for annual updates to members, CAFR, newsletters and other member communications, Fiche to Image conversion and backup to microfilm.
47	6391040	Subscriptions	An estimate of the Agency's subscriptions.
48	6391050	Membership Dues	An estimate of Agency's memberships.
49	6391070	Conference Expense	Includes Board Meeting Luncheons, Field Office Room Rentals, Exit Counseling Meetings, and Employee Recognition Program.
50	6391120	Insurance, Surety & Fidelity Bonds	An estimate.
51	6399998	Graphic Services	An estimate.
52	6399999	Other Operational Expenses	Treasury Billings.
53	6450210	Automobiles	3 replacement automobiles. (PSERS owns 16 automobiles & leases 1 van used by the Mail Center). Vehicles will be reaching the 100,000 mile replacement mark. PSERS has not purchased automobiles since the 2006-2007 Fiscal Year.
54	6450280	EDP - Computers and Peripherals	no estimate
55	6450310	Office Equipment	no estimate
56	6450350	Telecommunications Equipment	Agency PBX replacement. Current PBX support costs will rise significantly and replacement parts will become difficult to locate. This includes upgrades for BOCC's call centers. Verizon's offering under the new CoPA contract will also be considered.

DIRECTED COMMISSIONS RECAPTURE PROGRAM

DIRECTED COMMISSIONS APPROPRIATION

Directed Commissions Appropriation #6012700000			
	2009-2010	2010-2011	2011-2012
	<u>Actual</u>	<u>Rebudget</u>	<u>Request</u>
Investment Information Services Total*	\$ - \$	- \$	-
Budgetary Reserve	-	1,000,000.00	2,000,000.00
Total \$	\$ - \$	1,000,000.00 \$	2,000,000.00

*Services are included as part of the Investment Related Expense Appropriation #5003300000.