

Memorandum

DATE: May 19, 2025
TO: Members of the Board of Retirement
FROM: Tracy Bowman, Director of Finance
SUBJECT: FIRST QUARTER 2025 AMENDED BUDGET TO ACTUALS REPORT

Written Report

Highlights

- **First Quarter Target Benchmark:** 25% of amended budget used/75% remaining
- **Actual Utilization:** 21.9% used/78.1% remaining
- **Variance:** Approximately \$1.5 million under pro-rated budget

	Actuals to Date	Amended Budget	Amended Budget Remaining (\$)	Amended Budget Remaining (%)
Administrative Expenses				
Personnel Costs	\$ 6,799,622	\$ 28,109,519	\$ 21,309,897	75.8 %
Services and Supplies	2,842,246	16,550,560	13,708,314	82.8 %
Capital Expenditures	955,376	3,750,000	2,794,624	74.5 %
Grand Total	\$ 10,597,244	\$ 48,410,079	\$ 37,812,835	78.1 %

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.

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 March 31, 2025, year-to-date actual administrative expenses were \$10,597,244 or 21.9% of the \$48,410,079 administrative budget, which is below the 25% target set for the end of the first quarter by approximately \$1.5 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	\$ 6,799,622	\$ 28,109,519	\$ 21,309,897	24.2 %	\$ 7,027,383	\$ 227,761
Services and Supplies						
Building Property Management and Maintenance	185,498	1,270,000	1,084,502	14.6 %	317,500	132,002
Due Diligence Expenses	10,475	120,000	109,525	8.7 %	30,000	19,525
Equipment - Rent and Leases	9,953	56,100	46,147	17.7 %	14,025	4,072
Equipment and Software	164,797	911,100	746,303	18.1 %	227,775	62,978
Infrastructure	465,648	2,856,600	2,390,952	16.3 %	714,150	248,502
Legal Services	198,773	1,405,000	1,206,227	14.1 %	351,250	152,477
Meetings and Related Costs	15,854	75,500	59,646	21.0 %	18,875	3,021
Memberships	39,196	118,160	78,964	33.2 %	29,540	(9,656)
Office Supplies	26,932	125,000	98,068	21.5 %	31,250	4,318
Postage and Delivery Costs	42,389	151,500	109,111	28.0 %	37,876	(4,513)
Printing Cost	22,960	125,000	102,040	18.4 %	31,250	8,290
Professional Services	1,407,450	7,855,100	6,447,650	17.9 %	1,963,775	556,325
Subscriptions and Periodicals	54,733	231,800	177,067	23.6 %	57,950	3,217
Telephone and Internet	76,944	344,200	267,256	22.4 %	86,050	9,106
Training and Related Costs	120,644	905,500	784,856	13.3 %	226,376	105,732
Total Services and Supplies	2,842,246	16,550,560	13,708,314	17.2 %	4,137,642	1,295,396
Administrative Expense - Subtotal	9,641,868	44,660,079	35,018,211	21.6 %	11,165,025	1,523,157
Capital Expenditures**	955,376	3,750,000	2,794,624	25.5 %	937,500	(17,876)
Grand Total	\$ 10,597,244	\$ 48,410,079	\$ 37,812,835	21.9 %	\$ 12,102,525	\$ 1,505,281

*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:** \$6.8 million (24.2% of amended budget)
- **Variance:** \$227,761 under 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:** \$2.8 million (17.2% of amended budget)
- **Variance:** \$1,295,396 under budget
- **Drivers** (excluding variances under budget and less than \$5,000):
 - **Building Property Management and Maintenance (14.6% used, \$132,002 under budget)**

Spending in this category is under budget primarily due to the timing of funding requests from OCERS' property manager. 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 (8.7% used, \$19,525 under 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 (18.1% used, \$62,978 under 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 (16.3% used, \$248,502 under 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 (14.1% used, \$152,477 under budget)**

Legal expenditures for investments, litigation and tax counsel are utilized on an as-needed basis. Investment legal services are lower than the prorated budget by approximately \$35,000 during the first quarter. General board, tax counsel and outside counsel services, and other litigation costs are under the prorated budget by approximately \$117,000. These costs are expected to rise in subsequent quarters, but are projected to remain within budget.
 - **Memberships (33.2% used, \$9,656 over budget)**

Several annual memberships are billed annually and renew 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 (28.0% used, \$4,513 over 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 replenished. Postage usage fluctuates based on current needs. This category will be monitored throughout the year to ensure alignment with the annual budget.
 - **Printing (18.4% used, \$8,290 under budget)**

This category includes printing costs for the quarterly newsletters, Annual Comprehensive Financial Report (ACFR) and additional mailings as needed. During the first quarter, the only cost incurred was

for the printing of the quarterly newsletter; printing of the ACFR will occur later in the year. This category is expected to be within budget for the year.

- **Professional Services (17.9% used, \$556,325 under 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.
- **Telephone and Internet (22.4% used, \$9,106 under 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, offset by slightly higher mobile phone expenses due to an increase in the number of OCERS issued phones. This line item is not expected to exceed budget by year-end.
- **Training and Related Costs (13.3% used, \$105,732 under 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

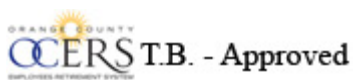
- **Actual:** \$955,376 (25.5% of amended budget)
- **Variance:** \$17,876 over budget
- **Drivers:** All related to HQ development—program management and preconstruction services

Outlook: Slight timing variance in the first quarter; expected to remain within the \$3.75 million annual budget

Conclusion:

As of March 31, 2025, OCERS has utilized 21.9% of the amended FY25 administrative budget, under the 25% target, and complies with the 21-basis point test.

Submitted by:



Tracy Bowman, Director of Finance