

## Memorandum

**DATE:** July 30, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Tracy Bowman, Director of Finance  
**SUBJECT:** SECOND QUARTER 2019 BUDGET TO ACTUALS REPORT

### Written Report

### Highlights

Second Quarter Target: 50% Used /50% Remaining

	Actuals to Date	Annual Budget	Budget \$ Remaining	Budget % Remaining
<b>Administrative Budget</b>				
Personnel Costs	\$ 6,777,008	\$ 14,764,600	\$ 7,987,592	54.1%
Service and Supplies	4,050,017	11,298,230	7,248,213	64.2%
Capital Expenditures	-	370,000	370,000	100.0%
<b>Grand Total</b>	<u>\$ 10,827,025</u>	<u>\$ 26,432,830</u>	<u>\$ 15,605,805</u>	<u>59.0%</u>

### Background/Discussion

The Board of Retirement approved OCERS' Administrative Budget for Fiscal Year 2019 (FY19) on November 19, 2018, in the amount of \$26,432,830 for administration and investment related activities.

OCERS' budgeting authority is regulated by California Government Code Sections 31580.2 and 31596.1, including a provision that OCERS' budget for administrative expenses is limited to twenty-one hundredths of one percent of the accrued actuarial liability of the retirement system, excluding investment related costs and expenditures for computer software, hardware and related technology consulting services (commonly referred to as the 21 basis point test). The approved FY19 administrative budget represents 8.93 basis points of the projected actuarial accrued liability. The budget also meets OCERS' Board policy limitation of 18 basis points of the projected actuarial value of total assets and represents 14.20 basis points of these assets for FY19.

The Chief Executive Officer, or the Assistant CEO, has the authority to transfer funds within the three broad categories of the budget: 1) Salaries and Benefits, 2) Services and Supplies, and 3) Capital Projects. Funds may not be moved from one category to another without approval from the Board of Retirement.

### Administrative Summary

For the six months ended June 30, 2019, year-to-date actual administrative expenses were \$10,827,025 or 41.0% of the \$26,432,830 administrative budget and below the 50% target set for the end of the second quarter

budget by approximately \$2.4 million. A summary of all administrative expenses and explanations of significant variances are provided below:

**Summary of all Administrative Expenses  
For the Quarter Ended June 30, 2019**

	<b>Actuals to Date</b>	<b>Annual Budget</b>	<b>Balance Remaining</b>	<b>% of Budget Used</b>	<b>Prorated Budget*</b>	<b>Prorated Budget vs. Actuals (Over)/Under</b>
<b>Personnel Costs</b>	<b>\$ 6,777,008</b>	<b>\$ 14,764,600</b>	<b>\$ 7,987,592</b>	<b>45.9%</b>	<b>\$ 7,382,300</b>	<b>\$ 605,292</b>
<b>Services and Supplies</b>						
Bldg. Prop. Mgmt./Maintenance	173,735	680,000	506,265	25.5%	340,000	166,265
Due Diligence	7,069	80,000	72,931	8.8%	40,000	32,931
Equipment Lease	18,489	62,000	43,511	29.8%	31,000	12,511
Equipment/Software Expenses	147,526	706,500	558,974	20.9%	353,250	205,724
Infrastructure Maintenance	322,708	829,100	506,392	33.1%	414,550	91,842
Legal Services	487,514	1,475,000	987,486	33.1%	737,500	249,986
Meetings & Mileage	34,834	61,350	26,516	56.8%	30,675	( 4,159 )
Membership/Periodicals	49,112	71,960	22,848	68.2%	35,980	( 13,132 )
Office Supplies	30,995	80,000	49,005	38.7%	40,000	9,005
Postage	60,087	164,500	104,413	36.5%	82,250	22,163
Printing	38,661	105,000	66,339	36.8%	52,500	13,839
Professional Services	2,442,566	6,331,000	3,888,434	38.6%	3,165,500	722,934
Telephone	64,785	165,500	100,715	39.1%	82,750	17,965
Training	171,936	486,320	314,384	35.4%	243,160	71,224
<b>Services and Supplies</b>	<b>4,050,017</b>	<b>11,298,230</b>	<b>7,248,213</b>	<b>35.8%</b>	<b>5,649,115</b>	<b>1,599,098</b>
<b>Capital Expenditures**</b>	<b>-</b>	<b>370,000</b>	<b>370,000</b>	<b>0.0%</b>	<b>185,000</b>	<b>185,000</b>
<b>Administrative Expense Total</b>	<b>\$ 10,827,025</b>	<b>\$ 26,432,830</b>	<b>\$ 15,605,805</b>	<b>41.0%</b>	<b>\$ 13,216,415</b>	<b>\$ 2,389,390</b>

\*Prorated budget represents 50% (6 months/12 months) of the annual budget.

\*\*Capital expenditures represent purchases of assets to be amortized in future periods.

## Personnel Costs

Personnel Costs as of June 30, 2019 were approximately \$6.8 million or 45.9% of the annual budget for this category. These costs are slightly below budget due to vacancies for a Staff Attorney and an additional Investment Analyst. The newly created Training Manager position adopted in the 2019 Budget was filled during the second quarter.

## Services and Supplies

Expenditures for services and supplies were approximately \$4.1 million or 35.8% of the annual budget for this category. The positive variance of \$1.6 million between the pro-rated budget and year-to-date actuals in this category is primarily due to the following:

- Building Property Mgmt./Maintenance costs utilized 25.5% of the annual budget and were lower than the prorated budget by \$166,265. Lower overall costs are related to timing of payments for property tax and insurance premiums, as well as lower utility and maintenance costs incurred in the first half of the year. Utility and maintenance costs do not occur evenly and will fluctuate throughout the year.

- Due Diligence costs are at 8.8% of the annual budget and lower than the prorated budget by \$32,931. This lower than anticipated cost is due to fewer visits occurring in the first half of the year as originally planned, and more visits are expected during the second half of the year. Due diligence visits to investment managers tend to fluctuate throughout the year, additionally these visits are often done in conjunction with other investment conference/training travel. Due diligence costs are expected to remain under budget through the remainder of the year.
- Equipment/Software expense utilized 20.9% of the annual budget, and lower than the prorated budget by \$205,724. The lower than expected expenditures is the result of several projects budgeted for the year which have not been implemented during the first half of the year, such as the manage file transfer solution, the board portal upgrade, change management solution and the anti-spam email solution. These expenses are expected to occur later in the year. Additionally, during the first half of the year miscellaneous hardware, software, and computer and printer supplies are running below the prorated budget and are incurred on an as-needed basis.
- Infrastructure Maintenance costs are at 33.1% of the annual budget resulting in an unused prorated budget of \$91,842. Various infrastructure maintenance costs associated with software and hardware support services have not occurred during the first half of the year, such as Microsoft Software Assurance, Vendor Management System License and Website Hosting. Additionally, many hardware and software support services are currently lower than budgeted, including server and workstation hardware support, vmWare support, and Oracle-V3 support.
- Legal Services are at 33.1% of the budget and are lower than the prorated budget by \$249,986. Legal services for investments, litigation and tax counsel are utilized on an as-needed basis. Investment legal services are below budget by approximately \$114,000. General board, tax counsel and other counsel services are under budget by approximately \$136,000.
- Meetings & Mileage costs are above the prorated budget for the quarter ended at 56.8%, or \$4,159. The variance is primarily due to Board meeting costs including additional meetings, Personnel Committee and Disability Committee meetings that were added to the Board members meeting schedule, as well as travel to SACRS and legislative meetings by members. This category is not expected to continue to be over budget as the year progresses.
- Memberships/Periodical expense is at 68.2% of the annual budget which is above the prorated budget by \$13,132. Many of the memberships and periodicals renew in the first half of the year and this difference is expected to diminish as the year continues with the result being within budget for this category.
- Postage is at 36.5% of the annual budget and lower than the prorated budget by \$22,163. This is attributable to the timing of bulk mailings to members and the use of postage on an as-needed basis.
- Professional Services utilized 38.6% of the annual budget. Expenses are lower than the prorated budget by \$722,934. The variance is primarily due to timing of expenses for various cyber-security and IT related consulting, as well as costs used on an as-needed-basis, including internal audit consultants and services, CEO contingency and court reporter fees.
- Training expense is at 35.4% of the annual budget and lower than the prorated budget by \$71,224, primarily due to training costs that have been budgeted, but not yet incurred, including SACRS fall conference, investment-related conferences, employee tuition reimbursement, IT related training, and other various staff training and conferences.

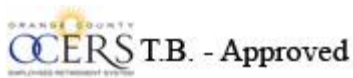
### **Capital Expenditures**

No Capital Expenditures have been incurred as of the end of the quarter. Capital expenditures budgeted for the year are for building HVAC repair and board room audio visual improvements. The building HVAC was serviced during the second quarter of the year, and the need for additional capital maintenance is being evaluated as part of the space management project currently underway. The audio visual improvements are expected to be implemented later in the year.

### **Conclusion:**

As of quarter-end, the Administrative budget based on preliminary actuals is at 41.0% of the annual budget. As actual administrative expenses are under the annual budget, OCERS is in compliance with the 21 basis point test and the 18 basis point test.

### **Submitted by:**



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Tracy Bowman  
Director of Finance