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San Bernardino County Employees'  
Retirement Association

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Last Approved	N/A
Effective	Upon Approval
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Next Review	3 years after approval

Area	Administration
Applicability	SBCERA systemwide

## Expenditure Budget Approval Policy

POLICY NO. 013

### I. Purpose

The purpose of this Expenditure Budget Approval Policy is to establish the policy by which the annual budget covering the entire expenditures of the retirement system of the San Bernardino County Employees' Retirement Association (SBCERA) is presented to, and approved by the Board of Retirement (Board).

### II. Objectives

1. To provide the Board and the Chief Executive Officer (CEO) with a clear process for establishing its annual budget covering the entire expenditures of the retirement system;
2. To adopt an annual administrative budget in compliance with Government Code section 31580.2 (requires the budget be limited to a percentage of the Actuarial Accrued Liability of the retirement system); and,
3. To ensure the annual budget is presented and adopted in a timely and transparent manner.

### III. Guidelines

1. General Provisions
  - A. The development of the proposed expenditure budget is the responsibility of the CEO.
  - B. The adoption of the annual expenditure budget is the responsibility of the Board.

## Exhibit A: Page 2

### 2. Proposed Expenditure Budget Presentation

A. The format of the proposed expenditure budget shall be presented in the following functional areas:

- I. Administrative Expenditure Budget (appropriations that are limited pursuant to Government Code section 31580.2)
- II. Non-Administrative Expenditure Budget (appropriations that are not limited pursuant to Government Code section 31580.2) organized by function as follows:
  - i. Actuarial
  - ii. Legal
  - iii. Technology
  - iv. Investment
  - v. Other (if applicable)

B. Each functional area shall be broken down into the following budget categories of expenditures (if applicable):

- a. Personnel Costs
- b. Professional Services
- c. Operational Services and Supplies
- d. Capital Expenditures (capital assets as defined in Board Administration Policy No. 019, when effective)

C. For each category of expenditure, the following information shall be presented, but not limited to:

- i. Approved Modified Budget – the budget authorization, as modified by the Board, for the current fiscal year.
- ii. Estimated Actual – an estimate for actual expenditures expected for the current fiscal year.
- iii. Proposed Budget – the proposed budget amount for the upcoming fiscal year.
- iv. Variance from Prior Year Budget – the amount of variance between the Proposed Budget and the Approved Modified Budget.
- v. % Change – the percentage change in the Variance from Prior Year Budget over the Approved Modified Budget.
- vi. For the Administrative Expenditure Budget Only:
  - i. Total % of Authorized Budget – the percentage of the Proposed Budget over the total budget authorization for the upcoming fiscal year.
  - ii. Total % of Appropriated Budget – the percentage of the Proposed Budget over the total appropriations for the upcoming fiscal year.

## Exhibit A: Page 3

- vii. Appendix: Line item detail for each functional area, broken down for each category of expenditure, shall be presented as supplementary information in the appendix section of the proposed expenditure budget.
- D. In the Administrative Expenditure Budget, the Unrestricted Contingency Funds (the difference between the budgeted appropriated expenditures and the total allowable expenditures per statute) shall be set aside as a separate category line item. Those funds are available for further appropriation with Board approval.
- E. To ensure all expenditures of SBCERA are reported to the Board, the following provisions apply to those expenditures hereby excluded from the budget requirements above:
  - I. Expenditures for benefits and refunds paid to members and beneficiaries shall be excluded from the expenditure budget, as those expenditures are not discretionary, they are paid pursuant to Plan requirements. However, to assure full transparency, these expenditures shall be provided in the budget report for informational purposes only, not as a budgetary line item, reflecting estimated actual costs for the current fiscal year compared to a projection for actual costs for the upcoming fiscal year.
  - II. Expenditures for indirect investment costs that will be deducted directly from investment returns, such as indirect management fees, indirect investment expenses, foreign income tax and security lending fees, shall be excluded from the expenditure budget, as those expenditures are included in the net asset value of the investment return reports presented to the Board by staff and/or SBCERA's investment consultant on a monthly basis. However, to assure full transparency, these expenditures shall be provided in the budget report for informational purposes only, not as a budgetary line item, reflecting estimated actual costs for the current fiscal year compared to a projection for actual costs for the upcoming fiscal year.

### 3. Budget Authorization

- A. California Government Code section 31580.2 requires SBCERA to prepare and approve an administrative expenditure budget covering the entire administrative expense of the retirement system. The expense incurred in any fiscal year may not exceed a set percentage of the Actuarial Accrued Liability (AAL) of the retirement system.
- B. Certain expenses of the retirement system are excluded from the budget limits described above, including but not limited to, California Government Code sections 31522.7, 31529.9, 31596.1 and 31580.2(b), which respectively excludes legal services costs, investment costs, actuarial services costs, custodial banking fees and certain technology expenditures. Therefore, those expenditures are budgeted for separately in the Non-Administrative Expenditure Budget (except where excluded in section 2. E. above).
- C. The AAL, as determined by the system's actuary, in November each year, will be used to calculate the following fiscal year's administrative budget authorization. In November, the AAL will also be reviewed for the current fiscal year to determine the

following:

- I. If the AAL has increased, the budget authorization for the current fiscal year may not be increased without approval of the Board.
  - II. If the AAL has decreased, the CEO (or designee) shall present a revised budget authorization to the Board, by January of the following year, if necessary to remain in compliance with the limitation set forth in Government Code section 31580.2.
- D. The CEO is granted authority to transfer funds within a budget category, to accomplish the goal of administering the operations of SBCERA. Funds may not be moved from one budget category to another without approval from the Board except as follows:
- I. As authorized in Board Administration Policy 016 – SBCERA Position Dual-Fill Policy.
  - II. The Non-Administrative Expenditure Budget is organized by function (actuarial, legal, technology, investments and other) and then by budget category. When the same budget category exists in more than one function, the CEO is granted authority to transfer funds between functions, as long as the transfer of funds remains in the same budget category.

## IV. Adoption, Amendment and Review

- A. The annual budget for the upcoming fiscal year shall be approved by the Board no later than June of each year.
- B. The CEO (or designee) may request the Board to amend the budget for the current fiscal year by presenting reasons for the budget amendment, its expected operational impact, and the cost of the amendment for the remainder of the current fiscal year and future fiscal years (if applicable).
- C. The CEO (or designee) will provide quarterly budget review reports to the Board with comments on deviations from the adopted budget for each category of expenditures for both functional areas.

### Approval Signatures

Step Description	Approver	Date
Chief Counsel Review	Barbara Hannah: Chief Counsel	Pending
	Amy McNerny: Chief Financial Officer	7/9/2024

## Applicability

SBCERA, SBCERA Internal

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