

## Memorandum

**DATE:** May 15, 2023  
**TO:** Members of the Board of Retirement  
**FROM:** Tracy Bowman, Director of Finance  
**SUBJECT:** FIRST QUARTER 2023 BUDGET TO ACTUALS REPORT

### Written Report

#### Highlights

First Quarter Target: 25% Used /75% Remaining

	Actuals to Date	Budget	Budget Remaining (\$)	Budget Remaining (%)
<b>Administrative Expenses</b>				
Personnel Costs	\$ 5,754,901	\$ 23,697,171	\$ 17,942,270	75.7 %
Services and Supplies	3,121,879	14,951,725	11,829,846	79.1 %
Capital Expenditures	-	1,226,000	1,226,000	100.0 %
<b>Grand Total</b>	<b>\$ 8,876,780</b>	<b>\$ 39,874,896</b>	<b>\$ 30,998,116</b>	<b>77.7 %</b>

### Background/Discussion

The Board of Retirement approved OCERS' Administrative Budget for Fiscal Year 2023 (FY23) on November 14, 2022, for \$39,874,896 to fund administrative expenses.

OCERS' budgeting authority, which is regulated by California Government Code Sections 31580.2 and 31596.1, includes a provision that limits the OCERS' budget for administrative expenses to twenty-one hundredths of one percent of the accrued actuarial liability of the retirement system. This provision (commonly referred to as the 21-basis points test) excludes investment related costs and expenditures for computer software, hardware, and related technology consulting services. The approved FY23 administrative budget represents 10.73 basis points of the projected actuarial accrued liability.

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

### Administrative Summary

For the three months ended March 31, 2023, year-to-date actual administrative expenses were \$8,876,780 or 22.3% of the \$39,874,896 administrative budget and below the 25% target set for the end of the first quarter budget by approximately \$1.1 million. A summary of all administrative expenses and explanations of significant variances are below:

	Actual to Date	Budget	Budget Remaining (\$)	Budget Used (%)	Prorated Budget*	(Over)/Under Prorated Budget
<b>Administrative Expenses</b>						
<b>Personnel Costs</b>	\$ 5,754,901	\$ 23,697,171	\$ 17,942,270	24.3 %	\$ 5,924,293	\$ 169,392
Services and Supplies						
Building Property Management and Maintenance	257,170	975,000	717,830	26.4 %	243,750	(13,420)
Due Diligence Expenses	13,012	130,000	116,988	10.0 %	32,500	19,488
Equipment - Rent and Leases	10,006	50,000	39,994	20.0 %	12,500	2,494
Equipment and Software	344,841	1,081,100	736,259	31.9 %	270,275	(74,566)
Infrastructure	324,722	1,957,140	1,632,418	16.6 %	489,285	164,563
Legal Services	262,634	1,100,000	837,366	23.9 %	275,000	12,366
Meetings and Related Costs	14,934	54,300	39,366	27.5 %	13,576	(1,358)
Memberships	45,901	91,245	45,344	50.3 %	22,811	(23,090)
Office Supplies	30,512	100,000	69,488	30.5 %	25,000	(5,512)
Postage and Delivery Costs	54,563	161,000	106,437	33.9 %	40,250	(14,313)
Printing Cost	21,790	67,000	45,210	32.5 %	16,750	(5,040)
Professional Services	1,539,621	8,149,340	6,609,719	18.9 %	2,037,336	497,715
Subscriptions and Periodicals	13,508	56,300	42,792	24.0 %	14,075	567
Telephone and Internet	89,555	391,200	301,645	22.9 %	97,800	8,245
Training and Related Costs	99,110	588,100	488,990	16.9 %	147,026	47,916
<b>Total Services and Supplies</b>	<b>3,121,879</b>	<b>14,951,725</b>	<b>11,829,846</b>	<b>20.9 %</b>	<b>3,737,934</b>	<b>616,055</b>
<b>Administrative Expense - Subtotal</b>	<b>8,876,780</b>	<b>38,648,896</b>	<b>29,772,116</b>	<b>23.0 %</b>	<b>9,662,227</b>	<b>785,447</b>
<b>Capital Expenditures**</b>	<b>-</b>	<b>1,226,000</b>	<b>1,226,000</b>	<b>0.0 %</b>	<b>306,500</b>	<b>306,500</b>
<b>Grand Total</b>	<b>\$ 8,876,780</b>	<b>\$ 39,874,896</b>	<b>\$ 30,998,116</b>	<b>22.3 %</b>	<b>\$ 9,968,727</b>	<b>\$ 1,091,947</b>

\*Prorated budget represents 25% (3 months/12 months) of annual budget.

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

## Personnel Costs

Personnel Costs as of March 31, 2023, were approximately \$5.8 million or 24.3% of the annual budget for this category, under the prorated budget by \$169,392. Although these costs are slightly under budget, lump sum payments made during the first quarter are included in these costs. Once a year lump sum payments are typically paid in January. Additionally, incentive compensation awards for eligible investment team members were paid in accordance with the Incentive Compensation Program approved by the Board on August 15, 2022. The awards, based on 2022 performance metrics, totaled approximately \$478,000 and are payable in two equal installments; the first payment was paid at the end of March 2023 and the second payment will be paid in March 2024 to investment team members who are still employed by OCERS at the time of payment. Annual leave expense and liability accounts are adjusted each quarter based on the annual leave balances of OCERS employees. Leave balances are slightly higher at the end of the quarter than at the beginning of the year which increases the personnel costs. Personnel costs are closely monitored and are expected to be within budget for the year.

## Services and Supplies

Expenditures for services and supplies were approximately \$3.1 million or 20.9% of the annual budget for this category. The variance of \$616,055 between the prorated budget and year-to-date actuals in this category is primarily due to the following (note: under budget differences that are under budget and less than \$5,000 have been deemed immaterial and are excluded from the discussion below):

- Building Property Management and Maintenance costs utilized 26.4% of the annual budget and were slightly higher than the prorated budget by \$13,420. The higher overall cost is primarily due to the timing of funding requests from OCERS property manager for operating expenses. Maintenance costs

do not occur evenly and will fluctuate throughout the year. This category is expected to remain within budget.

- Due Diligence Expenses are at 10.0% of the annual budget and lower than the prorated budget by \$19,488. Most of the investment team travel is included in this category. The investment team has increased their travel to investment conferences and meetings with investment managers from the prior year and more travel is expected as the year progresses.
- Equipment and Software expense utilized 31.9% of the annual budget, and higher than the prorated budget by \$74,566. The higher-than-expected expenditures are related to the 2023 business plan initiative to replace aging Surface tablet computers with upgraded laptops, many which were purchased during the first quarter.
- Infrastructure costs are at 16.6% of the annual budget resulting in an unused prorated budget of \$164,563. The lower than budgeted costs are due to the timing of maintenance agreement renewals, which renew throughout the year, as well as various costs associated with software and hardware support services that are utilized on an as-needed basis.
- Legal Services are at 23.9% of the budget and are lower than the prorated budget by \$12,366. Legal services for investments, litigation and tax counsel are utilized on an as-needed basis. Investment legal services are higher than the prorated budget by approximately \$12,000 due to the addition of several new investment managers during the first quarter. General board, tax counsel and outside counsel services, and other litigation costs are under the prorated budget by approximately \$24,000. Total legal fees are not anticipated to exceed the budget for the year but will be closely monitored throughout the year.
- Meetings and Related Costs are \$14,934 or 27.5% of the total budget, and over the prorated budget by \$1,358. This category represents expenditures related to Board and Committee meetings, as well as team member meetings. This category is over the prorated budget due to the annual launch event for all team members which occurs in January each year. This category is expected to be within budget for the year.
- Memberships expense is at 50.3% of the annual budget and above the prorated budget by \$23,090. Many of the memberships and periodicals renew in the first quarter of the year. Additionally, payment of one annual membership from two prior years had not been made and was paid during the first quarter of this year. This difference is expected to diminish as the year continues and remain within budget for this category.
- Office Supplies are at 30.5% of the budget and over the prorated budget by \$5,512. During the first quarter, additional furniture and supplies were purchased for the training room and new team members, respectively. This category is expected to remain within budget for the year.
- Postage and Delivery Costs are at 33.9% of the annual budget and above the prorated budget by \$14,313. The costs are higher due to the mailing of two quarterly newsletters (Winter and Spring 2023) in the first quarter versus one. Also included in the incurred costs is the postage for the mailing of 1099-R Forms to our members, and other Alameda mailings. Postage usage fluctuates based on current needs. This category will be closely monitored throughout the year.
- Printing Cost is at 32.5% of the annual budget and over the prorated budget by \$5,040. The printing of the quarterly newsletter was higher than expected, and there were additional mailings related to Alameda correspondence.

- Professional Services utilized 18.9% of the annual budget and are lower than the prorated budget by \$497,715. As of the end of the first quarter all departments are under budget for professional services. Consulting and professional services are used on an as needed basis which results in costs fluctuating throughout the year. Some professional services budgeted with little to no costs incurred include white board video consulting; external financial audit; information security policy development and cyber security assessment services: pension administrative system consulting and RPA (robotic process automation) as well as the compensation study. Contracts have been executed on several of these initiatives and the projects are now underway. This category is expected to be within budget for the year.
- Telephone and Internet expenditures were 22.9% of the annual budget, under the prorated budget by \$8,245. Telephone and internet services have increased from prior years due to the increase in team members and the increase in the number of OCERS issued phones. OCERS' security provisions only allow access to OCERS email with an authorized OCERS issued device.
- Training and Related Costs are at 16.9% of the annual budget and lower than the prorated budget by \$47,916. Training costs are trending higher when compared with the prior year. More board members and team members are attending in-person conferences now that the pandemic restrictions are lifted, although virtual training is also being utilized. Several LOD (Learning and Organizational Development) training programs have begun in the first quarter including executive and director coaching, and the launch of the Leadership Edge Program for OCERS mid-level leaders.

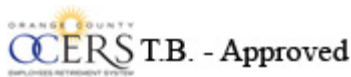
### Capital Expenditures

No Capital Expenditures have been incurred as of the end of the first quarter. The capital expenditures budget includes project costs of \$250,000 for electronic content and document management, \$215,000 for additional board room audio-visual enhancement, \$250,000 for the data center server virtual replacement, \$300,000 for building space planning and \$211,000 for other building and property improvements. Many of these projects are expected to incur costs during the second quarter.

### Conclusion:

As of the end of the first quarter, the Administrative budget based on actuals is at 22.3% of the annual budget. As actual administrative expenses are under the annual budget, OCERS complies with the 21-basis point test.

### Submitted by:




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Tracy Bowman, Director of Finance  
Director of Finance