



Budget Book

For Fiscal Year

2023-24

Presented by:

Chief Executive Officer Dominic D. Brown, CPA, CFE

Chief Operations Officer Matthew Henry, CFE

Chief Financial Officer Angela Kruger

June 14, 2023

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SECTION I

Letter from the Chief Executive Officer



June 14, 2023

Members of the Board of Retirement:

I am pleased to present to you the proposed Operating Expense Budget for fiscal year 2023-24. Highlights of the 2022-23 and 2023-24 budgets include:

- The largest budgetary category is staff, which comprises 78.4% of the total proposed budget. The 2022-23 projected actual expense for staffing is \$5.2 million, which is \$901,853 less than what was approved.
- The proposed 2023-24 Administrative Expense Budget of \$6.6 million (8.5 basis points) is \$9.7 million (12.5 basis points) under the statutory limit of 21 basis points of the actuarial accrued liability of the retirement system, pursuant to Government Code Section 31580.2. See *Section IV – Administrative Expenses*.
- For 2023-24, staff recommends a budget of \$8.77 million, which is \$0.13 million (1.48%) more than last year's approved budget of \$8.64 million. The increase is mainly due to higher expenses in salaries and benefits from cost-of-living increases granted by the County and the continued build-out of the schedule of authorized positions that was approved by the Board last year.

Key Events for Fiscal Year 2022-23

The past year brought new challenges as your Board evaluated management's proposals to improve operations, and opportunities to enhance the investment program and the services provided to KCERA members and stakeholders. This was all done while completing the historic *Alameda Decision*. In conjunction with the end of the state declared emergency, members and the public are welcomed back into the KCERA board room.

In this fiscal period, staff were added in Investments, Communications, and Member Services. The end of the year will bring about the Triennial Experience Study, strategic planning, asset-liability study, installation of a solar array, and several requests for proposals for services.

Future Expectations

In fiscal year 2023-24, I expect to see the strength of the organization continue to improve as management works to implement the strategic staffing plan that the Board approved last year, along with the next incremental improvements to continue to build for the future. Staff will seek to align duties and responsibilities with the appropriate level of personnel to improve the effectiveness and efficiency of each division. The initiatives included in the Strategic Plan are intended to further the Board's goals and priorities to enhance stakeholder relations, strengthen the investment program, leverage available technology in our operations, build the effectiveness of KCERA staff, and ensure plan sustainability.

In this year's budget projection, additional staff are being requested to assist your Board in continuing to meet challenges to maintain a culture of excellence, fiscal responsibility, transparency, and prudent management of risk. In doing so, your Board will set the future direction of the organization while ensuring that you meet your duties as fiduciaries of the plan.

Management is very grateful to the Board for the support it has received over the last year, and I am pleased to present you with KCERA's budget for 2023-24.

Sincerely,



Dominic D. Brown
Chief Executive Officer

SECTION II

Budget Policies and Process

Budget Policies and Process

Budget Policies

KCERA's budgeting policies and guidelines are based on the County Employees Retirement Law of 1937 ("CERL"), and the policies and charters of the Board of Retirement ("Board"). The California Government Code Section 31580.2 that governs the Kern County Employees' Retirement Association ("KCERA") specifies that the Board of Retirement "... shall annually adopt a budget covering the entire expense of administration of the retirement system, which expense shall be charged against the earnings of the retirement fund..."

The retirement system's administrative expenses are limited to 0.21% (21 basis points) of the Actuarial Accrued Liability. Government Code Sections 31522.6 and 31580.2(b) indicate that KCERA should exclude actuarial fees, investment-related expenses and technology from that portion of the operating expense budget subject to the statutory limit.

The Board annually adopts the operating budget for the administration of KCERA. Each line item is budgeted based on Board initiatives, past costs, vendor proposals, and estimates of anticipated expenses. The Board also reviews year-to-date actual expenses for budget compliance on a monthly basis. The budget may be amended throughout the fiscal year, if necessary. Budgeted amounts may be reallocated between categories at the discretion of the Chief Executive Officer. These reclassifications do not result in increases or decreases to the total approved budget. Increases or decreases to the total approved budget must be approved by the Board of Retirement. Action items to increase or decrease the approved budget are introduced by KCERA staff to the Finance Committee. If the Finance Committee deems the action item necessary, it will recommend approval to the Board of Retirement.

Budget Process

The Budget Team consists of the Chief Executive Officer, Chief Operations Officer, Chief Financial Officer, and the division managers of KCERA. The team members review the requirements of their respective divisions for the balance of the current fiscal year and the upcoming budget year. The Chief Financial Officer projects the current year-end actual expenses and the projected expenses for the budget year and finalizes the proposed budget.

The proposed budget is presented to the Finance Committee for review and feedback. Any revisions to the proposed budget recommended by the Finance Committee are incorporated to produce the final version the Committee recommends to the Board of Retirement for final adoption.

KCERA prepares the budget on an accrual basis in accordance with Generally Accepted Accounting Principles (GAAP) and consistent with KCERA's audited financial statements.

SECTION III

Operating Expense Budget

Operating Expense Budget

KCERA's annual Operating Expense Budget is a detailed plan established to estimate the anticipated costs of carrying out the necessary level of services or activities as proposed by the KCERA Board of Retirement.

The Board annually adopts the operating budget for the administration of KCERA. Each month, the Board reviews year-to-date actual expenses to ensure budget compliance.

Important assumptions in the fiscal year 2023-24 budget include:

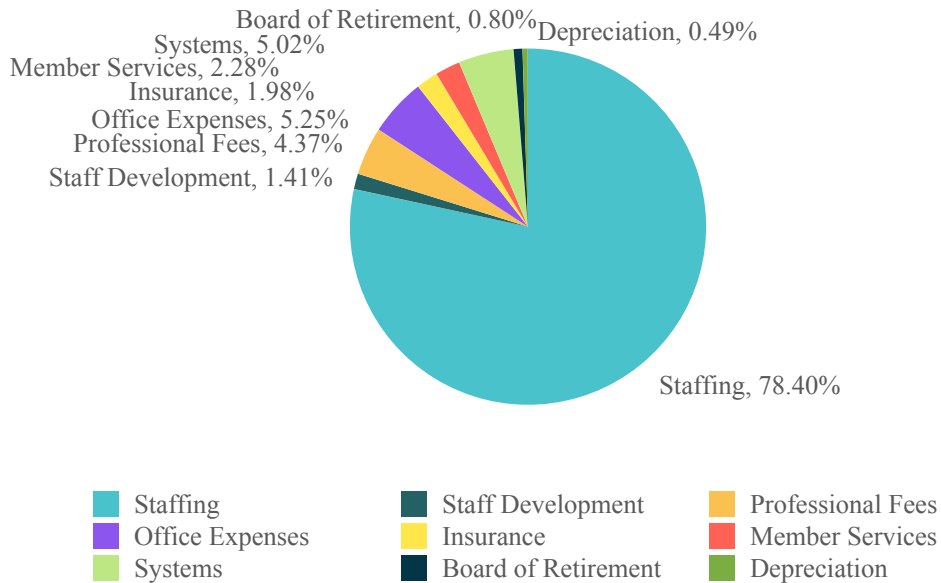
- Additional resources to complete the internal reorganization to effectively administer KCERA's service to plan sponsors.
 - o Continued growth of Investment Unit to enhance KCERA's ability to effectively increase investment returns and meet the mandates required in managing a complex and diverse portfolio.
 - o Anticipated 4% COLA increase for all staff.
 - o Staff development to increase skills to proficient levels for new staff and continuing education.
- MMRO Disability Claim Review Service will continue to respond to KCERA's need to process disability claims more effectively.
- No Board election expenses, all trustees remain until terms expire next year or after.
- Proposed capital budget of \$122,000 for Boardroom upgrades to be depreciated over a 10-year life and \$118,914 for servers to be depreciated over a 5-year life.

KCERA's requested fiscal year 2023-24 Operating Expense Budget may be viewed on the following pages.

Operating Expense Budget Summary

Expense Type	FYE 23 Approved Budget	FYE 24 Proposed Budget	Increase (Decrease)	FYE 24 % of Total Operating Expenses
Staffing	\$ 6,135,033	\$ 6,871,078	\$ 736,045	78.40 %
Staff Development	93,000	124,000	31,000	1.41 %
Professional Fees	385,500	383,275	(2,225)	4.37 %
Office Expenses	424,381	460,162	35,781	5.25 %
Insurance	160,595	173,384	12,789	1.98 %
Member Services	170,000	200,000	30,000	2.28 %
Systems	485,640	440,050	(45,590)	5.02 %
Board of Retirement	117,000	70,500	(46,500)	0.80 %
Depreciation	666,471	42,651	(623,820)	0.49 %
Total Operating Expenses	\$ 8,637,620	\$ 8,765,100	\$ 127,480	100 %

Proposed Budget



Operating Expense Budget

Expense Type	FYE 23	FYE 23	Over (Under)	FYE 24	Proposed vs. Approved Over (Under)	% Change
	Approved Budget	Estimated Expenses		Proposed Budget		
Staffing						
Salaries	3,724,357	3,293,008	(431,349)	4,215,888	491,531	
Benefits	2,410,676	1,922,135	(488,541)	2,655,190	244,514	
Temporary staff	—	18,037	18,037	—	—	
Staffing Total	6,135,033	5,233,180	(901,853)	6,871,078	736,045	12.00 %
Less Investment Staffing	(1,560,610)	(681,231)	(879,379)	(1,670,453)	(109,843)	
	4,574,423	4,551,949	(1,781,232)	5,200,625	\$ 626,202	
Staff Development						
Education & Professional	90,000	90,531	531	120,000	30,000	
Staff Appreciation	3,000	2,956	(44)	4,000	1,000	
Staff Development Total	93,000	93,487	487	124,000	31,000	33.33 %
Professional Fees						
Actuarial fees	140,000	121,623	(18,377)	100,000	(40,000)	
Audit fees	50,500	48,480	(2,020)	98,275	47,775	
Consultant fees	115,000	86,500	(28,500)	115,000	—	
Legal fees	80,000	36,475	(43,525)	70,000	(10,000)	
Professional Fees Total	385,500	293,078	(92,422)	383,275	(2,225)	(0.58) %
Office Expenses						
Building expenses	115,000	95,064	(19,936)	124,000	9,000	
Communications	72,770	27,449	(45,321)	84,062	11,292	
Equipment lease	9,600	8,788	(812)	12,000	2,400	
Equipment maintenance	7,178	2,000	(5,178)	10,100	2,922	
Memberships	20,000	8,220	(11,781)	20,000	—	
Office supplies & misc. admin.	68,300	37,174	(31,126)	80,000	11,700	
Payroll & accounts payable fees	27,800	18,117	(9,683)	25,000	(2,800)	
Other Services - Kern County	40,000	20,000	(20,000)	40,000	—	
Postage	20,000	19,069	(931)	20,000	—	
Subscriptions	13,733	12,841	(892)	15,000	1,267	
Utilities	30,000	47,015	17,015	30,000	—	
Office Expense Total	424,381	295,737	(128,645)	460,162	35,781	8.43 %
Insurance	160,595	162,795	2,200	173,384	12,789	7.96 %
Member Services						
Disability – administration	170,000	137,175	(32,825)	200,000	30,000	
Member Services Total	170,000	137,175	(32,825)	200,000	30,000	17.65 %
Systems						
Audit – security & vulnerability	15,000	13,750	(1,250)	15,000	—	
Business continuity expenses	23,850	16,934	(6,916)	16,050	(7,800)	
Hardware	48,453	12,647	(35,806)	37,420	(11,033)	
Licensing & support	148,413	136,549	(11,864)	140,780	(7,633)	
Software	164,229	139,446	(24,783)	217,600	53,371	
Website design & hosting	85,695	50,290	(35,405)	13,200	(72,495)	
Systems Total	485,640	369,616	(116,024)	440,050	(45,590)	(9.39) %
Board of Retirement						
Board compensation	12,000	8,640	(3,360)	12,000	—	
Board conferences & training	50,000	38,333	(11,667)	50,000	—	
Board elections	50,000	—	(50,000)	—	(50,000)	
Board meetings	5,000	2,716	(2,284)	8,500	3,500	
Board of Retirement Total	117,000	49,689	(67,311)	70,500	(46,500)	(39.74) %
Depreciation	666,471	659,455	(7,016)	42,651	(623,820)	(93.60) %
Total Operating Expenses	8,637,620	7,294,212	(1,343,409)	8,765,100	127,480	1.48 %

Operating Expense Budget	Variance Over (Under)
2023-24 Proposed Budget vs. 2022-23 Approved Budget	

Staff Staffing

·	Increased cost for Investment, Legal, and Administrative staff	736,045
	Sub-Total	736,045

Staff Development

·	Increased cost due career development and education for additional KCERA staff.	31,000
	Sub-Total	31,000

Professional Fees

·	Prior year special projects - Actuarial Triennial Experience Study	(40,000)
·	Plan sponsor compliance audit fees	47,775
·	Decreased legal fees related to prior year special project - Alameda Decision	(10,000)
	Sub-Total	(2,225)

Office Expenses

·	Increase in property management and building expenses,	9,000
·	Increase in equipment and communications	17,881
·	Increased office expenses related to additional staff and cost of goods	11,700
·	Anticipated decrease in WFB payroll account fees due to higher interest rates.	(2,800)
	Sub-Total	35,781

Insurance

·	Increased costs associated to insurance premiums	12,789
	Sub-Total	12,789

Member Services

·	Anticipated increase in MMRO service fees and other fee related to disability claim review services	30,000
	Sub-Total	30,000

Systems

·	Decrease for business continuity expenses	(7,800)
·	Decreased expenses related to hardware purchases	(11,033)
·	Increased costs for new Investment related software	45,738
·	Website hosting digital deployment completed in prior year	(72,495)
	Sub-Total	(45,590)

Board of Retirement

·	Elections for trustees	(50,000)
·	Increased costs due to return to in-person meetings	3,500
	Sub-Total	(46,500)

Depreciation

·	CPAS Pension Administration Software fully depreciated in prior year	(623,820)
	Sub-Total	(623,820)

Total Over (Under)	127,480
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Operating Expense Budget	Variance Over (Under)
2022-23 Estimated Expenses vs. 2022-23 Approved Budget	

Staff Staffing

· Savings in permanent positions not filled 100% of the time during the fiscal year	(901,853)
Sub-Total	(901,853)

Staff Development

· Increase in staff's attendance at conferences/meetings/training	487
Sub-Total	487

Professional Fees

· Savings in consulting services	(92,422)
Sub-Total	(92,422)

Office Expenses

· Decreased office expense, including utilities	(88,709)
· Decrease in building expenses due to completion of expansion projects	(19,936)
· Decrease in anticipated expenses for services provided by Kern County	(20,000)
Sub-Total	(128,645)

Insurance

· Net increase in insurance expenses	2,200
Sub-Total	2,200

Member Services

· Expended less than estimated for disability professionals & services	(32,825)
Sub-Total	(32,825)

Systems

· Applied savings from other IT expenses to purchase hardware and software	(72,453)
· Savings from security audit and other IT expenses	(43,571)
Sub-Total	(116,024)

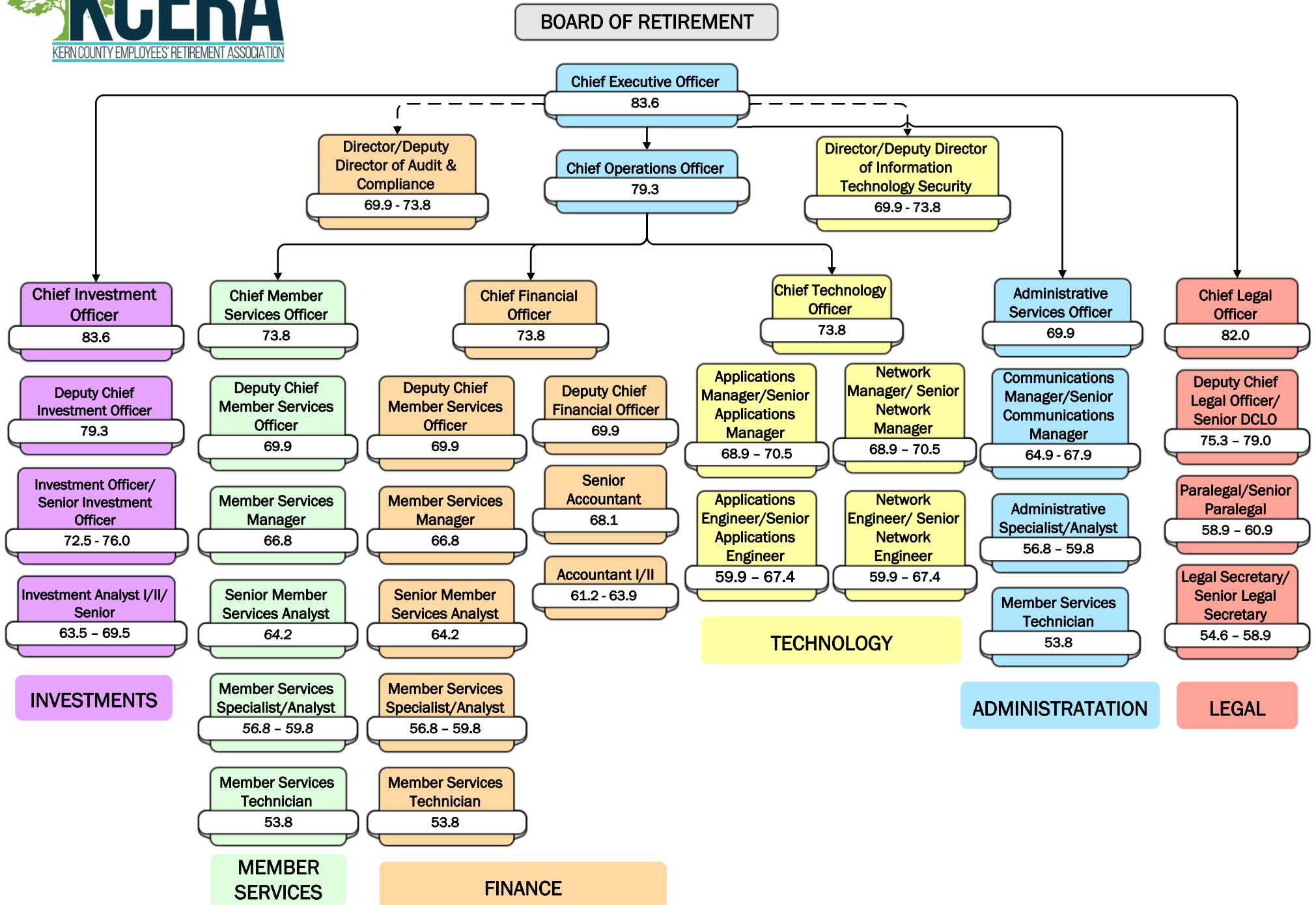
Board of Retirement

· Savings in Board meeting expenses	(5,644)
· Trustees' attendance at conferences/training	(11,667)
· Board Elections unnecessary - Trustees ran unopposed	(50,000)
Sub-Total	(67,311)

Depreciation

· Depreciation on servers	(7,016)
Sub-Total	(7,016)

Total Over (Under)	(1,343,409)
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FY 2023-24

	Positions	Range	Position Limit	Section Limit
Administration	Chief Executive Officer	83.6	1	6
	Chief Operations Officer	79.3	1	
	Administrative Services Officer	69.9	1	
	Senior Communications Manager	67.9	1	
	Communications Manager	64.9		
	Administrative Analyst	59.8	2	
	Administrative Specialist	56.8		
	Member Services Technician	53.8		
Investments	Chief Investment Officer	83.6	1	5
	Deputy Chief Investment Officer	79.3	1	
	Senior Retirement Investment Officer	76.0	3	
	Retirement Investment Officer	72.5		
	Senior Retirement Investment Analyst	69.5	3	
	Retirement Investment Analyst II	66.5		
	Retirement Investment Analyst I	63.5		
Legal	Chief Legal Officer	82.0	1	5
	Senior Deputy Chief Legal Officer	79.0	1	
	Deputy Chief Legal Officer	75.3		
	Senior Paralegal	60.9	3	
	Paralegal	58.9		
	Senior Legal Secretary	58.9		
	Legal Secretary	54.6		
Finance	Chief Financial Officer	73.8	1	9
	Director of Audit & Compliance	73.8	1	
	Deputy Director of Audit & Compliance	69.9		
	Deputy Chief Financial Officer	69.9	1	
	Senior Accountant	68.1	3	
	Accountant II	63.9		
	Accountant I	61.2		
	Deputy Chief Member Services Officer	69.9	1	
	Member Services Manager	66.8	1	
	Senior Member Services Analyst	64.2	3	
	Member Services Analyst	59.8	5	
	Member Services Specialist	56.8		
	Member Services Technician	53.8		
Technology	Chief Technology Officer	73.8	1	5
	Director of Information Technology Security	73.8	1	
	Deputy Director of Information Tech. Security	69.9		
	Senior Network Manager	70.5	2	
	Network Manager	68.9		
	Senior Applications Manager	70.5		
	Applications Manager	68.9		
	Senior Network Engineer	67.4	2	
	Network Engineer	59.9		
	Senior Applications Engineer	67.4		
Applications Engineer	59.9			
Member Services	Chief of Member Services Officer	73.8	1	10
	Deputy Chief Member Services Officer	69.9	1	
	Member Services Manager	66.8	1	
	Senior Member Services Analyst	64.2	3	
	Member Services Analyst	59.8	6	
	Member Services Specialist	56.8		
	Member Services Technician	53.8		
Total				40

SECTION IV

Administrative Expenses

Administrative Expense Budget

The administrative expenses incorporates the limits of Section 31580.2 of the County Employees Retirement Act of 1937, whereby administrative expenses are “capped” at 0.21% of KCERA’s actuarially accrued liabilities. The liability is calculated by KCERA’s actuary. Pursuant to the relevant code sections, certain costs are excluded from the expense cap, namely those associated with investment related costs, expenditures for computer software, hardware and related technology consulting services.

Comparison of Administrative Expenses to Limits (Section 31580.2)	FY20 Budget	FY21 Budget	FY22 Budget	FY23 Budget*	FY24 Proposed Budget**
Total actuarial accrued liabilities	\$6,622,495,000	\$7,005,589,000	\$7,164,225,000	\$7,372,653,000	\$7,770,000,000
Limit on expenses in basis points	21.00	21.00	21.00	21.00	21.00
Maximum allowed	\$13,907,240	\$14,711,737	\$15,044,873	\$15,482,571	\$16,317,000
Operating expenses budget	\$6,494,595	\$6,754,287	\$7,580,588	\$8,637,620	\$8,765,100
Less information technology expenses	\$(965,354)	\$(961,006)	\$(1,010,998)	\$(1,152,111)	\$(482,701)
Less investment staff salaries	\$(682,500)	\$(797,332)	\$(772,168)	\$(1,560,610)	\$(1,670,453)
Administrative expenses	\$4,846,741	\$4,995,949	\$5,797,422	\$5,924,899	\$6,611,946
Over (Under) Maximum	\$(9,060,499)	\$(9,715,788)	\$(9,247,451)	\$(9,557,672)	\$(9,705,054)
Basis Points	7.32	7.13	8.09	8.04	8.51

* Based on total actuarial accrued liabilities for pension as of June 30, 2022 (latest available actuarial valuation).

** Based on projected valuation value of assets and actuarial accrued liabilities (ASOP 51 Risk Report September 4, 2019).

Comparison of Administrative Expenses

