

Memorandum

DATE: November 14, 2022
TO: Members of the Board of Retirement
FROM: Tracy Bowman, Director of Finance
SUBJECT: **THIRD QUARTER 2022 BUDGET TO ACTUALS REPORT**

Written Report

Highlights

Third Quarter Target: 75% Used /25% Remaining

	Actuals to Date	Amended Budget	Budget Remaining (\$)	Budget Remaining (%)
Administrative Expenses				
Personnel Costs	\$ 12,582,997	\$ 19,287,569	\$ 6,704,572	34.8 %
Services and Supplies	7,472,362	13,503,415	6,031,053	44.7 %
Capital Expenditures	422,379	1,092,000	669,621	61.3 %
Grand Total	\$ 20,477,738	\$ 33,882,984	\$ 13,405,246	39.6 %

Background/Discussion

The Board of Retirement approved OCERS’ Administrative Budget for Fiscal Year 2022 (FY22) on November 15, 2021, for \$33,100,984 to fund administrative expenses. Subsequently on January 18, 2022, the Board of Retirement approved a budget amendment of \$782,000 to carryover costs related to two 2021 Business Plan initiatives that were delayed; the upgrade of board room audio/visual equipment for \$532,000 and implementation of new backup solutions to enhance recovery of on-premise and cloud systems in the amount of \$250,000. This amendment increased the 2022 budget for capital expenditures from \$310,000 to \$1,092,000 and the overall 2022 Administrative Budget from \$33,100,984 to \$33,882,984. In addition, on February 22, 2022, the Board approved an amendment to transfer \$25,000 from the Services and Supplies category to the Personnel Costs category related to the 2022 Business Plan initiative for a comprehensive review of MOUs for all OCERS Participating Employers which will be utilizing Extra Help positions, instead of a third-party consultant.

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 amended FY22 administrative budget represents 9.75 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 nine months ended September 30, 2022, year-to-date actual administrative expenses were \$20,477,738 or 39.6% of the \$33,882,984 amended administrative budget and below the 75% target set for the end of the third quarter amended budget by approximately \$4.9 million. A summary of all administrative expenses and explanations of significant variances are below:

	Actual to Date	Amended Budget	Budget Remaining (\$)	Budget Used (%)	Prorated Budget*	(Over)/Under Prorated Budget
Administrative Expenses						
Personnel Costs	\$ 12,582,997	\$ 19,287,569	\$ 6,704,572	65.2 %	\$ 14,465,677	\$ 1,882,680
Services and Supplies						
Building Property Management and Maintenance	595,121	750,000	154,879	79.3 %	562,500	(32,621)
Due Diligence Expenses	10,231	100,000	89,769	10.2 %	75,000	64,769
Equipment - Rent and Leases	39,550	54,500	14,950	72.6 %	40,875	1,325
Equipment and Software	652,741	1,192,000	539,259	54.8 %	894,000	241,259
Infrastructure	648,676	1,196,300	547,624	54.2 %	897,225	248,549
Legal Services	645,238	960,000	314,762	67.2 %	720,000	74,762
Meetings and Related Costs	20,417	66,950	46,533	30.5 %	50,213	29,796
Memberships	48,116	81,735	33,619	58.9 %	61,301	13,185
Office Supplies	59,818	110,000	50,182	54.4 %	82,500	22,682
Postage and Delivery Costs	105,832	134,000	28,168	79.0 %	100,500	(5,332)
Printing Cost	55,168	61,000	5,832	90.4 %	45,750	(9,418)
Professional Services	4,139,633	7,861,810	3,722,177	52.7 %	5,896,358	1,756,725
Subscriptions and Periodicals	36,147	49,900	13,753	72.4 %	37,425	1,278
Telephone and Internet	245,513	307,000	61,487	80.0 %	230,250	(15,263)
Training and Related Costs	170,161	578,220	408,059	29.4 %	433,665	263,504
Total Services and Supplies	7,472,362	13,503,415	6,031,053	55.3 %	10,127,562	2,655,200
Administrative Expense - Subtotal	20,055,359	32,790,984	12,735,625	61.2 %	24,593,240	4,537,881
Capital Expenditures**	422,379	1,092,000	669,621	38.7 %	819,000	396,621
Grand Total	\$ 20,477,738	\$ 33,882,984	\$ 13,405,246	60.4 %	\$ 25,412,240	\$ 4,934,502

*Prorated budget represents 75% (9 months/12 months) of annual amended budget.

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

Personnel Costs

Personnel Costs as of September 30, 2022 were approximately \$12.6 million or 65.2% of the annual amended budget for this category, under the prorated amended budget by \$1,882,680. Personnel Costs are under budget due to budgeted positions that remained vacant during the first half of the year. During the third quarter, many of these vacancies have been filled and other recruitments are in process. The budget also accounts for annual leave expense and liability accounts that are adjusted each quarter based on the annual leave balances of OCERS employees and are slightly higher at the end of the quarter than at the beginning of the year. Personnel costs will increase in the coming months as open positions are filled, but are expected to be within budget for the year.

Services and Supplies

Expenditures for services and supplies were approximately \$7.5 million or 55.3% of the annual amended budget for this category. The variance of \$2,655,200 between the prorated amended budget and year-to-date actuals in this category is primarily due to the following (note: under budget differences less than \$5,000 have been deemed immaterial and are excluded from the discussion below):

- Building Property Mgmt./Maintenance costs utilized 79.3% of the annual budget and are higher than the prorated budget by \$32,621. The higher overall cost is due to timing of funding requests from

OCERS' property manager for operating expenses, including higher than anticipated HVAC and safety repairs. Maintenance costs do not occur evenly and will fluctuate throughout the year. This category will be closely monitored in the coming months. It is expected to remain within budget.

- Due Diligence costs are at 10.2% of the annual budget and lower than the prorated budget by \$64,769. The lower than budgeted cost is due to the investment team conducting limited in-person meetings and travel during the first half of the year. Most due diligence meetings have been held by telephone or video conference, but as travel restrictions related to COVID-19 have lifted, this category is expected to increase.
- Equipment/Software expense utilized 54.8% of the annual amended budget, and lower than the prorated budget by \$241,259. The lower-than-expected expenditures are the result of various projects budgeted for the year which have not been implemented as of the third quarter, including the IT Help Desk Solution and Imaging System. Other projects which were budgeted for a full year were implemented in the third quarter or will be implemented during the fourth quarter.
- Infrastructure costs are at 54.2% of the annual amended budget resulting in an unused prorated budget of \$248,549. 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 67.2% of the budget and are lower than the prorated budget by \$74,762. Legal services for investments, litigation and tax counsel are utilized on an as-needed basis. Investment legal services are below the prorated budget by approximately \$16,000 for the third quarter. General board, tax counsel and outside counsel services are under budget by approximately \$7,000. Other litigation costs budgeted are currently under budget by approximately \$52,000. Total legal fees are not anticipated to exceed the budget for the year but will be closely monitored throughout the year.
- Meetings and Mileage costs are \$20,417 or 30.5% of the total amended budget, and under the prorated budget by \$29,796. This category represents expenditures related to Board and Committee meetings which resumed in-person during the second quarter. Also included in this category are team member meetings, which are being held both virtually and in-person. The utilization of this budget category will continue to increase as more in-person meetings are held in the office and OCERS headquarters has re-opened to the public.
- Memberships expense is at 58.9% of the annual amended budget and below the prorated budget by \$13,185. Memberships renew throughout the year and this category will fluctuate based on the timing of these renewals. This category is expected to remain within budget for the year.
- Office Supplies are at 54.4% of the amended budget and lower than the prorated budget by \$22,682. Usage of this category has increased as new team members have on-boarded and existing OCERS team members have returned to the office resulting in the need for additional office supplies.
- Postage is at 79.0% of the annual amended budget and above the prorated budget by \$5,332. The amount over budget is trending downward from the second quarter. The costs are related to the mailing of three quarterly newsletters, which have been higher than originally budgeted. Additionally, regular postage costs are slightly higher than the prorated budget due to the timing of the replenishment of the postage meter. Postage usage fluctuates based on current needs. This category will be closely monitored throughout the year.
- Printing Cost is at 90.4% of the annual amended budget and above the prorated budget by \$9,418. The printing cost of the quarterly newsletters sent to all members has been greater than the amount

budgeted. This category is expected to remain over budget for the year but is not expected to require a budget amendment as the total category for services and supplies is expected to remain underbudget for the year.

- Professional Services utilized 52.7% of the annual amended budget and are lower than the prorated budget by \$1,756,725 due to several consulting and professional services projects incurring little to no costs during the first half of the year. Some of the professional services that were under budget include consulting services for a technical writer and project manager; board election costs; pension administrative system consulting; Robotic Process Automation (RPA) pilot project; and other consulting services for human resources and information security. These budgeted services will be utilized later in the year as needed.
- Telephone and Internet expenditures were 80.0% of the amended budget and over the prorated budget by \$15,263. The increase is the result of issuing additional cell phones related to a new security provision that only allows access to OCERS email with an authorized OCERS issued device. Additionally, telecom service plans and internet service costs have been trending higher than budgeted. This category is expected to remain slightly over budget for the year and is not expected to require a budget amendment as the total category for services and supplies is expected to remain underbudget for the year.
- Training and Related Costs are at 29.4% of the annual amended budget and lower than the prorated budget by \$263,504. Training costs are significantly below budget since all travel-related training and conferences were primarily virtual during the half of the year and are typically less expensive than in-person training or conferences. As of the third quarter, conferences requiring travel have resumed, and additional training is scheduled in the upcoming months. Training expenditures are expected to continue to increase but stay within budget for the year.

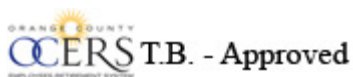
Capital Expenditures

Total costs incurred for capital projects at the end of the third quarter are \$669,621, 38.7% of the amended budget. The Capital Expenditures budget includes \$532,000 for the board room audio/visual equipment project, which is nearing completion and incurred \$339,470 as of the end of the third quarter. The capital expenditures budget also includes \$110,000 for a roof replacement that was completed during the second quarter and incurred costs of \$82,909. Remaining project costs include \$250,000 for a new enterprise backup solution to enhance recovery of on-premise and cloud systems and \$200,000 for the data center SANS replacement.

Conclusion:

As of the end of the third quarter, the Administrative Budget based on actuals is at 60.4% of the annual budget. As actual administrative expenses are under the annual budget, OCERS complies with the 21-basis point test.

Submitted by:



Tracy Bowman, Director of Finance
Director of Finance