

Memorandum

DATE: May 18, 2026
TO: Members of the Board of Retirement
FROM: Jennifer Reyes, Director of Finance
SUBJECT: FIRST QUARTER 2026 BUDGET TO ACTUALS REPORT

Written Report

Highlights

- **First Quarter Target Benchmark:** Approximately 25% of annual budget utilization
- **Actual Utilization:** 12.7% of total administrative budget used (87.3% remaining)
- **Variance:** Approximately \$13.2 million under pro-rated budget, primarily due to timing of expenditures across categories

	Actuals to Date	Budget	Budget Remaining (\$)	Budget Remaining (%)
Administrative Expenses				
Personnel Costs	\$ 7,694,649	\$ 28,687,727	\$ 20,993,078	73.2 %
Services and Supplies	3,049,527	17,745,315	14,695,788	82.8 %
Capital Expenditures	2,860,925	60,835,189	57,974,264	95.3 %
Grand Total	\$ 13,605,101	\$ 107,268,231	\$ 93,663,130	87.3 %

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.

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 points test) excludes investment related costs and expenditures for computer software, hardware, and related technology consulting services. The FY26 administrative budget represents 10.07 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

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 March 31, 2026, year-to-date actual administrative expenses were \$13,605,101 or 12.7% of the \$107,268,231 administrative budget, which is below the pro-rated first quarter benchmark of approximately 25% by approximately \$13.2 million, primarily reflecting the timing of expenditures across categories. A summary of all administrative expenses and explanations of significant cost drivers are below:

	Actual to Date	Budget	Budget Remaining (\$)	Budget Used (%)	Prorated Budget*	(Over)/Under Prorated Budget
Administrative Expenses						
Personnel Costs	\$ 7,694,649	\$ 28,687,727	\$ 20,993,078	26.8 %	\$ 7,171,932	\$ (522,717)
Services and Supplies						
Building Property Management and Maintenance	201,782	1,261,000	1,059,218	16.0 %	315,250	113,468
Due Diligence Expenses	12,878	120,000	107,122	10.7 %	30,000	17,122
Equipment - Rent and Leases	7,485	40,000	32,515	18.7 %	10,000	2,515
Equipment and Software	189,296	1,513,100	1,323,804	12.5 %	378,275	188,979
Infrastructure	547,377	3,837,181	3,289,804	14.3 %	959,295	411,918
Legal Services	189,721	930,000	740,279	20.4 %	232,500	42,779
Meetings and Related Costs	22,084	88,970	66,886	24.8 %	22,243	159
Memberships	44,107	103,043	58,936	42.8 %	25,761	(18,346)
Office Supplies	38,627	154,000	115,373	25.1 %	38,500	(127)
Postage and Delivery Costs	1,559	167,300	165,741	0.9 %	41,825	40,266
Printing Cost	940	120,000	119,060	0.8 %	30,000	29,060
Professional Services	1,522,862	7,861,015	6,338,153	19.4 %	1,965,254	442,392
Subscriptions and Periodicals	49,979	253,702	203,723	19.7 %	63,426	13,447
Telephone and Internet	79,730	393,500	313,770	20.3 %	98,375	18,645
Training and Related Costs	141,100	902,504	761,404	15.6 %	225,626	84,526
Total Services and Supplies	3,049,527	17,745,315	14,695,788	17.2 %	4,436,330	1,386,803
Administrative Expense - Subtotal	10,744,176	46,433,042	35,688,866	23.1 %	11,608,261	864,085
Capital Expenditures**	2,860,925	60,835,189	57,974,264	4.7 %	15,208,797	12,347,872
Grand Total	\$ 13,605,101	\$ 107,268,231	\$ 93,663,130	12.7 %	\$ 26,817,058	\$ 13,211,957

*Prorated budget represents 25% (3 months/12 months) of annual amended budget.

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

Personnel Costs

- **Actual:** \$7.7 million (26.8% of budget)
- **Variance:** \$522,717 over pro-rated benchmark
- **Drivers:**
 - \$221,000 in annual lump-sum payments made in January
 - \$563,000 in Investment incentive compensation awards (2nd installment for 2024, 1st installment for 2025), paid in March
 - Timing of leave-related payments and accrual adjustments

The variance above the first quarter benchmark is primarily attributable to timing-related payments that occur early in the year and do not reflect an increase in ongoing personnel costs.

Outlook: On track; expected to remain within budget

Services and Supplies

- **Actual:** \$3.0 million (17.2% of amended budget)
- **Variance:** \$1,386,803 under pro-rated budget
- **Drivers** (excluding variances less than \$5,000):
 - **Building Property Management and Maintenance (16.0% used, \$113,468 under pro-rated budget)**

Spending in this category is under budget primarily due to the timing of funding requests. These costs typically include monthly operating expenses and as-needed maintenance, both of which fluctuate throughout the year.
 - **Due Diligence Expenses (10.7% used, \$17,122 under pro-rated budget)**

Due diligence costs, which include investment team travel and on-site manager visits, were minimal in the first quarter. Travel is expected to increase in the following quarters as the investment team resumes more in-person engagements.
 - **Equipment and Software (12.5% used, \$188,979 under pro-rated budget)**

This category includes expenditures for IT hardware, security software, and investment-related tools. Purchases are typically made as needed throughout the year. Current underspending reflects the timing of implementing an information security account takeover solution and incurring less than anticipated costs for investment data and market risk subscription software.
 - **Infrastructure (14.3% used, \$411,918 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. A significant portion of the infrastructure budget is attributed to the PAS. Further PAS implementation and additional work phases are anticipated later this year, which will lead to increased related costs. This category is still expected to remain within the annual budget.
 - **Legal Services (20.4% used, \$42,779 under pro-rated budget)**

Legal expenditures for investments, litigation and tax counsel are utilized on an as-needed basis. Other litigation costs are under the pro-rated budget by approximately \$47,000. These costs are expected to rise in subsequent quarters but are projected to remain within budget.
 - **Memberships (42.8% used, \$18,346 over pro-rated budget)**

Several annual memberships are billed annually and renewed early in the year. This timing resulted in a modest overspend during the first quarter and is expected to diminish as the year continues and remain within budget for this category.
 - **Postage and Delivery (0.9% used, \$40,266 under pro-rated budget)**

Postage costs include the mailing of the quarterly newsletters, regular postage and postage related to delivery services. During the first quarter the postage meter was not replenished. Postage usage fluctuates based on current needs. This category will be monitored throughout the year to ensure alignment with the annual budget.
 - **Printing (0.8% used, \$29,060 under pro-rated budget)**

This category includes printing costs for the quarterly newsletters, Annual Comprehensive Financial Report (ACFR) and additional mailings as needed. During the first quarter, printing expenses were limited to brochures. The quarterly newsletter and the ACFR are scheduled for production later in the year. This category is expected to be within budget for the year.

- **Professional Services (19.4% used, \$442,392 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 42% of the total 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 (19.7% used, \$13,447 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 (20.3% used, \$18,645 under pro-rated budget)**
This category includes costs related to internet, telephone and mobile services for staff. The budget remains slightly under due to lower-than-expected internet service costs incurred during the first quarter. This line item is not expected to exceed budget by year-end.
- **Training and Related Costs (15.6% used, \$84,526 under pro-rated budget)**
Training expenses are below target as several learning and development initiatives are scheduled to launch later in the year. These include leadership development programs, executive coaching, and participation in professional conferences. Attendance at CALAPRS roundtables and academies is expected to increase in the coming months, and full budget utilization is projected by year-end.

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

Capital Expenditures

- **Actual:** \$2,860,925 (4.7% of amended budget)
- **Variance:** \$12,347,872 under pro-rated budget
- **Drivers:** All related to HQ development—project management and pre-construction services. Costs are expected to increase in the following quarters as the project transitions from pre-construction into active construction.

Outlook: On track; expected to remain within budget

Conclusion:

As of March 31, 2026, OCERS has utilized 12.7% of the amended FY26 administrative budget, below the pro-rated first quarter benchmark of approximately 25%, primarily due to the timing of expenditures, and complies with the 21-basis point test.

Submitted by:



ORANGE COUNTY
OCERS J.R. - Approved
ORANGE COUNTY EMPLOYMENT SERVICES

Jennifer Reyes, Director of Finance