

E19

Agency Certification and Transmittal Sheet

Code: **E19** Name: **Retirement System Investment Commission**

Mission Statement: The Commission's mission is to fulfill its fiduciary responsibility by prudently managing all assets held in trust for the sole benefit of the participants and beneficiaries of the Retirement Systems. The Commission seeks superior long-term investment results at an acceptable level of risk

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To the Office of State Budget

This, and accompanying statements, schedules, and explanatory sheets consisting of 14 pages constitute the operating budget estimates of this agency for all proposed expenditures for the 2012-2013 fiscal year.

All statements and explanations contained in the estimates submitted herewith are true and correct to the best of my knowledge.

Signed:
(Agency Head)

Date: 9/30/2011

FISCAL YEAR 2012-13 BUDGET PLAN

I. EXECUTIVE SUMMARY

A. Agency Section/Code/Name:

Section 77 / E19 / Retirement System Investment Commission

B. Summary Description of Strategic or Long-Term Goals:

Goal I: Develop and Execute Major Investment Portfolio Initiatives

- Initiative I.A: Recast and implement asset class plans
- Initiative I.B: Standardize and reconstitute Strategic Partnership model
- Initiative I.C: Custody Services assessment
- Initiative I.D: Develop and implement risk management processes
- Initiative I.E: Implement investment policy compliance monitoring system

Goal II: Develop and Implement Specific Governance Policies

- Initiative II.A: Draft and approve Governance policies by December 31, 2010
- Initiative II.B: Identify list of additional policies, if necessary, by December 31, 2010

Goal III: Improve and Standardize Due Diligence Processes

- Initiative III.A: Determine industry best practices
- Initiative III.B: Improve, standardize, and document a due diligence process
- Initiative III.C: Implement new Commission standards
- Initiative III.D: Integrate with NEPC
- Initiative III.E: Integrate with data warehousing
- Initiative III.F: Develop sourcing process
- Initiative III.G: Develop and integrate forms and tools for due diligence processes
- Initiative III.H: Develop on-going due diligence processes
- Initiative III.I: Develop co-investment due diligence processes
- Initiative III.J: Enhance compliance and control elements of due diligence processes
- Initiative III.K: Develop due diligence audit processes
- Initiative III.L: Staff training and improvement
- Initiative III.M: Integrate due diligence processes with filing structure

Goal IV: Improve Reporting Processes

- Initiative IV.A: Review, evaluate, and improve current reports prepared by RSIC
- Initiative IV.B: Implement systematic method for storing and retrieving information
- Initiative IV.C: Determine future reporting needs for a robust data system
- Initiative IV.D: Create data library structure / data warehouse

Goal V: Develop Efficient and Effective Workforce

- Initiative V.A: Develop and implement improved recruiting process
- Initiative V.B: Create the Employee Performance Management System (EPMS) framework
- Initiative V.C: Implement training and professional development plans merged into Initiatives V.E – V.I
- Initiative V.D: Link EPMS with compensation policy
- Initiative V.E: Develop internal culture
- Initiative V.F: Refine recruiting processes
- Initiative V.G: Develop independent HR processes
- Initiative V.H: Effectively implement EPMS
- Initiative V.I: Strengthen linkages among Strategic Planning process, budgeting process and organizational structure

Goal VI: Create Efficient and Effective Facilities

- Initiative VI.A: Relocation to Capitol Center

Goal VII: Perform Feasibility Study and Prepare Recommendations for Long-term Organizational Structure

- Initiative VII.A: Feasibility Study and Recommendations
- Initiative VII.B: Critical evaluation of organizational structure
- Initiative VII.C: Create cross-functional work teams
- Initiative VII.D: Perform an assessment of legal constraints and opportunities

Goal VIII: Improve Legal Processes

- Initiative VIII.A: Needs assessment; implementation of solutions
- Initiative VIII.B: Monitoring; reporting; assessment
- Initiative VIII.C: Develop executive action list
- Initiative VIII.D: Governance policy maintenance
- Initiative VIII.E: Update and adopt agency FOIA procedure
- Initiative VIII.F: Develop e-mail management/retention system
- Initiative VIII.G: Modify confidentiality and personal trading policy

Goal IX: Improve Internal Controls

- Initiative IX.A: Complete Risk Assessment
- Initiative IX.B: Create risk based internal audit function
- Initiative IX.C: Implement additional internal controls in reporting and due diligence
- Initiative IX.D: Fully determine scope of SCRS external audit as it relates to the RSIC
- Initiative IX.E: Review the termination procedures

Goal X: Strengthen Information Technology Resources

- Initiative X.A: Establish internal control of information technology infrastructure and systems
- Initiative X.B: Create system redundancy and stability
- Initiative X.C: Formalize disaster recovery and business continuity plan
- Initiative X.D: Assess and improve system security
- Initiative X.E: Hire internal information technology staff

Goal XI: Enhance External Communications

- Initiative XI.A: Develop a plan for managing key stakeholder relationships
- Initiative XI.B: Enhance the RSIC website
- Initiative XI.C: Evaluate and refine external reports
- Initiative XI.D: Standardize media communication

C. **2011-2012 Agency Recurring Base Appropriation:**

State \$0
Federal \$0
Other \$10,152,679

D. **Number of Budget Categories:**

Budget Categories – 2
Sub-Categories – 3
Elements in the agency – 3

E. **Agency-wide Vacant FTEs**

Vacant FTEs as of July 31, 2011: 11
% Vacant 31%

F. **Efficiency Measures:**

The Commission is implementing an internally developed strategic plan. The eleven major goals of the strategic plan and their respective initiatives are listed above in Section B of this document. These goals and initiatives were developed by the Commission in order to increase the efficiency and effectiveness of the organization as well as serve as a means to measure progress. Each initiative contains action items that are assigned to specific RSIC Commissioners and Staff, and the deadlines associated with these action items serve as a benchmark for the Commission to measure progress. Furthermore, the Commission will, on an ongoing basis:

- Provide an annual report of all expenses related to the investment process and document decisions or actions that have material impact to the compliance, operational, or investment process;
- Generate an annual "Statement of Investment Objectives" and "Annual Investment Plan" to outline the policies, processes, and plans implemented to achieve investment objectives;
- Conduct ongoing due diligence with investment managers and provide an analysis of manager performance, operations, and compliance with internal policies, objectives, and applicable laws on a quarterly basis;
- Provide a one-page report highlighting portfolio performance on a quarterly basis;

- Conduct public meetings, at least once per quarter, to pursue investment objectives or adopt new policies and objectives;
- Complete FOIA requests as required by law, administer contracts relating to the portfolio, and monitor securities litigation/claims.

G. Number of Provisos:

1

IIA. OPERATING BUDGET PROGRAMS

Agency Section/Code/Name: Section 77 / E19 / Retirement System Investment Commission

SUMMARY OF OPERATING BUDGET PROGRAMS FOR FY 2012-13

OPERATING BUDGET PROGRAMS			FUNDING					FTEs			
Title	Activity Name	Activity No.	Non-Recurring State	Recurring State	Federal	Other	Total	State	Federal	Other	Total
RSIC	Investment Operations	1659				18,991,248	18,991,248			47.00	47.00
							0				0.00
							0				0.00
							0				0.00
							0				0.00
							0				0.00
For additional rows, place cursor in this gray box and press "Ctrl" + "b". (You need to start in this gray box for each row needed or the formulas will not copy properly.)											
TOTAL OF ALL OPERATING BUDGET PROGRAMS			0	0	0	18,991,248	18,991,248	0.00	0.00	47.00	47.00

IIB. CAPITAL BUDGET/NON-RECURRING REQUESTS FOR FY 2012-13
Agency Section/Code/Name: Section 77 / E19 / Retirement System Investment Commission

SUMMARY OF CAPITAL BUDGET/NON-RECURRING REQUESTS FOR FY 2012-13

CAPITAL BUDGET/NON-RECURRING REQUESTS				Additional State Funds	Previously Authorized State Funds	Total Other Fund Sources	Project Total
Project No.*	Project Name	Activity Name	Activity No.				
	N/A						0
							0
							0
							0
							0
For additional rows, place cursor in this gray box and press "Ctrl" + "c". (You need to start in this gray box for each row needed or the formulas will not copy properly.)							
TOTAL OF ALL CAPITAL BUDGET/NON-RECURRING REQUESTS				0	0	0	0

*if applicable

A. Summary description of programs and how they relate to the mission of the agency:

- I. Administration
- II. Employee Benefits

These programs support the RSIC staff in implementing and monitoring the investment activities of the \$25 billion portfolio.

B. Budget Program Number and Name:

Agency-wide

C. Agency Activity Number and Name:

Note: If more than one activity maps to this program; provide all activity numbers, names, and approximate funding amounts.

Activity Number	Activity Name	State Non-Recurring	State Recurring	Federal	Other	Total
1659	Investment Operations				x	

D. Performance Measures:

To measure value added by the organization, the Commission compares the Portfolio’s performance to two benchmarks: the Policy Benchmark and the Strategy Benchmark. The Policy Benchmark represents a hypothetical return that would occur if the Portfolio’s assets were invested passively (indexed) with the weights of each asset class consistent with the Policy Asset Allocation. Whereas the Policy Benchmark uses predetermined policy weights, the Strategy Benchmark uses the Portfolio’s actual weights. The difference between returns of the Policy and Strategy Benchmarks represents the value added from strategic decisions to deviate from the policy asset allocation. For example, if International Equity is the worst performing asset class, and within the ranges set by the commission, the CEO/CIO has chosen to invest less in this asset class than prescribed by the policy asset allocation, the Strategy Benchmark would be better than the Policy Benchmark, indicating that this decision added value to the Portfolio. Below is a summary of value added by the Commission in the past three years (as of 6/30/2011).

Three year value added from Active Management - \$750.7 million
 Three year value added from Allocation Decisions - \$104.3 million
 Three year total value added - \$855.0 million

These funds would otherwise be required to come from increased contributions to the plans or reduced benefits.

E. Program Interaction:

All of the agency’s staffing is associated with this program and it is not dependent on other state resources.

F. Change Management:

Effective October 1, 2005, the State Retirement System Preservation and Investment Reform Act established the Commission and devolved fiduciary responsibility for all investments of the Retirement System upon the RSIC. In November 2006, a constitutional amendment allowing for full diversification of the Retirement System’s Portfolio was approved in a statewide referendum and subsequently ratified by the Legislature in February 2007. Since ratification, the Commission has taken steps to transition to a more diversified asset allocation. In 2006, the Portfolio consisted of only 4 asset classes; at present, the Portfolio is diversified among 15+ asset classes. The primary focus of the agency has now shifted from diversifying the assets to establishing the personnel and technology infrastructure necessary to support the Portfolio.

The mission of the Commission has not changed in five years, however. The Commission’s mission is to fulfill its fiduciary responsibility by prudently managing all assets held in trust for the sole benefit of the participants and beneficiaries of the Retirement Systems. The Commission seeks superior long-term investment results at an acceptable level of risk.

G. Detailed Funding Information:

FY 2012-13 Cost Estimates:	State Non-Recurring	State Recurring	Federal	Other	Total
Number of FTEs*				47	47
Personal Service				\$6,599,298	\$6,599,298
Employer Contributions				\$1,568,939	\$1,568,939
Program/Case Services				\$0	\$0
Pass-Through Funds				\$0	\$0
Other Operating Expenses				\$10,823,011	\$10,823,011
Total	\$ 0	\$ 0	\$ 0	\$ 18,991,248	\$ 18,991,248
* If new FTEs are needed, please complete Section G (Detailed Justification for FTEs) below.					

Is this budget category or program associated with a Capital Budget Priority? No

If yes, state Capital Budget Priority Number and Project Name:

Please List proviso numbers that relate to this budget category or programs funded by this category.
89.124

H. Changes to the Appropriation:

Please explain any changes, to include re-alignments and funding or FTE increases requested in this year's appropriation, as detailed below:

Funding:

Year	State Non-Recurring	State Recurring	Federal	Other (Earmarked or Restricted)
2011-2012 Act				\$10,152,679
2012-2013 Act				\$18,991,248
Difference				\$8,838,569
% Difference				87%

Explanation of Changes:

I. Revenue Estimates:

Please detail Sources of revenue for this program, identified by SAP fund number if a live SCEIS agency or the STARS number if a STARS agency. If several sources remit to a single subfund that cannot be split by source and appropriation or program, provide an estimate of the revenue dedicated to this program.

SAP Fund Number	Source Name	General Fund	Other State	Earmarked	Restricted	Federal
42170000	RSE Invest Comm OPE				x	

If expenditures for this program are greater than known or estimated revenues and the intent is to bridge part of this shortfall by drawing down balances in agency accounts or reserves, indicate the accounts and amount of the current reserve or balance that will likely be used below.

Please detail the long-term sustainability of this program if cash reserves are needed to operate.

If there is federal fund or other fund spending authority requested above the revenue streams detailed above, please indicate the amount and explanation for each.

J. FTE Positions:

Please detail the number of FTE's filled (F) by the program as of June 30 of each fiscal year, and the number authorized (A) by the Appropriations Act.

Fiscal Year	State	Other-Earmarked or Restricted	Federal	Total	Temporary, Temporary Grant, Time -limited
2012-2013 (A)		47			
2011-2012 (A)		35			
2010-2011 (F)		23			
2010-2011 (A)		23			
2009-2010 (F)		19			
2009-2010 (A)		19			
2008-2009 (F)		16			
2008-2009 (A)		19			
2007-2008 (F)		13			
2007-2008 (A)		19			

K. Detailed Justification for FTEs:

(1) Justification for New FTEs

(a) Justification: While the portfolio has been diversified significantly over the past 5 years, the personnel and technology infrastructure have not increased in concert with the additional portfolio complexity. Thus, new FTEs are necessary to reduce risk and manage the assets in an efficient manner. Twelve new FTEs are requested for FY 13, and this request is based on recommendations from Deloitte Touche's strategic assessment, including the need to provide ongoing due diligence of investment managers, and benchmarking with comparable public funds.

(b) Future Impact on Operating Expenses or Facility Requirements: The existing office facility is sufficient for the addition of 12 FTEs; operating expenses will increase, and this additional amount is primarily related to office equipment and travel.

(2) Position Details:

	State	Federal	Earmarked	Restricted	Total
Position Title: Reporting Officer					
Number of FTEs				3.00	3.00
Personal Service				\$205,000	\$205,000
Employer Contributions				\$57,400	\$57,400

	State	Federal	Earmarked	Restricted	Total
Position Title: Investment Officer					
Number of FTEs				4.00	4.00
Personal Service				\$320,000	\$320,000
Employer Contributions				\$89,600	\$89,600

	State	Federal	Earmarked	Restricted	Total
Position Title: Investment Analyst					
Number of FTEs				2.00	2.00
Personal Service				\$110,000	\$110,000
Employer Contributions				\$30,800	\$30,800

	State	Federal	Earmarked	Restricted	Total
Position Title: Contracts Counsel					
Number of FTEs				1.00	1.00
Personal Service				\$140,000	\$140,000
Employer Contributions				\$39,200	\$39,200

	State	Federal	Earmarked	Restricted	Total
Position Title: IT Officer					
Number of FTEs				1.00	1.00
Personal Service				\$84,000	\$84,000
Employer Contributions				\$23,520	\$23,520

	State	Federal	Earmarked	Restricted	Total
Position Title: Budget Officer					
Number of FTEs				1.00	1.00
Personal Service				\$65,000	\$65,000
Employer Contributions				\$18,200	\$18,200

A. Proviso Number

Using the renumbered 2012-13 proviso base provided on the OSB website indicate the proviso number (*If new indicate "New #1", "New #2", etc.*):

89.124

B. Appropriation

Related budget category, program, or non-recurring request (*Leave blank if not associated with funding priority*):

Personal Service

C. Agency Interest

Is this proviso agency-specific, a general proviso that affects the agency, or a proviso from another agency's section that has had consequences?

Agency-specific

D. Action

Delete

E. Title

Descriptive Proviso Title:

Retirement Investment Commission

F. Summary

Summary of Existing or New Proviso:

Of the funds appropriated, the Retirement System Investment Commission shall submit a report to the Senate Finance Retirement Subcommittee by January 15th that sets forth a plan regarding salary bonuses. The plan must be approved by the subcommittee before implementation.

G. Explanation of Amendment to/or Deletion of Existing Proviso

(If request to delete proviso is due to codification, note the section of the Code of Laws where the language has been codified):

Proviso will no longer be relevant in FY 13

H. Explanation of how this proviso directs the expenditure or appropriation of funds, and why this direction is necessary

The proviso requires that the incentive compensation plan to be approved by the Senate Finance Retirement Subcommittee.

I. Justification

Refer to the instructions for the correct question to answer in this space, based on the action you selected

Proviso will no longer be relevant in FY 13

J. Fiscal Impact (Include impact on each source of funds – state, federal, and other)

TBD

K. Text of New Proviso with Underline or Entire Existing Proviso Text with Strikeover and Underline

~~Of the funds appropriated, the Retirement System Investment Commission shall submit a report to the Senate Finance Retirement Subcommittee by January 15th that sets forth a plan regarding salary bonuses. The plan must be approved by the subcommittee before implementation.~~

(INSERT PROVISO FROM FY 2012-13 RENUMBERED PROVISO BASE HERE)

Federal Aid Justification	0
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Summary

Award Title			
CFDA Number/Title		→	If "Other", identify:
Award Number (Federal)		Start Date	
		Federal Agency	
Award Number (State)		End Date	
		Federal Subagency	
Award Period		→	If "Other", explain:

Financial

Total Award Amount		Amount Available in FY 2012-13	
State Match Required?		If "Yes", describe, and provide SAP Fund Number(s) of funding sources	
Local Match Required?		If "Yes", describe	
Assistance Type		If "Other", explain	

Is administrative and/or indirect cost recovery permitted? If so, explain: Explanation would be here.

Will funds be passed-through to other entities? If so, what types of entities, and how will funds be distributed? Answer and elaboration here.

FY 2012-13 Agency Budget Request	Agency Code	Agency Name
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Federal Aid Justification	0
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Questions

How is the use of these funds essential to your agency's mission?

Text.

What budgetary, compliance, and programmatic obligations will the state incur (now or in the future) through the receipt of these funds?

Text.

What outcome and/or performance measures will you track and/or report on in association with this award?

Text.

What is the name and title of the individual in your agency who is responsible for the success of this program?

Text.