

Memorandum

DATE: November 13, 2023
TO: Members of the Board of Retirement
FROM: Tracy Bowman, Director of Finance
SUBJECT: THIRD QUARTER 2023 BUDGET TO ACTUALS REPORT

Written Report

Highlights

Third Quarter Target: 75% Used /25% Remaining

	Actuals to Date	Budget	Budget Remaining (\$)	Budget Remaining (%)
Administrative Expenses				
Personnel Costs	\$ 15,965,174	\$ 23,697,171	\$ 7,731,997	32.6 %
Services and Supplies	9,461,080	14,951,725	5,490,645	36.7 %
Capital Expenditures	267,356	1,226,000	958,644	78.2 %
Grand Total	\$ 25,693,610	\$ 39,874,896	\$ 14,181,286	35.6 %

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 nine months ended September 30, 2023, year-to-date actual administrative expenses were \$25,693,610 or 64.4% of the \$39,874,896 administrative budget and below the 75% target set for the end of the third quarter budget by approximately \$4.2 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
Administrative Expenses						
Personnel Costs	\$ 15,965,174	\$ 23,697,171	\$ 7,731,997	67.4 %	\$ 17,772,878	\$ 1,807,704
Services and Supplies						
Building Property Management and Maintenance	538,033	975,000	436,967	55.2 %	731,250	193,217
Due Diligence Expenses	25,788	130,000	104,212	19.8 %	97,500	71,712
Equipment - Rent and Leases	28,610	50,000	21,390	57.2 %	37,500	8,890
Equipment and Software	803,865	1,081,100	277,235	74.4 %	810,825	6,960
Infrastructure	1,152,307	1,957,140	804,833	58.9 %	1,467,855	315,548
Legal Services	1,168,906	1,100,000	(68,906)	106.3 %	825,000	(343,906)
Meetings and Related Costs	33,113	54,300	21,187	61.0 %	40,725	7,612
Memberships	82,139	91,245	9,106	90.0 %	68,434	(13,705)
Office Supplies	80,397	100,000	19,603	80.4 %	75,000	(5,397)
Postage and Delivery Costs	81,326	161,000	79,674	50.5 %	120,750	39,424
Printing Cost	51,049	67,000	15,951	76.2 %	50,250	(799)
Professional Services	4,799,277	8,149,340	3,350,063	58.9 %	6,112,005	1,312,728
Subscriptions and Periodicals	41,462	56,300	14,838	73.6 %	42,225	763
Telephone and Internet	264,272	391,200	126,928	67.6 %	293,400	29,128
Training and Related Costs	310,536	588,100	277,564	52.8 %	441,075	130,539
Total Services and Supplies	9,461,080	14,951,725	5,490,645	63.3 %	11,213,794	1,752,714
Administrative Expense - Subtotal	25,426,254	38,648,896	13,222,642	65.8 %	28,986,673	3,560,419
Capital Expenditures**	267,356	1,226,000	958,644	21.8 %	919,500	652,144
Grand Total	\$ 25,693,610	\$ 39,874,896	\$ 14,181,286	64.4 %	\$ 29,906,173	\$ 4,212,563

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

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

Personnel Costs

Personnel Costs as of September 30, 2023, were approximately \$16.0 million or 67.4% of the annual budget for this category, under the prorated budget by \$1,807,704. Several of the new positions budgeted for 2023 have been filled as of the third quarter, but additional positions have become available due to attrition and promotions. Open positions continue to be actively recruited. 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 remain within budget for the year.

Services and Supplies

Expenditures for services and supplies were approximately \$9.5 million or 63.3% of the annual budget for this category. The variance of \$1,752,714 between the prorated 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 55.2% of the annual budget, under the prorated budget by \$193,217. 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.
- Due Diligence Expenses are at 19.8% of the annual budget and lower than the prorated budget by \$71,712. 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 - Rents and Leases expenses are at 57.2% of the budget and under the prorated budget by \$8,890. Equipment rents and lease expense includes the rental and copy usage of the copiers, and rental for the postage meter. Copier usage can vary and they have been set to reduce the amount of unnecessary color printing.
- Equipment and Software expense utilized 74.4% of the annual budget, and lower than the prorated budget by \$6,960. A 2023 business plan initiative was to replace aging Surface tablet computers with upgraded laptops. This project has been ongoing throughout the year and most of our team members are utilizing the new laptops.
- Infrastructure costs are at 58.9% of the annual budget resulting in an unused prorated budget of \$315,548. The lower than budgeted costs are due to the timing of maintenance agreement renewals, which renew throughout the year, the number of licenses that were required at time of renewal, as well as various costs associated with software and hardware support services that are utilized on an as-needed basis.
- Legal Services are at 106.3% of the budget and are higher than the prorated budget by \$343,906. 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 budget by approximately \$14,000 at the end of the third quarter. General board, tax counsel and outside counsel services are over the prorated budget by \$108,000 and the annual budget by \$70,000. The overage is due to greater than expected cost related to various contract negotiations. Other litigation costs, including settlements, are over the prorated budget by approximately \$250,000 and the annual budget by \$138,000. The higher-than-expected fees are related to various disability claims and a negotiated settlement. The CEO or Assistant CEO has the authority to move budget dollars within the Services and Supplies category to cover the shortfall and as of the end of the third quarter, there are sufficient dollars available in other Services and Supplies line items to offset this overage.
- Meetings and Related costs are at 61.0% of the annual budget and under the prorated budget by \$7,612. Some meeting attendance continues to be done virtually, resulting in a cost savings.
- Memberships expense is at 90.0% of the annual budget and above the prorated budget by \$13,705. Many of the memberships and periodicals renew at the start 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 80.4% of the budget and over the prorated budget by \$5,397. During the first half of the year, additional furniture and supplies were purchased for the training room and new team members. This category is expected to remain within budget for the year.
- Postage and Delivery Costs are at 50.5% of the annual budget and under the prorated budget by \$39,424. Postage costs include the mailing of three quarterly newsletters (Winter, Spring and Summer 2023). 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 for the remainder of the year and is expected to remain within budget.

- Printing Cost is at 76.2% of the annual budget and slightly over the prorated budget by \$800. The printing of the quarterly newsletters was higher than expected, and there were additional mailings related to Alameda correspondence. This category is expected to be within budget for the year and will be closely monitored.
- Professional Services utilized 58.9% of the annual budget and are lower than the prorated budget by \$1,312,728. 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 with less than anticipated or no costs incurred include white board video consulting; information security policy development and cyber security assessment services; pension administrative system consulting; the master repository project and 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 at 67.6% of the annual budget, under the prorated budget by \$29,128. The current year budget was increased over the prior years to accommodate 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 52.8% of the annual budget and lower than the prorated budget by \$130,539. 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 are in process including executive and director coaching, and the launch of the Leadership Edge Program for OCERS mid-level leaders.

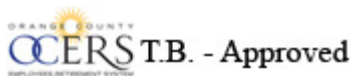
Capital Expenditures

Capital Expenditures incurred as of the end of the third quarter are \$267,356, 21.8% of the annual budget. The costs incurred include \$166,797 for the data center server virtual replacement, which is budgeted at \$250,000, \$22,426 for additional board room audio-visual enhancement which is budgeted at \$215,000 and \$70,323 for the new headquarter project. The capital expenditures budget also includes project costs of \$250,000 for electronic content and document management, and \$511,000 for other building needs and property improvements.

Conclusion:

As of the end of the third quarter, the Administrative budget based on actuals is at 64.4% 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
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