



Memorandum

DATE: May 20, 2023
TO: Members of the Board of Retirement
FROM: Tracy Bowman, Director of Finance
SUBJECT: FIRST QUARTER 2024 BUDGET TO ACTUALS REPORT

Written Report

Highlights

First Quarter Target: 25% Used /75% Remaining

	Actuals to Date	Amended Budget	Amended Budget Remaining (\$)	Amended Budget Remaining (%)
Administrative Expenses				
Personnel Costs	\$ 6,421,541	\$ 26,100,690	\$ 19,679,149	75.4 %
Services and Supplies	2,865,045	17,126,568	14,261,523	83.3 %
Capital Expenditures	239,489	5,925,000	5,685,511	96.0 %
Grand Total	\$ 9,526,075	\$ 49,152,258	\$ 39,626,183	80.6 %

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 three months ended March 31, 2024, year-to-date actual administrative expenses were \$9,526,075 or 19.4% of the \$49,152,258 amended administrative budget and below the 25% target set for the end of the first quarter amended budget by approximately \$2.8 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
Administrative Expenses						
Personnel Costs	\$ 6,421,541	\$ 26,100,690	\$ 19,679,149	24.6 %	\$ 6,525,182	\$ 103,641
Services and Supplies						
Building Property Management and Maintenance	295,100	1,150,000	854,900	25.7 %	287,500	(7,600)
Due Diligence Expenses	34,223	100,000	65,777	34.2 %	25,000	(9,223)
Equipment - Rent and Leases	10,368	50,000	39,632	20.7 %	12,500	2,132
Equipment and Software	194,043	1,297,100	1,103,057	15.0 %	324,275	130,232
Infrastructure	382,722	2,758,926	2,376,204	13.9 %	689,732	307,010
Legal Services	236,744	1,135,000	898,256	20.9 %	283,750	47,006
Meetings and Related Costs	14,175	74,300	60,125	19.1 %	18,575	4,400
Memberships	48,870	124,475	75,605	39.3 %	31,119	(17,751)
Office Supplies	13,862	126,500	112,638	11.0 %	31,626	17,764
Postage and Delivery Costs	26,085	151,300	125,215	17.2 %	37,825	11,740
Printing Cost	21,507	115,000	93,493	18.7 %	28,750	7,243
Professional Services	1,339,437	8,913,945	7,574,508	15.0 %	2,228,487	889,050
Subscriptions and Periodicals	12,852	53,050	40,198	24.2 %	13,262	410
Telephone and Internet	84,399	420,300	335,901	20.1 %	105,075	20,676
Training and Related Costs	150,658	656,672	506,014	22.9 %	164,168	13,510
Total Services and Supplies	2,865,045	17,126,568	14,261,523	16.7 %	4,281,644	1,416,599
Administrative Expense - Subtotal	9,286,586	43,227,258	33,940,672	21.5 %	10,806,827	1,520,241
Capital Expenditures**	239,489	5,925,000	5,685,511	4.0 %	1,481,250	1,241,761
Grand Total	\$ 9,526,075	\$ 49,152,258	\$ 39,626,183	19.4 %	\$ 12,288,077	\$ 2,762,002

*Prorated budget represents 25% (3 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 March 31, 2024, were approximately \$6.4 million or 24.6% of the annual amended budget for this category, under the prorated amended budget by \$103,641. 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. The awards totalled approximately \$408,000 and were paid at the end of March. The amount paid represents the second installment of the award based on 2022 performance metrics and the first installment of the award based on 2023 performance metrics. 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 \$2.9 million or 16.7% of the annual amended budget for this category. The variance of \$1,416,599 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 25.7% of the annual amended budget and were slightly higher than the prorated amended budget by \$7,600. The higher overall cost is primarily due to the timing of funding requests from OCERS property manager for operating expenses, such as the first installment of property taxes that were funded within the first quarter. Operating expenses also include maintenance costs that do not occur evenly and will fluctuate throughout the year. This category is expected to remain within budget.
- Due Diligence Expenses are at 34.2% of the annual amended budget and above the prorated amended budget by \$9,223. Most of the investment team travel is included in this category. Several members of the investment team incurred travel in the first quarter to investment conferences and meetings with investment managers in New York, Florida, and San Francisco. Although this category is currently over the prorated amended budget, it is expected to remain within budget for the year.
- Equipment and Software expense utilized 15.0% of the annual amended budget, lower than the prorated amended budget by \$130,232. This budget category includes funding for computers and related hardware which are purchased on an as-needed basis. Also included in this category is funding for a test automation solution and disability case management software that are planned projects for the year.
- Infrastructure costs are at 13.9% of the annual amended budget resulting in an unused prorated amended budget of \$307,010. 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. The maintenance of the pension administration system is also included in this category, which represents over a third of the budget of this category.
- Legal Services are at 20.9% of the amended budget and are lower than the prorated amended budget by \$47,006. Legal services for investments, litigation and tax counsel are utilized on an as-needed basis. Investment legal services are lower than the prorated amended budget by approximately \$50,000 during the first quarter. General board, tax counsel and outside counsel services, and other litigation costs are slightly over the prorated amended budget by approximately \$3,000 due to litigation costs. Total legal fees are not anticipated to exceed the budget for the year and will be monitored throughout the year.
- Memberships expense is at 39.3% of the annual amended budget and above the prorated amended budget by \$17,751. Several annual memberships renew in the first quarter of the year. This difference is expected to diminish as the year continues and remain within budget for this category.
- Office Supplies are at 11.0% of the amended budget and under the prorated amended budget by \$17,764. Office supplies are purchased on an as-needed basis. The office supply budget also includes the funding for furniture and ergonomic items. This category is expected to remain within budget for the year.
- Postage and Delivery Costs are at 17.2% of the annual amended budget and below the prorated amended budget by \$11,740. Postage costs include the mailing of the quarterly newsletters, regular postage and postage related to delivery services. Postage usage fluctuates based on current needs. This category will be monitored throughout the year.

- Printing Cost is at 18.7% of the annual amended budget and under the prorated amended budget by \$7,243. This category includes printing costs for the quarterly newsletters, annual comprehensive financial report and additional mailings as needed. During the first quarter, the only cost incurred was for the printing of the quarterly newsletter. This category is expected to be within budget for the year.
- Professional Services utilized 15.0% of the annual amended budget and are lower than the prorated amended budget by \$889,050. 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, and the master repository project. This category is expected to be within budget for the year.
- Telephone and Internet expenditures were 20.1% of the annual amended budget, under the prorated amended budget by \$20,676. Telephone and internet services continue to increase 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. As of the end of the quarter, internet services are slightly over the prorated amended budget, while telephone services are under the prorated amended budget.
- Training and Related Costs are at 22.9% of the annual amended budget and lower than the prorated amended budget by \$13,510. Training costs continue to trend higher with the growth of the OCERS team. Board members and team members are attending more in-person conferences and virtual training is also being utilized. Many team members have taken the opportunity to attend the CALAPRS roundtable events for their functional areas, and several team members are attending the CALAPRS Management Academy in 2024. Several LOD (Learning and Organizational Development) training programs have begun in the first quarter including executive and director coaching, the Leadership Edge Program for OCERS mid-level leaders, and the ongoing efforts of OCERS' diversity, equity, and inclusion program.

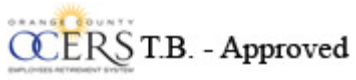
Capital Expenditures

Capital Expenditures of \$239,489 or 4.0% of the annual amended budget have been incurred during the first quarter, under the prorated amended budget by \$1,241,761. All these expenditures relate to the initial phase of the development of the headquarters building which includes program management 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 first quarter, the Administrative amended budget based on actuals is at 19.4% of the annual amended budget. As actual administrative expenses are under the annual amended budget, OCERS complies with the 21-basis point test.

Submitted by:



Tracy Bowman, Director of Finance
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