Memorandum

DATE: November 16, 2026

TO: Members of the Board of Retirement

FROM: Jennifer Reyes, Director of Finance

SUBJECT: **THIRD QUARTER 2026 BUDGET TO ACTUALS REPORT AND BUDGET AMENDMENT TRANSFER FROM CAPITAL EXPENDITURES TO PERSONNEL COSTS FOR FISCAL YEAR 2026**

Recommendation

Approve a budget amendment transferring $310,000 from Capital Expenditures to Personnel Costs to cover increased personnel costs resulting from approved salary changes, including a 3% increase for County of Orange employees negotiated between the County and Orange County Employees Association (OCEA), effective September 4, 2026; and the County's classification maintenance study adjustments approved by the Board of Supervisors, effective October 2, 2026.

Highlights

- **Third Quarter Target Benchmark**: 75% of annual budget utilization
- **Actual Utilization**: 46.3% of total administrative budget used (53.7% remaining)
- **Variance**: Approximately $31.1 million under pro-rated budget, primarily due to timing of capital and other expenditures

	Actuals to Date	Amended Budget	Amended Budget Remaining ($)	Amended Budget Remaining (%)
Administrative Expenses				
Personnel Costs	$ 21,215,769	$ 28,687,727	$ 7,471,958	26.0 %
Services and Supplies	10,288,927	16,687,740	6,398,813	38.3 %
Capital Expenditures	18,582,599	62,891,294	44,308,695	70.5 %
Grand Total	**$ 50,087,295**	**$ 108,266,761**	**$ 58,179,466**	**53.7 %**

Note: Amended budget excludes the proposed $310,000 budget amendment transfer from Capital Expenditures to Personnel Costs.

Background/Discussion

The Board of Retirement approved OCERS' Administrative Budget for Fiscal Year 2026 (FY26) on November 17, 2025, for $46,433,042 to fund administrative expenses, and for $60,835,189 to fund capital expenses, for a total budget of $107,268,231. On May 18, 2026, the Board of Retirement approved a contract with Majesco for the procurement and implementation of the V3locity Pension Administration System (PAS) for a total cost of $21,047,902. In addition, the Board approved a budget transfer from Services and Supplies to Capital Expenditures in the amount of $1,057,525, along with an increase to Capital Expenditures of $998,530, bringing the amended FY26 budget to $108,266,761. This transfer does not impact the 21-basis point test described below. Staff now requests Board approval to transfer $310,000 from Capital Expenditures to Personnel Costs to fund approved

salary increases, and classification maintenance study adjustments. The proposed transfer reallocates existing funds between categories, but does not increase the total FY26 budget.

Under California Government Code Sections 31580.2 and 31596.1, OCERS' administrative budget is limited 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 point test) excludes investment-related costs and expenditures for computer software, hardware, and related technology consulting services. The FY26 amended administrative budget represents 10.07 basis points of the projected actuarial accrued liability.

The Chief Executive Officer, or the Deputy CEO, or Assistant CEO, Finance & Internal Operations, 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. Because the proposed $310,000 transfer moves funds from Capital Expenditures to Personnel Costs, Board approval is required. Following the transfer, the FY26 administrative budget will represent approximately 10.18 basis points of the projected actuarial accrued liability and remain in compliance with the statutory 21-basis point limit.

Administrative Summary

Budget-to-actual comparisons are evaluated using a pro-rated benchmark; however, certain expenditures are not incurred evenly throughout the year. For the quarter ended September 30, 2026, year-to-date actual administrative expenses were $50.1 million, or 46.3% of the $108.3 million amended budget. Expenditures were approximately $31.1 million below the 75% third-quarter benchmark, primarily reflecting the timing of capital and other expenditures. A summary of all administrative expenses and explanations of significant cost drivers is below:

	Actual to Date	Amended Budget	Amended Budget Remaining ($)	Amended Budget Used (%)	Amended Prorated Budget*	(Over)/Under Amended Prorated Budget
Administrative Expenses						
Personnel Costs	**$ 21,215,769**	**$ 28,687,727**	**$ 7,471,958**	**74.0 %**	**$ 21,515,795**	**$ 300,026**
Services and Supplies						
Building Property Management and Maintenance	766,169	1,261,000	494,831	60.8 %	945,750	179,581
Due Diligence Expenses	51,548	120,000	68,452	43.0 %	90,000	38,452
Equipment - Rent and Leases	29,642	40,000	10,358	74.1 %	30,000	358
Equipment and Software	587,441	1,438,100	850,659	40.8 %	1,078,575	491,134
Infrastructure	1,767,112	3,214,606	1,447,494	55.0 %	2,410,954	643,842
Legal Services	841,225	930,000	88,775	90.5 %	697,500	(143,725)
Meetings and Related Costs	59,900	88,970	29,070	67.3 %	66,728	6,828
Memberships	74,088	103,043	28,955	71.9 %	77,283	3,195
Office Supplies	76,860	154,000	77,140	49.9 %	115,500	38,640
Postage and Delivery Costs	64,119	167,300	103,181	38.3 %	125,475	61,356
Printing Cost	56,384	120,000	63,616	47.0 %	90,000	33,616
Professional Services	5,153,850	7,511,015	2,357,165	68.6 %	5,633,260	479,410
Subscriptions and Periodicals	163,533	253,702	90,169	64.5 %	190,277	26,744
Telephone and Internet	226,200	393,500	167,300	57.5 %	295,125	68,925
Training and Related Costs	370,856	892,504	521,648	41.6 %	669,378	298,522
Total Services and Supplies	**10,288,927**	**16,687,740**	**6,398,813**	**61.7 %**	**12,515,805**	**2,226,878**
Administrative Expense - Subtotal	**31,504,696**	**45,375,467**	**13,870,771**	**69.4 %**	**34,031,600**	**2,526,904**
Capital Expenditures**	**18,582,599**	**62,891,294**	**44,308,695**	**29.5 %**	**47,168,471**	**28,585,872**
Grand Total	**$ 50,087,295**	**$ 108,266,761**	**$ 58,179,466**	**46.3 %**	**$ 81,200,071**	**$ 31,112,776**

*Prorated budget represents 75% (9 months/12 months) of annual amended budget.

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

Amended budget excludes the proposed $310,000 budget amendment transfer from Capital Expenditures to Personnel Costs.

Personnel Costs

- **Actual**: $21.2 million (74.0% of amended budget)
- **Variance**: $300,026 under pro-rated benchmark
- **Drivers:**
  - Salary and related benefit savings associated with employee turnover and position vacancies, including vacancies in the Investments and Human Resources departments

Personnel costs continued to track closely to budget through the third quarter, totaling 74.0% of the annual budget, slightly below the pro-rated benchmark of 75%. The favorable variance primarily reflects salary and related benefit savings associated with employee turnover and position vacancies, partially offset by higher leave-related, benefit, and temporary staffing costs. Because the $300,026 favorable variance is narrow, it is not sufficient to absorb the approved salary increases and classification maintenance study adjustments anticipated through year-end.

Outlook: Personnel costs are on track through the third quarter; however, fourth quarter costs are expected to increase due to the 3% salary increase effective September 4, 2026 (approximately $290,000), the classification maintenance study adjustments effective October 2, 2026 (approximately $20,000). A $310,000 transfer from Capital Expenditures is proposed to provide sufficient funding for these additional personnel costs through year-end.

Services and Supplies

- **Actual:** $10.3 million (61.7% of amended budget)
- **Variance:** $2,226,878 under pro-rated budget
- **Drivers** (excluding variances less than $5,000):

  - **Building Property Management and Maintenance (60.8% used, $179,581 under pro-rated budget)**
    Spending in this category remains under budget through the third quarter primarily due to the timing of expenses. Costs in this category typically include monthly operating expenses and as-needed maintenance, both of which fluctuate throughout the year. Additionally, following the demolition of the former Tustin office building in the first quarter, property management and maintenance costs are expected to be lower than originally budgeted for the remainder of the fiscal year.

  - **Due Diligence Expenses (43.0% used, $38,452 under pro-rated budget)**
    Due diligence expenses, which include investment team travel and on-site manager visits, remain below the pro-rated budget through the third quarter. Travel is expected to increase in the fourth quarter as the investment team continues its oversight activities, and this category is projected to remain within the approved budget.

  - **Equipment and Software (40.8% used, $491,134 under pro-rated budget)**
    This category includes expenditures for IT hardware, security software, and investment-related tools. Purchases are made throughout the year based on operational needs and project timelines. Spending through the third quarter remains below the pro-rated budget primarily due to delays in the Gateway Firewall Refresh project and renewal of the Account Takeover Solution, which account

for a significant portion of the variance. Related expenditures are expected to occur in the fourth quarter as these initiatives move forward. This category is expected to remain within the approved budget for the fiscal year.

- **Infrastructure (55.0% used, $643,842 under pro-rated budget)**
  Infrastructure costs encompass licensing and software subscriptions, including cloud platforms and the pension administration system (PAS). The variance is attributed to timing differences in annual support renewals and lower-than-expected usage of on-demand technical support. The underspend is primarily driven by cloud subscription expenditures, particularly Microsoft licensing and the timing of AI platform subscriptions. This category is expected to remain within the annual budget.

- **Legal Services (90.5% used, $143,725 over pro-rated budget)**
  Legal expenditures for investments, litigation, and tax counsel are incurred on an as-needed basis. Spending exceeded the pro-rated budget primarily due to a $107,375 charge for investment counsel to negotiate an opportunistic secondary-market sale of legacy fund positions, allowing proceeds to be redeployed into higher-return opportunities. Secondary sales are evaluated annually and do not occur every year. An additional sale is scheduled to close December 31, which will result in further legal costs. With additional investment-related legal expenditures anticipated in the fourth quarter, this category will continue to be closely monitored through year-end.

- **Meetings and Related Costs (67.3% used, $6,828 under pro-rated budget)**
  Expenditures in this category include Board, committee, and staff meeting-related costs. Spending is slightly below the pro-rated budget through the third quarter, primarily due to the timing of meeting activities and related expenditures. Costs are expected to align more closely with budgeted levels over the remainder of the fiscal year and are projected to remain within the approved budget.

- **Office Supplies (49.9% used, $38,640 under pro-rated budget)**
  This category funds office supplies, furniture, ergonomic items, and promotional materials for special events, including the Groundbreaking and Topping Out Ceremonies. These items are purchased on an as-needed basis, and spending through the third quarter has been lower than anticipated on a pro-rated basis.

- **Postage and Delivery (38.3% used, $61,356 under pro-rated budget)**
  This category covers newsletter mailings, regular postage, and delivery services. Third-quarter spending was below the pro-rated budget due primarily to the timing of postage replenishments and mailings. A $15,000 postage refill was recorded in October, with additional costs expected for the Winter newsletter. Spending will be monitored through year-end for alignment with the annual budget.

- **Printing (47.0% used, $33,616 under pro-rated budget)**
  This category includes printing costs for the newsletter mailings, the Annual Comprehensive Financial Report (ACFR), and additional mailings as needed. Through the third quarter, printing expenses included the production of brochures and newsletters. Spending remained below the pro-rated budget primarily due to the timing of the Winter 2026 newsletter, which is scheduled later in the fiscal year. This category is expected to remain within budget for the year.

- **Professional Services (68.6% used, $479,410 under pro-rated budget)**
  Consulting and professional services are used on an as-needed basis, resulting in costs fluctuating throughout the year. Annual contracts for investment consulting services represent approximately

44% of the amended professional services budget. Other services include actuarial services, completion of the master repository project, disability medical examinations, technology consulting, PAS project oversight and consulting, and AI initiatives (Microsoft Azure AI, Microsoft Fabric, and Power Platform architecture). Underutilization of the budget is largely driven by project timing. This category is expected to be within budget for the year.

- **Subscriptions and Periodicals (64.5% used, $26,744 under pro-rated budget)**
  Subscriptions and periodicals renew annually at varying times throughout the year. Included in this category are various online knowledge-based resources used by team members. This category is expected to be within budget for the year.
- **Telephone and Internet (57.5% used, $68,925 under pro-rated budget)**
  This category includes costs related to internet, telephone, and mobile services for staff. Spending through the third quarter was below the pro-rated budget primarily due to lower-than-anticipated internet service costs. This category is expected to be within budget for the year.
- **Training and Related Costs (41.6% used, $298,522 under pro-rated budget)**
  Training expenses are below the pro-rated budget through the third quarter, primarily due to the timing of planned learning and development activities. Leadership development programs and executive coaching have begun and are expected to continue throughout the year, while additional professional conferences and training activities, including the P2F2 Annual Conference, NCPERS Safety Conference, IFEBP Annual Conference, Gartner Symposium, SACRS Fall Conference and CALAPRS events, are expected to occur in the fourth quarter. Spending is expected to increase as these activities continue and is projected to remain within the approved budget for the fiscal year.

Outlook: The overall Services and Supplies category is on track and is expected to remain within budget

Capital Expenditures

- **Actual:** $18.6 million (29.5% of amended budget)
- **Variance:** $28,585,872 under pro-rated budget
- **Drivers**: Capital expenditures primarily relate to the HQ development project and the Pension Administration System (PAS) modernization project. Through the third quarter, spending included construction and project-related costs associated with the new headquarters, as well as PAS implementation expenditures following the project kickoff on June 1, 2026. Capital spending remains below the pro-rated budget primarily due to the timing of construction activities and PAS implementation milestones. Expenditures are expected to increase in the fourth quarter as construction progresses and additional PAS implementation phases are completed.

Outlook: On track; expected to remain within budget after the proposed $310,000 transfer to Personnel Costs, given the $28.6 million favorable variance resulting from the timing of construction activities and PAS implementation milestones

Conclusion:

As of September 30, 2026, OCERS has utilized 46.3% of the amended FY26 administrative budget, which is below the pro-rated third quarter benchmark of 75%, primarily due to the timing of expenditures. The budget remains in compliance with the 21-basis point limit.

Approval of the proposed $310,000 budget transfer from Capital Expenditures to Personnel Costs is needed to fund the approved MOU salary increases, and Couty classification maintenance study adjustments anticipated through year-end. The recommended action reallocates existing funds, does not increase the FY26 administrative budget, and maintains compliance with the 21-basis point limit.

Submitted by:

ORANGE COUNTY OCERS J.R. - Approved

Jennifer Reyes, Director of Finance