

## Memorandum

**DATE:** November 18, 2024  
**TO:** Members of the Board of Retirement  
**FROM:** Tracy Bowman, Director of Finance  
**SUBJECT:** THIRD QUARTER 2024 BUDGET TO ACTUALS REPORT

### Written Report

#### Highlights

Third Quarter Target: 75% Used /25% Remaining

	Actuals to Date	Amended Budget	Amended Budget Remaining (\$)	Amended Budget Remaining (%)
<b>Administrative Expenses</b>				
Personnel Costs	\$ 18,233,712	\$ 26,100,690	\$ 7,866,978	30.1 %
Services and Supplies	9,522,194	17,126,568	7,604,374	44.4 %
Capital Expenditures	977,205	5,925,000	4,947,795	83.5 %
<b>Grand Total</b>	<b>\$ 28,733,111</b>	<b>\$ 49,152,258</b>	<b>\$ 20,419,147</b>	<b>41.5 %</b>

#### Background/Discussion

The Board of Retirement approved OCERS' Administrative Budget for Fiscal Year 2024 (FY24) on November 13, 2023 for \$48,293,043 to fund administrative expenses, excluding the addition of any new staff positions. Due to the number of positions being requested, the Personnel Committee directed staff to bifurcate the approval of the additional 2024 staff positions from the proposed FY24 Administrative Budget to allow further discussion of the 2024 Staffing Plan. Subsequently, on December 11, 2023, the Board of Retirement approved OCERS' Revised Staffing Plan and Budget Amendment which increased the total FY24 administrative budget by \$859,215 from \$48,293,043 to \$49,152,258.

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 FY24 amended administrative budget represents 11.22 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, 2024, year-to-date actual administrative expenses were \$28,733,111 or 58.5% of the \$49,152,258 administrative budget and below the 75% target set for the end of the third quarter budget by approximately \$8.1 million. A summary of all administrative expenses and explanations of significant variances are below:

	Actual to Date	Amended Budget	Amended Budget Remaining (\$)	Amended Budget Used (%)	Amended Prorated Budget*	(Over)/Under Amended Prorated Budget
<b>Administrative Expenses</b>						
<b>Personnel Costs</b>	\$ 18,233,712	\$ 26,100,690	\$ 7,866,978	69.9 %	\$ 19,575,521	\$ 1,341,809
Services and Supplies						
Building Property Management and Maintenance	720,437	1,150,000	429,563	62.6 %	862,500	142,063
Due Diligence Expenses	73,440	100,000	26,560	73.4 %	75,000	1,560
Equipment - Rent and Leases	31,434	50,000	18,566	62.9 %	37,500	6,066
Equipment and Software	553,747	1,297,100	743,353	42.7 %	972,825	419,078
Infrastructure	1,407,109	2,758,926	1,351,817	51.0 %	2,069,194	662,085
Legal Services	670,199	1,135,000	464,801	59.0 %	851,250	181,051
Meetings and Related Costs	32,281	74,300	42,019	43.4 %	55,726	23,445
Memberships	75,965	124,475	48,510	61.0 %	93,356	17,391
Office Supplies	44,553	126,500	81,947	35.2 %	94,875	50,322
Postage and Delivery Costs	94,502	151,300	56,798	62.5 %	113,475	18,973
Printing Cost	68,410	115,000	46,590	59.5 %	86,250	17,840
Professional Services	5,018,633	8,913,945	3,895,312	56.3 %	6,685,459	1,666,826
Subscriptions and Periodicals	35,445	53,050	17,605	66.8 %	39,787	4,342
Telephone and Internet	225,274	420,300	195,026	53.6 %	315,225	89,951
Training and Related Costs	470,765	656,672	185,907	71.7 %	492,505	21,740
<b>Total Services and Supplies</b>	<b>9,522,194</b>	<b>17,126,568</b>	<b>7,604,374</b>	<b>55.6 %</b>	<b>12,844,927</b>	<b>3,322,733</b>
<b>Administrative Expense - Subtotal</b>	<b>27,755,906</b>	<b>43,227,258</b>	<b>15,471,352</b>	<b>64.2 %</b>	<b>32,420,448</b>	<b>4,664,542</b>
<b>Capital Expenditures**</b>	<b>977,205</b>	<b>5,925,000</b>	<b>4,947,795</b>	<b>16.5 %</b>	<b>4,443,750</b>	<b>3,466,545</b>
<b>Grand Total</b>	<b>\$ 28,733,111</b>	<b>\$ 49,152,258</b>	<b>\$ 20,419,147</b>	<b>58.5 %</b>	<b>\$ 36,864,198</b>	<b>\$ 8,131,087</b>

\*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, 2024, were approximately \$18.2 million or 69.9% of the annual amended budget for this category, under the prorated amended budget by \$1,341,809. Although these costs are slightly under budget, they include annual lump sum payments made during the first quarter, including the annual Optional Benefit Plan (OBP) payments of \$190,000 and incentive compensation awards for eligible investment team members totaling approximately \$408,000. Personnel costs also reflect an increase in annual leave of \$180,000 due to higher annual leave balances of OCERS' employees at the end of the third quarter than at the beginning of the year. Personnel costs are closely monitored and are expected to remain within budget for the year.

## Services and Supplies

Expenditures for services and supplies were approximately \$9.5 million or 55.6% of the annual amended budget for this category. The variance of \$3.3 million between the prorated amended budget and year-to-date actuals in this category is primarily due to the following (note: 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 62.6% of the annual amended budget, under the prorated amended budget by \$142,063. The lower-than-expected cost is primarily due to the timing of funding requests from OCERS property manager for operating expenses through the

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

- Equipment - Rents and Leases expenses are at 62.9% of the annual amended budget and under the prorated amended budget by \$6,066. Equipment rents and lease expense includes the rental and copy usage of the copiers, and rental for the postage meter. Copier usage varies and has decreased significantly due to utilizing electronic copies of records instead of hard copies.
- Equipment and Software expense utilized 42.7% of the annual amended budget, and lower than the prorated amended budget by \$419,078. This category includes funding for computers and related hardware which are purchased on an as-needed basis, information security solutions and investment-related software and equipment. Also included in this category is funding for an electronic content/document management system that has been deferred until the implementation of a new pension administration system and a test automation solution that was a planned project for this year but has been postponed until next year using an alternative cloud-based solution at a significantly lower cost.
- Infrastructure costs are at 51.0% of the annual amended budget resulting in an unused prorated amended budget of \$662,085. This category encompasses the various platforms and cloud-based software subscriptions in use at OCERS. The lower than budgeted costs are due to the timing of maintenance agreement renewals, which renew throughout the year, with some incurring costs less than expected, as well as various costs associated with software and hardware support services that are utilized on an as-needed basis. The maintenance of the pension administration system is also included in this category and represents over a third of the budget of this category, including funding for change orders that has not been fully utilized as of the third quarter.
- Legal Services are at 59.0% of the annual amended budget and are lower than the prorated amended budget by \$181,051. Legal services for investments, litigation, and general and tax counsel are utilized on an as-needed basis. Investment legal services are lower than the prorated amended budget by approximately \$135,000 at the end of the third quarter. General board, tax counsel and outside counsel services are under the prorated amended budget by \$46,000. Total legal fees are not anticipated to exceed the budget for the year.
- Meetings and Related costs are at 43.4% of the annual amended budget and under the prorated amended budget by \$23,445. The budget for this category includes board and committee-related meetings that have incurred less than expected costs as of the third quarter.
- Memberships expense is at 61.0% of the annual amended budget and under the prorated amended budget by \$17,391. Memberships and periodicals renew throughout the year. This category is expected to remain within budget for the year.
- Office Supplies are at 35.2% of the annual amended budget and under the prorated amended budget by \$50,322. This category includes funding for office supplies, furniture and ergonomic items, as well as promotional items. These items are purchased on an as-needed basis which has been less than expected.
- Postage and Delivery Costs are at 62.5% of the annual amended budget and under the prorated amended budget by \$18,973. Postage costs as of the third quarter consists primarily of the mailing of three quarterly newsletters (Winter, Spring and Summer 2024). This category also includes postage incurred on an as-needed basis, such as mailings to our members, and delivery services.

- Printing Cost is at 59.5% of the annual amended budget and under the prorated amended budget by \$17,840. The budget for this category includes printing costs for the quarterly newsletters, annual comprehensive financial report and brochures. The costs incurred as of the end of the third quarter include the printing of three quarterly newsletters (Winter, Spring and Summer 2024), and the Annual Comprehensive Financial Report (ACFR). Other printing costs fluctuate on an as-needed basis. This category is expected to remain within budget for the year.
- Professional Services utilized 56.3% of the annual amended budget and are lower than the prorated amended budget by \$1,666,826. As of the end of the third quarter many 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 for the year include pension administration project oversight and consulting, robotic process automation development and deployment, the master repository project and compensation study. Contracts have been executed on several of these initiatives and the projects are underway. This category is expected to be within budget for the year.
- Telephone and Internet expenditures were at 53.6% of the annual amended budget, under the prorated amended budget by \$89,951. As of the end of the third quarter, both internet and telephone services were less than expected, primarily due to the transition away from analog telephone lines and internet services coming in less than budgeted.
- Training and Related Costs are at 71.7% of the annual amended budget and lower than the prorated amended budget by \$21,740. Training costs continue to trend higher with the growth of the OCERS team. Board members and team members are attending more in-person conferences. Many team members have taken the opportunity to attend the CALAPRS roundtable events for their functional areas, and several team members attended the CALAPRS Management Academy in 2024. Several Learning and Organizational Development (LOD) training programs have taken place during the year, including executive and director coaching, the Leadership Edge Program for OCERS mid-level leaders, the summer offsite for all supervisory team members, business case development and the ongoing efforts of OCERS' diversity, equity, and inclusion program. The training budget will be closely monitored over the remaining portion of the year and is not expected to be over budget for the year.

### **Capital Expenditures**

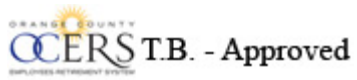
Capital Expenditures incurred as of the end of the third quarter are \$977,205 or 16.5% of the annual amended budget, under the prorated amended budget by \$3,466,545. All these expenditures relate to the initial phase of the development of the headquarters building which includes program management, pre-development services and related legal services.

The total amount budgeted for the year for the headquarter building is \$5.1 million. Other capital expenditures budgeted include \$475,000 for other building and property improvements, \$300,000 for building space planning, and \$50,000 for the data center server virtual replacement rolled over from the prior year.

### **Conclusion:**

As of the end of the third quarter, the Administrative budget based on actuals is at 58.5% of the amended annual budget. As actual administrative expenses are under the amended annual budget, OCERS complies with the 21-basis point test.

**Submitted by:**



---

Tracy Bowman, Director of Finance