

Memorandum

DATE: March 18, 2024
TO: Members of the Board of Retirement
FROM: Tracy Bowman, Director of Finance
SUBJECT: **FOURTH QUARTER 2023 BUDGET TO PRELIMINARY ACTUALS REPORT**

Written Report

Highlights

Fourth Quarter Target: 100% Used /0% Remaining

	Actuals to Date	Budget	Budget Remaining (\$)	Budget Remaining (%)
Administrative Expenses				
Personnel Costs	\$ 21,571,507	\$ 23,697,171	\$ 2,125,664	9.0 %
Services and Supplies	12,329,367	14,951,725	2,622,358	17.5 %
Capital Expenditures	534,866	1,226,000	691,134	56.4 %
Grand Total	\$ 34,435,740	\$ 39,874,896	\$ 5,439,156	13.6 %

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 year ended December 31, 2023, year-to-date actual administrative expenses were \$34,435,740 or 86.4% of the \$39,874,896 administrative budget and below budget at the end of the year by approximately \$5.4 million. A summary of all administrative expenses and explanations of significant variances are below:

	Actual to Date	Budget	Budget Remaining (\$)	Budget Used (%)
Administrative Expenses				
Personnel Costs	\$ 21,571,507	\$ 23,697,171	\$ 2,125,664	91.0 %
Services and Supplies				
Building Property Management and Maintenance	773,694	975,000	201,306	79.4 %
Due Diligence Expenses	36,788	130,000	93,212	28.3 %
Equipment - Rent and Leases	39,396	50,000	10,604	78.8 %
Equipment and Software	922,972	1,081,100	158,128	85.4 %
Infrastructure	1,579,557	1,957,140	377,583	80.7 %
Legal Services	1,401,795	1,100,000	(301,795)	127.4 %
Meetings and Related Costs	41,142	54,300	13,158	75.8 %
Memberships	92,790	91,245	(1,545)	101.7 %
Office Supplies	96,155	100,000	3,845	96.2 %
Postage and Delivery Costs	116,170	161,000	44,830	72.2 %
Printing Cost	86,428	67,000	(19,428)	129.0 %
Professional Services	6,325,656	8,149,340	1,823,684	77.6 %
Subscriptions and Periodicals	59,416	56,300	(3,116)	105.5 %
Telephone and Internet	358,496	391,200	32,704	91.6 %
Training and Related Costs	398,912	588,100	189,188	67.8 %
Total Services and Supplies	12,329,367	14,951,725	2,622,358	82.5 %
Administrative Expense - Subtotal	33,900,874	38,648,896	4,748,022	87.7 %
Capital Expenditures*	534,866	1,226,000	691,134	43.6 %
Grand Total	\$ 34,435,740	\$ 39,874,896	\$ 5,439,156	86.4 %

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

Personnel Costs

Personnel Costs as of December 31, 2023, were approximately \$21.6 million or 91.0% of the annual budget for this category and under budget by \$2,125,664. In 2023, 14 new positions were budgeted. Several of the new positions budgeted were filled in the third and fourth quarters, but additional positions have become available due to attrition and promotions. These open positions continue to be actively recruited. Accrued payroll liabilities included in personnel costs are the annual leave liability and the incentive pay liability. Annual leave expense and liability accounts adjust each quarter based on the annual leave balances of OCERS employees. The annual leave liability and the associated expense for the year increased by approximately \$123,000. The incentive compensation liability included at the end of the year is approximately \$524,000 representing payments due in March 2024 for the second installment of the award based on 2022 performance metrics and the first installment of the award based on 2023 estimated performance metrics. Personnel costs are within budget for the year.

Services and Supplies

Expenditures for services and supplies were approximately \$12.3 million or 82.5% of the annual budget for this category. The positive variance of \$2.6 million between the annual budget and year-to-date actuals in this category is primarily due to the following:

- Building Property Mgmt./Maintenance costs utilized 79.4% of the annual budget and were lower than the budget by \$201,306. The lower than budgeted costs are attributed to lower overall building costs such as repairs and maintenance costs. Maintenance costs do not occur evenly and tend to fluctuate throughout the years.
- Due Diligence costs are \$36,788 or 28.3% of the annual budget. Although the investment team has increased their travel to investment conferences and meetings with investment managers from the prior year the lower than budgeted cost is due to the investment team continuing to conduct due diligence meetings by telephone or video conference as well as in-person meetings and travel.
- Equipment – Rents and Leases expenditures are at 78.8% of the annual budget, and lower than the budget by \$10,604. Equipment rents and lease expense includes the rental and copy usage of the copiers, and rental for the postage meter. Copier usage varies and the copiers have been set to reduce the amount of unnecessary color printing. Additionally, the number of paper copies printed continues to decrease.
- Equipment/Software expense utilized 85.4% of the annual budget, and is lower than the budget by \$158,128. A 2023 business plan initiative was to replace aging Surface tablet computers with upgraded laptops. Most of our team members are utilizing the new laptops. Other costs included in this category are miscellaneous computer accessories, firewall software applications, and security equipment/software contingency. The lower-than-expected expenditures are the result of lower costs than anticipated and not utilizing the contingency.
- Infrastructure costs are at 80.7% of the annual budget resulting in an unused budget of \$377,583. Infrastructure costs include costs for cloud subscriptions, equipment and software maintenance, and the maintenance of the pension administration system. 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 127.4% of the budget and are higher than the annual budget by \$301,795. Legal services for investments, litigation, and general and tax counsel are utilized on an as-needed basis. Investment legal services are lower than the annual budget by approximately \$65,000 at the end of the year. General board, tax counsel and outside counsel services are over the annual budget by \$123,000. The overage is due to greater than expected cost related to various contract negotiations. Other litigation costs, including settlements, are over the annual budget by approximately \$244,000. 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 year, there are sufficient dollars available in other Services and Supplies line items to offset this overage.
- Meetings and Mileage costs are \$41,142 or 75.8% of the annual budget, and under budget by \$13,158. This category represents expenditures related to Board and Committee meetings and team member meetings, which are being held both virtually and in-person. The cost savings is attributed to fewer in-person meetings than anticipated.
- Memberships expense is at 101.7% of the annual budget, and is slightly over budget by \$1,545. The amount over budget is primarily due to one annual membership for two prior years had not been made and was paid in 2023. 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 year, there are sufficient dollars available in other Services and Supplies line items to offset this overage.

- Office Supplies are at 96.2% of the annual budget and lower than budget by \$3,845. In addition to office supplies this category includes the purchase of furniture for the training room and new team members.
- Postage and Delivery Costs are at 72.2% of the annual budget and under budget by \$44,830. Postage costs include the mailing of the quarterly newsletters. 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. The cost of the mailing of the quarterly newsletters has increased. This increase is offset by a reduction of regular daily postage requirements.
- Printing Services is at 129% of the annual budget and over budget by \$19,428. Printing costs primarily include the costs for the quarterly newsletters, additional mailings related to Alameda correspondence and the Annual Comprehensive Financial Report. Printing costs for the quarterly newsletters have increased as the number of members increased. Although this category is over budget for the year, a budget amendment is not required as the total category for Services and Supplies is underbudget for the year.
- Professional Services utilized 77.6% of the annual budget and are lower than budget by \$1,823,684. At the end of the year 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; and the pension administrative system consulting. Other projects that are currently underway and are incurring costs include the master repository project and compensation study.
- Subscriptions and Periodicals are at 105.5% of the annual budget, over budget by \$3,116. Subscriptions and periodicals are purchased on a department basis as needed. With the increase in team members the cost incurred for subscriptions and periodicals is slightly over the amount budgeted. As of the end of the year, there are sufficient dollars available in other Services and Supplies line items to offset this overage.
- Telephone and Internet expenditures were 91.6% of the annual budget and under budget by \$32,704. Internet costs were approximately \$26,000 less than budgeted, and telephone costs were approximately \$6,000 lower. The 2023 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 67.8% of the annual budget and lower than budget by \$189,188. 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.

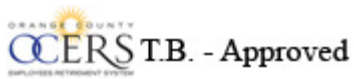
Capital Expenditures

Capital Expenditures incurred as of the end of the year are \$534,866, 43.6% 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 \$311,323 for the new headquarter project program management and related costs which is budgeted in \$511,000 for building needs and property improvement. No costs have been charged against the budget of \$250,000 for electronic content and document management.

Conclusion:

As of the end of the year, the actual administrative expenses are at 86.4 % 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