



PRUDENT INVESTMENT • QUALITY SERVICE

Budget Book

For Fiscal year 2021-22

Presented by:

Executive Director Dominic Brown

Assistant Executive Director Matthew Henry

Financial Officer Angela Kruger

June 9, 2021

Table of Contents

Section I Letter from the Executive Director.....1

Section II Budget Policies and Process.....4

Section III Operating Expense Budget.....6

Section IV Administrative Expenses.....14

Section V Multi-Year Budget Projection Exhibit.....16

SECTION I

Letter from the Executive Director

Executive Team

Dominic D. Brown, CPA, CFE
Executive Director

Daryn Miller, CFA
Chief Investment Officer

Jennifer Zahry, JD
General Counsel

Matthew Henry, CFE
Assistant Executive Director

**KERN COUNTY EMPLOYEES’
RETIREMENT ASSOCIATION**



Board of Retirement

Juan Gonzalez, Chair
David Couch
Phil Franey
Jordan Kaufman
Rick Kratt
Edward Robinson
Lauren Skidmore
Tyler Whitezell
Bradly Brandon, Alternate
Chase Nunneley, Alternate
Robb Seibly, Alternate
5th Member (Vacant)

June 9, 2021

Members of the Board of Retirement:

I am pleased to present to you the proposed Operating Expense Budget for fiscal year 2021-22. Highlights of the 2020-21 and 2021-22 budgets include:

- The largest budgetary category, staffing, is 69% of the total proposed budget. The 2020-21 projected actual expense for staffing is \$4.1 million, which is \$302,428 less than what was approved.
- The proposed 2021-22 Administrative Expense Budget of \$5.8 million (8 basis points) is \$9.4 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 2021-22, staff recommends a budget of \$7.6 million, which is \$826,301 (12.2%) more than last year’s approved budget of \$6.8 million. The increase is mainly due to higher expenses in salaries and benefits.

Key FY 2020-21 Events

KCERA staff transitioned smoothly and efficiently to remote work at the beginning of the pandemic. KCERA was able to maintain continuous operations and member servicing during this difficult time. KCERA is anticipating a full return to the office by the beginning of the 2021-22 fiscal year. The transition to Managed Medical Review Organization for the processing of disability enabled KCERA to work through the backlog of pending disability applications.

Future Expectations

In fiscal year 2021-22, I expect to see continued growth in the organization as management implements KCERA's new operational structure and aligns 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.

The past year brought new challenges as your Board evaluated management's proposals to improve operations, and opportunities to enhance the services provided to all KCERA stakeholders. These challenges are being addressed and reassessed to bring continual improvement to the organization and the stakeholders. In a multi-year budget projection, current positions are reclassified to KCERA specific positions and additional staff are being requested to assist your Board in continuing to meet those challenges by maintaining a culture of excellence, fiscal responsibility, transparency, and prudent management of risk. See pages 12-13 for a summary of proposed positions. 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 the 2021-22.

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
Executive Director

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 Executive Director. 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 Executive Director, Assistant Executive Director, 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 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.

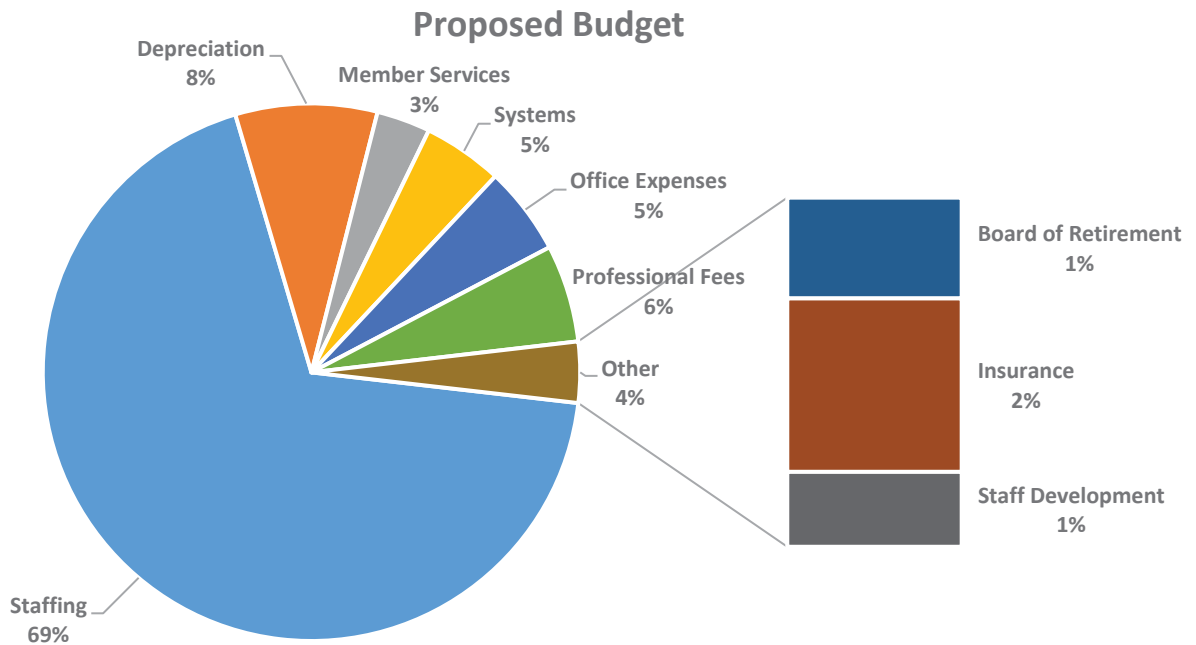
Important assumptions in the fiscal year 2021-22 budget include:

- Refresh of KCERA.org website hosting
- Anticipated increase in fees for services provided by Kern County
- Additional resources to complete the internal reorganization to effectively administer KCERA's services to members and plan sponsors.
 - Transition all positions to KCERA specific classifications to better meet KCERA's need for high performing staff.
 - Reevaluate position compensation to retain highly trained, experienced staff and develop a succession plan for these positions.
 - Addition of staff to the Legal, Administration, and Technology Divisions to enhance KCERA's ability to effectively meet the demands of managing a complex and diverse retirement plan.
- Realized savings from KCERA's multi-year transition to MMRO Disability Claim Review Service.

KCERA's requested fiscal year 2021-22 Operating Expense Budget may be viewed on the following pages.

Operating Expense Budget

Expense Type	FYE 21 Approved Budget	FYE 22 Proposed Budget	Increase (Decrease)	FYE 22 % of Total Operating Expenses
Staffing	\$ 4,418,390	\$ 5,198,964	\$ 780,574	69%
Staff Development	80,000	60,000	(20,000)	1%
Professional Fees	466,500	444,000	(22,500)	6%
Office Expenses	294,578	401,940	107,362	5%
Insurance	130,313	138,385	8,071	2%
Member Services	330,000	245,800	(84,200)	3%
Systems	304,905	364,090	59,185	5%
Board of Retirement	73,500	80,500	7,000	1%
Depreciation	656,101	646,908	(9,192)	8%
Total Operating Expenses	\$ 6,754,287	\$ 7,580,587	\$ 826,300	100%



Operating Expense Budget

Expense Type	FYE 21 Approved Budget	FYE 21 Estimated Expenses	Over (Under)	FYE 22 Proposed Budget	Proposed vs. Approved Budget Over (Under)	% Change
Staffing						
Salaries	2,564,452	2,373,858	(190,595)	3,000,135	435,683	
Benefits	1,826,937	1,651,462	(175,476)	2,098,829	271,892	
Temporary staff	27,000	90,643	63,643	100,000	73,000	
Staffing Total	4,418,390	4,115,962	(302,428)	5,198,964	780,575	17.67%
Less Investment Staffing	(797,332)	(422,230)	(375,102)	(772,168)	25,164	
	3,621,058	3,693,732	(677,530)	4,426,796	805,739	
Staff Development						
Education & Professional Development	79,300	10,867	(68,433)	57,500	(21,800)	
Staff Appreciation	700	0	(700)	2,500	1,800	
Staff Development Total	80,000	10,867	(69,133)	60,000	(20,000)	-25.00%
Professional Fees						
Actuarial fees	200,000	121,570	(78,430)	190,000	(10,000)	
Audit fees	131,500	131,500	0	49,000	(82,500)	
Consultant fees	75,000	45,807	(29,193)	125,000	50,000	
Legal fees	60,000	122,293	62,293	80,000	20,000	
Professional Fees Total	466,500	421,170	(45,330)	444,000	(22,500)	-4.82%
Office Expenses						
Building expenses	72,000	62,813	(9,187)	72,000	0	
Communications	32,548	34,387	1,839	33,100	552	
Equipment lease	13,000	11,199	(1,801)	13,000	0	
Equipment maintenance	8,670	9,638	968	2,000	(6,670)	
Memberships	14,000	9,495	(4,506)	16,000	2,000	
Office supplies & misc. admin.	52,640	39,771	(12,869)	54,540	1,900	
Payroll & accounts payable fees	13,220	16,702	3,482	22,800	9,580	
Other Services - Kern County	0	0	0	100,000	100,000	
Postage	25,000	17,683	(7,317)	25,000	0	
Subscriptions	13,500	9,518	(3,982)	13,500	0	
Utilities	50,000	42,100	(7,900)	50,000	0	
Office Expense Total	294,578	253,306	(41,273)	401,940	107,362	36.45%
Insurance	130,313	136,176	5,863	138,385	8,071	6.19%
Member Services						
Disability – legal fees	75,000	42,096	(32,904)	50,000	(25,000)	
Disability – professional services	65,000	45,835	(19,165)	45,000	(20,000)	
Disability – administration	170,000	154,950	(15,050)	130,800	(39,200)	
Member communications	20,000	13,247	(6,753)	20,000	0	
Member Services Total	330,000	256,127	(73,873)	245,800	(84,200)	-25.52%
Systems						
Audit – security & vulnerability scan	15,000	22,680	7,680	15,000	0	
Business continuity expenses	24,500	18,730	(5,770)	14,700	(9,800)	
Hardware	40,707	33,359	(7,348)	35,775	(4,932)	
Licensing & support	155,297	135,746	(19,550)	138,415	(16,882)	
Software	67,121	70,552	3,430	95,500	28,379	
Website design & hosting	2,280	1,655	(625)	64,700	62,420	
Systems Total	304,905	282,722	(22,183)	364,090	59,185	19.41%
Board of Retirement						
Board compensation	12,000	11,781	(219)	12,000	0	
Board conferences & training	58,000	4,005	(53,996)	30,000	(28,000)	
Board elections	0	0	0	35,000	35,000	
Board meetings	3,500	73	(3,427)	3,500	0	
Board of Retirement Total	73,500	15,858	(57,642)	80,500	7,000	9.52%
Depreciation	656,101	653,486	(2,615)	646,908	(9,192)	-1.40%
Total Operating Expenses	\$6,754,287	\$6,145,674	(\$608,614)	\$7,580,587	\$826,301	12.23%

Operating Expense Budget 2021-22 Proposed Budget vs. 2020-21 Approved Budget	Variance Over (Under)
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Staff Staffing

	· Increased cost for Investment, Legal, and Administrative staff	780,575
	Sub-Total	780,575

Staff Development

	· Decreased cost due to greater opportunities for remote career development and education for KCERA staff.	(20,000)
	Sub-Total	(20,000)

Professional Fees

	· Consulting services for special projects - Actuarial Triennial Experience Study	(10,000)
	· Actuarial Audit performed prior year	(82,500)
	· Consulting services for special projects - Plan sponsor audits Governance consulting	50,000
	· Increase in estimated legal fees - Fiduciary and tax attorney fees (Alameda Decision)	20,000
	Sub-Total	(22,500)

Office Expenses

	· Decrease in office expenses, equipment and utilities	(2,218)
	· Retiree payroll administrative fees moved from Member Services to office expenses	9,580
	· Anticipated increase in fees for services provided by Kern County	100,000
	Sub-Total	107,362

Insurance

	· Increased costs associated to Insurance premiums	8,071
	Sub-Total	8,071

Member Services

	· Savings associated with transition to MMRO Disability Claim Review Service	(84,200)
	Sub-Total	(84,200)

Systems

	· Decrease for business continuity expenses	(9,800)
	· Decreased expenses related to hardware purchases	(4,932)
	· Increased cost due to cyclical charges for software licensing and support	11,497
	· Website hosting digital deployment	62,420
	Sub-Total	59,185

Board of Retirement

	· Decreased costs due to greater opportunities for remote training and development	(28,000)
	· Elections for trustees	35,000
	Sub-Total	7,000

Depreciation

	· Depreciation on servers	(9,192)
	Sub-Total	(9,192)

Total Over (Under)	826,301
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Operating Expense Budget 2020-21 Estimated Expenses vs. 2020-21 Approved Budget	Variance Over (Under)
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Staff Staffing

· Savings in permanent positions not filled 100% of the time during the fiscal year:	(302,428)
Sub-Total	(302,428)

Staff Development

· Savings in staff's attendance at conferences/meetings/training	(69,133)
Sub-Total	(69,133)

Professional Fees

· Savings in consulting services	(45,330)
Sub-Total	(45,330)

Office Expenses

· Decreased expenses due to office closure	(46,594)
· Net increase in Communications - Internet and Zoom expenses	1,839
· Increase in Wells Fargo Bank fees	3,482
Sub-Total	(41,273)

Insurance

· Net increase in insurance expenses	5,863
Sub-Total	5,863

Member Services

· Expended less than estimated for disability professionals & services	(67,119)
· Savings in communications (newsletters, member portal letters)	(6,753)
Sub-Total	(73,873)

Systems

· Applied savings from other IT expenses to purchase hardware and software	(23,468)
· Savings from security audit and other IT expenses	1,285
Sub-Total	(22,183)

Board of Retirement

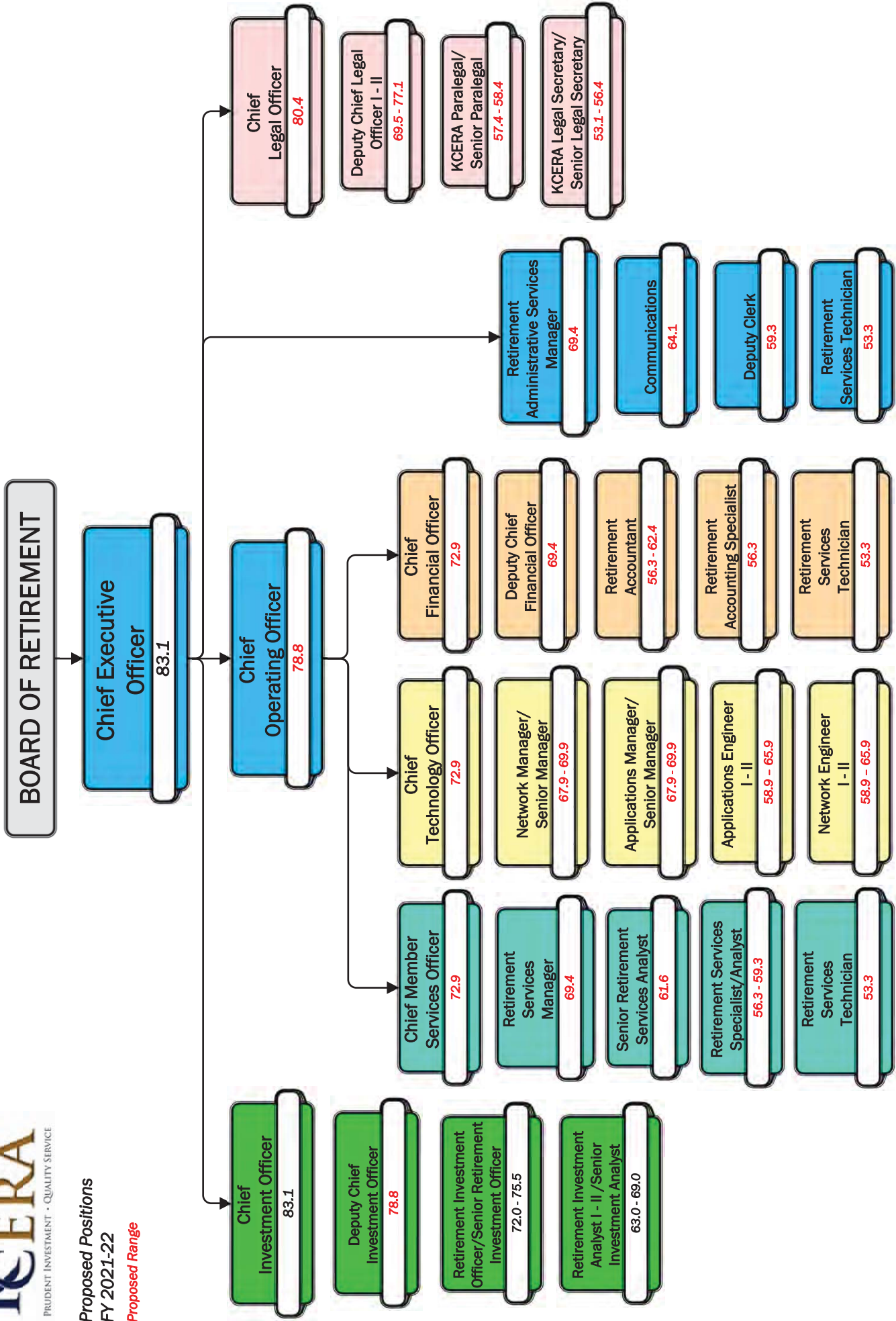
· Savings in Board meeting expenses	(3,647)
· Trustees' attendance at conferences/training	(53,996)
Sub-Total	(57,642)

Depreciation

· Depreciation on servers	(2,615)
Sub-Total	(2,615)

Total Over (Under)	(608,614)
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**Proposed Positions
FY 2021-22**
Proposed Range



KCERA - Schedule of Authorized Positions

FY 2021-22

Item Number	Position	Range	Position Limit	Section Limit
Administration				
0485	Chief Executive Officer	83.1	1	6
0525	Chief Operating Officer	78.8	1	
0815	Retirement Administrative Services Manager	69.4	1	
New	Deputy Clerk	59.3	1	
New	Communications	64.1	1	
2528	Retirement Services Technician	53.3	1	
Investments				
0584	Chief Investment Officer	83.1	1	5
New	Deputy Chief Investment Officer	78.8	1	
0708	Senior Retirement Investment Officer	75.5	3	
0717	Retirement Investment Officer	72.0		
1641	Senior Retirement Investment Analyst	69.0	3	
3761	Retirement Investment Analyst II	64.0		
4747	Retirement Investment Analyst I	59.0		
Legal				
1239	Chief Legal Officer	80.4	1	4
New	Deputy Chief Legal Officer II	77.1	1	
New	Deputy Chief Legal Officer I	69.5	2	
3115	Retirement Senior Paralegal	58.4		
3124	Retirement Paralegal	57.4		
3138	Retirement Senior Legal Secretary	56.4	1	
3140	Retirement Legal Secretary	53.1		
Finance				
New	Chief Financial Officer	72.9	1	5
New	Deputy Chief Financial Officer	69.4	1	
New	Retirement Accountant III	62.4	2	
New	Retirement Accountant II	58.7		
New	Retirement Accountant I	56.3	1	
2528	Retirement Services Technician	53.3		
Technology				
New	Chief Technology Officer	72.9	1	5
New	Senior Network Manager	69.9	1	
New	Network Manager	67.9	1	
New	Senior Applications Manager	69.9	1	
New	Applications Manager	67.9	1	
New	Network Engineer II	65.9	1	
New	Network Engineer I	58.9	1	
New	Applications Engineer II	65.9	1	
New	Applications Engineer I	58.9	1	
Member Services				
New	Chief Member Services Officer	72.9	1	14
2544	Retirement Services Manager	69.4	2	
2545	Senior Retirement Services Analyst	61.6	4	
2525	Retirement Services Analyst	59.3	10	
2527	Retirement Services Specialist	56.3		
2528	Retirement Services Technician	53.3	3	
			Total	<u><u>39</u></u>

SECTION IV

Administrative Expenses

Administrative Expense Budget

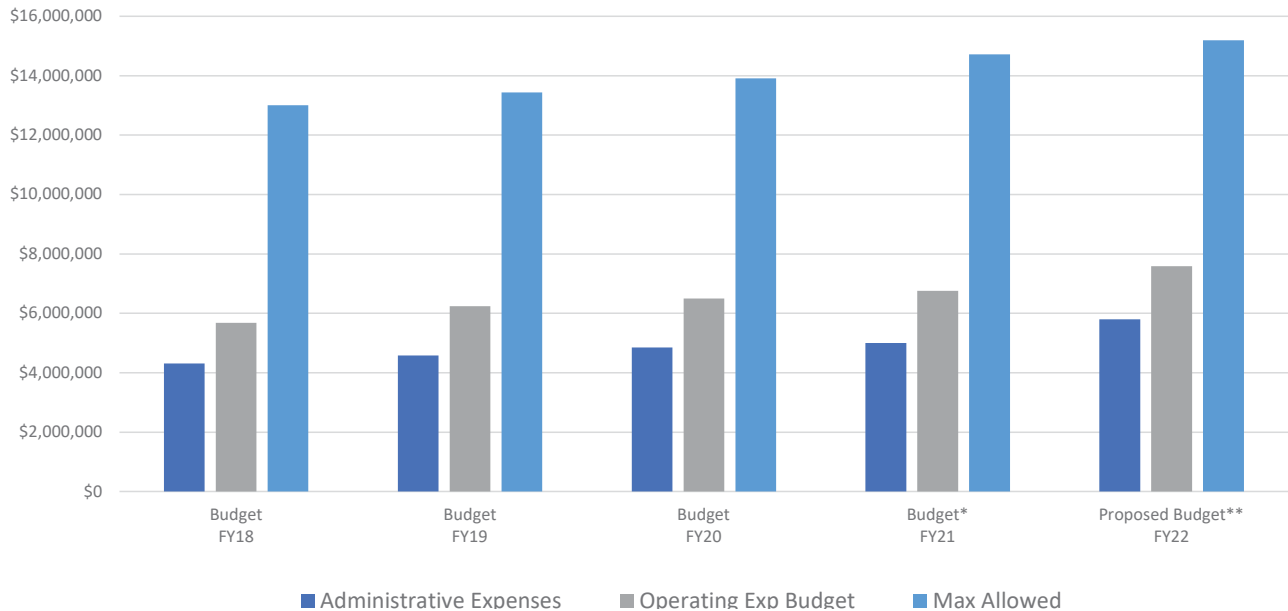
The administrative expenses incorporates the limits of Section 31580.2 of the County Employees Retirement Act of 1937, whereby administrative expenses are “capped” at 0.21% of KCERA’s actuarially accrued liabilities. The liability is calculated by KCERA’s actuary. Pursuant to the relevant code sections, 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. In the FY 2021-22 administrative budget, KCERA is \$9.4 million under the cap limit of \$15.2 million.

Comparison of Administrative Expenses to Limits (Section 31580.2)	FY18 Budget	FY19 Budget	FY20 Budget	FY21 Budget*	FY22 Proposed Budget**
Total actuarial accrued liabilities	\$6,191,433,000	\$6,398,814,000	\$6,622,495,000	\$7,005,589,000	\$7,235,000,000
Limit on expenses in basis points	21.00	21.00	21.00	21.00	21.00
Maximum allowed	\$13,002,009	\$13,437,509	\$13,907,240	\$14,711,737	\$15,193,500
Operating expenses budget	\$5,675,560	\$6,238,611	\$6,494,595	\$6,754,287	\$7,580,587
Less information technology expenses	(\$1,098,520)	(\$1,130,585)	(\$965,354)	(\$961,006)	(\$1,010,998)
Less investment staff salaries	\$ (263,958)	(\$532,000)	(\$682,500)	(\$797,332)	(\$772,168)
Administrative expenses	\$4,313,082	\$4,576,026	\$4,846,741	\$4,995,949	\$5,797,421
Over (Under) Maximum	(\$8,688,927)	(\$8,861,483)	(\$9,060,499)	(\$9,715,788)	(\$9,396,079)
Basis Points	6.97	7.15	7.32	7.13	8.01

* 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

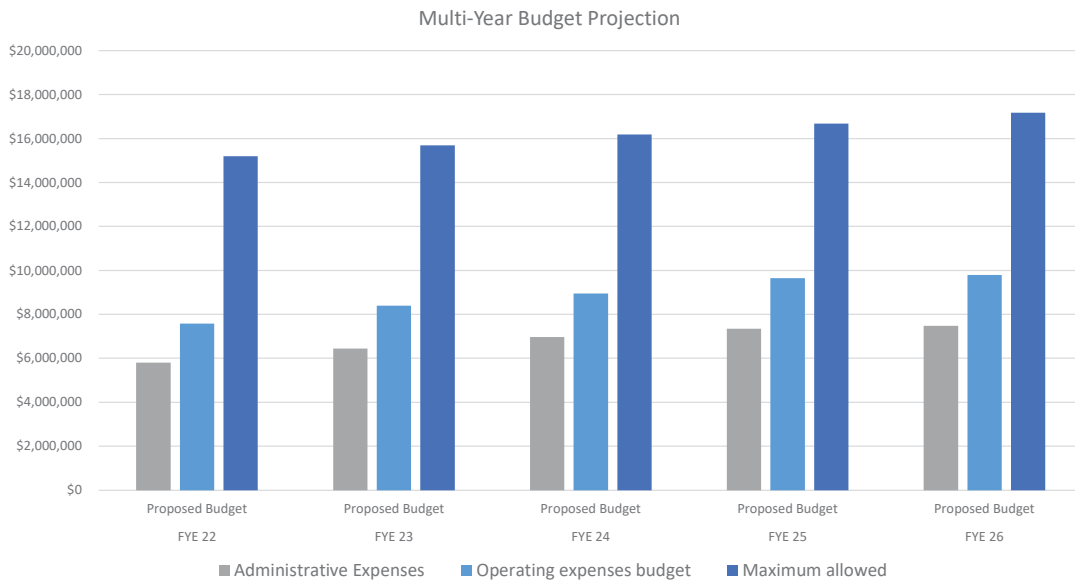


SECTION V

Multi-Year Budget Projection Exhibit

Multi-Year Budget Projection


Multi-Year Budget Projection	FYE 22 Proposed Budget	FYE 23 Proposed Budget	FYE 24 Proposed Budget	FYE 25 Proposed Budget	FYE 26 Proposed Budget
Total actuarial accrued liabilities	\$7,235,000,000	\$7,470,000,000	\$7,705,000,000	\$7,940,000,000	\$8,175,000,000
Limit on expenses in basis points	21.00	21.00	21.00	21.00	21.00
Maximum allowed	\$15,193,500	\$15,687,000	\$16,180,500	\$16,674,000	\$17,167,500
Operating expenses budget	\$7,580,587	\$8,392,084	\$8,944,021	\$9,641,531	\$9,791,204
Less information technology expenses	(\$1,010,998)	(\$1,010,998)	(\$1,010,998)	(\$1,010,998)	(\$1,010,998)
Less investment staff salaries	\$ (772,168)	(\$938,326)	(\$963,990)	(\$1,287,534)	(\$1,308,495)
Administrative Expenses	\$5,797,421	\$6,442,760	\$6,969,033	\$7,342,999	\$7,471,711
Over (Under) Maximum	(\$9,396,079)	(\$9,244,240)	(\$9,211,467)	(\$9,331,001)	(\$9,695,789)
Basis Points	8.01	8.62	9.00	9.18	9.07
Budgeted Positions	33	36	37	39	39





Date: June 9, 2021

To: Trustees, Board of Retirement

From: Dominic D. Brown, Executive Director 

Subject: **Addition of Technology Services Supervisor (TSS)**

The KCERA information technology (IT) section is currently comprised of three IT professionals. The Technology Services Manager has unique and invaluable skills in programming and applications management that are essential to ensure timely and accurate delivery of pension benefits. The Technology Services Supervisor and Network Systems Administrator have specialized skills in hardware and networking.

KCERA has an urgent and critical need to engage in cross-training and succession planning in the programming and applications function. KCERA currently has a vacant System Analyst II position, but has identified a candidate that far exceeds the skillset and pay range for that classification.

Therefore, staff recommends that your Board approve the addition of one (1) Technology Services Supervisor position and direct staff to work with County Human Resources to implement the addition of this position.