

Budget Policy

Purpose

~~This document sets forth the budget policy (Policy) to ensure CalPERS budgeting practices are in accordance with responsible fiscal management for the allocation and utilization of resources to meet the organization's mission, vision, and values.~~

This policy documents the general framework for the development of CalPERS' annual and mid-year budgets.

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Background

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Introduction

The CalPERS budget is an annual financial plan ~~and its purpose is to promote the long term economic sustainability and responsible resource allocation to meet CalPERS' mission~~ approved by the Board of providing and maintaining Administration (Board) that sets the funding levels available to CalPERS to meet operational needs for the delivery of retirement and health security for its care benefits to members-

~~As a financial plan, the budget is the tangible translation of CalPERS' mission, vision and values into practical actions and service delivery, and their beneficiaries. The budget is made up~~ Financial Planning, Policy, and Budgeting Division (FPPB), under direction of five budgetary funds: Operating ~~the Chief Financial Officer (CFO), is responsible for developing CalPERS' budget and monitoring expenditures.~~

~~Each April, CalPERS proposes to the Board an annual budget detailing the fiscal resources needed for the fiscal year running July 1 through June 30. Subsequently each November, CalPERS proposes a mid-year revision that adjusts funding levels as necessary to meet new, critical, or unforeseen needs, to reflect collectively bargained compensation and benefit changes, and to update enrollment-driven expenditures. The Board approves CalPERS' budget as authorized by Finance and Administration Committee Delegation Resolution Number FA-19-01.~~

~~The budget includes six expenditure categories: Administrative Operating Costs, Investment Operating Costs, Enterprise Projects, Headquarters Building Costs, Investment External Management Fees, and Third-Party Administrator Fees, that comprises the CalPERS Total Budget.~~

~~The annual budget year is for the -~~ Administrative Operating Costs are allocated to the Public Employees' Retirement Fund (PERF) and twelve-month period from July 1st to June 30th, affiliate funds pursuant to a methodology that matches expenses to the funds that receive the benefit. The allocation sets CalPERS' one-year appropriation authority for administrative expenses and is provided to the State Controllers' Office to effectuate the payment and transfer of funds to pay administrative expenses.

Strategic Objective

~~The objective of this Policy is to set out the budgeting principles for the preparation of the budget, the process for the budget formulation, and the responsibilities in the preparation, approval, and implementation of the total budget.~~

~~The budget process consists of activities that encompass the development, implementation, and evaluation of a multi-year financial plan for the provision of services that allocate resources on the basis of identified goals. An effective budget process includes the following principles:~~

- ~~• Incorporates a long-term perspective,~~
 - ~~• Establishes linkages to CalPERS' Strategic Plan and its organizational goals,~~
 - ~~• Focuses budget decisions on results and outcomes,~~
 - ~~• Involves and promotes effective communication throughout the budget process, and~~
- It is CalPERS' objective that its budget and resource requests align with and support Strategic Goals, Business Plan Initiatives, and Core Values.

Policy

It is CalPERS' policy to develop and seek Board approval of an annual budget that:

- Maintains fiscal controls over the management of resources and operating efficiencies-
 - Links resource requests to Strategic Goals and Business Plan Initiatives
 - Utilizes sound data to support and inform expenditure levels
- Involves and promotes collaboration and communication across the organization

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~~The CalPERS' Total Budget expresses, in terms of dollars, the funded programs and plans for the budget year and the respective trusts necessary to finance these programs and plans. The budget is a primary instrument of fiscal control and accordingly, under the direction of the Chief Financial Officer (CFO), the CalPERS' Financial Office is responsible for the development and monitoring of CalPERS' Total Budget.~~

Policy

~~This document sets forth the fiscal policy for the administration of the budget to ensure that the budgeting practices of the organization maintain a fiscally sustainable balanced budget that recognizes the fiduciary duty owed to its members.~~

~~The Finance and Administration Committee (Committee) intends for the Policy to be dynamic document which will be reviewed annually and modified periodically for approval to reflect staff and Committee recommendations for changes to the Policy.~~

Criteria

~~The CalPERS Board of Administration (Board) ensures that the enterprise priorities established through the CalPERS' Plan are reflected in the annual budget.~~

~~Through the budget process, CalPERS staff address efforts to mitigate certain risks throughout the enterprise and align the budget structure with the enterprise's priorities, mission, and objectives.~~

~~Criteria used by the organization to prioritize resources for the budget include, but are not limited to:~~

- ~~• Mitigating risk~~
- ~~• Identifying opportunities for cost efficiencies~~
- ~~• Alignment and review with the Strategic Plan and Business Plan~~
- ~~• Direction of the CalPERS Board of Administration~~
- ~~• Deemed to be legally mandated~~

Process

~~The annual budget process is integrated with the short and long range planning processes of the CalPERS organization. The enterprise will maintain a fiscally sustainable budget that translates the intentions of the CalPERS' Strategic Plan objectives into an itemized, authorized, and systematic plan of operation.~~

~~Preparation of the annual operating budget is coordinated through the Financial Office under the direction of the CFO. It is the intent of the enterprise that budget preparations involve staff responsible for program operations to the level of the division/support unit. The Financial Office is available as a resource to provide accurate financial data and participate in division's budget discussions.~~

Process, continued

Each division is responsible for submitting budget requests which are presented to the Executives for review and submitted to the Financial Office for analysis. After review and analysis of the preliminary budget data, budget adjustments are made and the budget is prepared for submission to the Committee for review and approval.

Two formal budget processes occur during the fiscal year; an annual budget process and a mid-year review. While the annual budget process is designed to develop the twelve-month budget for approval prior to the start of the fiscal year, the mid-year budget review is to address enterprise critical, unforeseen, and emergency resources not included in the current fiscal year budget. The mid-year budget approvals are effective January 1st of the current fiscal year.

Both the annual and mid-year budget requests go through a formal submission process and are required to meet established criteria for inclusion prior to submission to the Committee and CalPERS Board for approval.

The CalPERS Board has the fiduciary authority to approve enterprise-wide budget and resource allocations for all funds. However, the Contingency Reserve Fund (CRF) portion of the CalPERS Health Program also requires legislative approval for funding and position authority. A budget plan is developed for the CRF each fiscal year and submitted to the Department of Finance for approval and inclusion in the Governor's Budget. The goal is to develop a budget plan to meet the operational needs of the CRF within the authorized budgeted levels and to comply with any restrictions or limitations enacted by the Legislature.

Financial Forecasting

Financial forecasting is an integral part of the budget process throughout the year and for future years. It is a fiscal management practice that estimates future financial outcomes using historical information, statistical data, and external economic indicators.

Throughout the year, forecasting is used to ensure expenses do not exceed the approved budget. In collaboration with the program areas, the Financial Office prepares quarterly projections for management to analyze and monitor anticipated expenses for the remaining months of the fiscal year. This assists the Committee in identifying efficiencies in the budget and applying cost-saving methodologies in an effort to deliver a cost-effective budget to the Board.

Responsibilities

It is the responsibility of CalPERS' management to maintain an effective formal budget review and approval process with the appropriate system of internal controls that is in compliance with all applicable laws and regulations.

In accordance with the Finance and Administration Committee Delegation Resolution, the Committee is authorized to:

- ~~Oversee the budget process~~
- ~~Approve enterprise wide budgets and resource allocations~~

Upon recommendation by the Committee, the CalPERS Board provides approval of all authorized appropriations and staffing levels.

Divisions are responsible for:

- ~~Developing operating and formal budget requests (FBR) with a long term perspective and reference to CalPERS' Strategic and Business Plans with measurable performance results.~~
- ~~Streamlining workflows and identifying efficiencies to ensure activities and resources are allocated to meet the organization's highest priorities.~~
- ~~Providing information deemed necessary to prepare the budget.~~
- ~~Reviewing, monitoring, and controlling expenditures such that the rate of expenditures does not exceed the approved budget.~~
- ~~Preparing and submitting to the Financial Office on a quarterly basis, a forecast of yearly expenditures to date.~~

The Financial Office is responsible for:

- ~~Gathering, analyzing, and preparing the total budget for review by Executives and the Committee for approval by the CalPERS Board.~~
- ~~Monitoring the CalPERS' Total Budget.~~
- ~~Providing monthly management, status reporting, and forecast planning to adapt to changing circumstances and applying appropriate cost allocation methods.~~
- ~~Providing quarterly projections and forecasting reporting to divisions, which assures the organization is operating within the authorized resources approved by the CalPERS Board.~~
- ~~Preparing the semi-annual budget report for the Committee on the budget to actual figure results.~~

Key Terms / Definitions

For the purposes of this document, the following terms and definitions apply.

Key Term	Definition
<u>Appropriation</u>	Money set aside in the budget for a specific use.
<u>Budget Administrative Operating Costs</u>	An itemized forecast of income and expenses expected for a given period and the means to finance or recover the costs. <u>Personal services expenditures (i.e. salaries, wages, and benefits for permanent and temporary staff) and Operating Expenses and Equipment (OE&E) for each branch within CalPERS</u>
Expenditures <u>Investment Operating Costs</u>	Amount of an appropriation used for goods and services ordered and received. <u>Expenditures incurred to support investment activities, such as consultants, external audit, legal, and appraisal services, fund administration and custody, data and analytics software, and trading and portfolio management systems</u>
<u>Enterprise Projects</u>	<u>Large-scale, organization-wide information technology projects to improve operations, enhance services to members, and stay current with industry trends and practices</u>
<u>Headquarters Building Costs</u>	<u>Expenditures necessary to operate, maintain, and improve the Lincoln Plaza Buildings and regional offices, as well as the emergency operations center, Front Street parking lot, and warehouse space</u>
<u>Investment External Management Fees</u>	<u>Amounts that CalPERS pays to external investment advisors with whom it contracts to manage specific active portfolios</u>
<u>Third Party Administrator Fees</u>	<u>Fees paid to external partners to cover administration, recordkeeping, and communication with participants in support of health and pension services</u>

<u>Formal Budget Request (FBR) Change Proposal</u>	Document prepared by division A formal, written proposal submitted via the Department of Finance to propose and document budget changes to maintain or the Legislature requesting to change the existing level of service; used in preparing the CalPERS budget. <u>or funding for activities and funds authorized by the Legislature</u>
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Roles and Responsibilities

Executive Team

- Establish and communicate annual budget priorities
- Review and approve the proposed annual and mid-year budgets

FPPB

- Communicate budget-related deliverables and timelines to divisions for both the annual and mid-year budget development cycles
- Gather, analyze, and validate division expenditure requests
- Prepare the annual and mid-year budget documents and related Board agendas and materials
- Coordinate the development and submission of Budget Change Proposals to the Department of Finance for funds subject to legislative appropriation
- Respond to Department of Finance, Legislative Analyst's Office, and Legislative requests for CalPERS' budget information
- Attend Legislative budget subcommittee hearings to support CalPERS' budget
- Prepare quarterly projections to forecast and monitor total expenditures against approved funding levels
- Track and monitor the multi-year impact of budget decisions

CalPERS Divisions

- Prepare and submit operating budgets and resource requests in accordance with timelines
- Utilize and provide data to justify and support expenditure requests
- Submit quarterly OE&E projections to FPPB
- Communicate personal services expenditure pressures to FPPB

Authoritative Sources

CalPERS will administer this policy in compliance with the following legal, regulatory, and policy requirements:

Source	Description
Article XVI, section <u>Section</u> 17, of the California Constitution	CalPERS Board of Administration authority and <u>fiduciary responsibility</u> .
CalPERS Board Delegation to <u>the</u> Finance and Administration Committee (FA- 1519 -01)	CalPERS Board of Administration delegated budget oversight and approval authority. <u>Authority delegated to the Finance and Administration Committee to approve CalPERS' enterprise-wide budgets and resource allocations</u>
Government Codes 20172, 20208, 20210 <u>Annual State Budget Act</u>	Statutory CalPERS budget authority <u>Legislation passed by the Legislature and approved by the Governor that appropriates funds to CalPERS and specifies fiscal reporting requirements</u>
Government Code 20199 (GC) <u>Section 13340</u>	Statutory CalPERS budget <u>Legislators' Retirement Fund (LRS) expenditure authority</u>
<u>GC Section 20172</u>	<u>Public Employees' Retirement Fund (PERF) expenditure authority</u>
<u>GC Section 21664</u>	<u>Public Employees' Long-Term Care Fund (LTC) expenditure authority</u>
<u>GC Section 21676</u>	<u>Public Employees' Deferred Compensation Fund (DCF aka IRC 457) expenditure authority</u>
<u>GC Section 21711</u>	<u>California Employers' Pension Prefunding Trust Fund (CEPPT) expenditure authority</u>
<u>GC Section 21758</u>	<u>Replacement Benefit Custodial Fund (RBF) expenditure authority</u>
<u>GC Section 22600</u>	<u>Old Age and Survivors Insurance Revolving Fund (OASI) expenditure authority</u> <u>Authority to expend funds for administrative expenses is subject to annual Legislative appropriation via the State Budget Act.</u>
<u>GC Sections 22840.2 and 22911</u>	<u>Public Employees' Health Care Fund (HCF)</u>

	<u>Authority to expend funds for administrative expenses is subject to annual Legislative appropriation via the State Budget Act.</u>
<u>GC Section 22910</u>	<u>Public Employees' Contingency Reserve Fund (CRF) expenditure authority</u> <u>Authority to expend funds for administrative expenses is subject to annual Legislative appropriation via the State Budget Act.</u>
<u>GC Section 22940</u>	<u>Annuitant Health Care Coverage Fund (AHCCF aka CERBT) expenditure authority</u>
<u>GC Section 22970.43</u>	<u>Supplemental Contributions Program Fund (SCP) expenditure authority</u>
<u>GC Section 75100</u>	<u>Judges' Retirement Fund (JRS) expenditure authority</u>
<u>GC Section 75600</u>	<u>Judges' Retirement System II Fund (JRS II) expenditure authority</u>

~~Policy-related~~ Related Documents

For additional information, please refer to:

Document	Relevance
Article XVI, section 17 of the California Constitution <u>Finance Budget Letters</u>	CalPERS Board of Administration authority and fiduciary responsibility. <u>Budget and accounting policies issued periodically by the California Department of Finance</u>
State of California Board of Administration Public Employees' Retirement System Delegation Resolution	CalPERS Board of Administration delegated authority.

Revision History

The following revisions have been made to this policy:

<u>Version</u>	<u>Modification Date</u>	<u>Summary of Changes</u>
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	<u>11.15.22</u>	<u>Updates to clarify roles and responsibilities, identify authority for affiliate funds, and define the types of expenses included in the budget categories.</u>
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