

Memorandum

DATE: August 17, 2026
TO: Members of the Board of Retirement
FROM: Jennifer Reyes, Director of Finance
SUBJECT: SECOND QUARTER 2026 BUDGET TO ACTUALS REPORT

Written Report

Highlights

- **Second Quarter Target Benchmark:** Approximately 50% of annual budget utilization
- **Actual Utilization:** 28.6% of total administrative budget used (71.4% remaining)
- **Variance:** Approximately \$23.2 million under pro-rated budget, primarily due to timing of expenditures across categories

	Actuals to Date	Amended Budget	Amended Budget Remaining (\$)	Amended Budget Remaining (%)
Administrative Expenses				
Personnel Costs	\$ 14,294,011	\$ 28,687,727	\$ 14,393,716	50.2 %
Services and Supplies	6,686,756	16,687,740	10,000,984	59.9 %
Capital Expenditures	10,001,183	62,891,294	52,890,111	84.1 %
Grand Total	\$ 30,981,950	\$ 108,266,761	\$ 77,284,811	71.4 %

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. This transfer does not impact the 21-basis point test.

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 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 June 30, 2026, year-to-date actual administrative expenses were \$30,981,950 or 28.6% of the \$108,266,761 administrative budget, which is below the pro-rated second quarter benchmark of approximately 50% by approximately \$23.2 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	Amended Budget	Amended Budget Remaining (\$)	Amended Budget Used (%)	Amended Prorated Budget*	(Over)/Under Amended Prorated Budget
Administrative Expenses						
Personnel Costs	\$ 14,294,011	\$ 28,687,727	\$ 14,393,716	49.8 %	\$ 14,343,864	\$ 49,853
Services and Supplies						
Building Property Management and Maintenance	402,570	1,261,000	858,430	31.9 %	630,500	227,930
Due Diligence Expenses	42,374	120,000	77,626	35.3 %	60,000	17,626
Equipment - Rent and Leases	18,594	40,000	21,406	46.5 %	20,000	1,406
Equipment and Software	376,190	1,438,100	1,061,910	26.2 %	719,050	342,860
Infrastructure	1,252,630	3,214,606	1,961,976	39.0 %	1,607,303	354,673
Legal Services	481,263	930,000	448,737	51.7 %	465,000	(16,263)
Meetings and Related Costs	39,151	88,970	49,819	44.0 %	44,485	5,334
Memberships	59,581	103,043	43,462	57.8 %	51,522	(8,059)
Office Supplies	65,121	154,000	88,879	42.3 %	77,000	11,879
Postage and Delivery Costs	33,120	167,300	134,180	19.8 %	83,650	50,530
Printing Cost	26,015	120,000	93,985	21.7 %	60,000	33,985
Professional Services	3,402,209	7,511,015	4,108,806	45.3 %	3,755,507	353,298
Subscriptions and Periodicals	97,066	253,702	156,636	38.3 %	126,851	29,785
Telephone and Internet	149,506	393,500	243,994	38.0 %	196,750	47,244
Training and Related Costs	241,366	892,504	651,138	27.0 %	446,252	204,886
Total Services and Supplies	6,686,756	16,687,740	10,000,984	40.1 %	8,343,870	1,657,114
Administrative Expense - Subtotal	20,980,767	45,375,467	24,394,700	46.2 %	22,687,734	1,706,967
Capital Expenditures**	10,001,183	62,891,294	52,890,111	15.9 %	31,445,647	21,444,464
Grand Total	\$ 30,981,950	\$ 108,266,761	\$ 77,284,811	28.6 %	\$ 54,133,381	\$ 23,151,431

*Prorated budget represents 50% (6 months/12 months) of annual amended budget.

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

Personnel Costs

- **Actual:** \$14.3 million (49.8% of amended budget)
- **Variance:** \$49,853 under 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
 - Slight increase in leave balances

The personnel cost overage reported in the first quarter has largely been absorbed during the second quarter. As of mid-year, personnel costs are tracking closely to budget at 49.8% of the annual budget, indicating that earlier timing-related fluctuations have normalized.

Outlook: On track; expected to remain within budget

Services and Supplies

- **Actual:** \$6.7 million (40.1% of amended budget)
- **Variance:** \$1,657,114 under pro-rated budget
- **Drivers** (excluding variances less than \$5,000):
 - **Building Property Management and Maintenance (31.9% used, \$227,930 under pro-rated budget)**

Spending in this category is under budget 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 (35.3% used, \$17,626 under pro-rated budget)**

Due diligence expenses, which include investment team travel and on-site manager visits, increased during the second quarter as investment oversight activities resumed. Travel is expected to increase in the latter half of the year as the investment team resumes more in-person engagements.
 - **Equipment and Software (26.2% used, \$342,860 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 second 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 later in the year as these initiatives move forward. This category is expected to remain within the approved budget for the fiscal year.
 - **Infrastructure (39.0% used, \$354,673 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 allocated 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 expected to remain within the annual budget.
 - **Legal Services (51.7% used, \$16,263 over pro-rated budget)**

Legal expenditures for investments, litigation, and tax counsel are incurred on an as-needed basis. Through the second quarter, legal services related to investments and tax/general matters exceeded the pro-rated budget by approximately \$109,000, while Board and other litigation costs were approximately \$93,000 below the pro-rated budget. Overall legal spending is slightly above the pro-rated budget but is projected to remain within the approved budget for the fiscal year.
 - **Meetings and Related Costs (44.0% used, \$5,334 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 second 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.

- **Memberships (57.8% used, \$8,059 over pro-rated budget)**
Several annual memberships are billed annually and renewed early in the year. This timing resulted in a modest overage through the second quarter, which is expected to diminish over the remainder of the year. This category is projected to remain within the approved budget.
- **Office Supplies (42.3% used, \$11,879 under pro-rated budget)**
Office supplies include funding for office supplies, furniture and ergonomic items, as well as promotional materials for special events, including the Groundbreaking Ceremony. These items are purchased on an as-needed basis, and spending through the second quarter has been lower than anticipated on a pro-rated basis.
- **Postage and Delivery (19.8% used, \$50,530 under pro-rated budget)**
Postage costs include quarterly newsletter mailings, regular postage, and delivery services. Spending through the second quarter was below the pro-rated budget primarily due to the timing of postage replenishments and mailing activity. Postage usage fluctuates based on operational needs. This category will be monitored throughout the year to ensure alignment with the annual budget.
- **Printing (21.7% used, \$33,985 under pro-rated budget)**
This category includes printing costs for the quarterly newsletters, the Annual Comprehensive Financial Report (ACFR) and additional mailings as needed. Through the second quarter, printing expenses were limited to brochures and the Spring 2026 Newsletter. Spending was below the pro-rated budget due to the timing of the second quarter newsletter and ACFR production, which are scheduled later in the fiscal year. This category is expected to remain within budget for the year.
- **Professional Services (45.3% used, \$353,298 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 (38.3% used, \$29,785 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 (38.0% used, \$47,244 under pro-rated budget)**
This category includes costs related to internet, telephone and mobile services for staff. Spending through the second 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 (27.0% used, \$204,886 under pro-rated budget)**
Training expenses are below the pro-rated budget through the second 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 professional conferences and attendance at CALAPRS roundtables are expected to occur in subsequent quarters. 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; expected to remain within budget

Capital Expenditures

- **Actual:** \$10,001,183 (15.9% of amended budget)
- **Variance:** \$21,444,464 under pro-rated budget
- **Drivers:** Capital expenditures primarily relate to the HQ development project and the Pension Administration System (PAS) modernization project. Through the second quarter, spending included construction and project-related costs associated with the new headquarters, as well as initial 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 during the second half of the year as construction progresses and additional PAS implementation phases are completed.

Outlook: On track; expected to remain within budget

Conclusion:

As of June 30, 2026, OCERS has utilized 28.6% of the amended FY26 administrative budget, which is below the pro-rated second quarter benchmark of approximately 50%, primarily due to the timing of expenditures. The budget remains in compliance with the 21-basis point test.

Submitted by:



Jennifer Reyes, Director of Finance