



Budget Book

For Fiscal Year

2022-23

Presented by:

Chief Executive Officer Dominic D. Brown, CPA, CFE

Chief Operations Officer Matthew Henry, CFE

Chief Financial Officer Angela Kruger

June 8, 2022

Table of Contents

Section I	Letter from the Chief Executive Officer	1
Section II	Budget Policies and Process	4
Section III	Operating Expense Budget	6
Section IV	Administrative Expenses	14

SECTION I

Letter from the Chief Executive Officer

Executive Team

Dominic D. Brown, CPA, CFE
Chief Executive Officer

Daryn Miller, CFA
Chief Investment Officer

Jennifer Zahry, JD
Chief Legal Officer

Matthew Henry, CFE
Chief Operations Officer



Board of Retirement

Juan Gonzalez, Chair
Tyler Whitezell, Vice-Chair
Jeanine Adams
David Couch
Phil Franey
Joseph D. Hughes
Jordan Kaufman
Rick Kratt
Traco Matthews
Dustin Contreras, Alternate
Chase Nunneley, Alternate
Robb Seibly, Alternate

June 8, 2022

Members of the Board of Retirement:

I am pleased to present to you the proposed Operating Expense Budget for fiscal year 2022-23. Highlights of the 2021-22 and 2022-23 budgets include:

- The largest budgetary category is staff, which comprises 71% of the total proposed budget. The 2021-22 projected actual expense for staffing is \$4.5 million, which is \$651,524 less than what was approved.
- The proposed 2022-23 Administrative Expense Budget of \$5.9 million (8 basis points) is \$9.7 million (13 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 2022-23, staff recommends a budget of \$8.6 million, which is \$1.0 million (14%) more than last year's approved budget of \$7.6 million. The increase is mainly due to higher expenses in salaries and benefits as staff continues to build-out the schedule of authorized positions that was approved by the Board last year.

Key Events for Fiscal Year 2021-22

The past year brought new challenges as your Board evaluated management's proposals to improve operations, and opportunities to enhance investment program and the services provided to KCERA members and stakeholders. This was all done while implementing the historic *Alameda* Decision and during the numerous challenges brought on by the COVID era and virtual Board meetings.

All KCERA staff have made a return to the office after the COVID era, although many staff have alternate, flexible, and/or hybrid schedules. Staffing is sufficient to provide members adequate customer service at the KCERA building. Staff are in the final steps of implementing the *Alameda* Decision, and almost all position changes approved by the Board last year have been fully implemented.

Future Expectations

In fiscal year 2022-23, 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 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 multi-year budget projection, many positions are being reclassified to KCERA specific positions and 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 2022-23.

Sincerely,

A handwritten signature in blue ink that reads "Dominic D. Brown". The signature is written in a cursive style with a large initial "D".

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 2022-23 budget include:

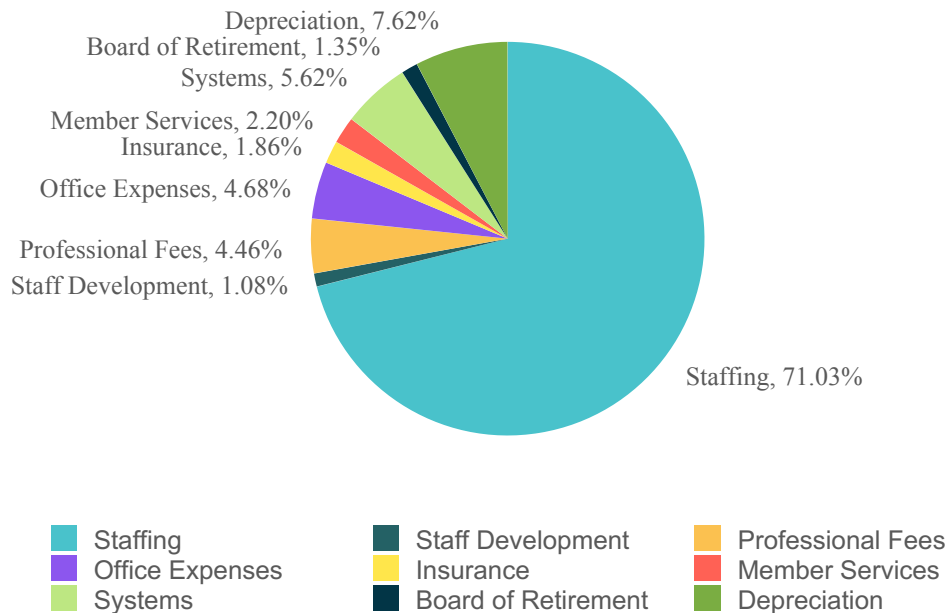
- Additional resources to complete the internal reorganization to effectively administer KCERA's service to plan sponsors.
 - o Continued growth of Investment Unit to enhance KCERA's ability to effectively increase investment returns and meet the mandates required in managing a complex and diverse portfolio.
 - o Addition of Member Services staff, and Legal staff focusing on investments.
 - o Staff development to increase skills to proficient levels for new staff and continuing education.
- KCERA's transition to MMRO Disability Claim Review Service is complete. Addition of service enhancements to process disability claims more effectively.
- Additional resources to fund elections of three trustee positions.

KCERA's requested fiscal year 2022-23 Operating Expense Budget may be viewed on the following pages.

Operating Expense Budget Summary

Expense Type	FYE 22 Approved Budget	FYE 23 Proposed Budget	Increase (Decrease)	FYE 23 % of Total Operating Expenses
Staffing	\$ 5,198,964	\$ 6,135,033	\$ 936,069	71.03 %
Staff Development	60,000	93,000	33,000	1.08 %
Professional Fees	444,000	385,500	(58,500)	4.46 %
Office Expenses	401,940	404,381	2,441	4.68 %
Insurance	138,385	160,595	22,210	1.86 %
Member Services	245,800	190,000	(55,800)	2.20 %
Systems	364,090	485,640	121,550	5.62 %
Board of Retirement	80,500	117,000	36,500	1.35 %
Depreciation	646,908	666,471	19,563	7.62 %
Total Operating Expenses	\$ 7,580,587	\$ 8,637,620	\$ 1,057,033	100 %

Proposed Budget



Operating Expense Budget

Expense Type	FYE 22	FYE 22	Over (Under)	FYE 23	Proposed vs.	% Change
	Approved Budget	Estimated Expenses		Proposed Budget	Approved Over (Under)	
Staffing						
Salaries	3,000,135	2,730,650	(269,485)	3,724,357	724,222	
Benefits	2,098,829	1,776,886	(321,943)	2,410,676	311,847	
Temporary staff	100,000	39,904	(60,096)	—	(100,000)	
Staffing Total	5,198,964	4,547,440	(651,524)	6,135,033	936,069	18.00 %
Less Investment Staffing	(772,168)	(681,231)	(90,937)	(1,560,610)	(788,442)	
	4,426,796	3,866,209	(742,461)	4,574,423	147,627	
Staff Development						
Education & Professional	57,500	40,585	(16,915)	90,000	32,500	
Staff Appreciation	2,500	2,371	(129)	3,000	500	
Staff Development Total	60,000	42,956	(17,044)	93,000	33,000	55.00 %
Professional Fees						
Actuarial fees	190,000	118,710	(71,290)	140,000	(50,000)	
Audit fees	49,000	47,000	(2,000)	50,500	1,500	
Consultant fees	125,000	82,174	(42,826)	115,000	(10,000)	
Legal fees	80,000	34,570	(45,430)	80,000	—	
Professional Fees Total	444,000	282,454	(161,546)	385,500	(58,500)	(13.18) %
Office Expenses						
Building expenses	72,000	115,405	43,405	115,000	43,000	
Communications	33,100	28,606	(4,494)	52,770	19,670	
Equipment lease	13,000	10,089	(2,911)	9,600	(3,400)	
Equipment maintenance	2,000	2,000	—	7,178	5,178	
Memberships	16,000	18,020	2,019	20,000	4,000	
Office supplies & misc. admin.	54,540	55,081	541	68,300	13,760	
Payroll & accounts payable fees	22,800	27,072	4,272	27,800	5,000	
Other Services - Kern County	100,000	27,282	(72,718)	40,000	(60,000)	
Postage	25,000	20,091	(4,909)	20,000	(5,000)	
Subscriptions	13,500	10,079	(3,421)	13,733	233	
Utilities	50,000	42,598	(7,402)	30,000	(20,000)	
Office Expense Total	401,940	356,323	(45,618)	404,381	2,441	0.61 %
Insurance	138,385	148,495	10,110	160,595	22,210	16.05 %
Member Services						
Disability – legal fees	50,000	5,396	(44,604)	10,000	(40,000)	
Disability – professional	45,000	10,457	(34,543)	20,000	(25,000)	
Disability – administration	130,800	106,250	(24,550)	140,000	9,200	
Member communications	20,000	13,656	(6,344)	20,000	—	
Member Services Total	245,800	135,759	(110,041)	190,000	(55,800)	(22.70) %
Systems						
Audit – security & vulnerability	15,000	5,000	(10,000)	15,000	—	
Business continuity expenses	14,700	11,040	(3,660)	23,850	9,150	
Hardware	35,775	51,279	15,504	48,453	12,678	
Licensing & support	138,415	159,639	21,224	148,413	9,998	
Software	95,500	91,797	(3,703)	164,229	68,729	
Website design & hosting	64,700	40,780	(23,920)	85,695	20,995	
Systems Total	364,090	359,535	(4,555)	485,640	121,550	33.38 %
Board of Retirement						
Board compensation	12,000	10,040	(1,960)	12,000	—	
Board conferences & training	30,000	16,140	(13,860)	50,000	20,000	
Board elections	35,000	40,974	5,974	50,000	15,000	
Board meetings	3,500	2,335	(1,165)	5,000	1,500	
Board of Retirement Total	80,500	69,489	(11,011)	117,000	36,500	45.34 %
Depreciation	646,908	648,531	1,623	666,471	19,563	3.02 %
Total Operating Expenses	7,580,587	6,590,982	(989,606)	8,637,620	1,057,033	13.94 %

Operating Expense Budget	Variance Over (Under)
2022-23 Proposed Budget vs. 2021-22 Approved Budget	

Staff Staffing

·	Increased cost for Investment, Legal, and Administrative staff	936,069
	Sub-Total	936,069

Staff Development

·	Increased cost due return to in-person career development and education for KCERA staff.	33,000
	Sub-Total	33,000

Professional Fees

·	Prior year special projects - Actuarial Triennial Experience Study	(50,000)
·	Contractual increase in audit fees	1,500
·	Consulting services for special projects - Governance consulting	(10,000)
	Sub-Total	(58,500)

Office Expenses

·	Increase in property management and building expenses,	43,000
·	Increase in office expenses, equipment and communications	39,441
·	Anticipated decrease in utilities due to solar installation	(20,000)
·	Decrease anticipated in fees for services provided by Kern County	(60,000)
	Sub-Total	2,441

Insurance

·	Increased costs associated to Insurance premiums	22,210
	Sub-Total	22,210

Member Services

·	Savings associated with transition to MMRO Disability Claim Review Service	(65,000)
·	Anticipated increase in MMRO service fees	9,200
	Sub-Total	(55,800)

Systems

·	Increase for business continuity expenses	9,150
·	Increased expenses related to hardware purchases	12,678
·	Increased cost due to cyclical charges for software licensing and support	78,727
·	Website hosting digital deployment	20,995
	Sub-Total	121,550

Board of Retirement

·	Increased costs due to greater opportunities for in-person training and development	20,000
·	Elections for trustees	15,000
·	Increased costs due to return to in-person training and development	1,500
	Sub-Total	36,500

Depreciation

·	Depreciation on servers	19,563
	Sub-Total	19,563

Total Over (Under)	1,057,033
---------------------------	------------------

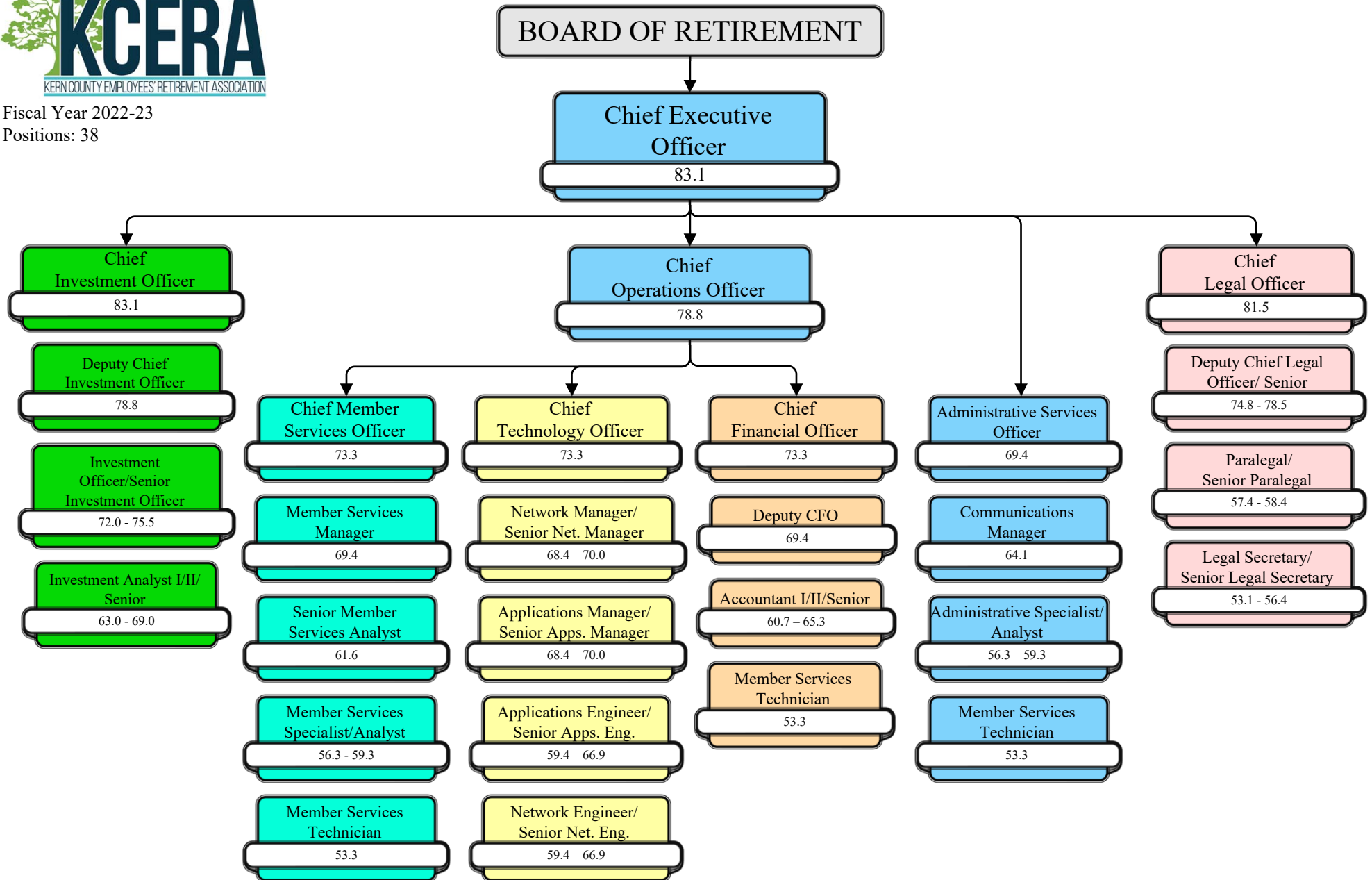
Operating Expense Budget 2021-22 Estimated Expenses vs. 2021-22 Approved Budget	Variance Over (Under)
--	------------------------------

Staff Staffing	
· Savings in permanent positions not filled 100% of the time during the fiscal year	(651,524)
Sub-Total	(651,524)
Staff Development	
· Savings in staff's attendance at conferences/meetings/training	(17,044)
Sub-Total	(17,044)
Professional Fees	
· Savings in consulting services	(161,546)
Sub-Total	(161,546)
Office Expenses	
· Decreased office expense, including utilities	(16,305)
· Increase in building expenses due to expansion projects	43,405
· Decrease in anticipated expenses for services provided by Kern County	(72,718)
Sub-Total	(45,618)
Insurance	
· Net increase in insurance expenses	10,110
Sub-Total	10,110
Member Services	
· Expended less than estimated for disability professionals & services	(103,697)
· Savings in communications (newsletters, member portal letters)	(6,344)
Sub-Total	(110,041)
Systems	
· Applied savings from other IT expenses to purchase hardware and software	33,025
· Savings from security audit and other IT expenses	(37,580)
Sub-Total	(4,555)
Board of Retirement	
· Savings in Board meeting expenses	(3,125)
· Trustees' attendance at conferences/training	(13,860)
· Board Elections	5,974
Sub-Total	(11,011)
Depreciation	
· Depreciation on servers	1,623
Sub-Total	1,623
Total Over (Under)	
(989,606)	



Fiscal Year 2022-23

Positions: 38



Proposed Positions FY 2022-23

Position	Range	Position Limit	Section Limit
Administration			
Chief Executive Officer	83.1	1	5
Chief Operations Officer	78.8	1	
Administrative Services Officer	69.4	1	
Communications Manager	64.1	1	
Administrative Specialist	56.3	1	
Member Services Technician	53.3	1	
Investments			
Chief Investment Officer	83.1	1	5
Deputy Chief Investment Officer	78.8	1	
Senior Retirement Investment Officer	75.5	3	
Retirement Investment Officer	72.0	3	
Senior Retirement Investment Analyst	69.0	3	
Retirement Investment Analyst II	66.0	3	
Retirement Investment Analyst I	63.0	3	
Legal			
Chief Legal Officer	81.5	1	5
Senior Deputy Chief Legal Officer	78.5	1	
Deputy Chief Legal Officer	74.8	3	
Senior Paralegal	58.4	3	
Paralegal	57.4	3	
Senior Legal Secretary	56.4	3	
Legal Secretary	53.1	3	
Finance			
Chief Financial Officer	73.3	1	5
Deputy Chief Financial Officer	69.4	1	
Senior Accountant	65.3	2	
Accountant II	63.4	2	
Accountant I	60.7	2	
Member Services Technician	53.3	1	
Technology			
Chief Technology Officer	73.3	1	5
Senior Network Manager	70.0	2	
Network Manager	68.4	2	
Senior Applications Manager	70.0	2	
Applications Manager	68.4	2	
Senior Network Engineer	66.9	2	
Network Engineer	59.4	2	
Senior Applications Engineer	66.9	2	
Applications Engineer	59.4	2	
Member Services			
Chief of Member Services	73.3	1	13
Member Services Manager	69.4	2	
Senior Member Services Analyst	61.6	4	
Member Services Analyst	59.3	4	
Member Services Specialist	56.3	12	
Member Services Technician	53.3	12	
Total			38

SECTION IV

Administrative Expenses

Comparison of Administrative Expenses to Limits (Section 31580.2)	FY19 Budget	FY20 Budget	FY21 Budget	FY22 Budget*	FY23 Proposed Budget**
Total actuarial accrued liabilities	\$6,398,814,000	\$6,622,495,000	\$7,005,589,000	\$7,164,225,000	\$7,537,000,000
Limit on expenses in basis points	21.00	21.00	21.00	21.00	21.00
Maximum allowed	\$13,437,509	\$13,907,240	\$14,711,737	\$15,044,873	\$15,827,700
Operating expenses budget	\$6,238,611	\$6,494,595	\$6,754,287	\$7,580,588	\$8,637,620
Less information technology expenses	\$(1,130,585)	\$(965,354)	\$(961,006)	\$(1,010,998)	\$(1,152,111)
Less investment staff salaries	\$(532,000)	\$(682,500)	\$(797,332)	\$(772,168)	\$(1,560,610)
Administrative expenses	\$4,576,026	\$4,846,741	\$4,995,949	\$5,797,422	\$5,924,899
Over (Under) Maximum	\$(8,861,483)	\$(9,060,499)	\$(9,715,788)	\$(9,247,451)	\$(9,902,801)
Basis Points	7.15	7.32	7.13	8.09	7.86

* Based on total actuarial accrued liabilities for pension as of June 30, 2020 (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

