

Memorandum

DATE: October 20, 2025
TO: Members of the Board of Retirement
FROM: Tracy Bowman, Director of Finance
SUBJECT: SECOND QUARTER 2025 AMENDED BUDGET TO ACTUALS REPORT

Written Report

Highlights

- **Second Quarter Target Benchmark:** 50% of amended budget used/50% remaining
- **Actual Utilization:** 44.7% used/55.3% remaining
- **Variance:** Approximately \$2.5 million under prorated budget

	Actuals to Date	Amended Budget	Amended Budget Remaining (\$)	Amended Budget Remaining (%)
Administrative Expenses				
Personnel Costs	\$ 12,934,981	\$ 28,109,519	\$ 15,174,538	54.0 %
Services and Supplies	6,428,049	16,456,093	10,028,044	60.9 %
Capital Expenditures	2,298,240	3,844,467	1,546,227	40.2 %
Grand Total	\$ 21,661,270	\$ 48,410,079	\$ 26,748,809	55.3 %

Background/Discussion

The Board of Retirement approved OCERS' Administrative Budget for Fiscal Year 2025 (FY25) on November 18, 2024, for \$47,957,279 to fund administrative expenses. Subsequently, on February 19, 2025, the Board of Retirement approved a budget amendment of \$452,800 for the Microsoft 365 Commercial Cloud migration project. This budget amendment increased the total FY25 administrative budget from \$47,957,279 to \$48,410,079. On May 19th, the Board of Retirement approved a budget transfer of \$94,467 from the Services and Supplies budget category to the Capital Expenditures budget category for the purchase of Wi-Fi hardware and equipment. This transfer does not impact the 21-basis points 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 points test) excludes investment related costs and expenditures for computer software, hardware, and related technology consulting services. The FY25 amended administrative budget represents 10.85 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

For the quarter ended June 30, 2025, year-to-date actual administrative expenses were \$21,661,270 or 44.7% of the \$48,410,079 administrative budget, which is below the 50% target set for the end of the second quarter by approximately \$2.5 million. 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	\$ 12,934,981	\$ 28,109,519	\$ 15,174,538	46.0 %	\$ 14,054,761	\$ 1,119,780
Services and Supplies						
Building Property Management and Maintenance	383,089	1,270,000	886,911	30.2 %	635,000	251,911
Due Diligence Expenses	23,145	120,000	96,855	19.3 %	60,000	36,855
Equipment - Rent and Leases	18,912	56,100	37,188	33.7 %	28,050	9,138
Equipment and Software	339,671	871,202	531,531	39.0 %	449,852	110,181
Infrastructure	930,650	2,856,600	1,925,950	32.6 %	1,428,300	497,650
Legal Services	581,160	1,405,000	823,840	41.4 %	702,501	121,341
Meetings and Related Costs	31,915	75,500	43,585	42.3 %	37,750	5,835
Memberships	67,894	118,160	50,266	57.5 %	59,080	(8,814)
Office Supplies	44,355	125,000	80,645	35.5 %	62,500	18,145
Postage and Delivery Costs	71,242	151,500	80,258	47.0 %	75,750	4,508
Printing Cost	47,511	125,000	77,489	38.0 %	62,500	14,989
Professional Services	3,407,562	7,800,531	4,392,969	43.7 %	3,919,755	512,193
Subscriptions and Periodicals	97,533	231,800	134,267	42.1 %	115,900	18,367
Telephone and Internet	147,115	344,200	197,085	42.7 %	172,100	24,985
Training and Related Costs	236,295	905,500	669,205	26.1 %	452,751	216,456
Total Services and Supplies	6,428,049	16,456,093	10,028,044	39.1 %	8,261,789	1,833,740
Administrative Expense - Subtotal	19,363,030	44,565,612	25,202,582	43.4 %	22,316,550	2,953,520
Capital Expenditures**	2,298,240	3,844,467	1,546,227	59.8 %	1,888,495	(409,745)
Grand Total	\$ 21,661,270	\$ 48,410,079	\$ 26,748,809	44.7 %	\$ 24,205,045	\$ 2,543,775

*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:** \$12.9 million (46.0% of amended budget)
- **Variance:** \$1,119,780 under prorated budget
- **Drivers:**
 - Annual lump-sum payments made in January
 - \$440,000 in Investment incentive compensation awards (2nd installment for 2023, 1st installment for 2024)
 - Slight increase in leave balances

Outlook: On track; expected to remain within budget

Services and Supplies

- **Actual:** \$6.4 million (39.1% of amended budget)
- **Variance:** \$1,833,740 under prorated budget
- **Drivers** (excluding variances less than \$5,000 under prorated budget):
 - **Building Property Management and Maintenance (30.2% used, \$251,911 under prorated 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. During the second quarter, OCERS transitioned to processing all building-related payments in-house.
 - **Due Diligence Expenses (19.3% used, \$36,855 under prorated budget)**
Due diligence expenses, which include investment team travel and on-site manager visits, continued to be under budget at the end of the second quarter. Travel is expected to increase in the latter half of the year as the investment team resumes more in-person engagements.
 - **Equipment—Rent and Leases (33.7% used, \$9,138 under prorated budget)**
Rents and leases include copier and postage machine rental costs, along with usage-based costs such as per-copy charges. Through the second quarter, expenses are under budget primarily due to increased reliance on electronic documents, reducing the need for printed materials.
 - **Equipment and Software (39.0% used, \$110,181 under prorated 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 (32.6% used, \$497,650 under prorated 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 services. A significant portion of the infrastructure budget is attributed to the PAS, including change orders for system enhancements and defect remediation which have not yet been incurred.
 - **Legal Services (41.4% used, \$121,341 under prorated budget)**
Legal expenditures for investments, litigation and tax counsel are utilized on an as-needed basis. Investment legal services are higher than the prorated budget by approximately \$42,000 through the second quarter. General board, tax counsel and outside counsel services, and other litigation costs are under the prorated budget by approximately \$163,000. These costs are expected to rise in subsequent quarters, but are projected to remain within budget.
 - **Meetings and Related Costs (42.3% used, \$5,835 under prorated budget)**
Meetings and related costs include board and committee-related meetings, as well as external meetings attended by board members, including SACRS and visits with state legislators.

- **Memberships (57.5% used, \$8,814 over prorated budget)**
Several annual memberships are billed annually and renewed in the first half of the year. This timing resulted in a modest overspend through the second quarter and is expected to diminish as the year continues and remain within budget for this category.
- **Office Supplies (35.5% used, \$18,145 under prorated budget)**
Office supplies includes funding for office supplies, furniture and ergonomic items, as well as promotional materials, such as items in recognition of OCERS 80th Anniversary. These items are purchased on an as-needed basis, and through the second quarter, spending has been lower than anticipated on a prorated basis.
- **Printing Cost (38.0% used, \$14,989 under prorated budget)**
This category includes printing costs for the quarterly newsletters, Annual Comprehensive Financial Report (ACFR) and additional mailings as needed. Through the second quarter two of the quarterly newsletter have been printed; printing of the ACFR will occur in the third quarter. This category is expected to be within budget for the year.
- **Professional Services (43.7% used, \$512,193 under prorated budget)**
Consulting and professional services are used on an as-needed basis which results in costs fluctuating throughout the year. Annual contracts for Investment consulting services represent approximately 39% of the total professional services budget. Other services include actuarial services, the continuation of the master repository project, disability medical examinations, technology consulting, continuation of robotic process automation, and PAS project oversight and consulting. Underutilization of the budget is largely driven by project timing. This category is expected to be within budget for the year.
- **Subscriptions and Periodicals (42.1% used, \$18,367 under prorated 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.
- **Telephone and Internet (42.7% used, \$24,985 under prorated budget)**
This category includes costs related to internet, telephone and mobile services for staff. Through the second quarter, expenses are under budget primarily due to lower internet service costs of approximately \$20,000, and slightly lower phone expenses of \$5,000. This line item is not expected to exceed budget by year-end.
- **Training and Related Costs (26.1% used, \$216,456 under prorated 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 budget utilization is projected to increase by year-end.

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

Capital Expenditures

- **Actual:** \$2,298,240 (59.8% of amended budget)
- **Variance:** \$409,745 over prorated budget

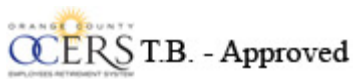
- **Drivers:**
 - HQ development—program management and preconstruction services

Outlook: The replacement headquarters project is progressing ahead of schedule. An additional budget amendment for capital expenditures was requested in the third quarter to maintain momentum on the project. This amendment provides funding for work to complete 100% construction documents, permit fees, dry utilities designs, application fees, and a lease termination payment.

Conclusion:

As of June 30, 2025, OCERS has utilized 44.7% of the amended FY25 administrative budget, under the 50% target, and complies with the 21-basis point test.

Submitted by:



Tracy Bowman, Director of Finance