Memorandum

DATE: August 1, 2020
TO: Members of the Board of Retirement
FROM: Tracy Bowman, Director of Finance
SUBJECT: SECOND QUARTER 2020 BUDGET TO ACTUALS REPORT

Written Report

Highlights

Second Quarter Target: 50% Used /50% Remaining

<table>
<thead>
<tr>
<th>Administrative Budget</th>
<th>Actuals to Date</th>
<th>Annual Budget</th>
<th>Budget $ Remaining</th>
<th>Budget % Remaining</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel Costs</td>
<td>$ 7,628,167</td>
<td>$ 15,507,410</td>
<td>$ 7,879,243</td>
<td>50.8%</td>
</tr>
<tr>
<td>Service and Supplies</td>
<td>4,102,751</td>
<td>11,077,380</td>
<td>6,974,629</td>
<td>63.0%</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>169,152</td>
<td>600,000</td>
<td>430,848</td>
<td>71.8%</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>$ 11,900,070</strong></td>
<td><strong>$ 27,184,790</strong></td>
<td><strong>$ 15,284,720</strong></td>
<td><strong>56.2%</strong></td>
</tr>
</tbody>
</table>

Background/Discussion

The Board of Retirement approved OCERS’ Administrative Budget for Fiscal Year 2020 (FY20) on November 18, 2019, for $27,184,790 to fund administrative expenses.

OCERS’ budgeting authority, 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 point test) excludes investment related costs and expenditures for computer software, hardware and related technology consulting services. The approved FY20 administrative budget represents 9.04 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) Salaries and Benefits, 2) Services and Supplies, and 3) Capital Projects. Funds may not be transferred from one category to another without approval from the Board of Retirement.

Administrative Summary

For the six months, ended June 30, 2020, year-to-date actual administrative expenses were $11,900,070 or 43.8% of the $27,184,790 administrative budget and below the 50% target set for the end of the second quarter budget by approximately $1.7 million. A summary of all administrative expenses and explanations of significant variances are below:
Personnel Costs as of June 30, 2020 were approximately $7.6 million or 49.2% of the annual budget for this category, under the prorated budget by $125,538. These costs are slightly below budget due to several staff vacancies, which are offset by an increase in the annual leave liability. Annual leave expense and liability accounts are adjusted each quarter based on the annual leave balances of OCERS’ employees and are trending higher than expected because of the continued impact of the COVID-19 global pandemic on work and travel restrictions. For the six months ended June 30, 2020, the annual leave liability increased by approximately $216,000. Personnel costs are expected to be within budget for the year.

Services and Supplies
Expenditures for services and supplies were approximately $4.1 million or 37.0% of the annual budget for this category. The variance of $1,435,940 between the pro-rated budget and year-to-date actuals in this category is primarily due to the following (note: under budget differences that are less than $5,000 are deemed immaterial and are excluded from the discussion below):

- Building Property Mgmt./Maintenance costs utilized 41.2% of the annual budget and were lower than the prorated budget by $59,934. Lower overall costs relate to timing of payments for property tax and insurance premiums, as well as lower utility and maintenance costs due to a decrease in employee occupancy of the headquarter building as team members continue to work from home.
under Governor Newsom’s Stay At Home Order. In addition, utility and maintenance costs do not occur evenly and will fluctuate throughout the year. OCERS completed the transition to a new property manager in February 2020.

- **Due Diligence** costs are at 10.1% of the annual budget and lower than the prorated budget by $53,844. This lower than anticipated cost is due to no in person meetings and travel occurring during the current global pandemic. Due diligence meetings are over Zoom and will continue for the foreseeable future. Due diligence costs are expected to remain under budget through the remainder of the year.

- **Equipment/Software** expense utilized 26.6% of the annual budget, and is lower than the prorated budget by $200,769. 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, including the implementation of new accounting software and other IT software implementations. Projects have been delayed as IT focuses on providing team members with equipment and other resources to use at home as they continue to work remotely; since the work from home directive was implemented in March, additional unbudgeted costs of approximately $69,000 have been incurred for miscellaneous hardware, software, and computer and printer supplies. Equipment/Software expenses are expected to remain under budget for the remainder of the year.

- **Infrastructure Maintenance** costs are at 36.3% of the annual budget resulting in an unused prorated budget of $48,783. Various infrastructure maintenance costs associated with software and hardware support services have not yet been incurred or are purchased on an as-needed basis.

- **Legal Services** are at 36.3% of the budget and are lower than the prorated budget by $140,556. Legal services for investments, litigation and tax counsel are utilized on an as-needed basis. Investment legal services are below budget by approximately $52,000. General board, tax counsel and other counsel services are under budget by approximately $88,000 primarily due to less than expected litigation costs, offset by $18,000 for research on pandemic related issues, such as the Coronavirus Aid, Relief and Economic Security (CARES) Act.

- **Meetings & Mileage** costs is at 19.6% of the annual budget and lower than the prorated budget by $24,083. Since work from home has been in place, Board and Committee meetings have been held remotely resulting in the lower than budgeted costs for the meetings. Board and Committee meetings are not expected to resume in person for the foreseeable future and related costs are expected to remain under budget through the remainder of the year.

- **Memberships/Periodical** expense is at 51.4% of the annual budget, slightly exceeding the prorated budget by $1,182. 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 35.4% of the annual budget and lower than the prorated budget by $24,462. Postage costs associated with an additional mailing related to COVID 19 correspondence and delivery of equipment to team members of $6,100 were incurred. Postage usage fluctuates based on an as-needed basis.

- **Printing** costs are at 38.4% of the annual budget and lower than the prorated budget by $8,003 primarily due to printing costs for the CAFR which are expected to be incurred in the third quarter. The lower than expected costs were offset by approximately $5,000 for costs associated with an additional mailing to members from our CEO to address COVID-19 related concerns.
Professional Services utilized 38.9% of the annual budget. Expenses are lower than the prorated budget by $685,756. The variance is primarily due to postponement of utilizing consulting services as OCERS focuses on maintaining current operations while team members continue to work from home. Postponed costs include a technical writer, governance and LEAN process consultants, Office 365 migration consulting, as well as costs used on an as-needed-basis, including internal audit consultants and services and CEO contingency.

Telephone expense is at 68.5% of the annual budget and over the prorated budget by $37,852. During the first quarter, OCERS implemented a new Dialpad telephone system and incurred costs associated with both the old Mitel System and the new Dialpad system. Additionally, approximately $9,000 of additional costs for cellular data and teleconference costs were incurred during the initial period of working remotely but have been subsequently reduced by using Zoom and other services. Telephone costs will be closely monitored for the remainder of the year and the CEO or Assistant CEO has the authority to transfer budget dollars with the Services and Supplies category to cover any shortfall. No transfer is required at this time.

Training expense is at 13.8% of the annual budget and lower than the prorated budget by $221,941. Training costs are expected to remain significantly below the budget since all travel-related training and conferences were cancelled or postponed due to the COVID-19 pandemic. All current training and conferences are being done remotely and are typically less expensive than in-person training or conferences.

Capital Expenditures

Capital Expenditures incurred as of the end of the quarter are $169,152. A contract for new firewalls was completed during the second quarter for approximately $139,000. Capital expenditures incurred for building security, safety and health upgrades include approximately $30,000 for the first installment of Plexiglas around office cubicles as part of the plan to safely re-open OCERS headquarters building and gradually return team members back to the office. Additional costs will occur in the third quarter for the next installment. Building security, safety and health upgrades will continue to take priority as part of the plan to ensure the health and safety of our team members.

Conclusion:

As of quarter-end, the Administrative budget is at 43.8% of the annual budget. As actual administrative expenses are under the annual budget, OCERS complies with the 21 basis point test.

As of June 30, 2020, approximately $138,000 has been spent in response to the global pandemic and transition to a remote work environment, including costs for computer and home office equipment, teleconferencing, health supplies such as masks and sanitizers, safety upgrades, legal fees and printing and postage. These additional costs have been offset by savings in areas such as training and due diligence.

Submitted by:

Tracy Bowman
Director of Finance