

Memorandum

DATE: November 17, 2025
TO: Members of the Board of Retirement
FROM: Tracy Bowman, Director of Finance
SUBJECT: THIRD QUARTER 2025 AMENDED BUDGET TO ACTUALS REPORT

Written Report

Highlights

- **Third Quarter Target Benchmark:** 75% of amended budget used/25% remaining
- **Actual Utilization:** 64.0% used/36.0% remaining
- **Variance:** Approximately \$5.7 million under prorated budget

| | Actuals to Date | Amended Budget | Amended Budget Remaining (\$) | Amended Budget Remaining (%) |
|--------------------------------|----------------------|----------------------|-------------------------------------|------------------------------------|
| Administrative Expenses | | | | |
| Personnel Costs | \$ 19,356,444 | \$ 28,109,519 | \$ 8,753,075 | 31.1 % |
| Services and Supplies | 9,420,073 | 16,456,093 | 7,036,020 | 42.8 % |
| Capital Expenditures | 4,122,490 | 6,844,467 | 2,721,977 | 39.8 % |
| Grand Total | \$ 32,899,007 | \$ 51,410,079 | \$ 18,511,072 | 36.0 % |

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. On February 19, 2025, the Board approved a budget amendment of \$452,800 for the Microsoft 365 Commercial Cloud migration project, increasing the total FY25 administrative budget to \$48,410,079. On May 19, 2025, the Board approved a budget transfer of \$94,467 from the Services and Supplies budget category to the Capital Expenditures budget category to fund the purchase of Wi-Fi hardware and equipment. On August 27, 2025, the Board approved an additional budget amendment of \$3.0 million to the Capital Expenditures budget to fund the completion of construction documents for the new headquarters building and to settle a lease termination agreement. This amendment increased the total FY25 administrative budget to \$51,410,079.

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 September 30, 2025, year-to-date actual administrative expenses were \$32,899,007 or 64.0% of the \$51,410,079 administrative budget, which is below the 75% target set for the end of the third quarter by approximately \$5.7 million. 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 | \$ 19,356,444 | \$ 28,109,519 | \$ 8,753,075 | 68.9 % | \$ 21,082,140 | \$ 1,725,696 |
| Services and Supplies | | | | | | |
| Building Property Management and Maintenance | 563,935 | 1,270,000 | 706,065 | 44.4 % | 952,500 | 388,565 |
| Due Diligence Expenses | 40,730 | 120,000 | 79,270 | 33.9 % | 90,000 | 49,270 |
| Equipment - Rent and Leases | 31,848 | 56,100 | 24,252 | 56.8 % | 42,075 | 10,227 |
| Equipment and Software | 466,096 | 871,202 | 405,106 | 53.5 % | 660,528 | 194,432 |
| Infrastructure | 1,442,027 | 2,856,600 | 1,414,573 | 50.5 % | 2,142,450 | 700,423 |
| Legal Services | 814,047 | 1,405,000 | 590,953 | 57.9 % | 1,053,750 | 239,703 |
| Meetings and Related Costs | 53,755 | 75,500 | 21,745 | 71.2 % | 56,625 | 2,870 |
| Memberships | 86,444 | 118,160 | 31,716 | 73.2 % | 88,620 | 2,176 |
| Office Supplies | 73,857 | 125,000 | 51,143 | 59.1 % | 93,750 | 19,893 |
| Postage and Delivery Costs | 71,518 | 151,500 | 79,982 | 47.2 % | 113,625 | 42,107 |
| Printing Cost | 51,804 | 125,000 | 73,196 | 41.4 % | 93,750 | 41,946 |
| Professional Services | 5,013,585 | 7,800,531 | 2,786,946 | 64.3 % | 5,860,145 | 846,560 |
| Subscriptions and Periodicals | 123,751 | 231,800 | 108,049 | 53.4 % | 173,851 | 50,100 |
| Telephone and Internet | 225,065 | 344,200 | 119,135 | 65.4 % | 258,150 | 33,085 |
| Training and Related Costs | 361,611 | 905,500 | 543,889 | 39.9 % | 679,125 | 317,514 |
| Total Services and Supplies | 9,420,073 | 16,456,093 | 7,036,020 | 57.2 % | 12,358,944 | 2,938,871 |
| Administrative Expense - Subtotal | 28,776,517 | 44,565,612 | 15,789,095 | 64.6 % | 33,441,084 | 4,664,567 |
| Capital Expenditures** | 4,122,490 | 6,844,467 | 2,721,977 | 60.2 % | 5,116,480 | 993,990 |
| Grand Total | \$ 32,899,007 | \$ 51,410,079 | \$ 18,511,072 | 64.0 % | \$ 38,557,564 | \$ 5,658,557 |

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

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

Personnel Costs

- **Actual:** \$19.4 million (68.9% of amended budget)
- **Variance:** \$1.7 million under prorated budget
- **Drivers:**
 - Current vacancy rate is 5.9% with 8 vacant positions, 10 separations have occurred during the year due to retirements and other separations. Additionally, many positions originally budgeted for the full year were filled later in the year.
 - 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:** \$9.4 million (57.2% of amended budget)
- **Variance:** \$2.9 million under prorated budget
- **Drivers** (excluding variances less than \$5,000 under prorated budget):
 - **Building Property Management and Maintenance (44.4% used, \$388,565 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. OCERS has transitioned to processing all building-related payments in-house.
 - **Due Diligence Expenses (33.9% used, \$49,270 under prorated budget)**
Due diligence expenses, which include investment team travel and on-site manager visits, remained under budget at the end of the third quarter. Travel is expected to increase through the fall as the investment team schedules more in-person engagements.
 - **Equipment—Rent and Leases (56.8% used, \$10,227 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 third quarter, expenses are under budget primarily due to increased reliance on electronic documents, reducing the need for printed materials.
 - **Equipment and Software (53.5% used, \$194,432 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 (50.5% used, \$700,423 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 (57.9% used, \$239,703 under prorated budget)**
Legal expenditures for investments, litigation and tax counsel are utilized on an as-needed basis. Investment legal services are over the prorated budget by approximately \$3,000 through the third quarter. General board, tax counsel and outside counsel services, and other litigation costs are under the prorated budget by approximately \$242,000. These costs continue to rise but are projected to remain within budget.

- **Office Supplies (59.1% used, \$19,893 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 third quarter spending has been lower than anticipated on a prorated basis.
- **Postage and Delivery Costs (47.2% used, \$42,107 under prorated budget)**
Postage and delivery costs include the mailing of member newsletters, ad-hoc mailings, and regular postage and delivery services. No additional mailings have occurred during the year, and the third member newsletter is scheduled for delivery in the fourth quarter. Regular postage and delivery costs have been lower than anticipated on a prorated basis.
- **Printing Cost (41.4% used, \$41,946 under prorated budget)**
This category includes printing costs for member newsletters, the Annual Comprehensive Financial Report (ACFR) and additional mailings as needed. Through the third quarter two newsletters and the ACFR have been printed. One additional newsletter is scheduled for the fourth quarter. This category is expected to remain within budget for the year.
- **Professional Services (64.3% used, \$84,560 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 remain within budget for the year.
- **Subscriptions and Periodicals (53.4% used, \$50,100 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 (65.4% used, \$33,085 under prorated budget)**
This category includes costs related to internet, telephone and mobile services for staff. Through the third quarter, expenses are under budget primarily due to lower internet service costs of approximately \$28,000, and lower phone expenses of \$5,000. This line item is expected to remain within budget for the year.
- **Training and Related Costs (39.9% used, \$317,514 under prorated budget)**
Training expenses are below target as several learning and development initiatives are scheduled to launch later in the year. These trainings 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:** \$4.1 million (60.2% of amended budget)
- **Variance:** \$1.0 million under prorated budget

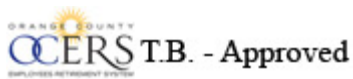
- **Drivers:**
 - HQ development—program management and preconstruction services

Outlook: The replacement headquarters project is progressing ahead of schedule. An additional budget amendment for capital expenditures was approved during 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 September 30, 2025, OCERS has utilized 64.0% of the amended FY25 administrative budget, under the 75% target, and complies with the 21-basis point test.

Submitted by:



Tracy Bowman, Director of Finance