



San Bernardino County Employees'
Retirement Association

2022 - 2023

ANNUAL BUDGET

For the Fiscal Year Ending June 30, 2023

Approved: June 2, 2022

Table of Contents

Organizational Structure and Mission	2	Non-Administrative Budget	24
Plan Participants	3	Non-Administrative Personnel	25
Plan Management and Oversight	4		
SBCERA Mission Statement	5	Non-Administrative Budget Actuarial	27
Statement of Governance Principles	5	Cost Category Analysis	27
Strategic Plan & Priorities	5	<i>Professional Services</i>	27
SBCERA Organizational Chart	7		
Budget Policy	8	Non-Administrative Budget Legal	28
Budget Process	8	Cost Category Analysis	28
Basis of Accounting	8	<i>Personnel Costs</i>	28
Funding and Debt Obligations	8	<i>Professional Services</i>	29
Budget Appropriations and Statutory	9	<i>Operational Services and Supplies</i>	29
Budget Structure	9	<i>Capital Expenditures</i>	29
Capital Expenditures	10	Non-Administrative Budget Investment	31
Informational Items	11	Cost Category Analysis	32
		<i>Personnel Costs</i>	32
Initiatives to Support Strategic Priorities	12	<i>Professional Services</i>	32
		<i>Operational Services and Supplies</i>	32
Annual Budget Summary	13	<i>Capital Expenditures</i>	33
By Expenditure Budget	13	Non-Administrative Budget Technology	34
By Category	14	Cost Category Analysis	34
By Personnel Costs versus All Other	15	<i>Personnel Costs</i>	34
		<i>Professional Services</i>	35
Statutory Limit	16	<i>Operational Services and Supplies</i>	35
		<i>Capital Expenditures</i>	36
Administrative Budget	18	Payments Not Included in Budget	37
Cost Category Analysis	19	Benefits and Refunds	37
<i>Personnel Costs</i>	19	Indirect Investment Costs	37
<i>Professional Services</i>	21		
<i>Operational Services and Supplies</i>	21	Appendix	39
<i>Capital Expenditures</i>	22	Appendix 1 - Capital Expenditures	39
		Appendix 2 - Staff Position Summary	40
		Appendix 3 - Staff Position Analysis	41

ORGANIZATIONAL STRUCTURE AND MISSION

Plan Participants

The San Bernardino County Employees' Retirement Association (SBCERA) administers the SBCERA pension plan – a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the provisions of the California County Employees Retirement Law of 1937 (the CERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures, and policies adopted by SBCERA's Board of Retirement (Board). SBCERA provides retirement, disability, death, and survivor benefits for over 44,000 Plan members and their beneficiaries who are employed by 16 active Plan sponsors (participating employers), and 5 withdrawn employers which include:

Participating Employers

Barstow Fire Protection District
 Big Bear Fire Authority
 California State Association of Counties
 City of Big Bear Lake
 City of Chino Hills
 Crestline Sanitation District
 Department of Water and Power of the City of Big Bear Lake
 Hesperia Recreation and Park District
 Law Library for San Bernardino County
 Local Agency Formation Commission
 Mojave Desert Air Quality Management District
 San Bernardino County
 San Bernardino County Transportation Authority
 SBCERA
 South Coast Air Quality Management District
 Superior Court of California County of San Bernardino

Withdrawn Employers

California Electronic Recording Transaction Network Authority (withdrew June 30, 2021)
 Inland Library System (withdrew May 31, 2019)
 Inland Valley Development Agency (withdrew June 30, 2012)
 San Bernardino International Airport Authority (withdrew June 30, 2012)
 Rim of the World Recreation and Park District (withdrew May 4, 2013)

Plan Management and Oversight

SBCERA obtains its own independent financial statement audit and is a legally separate and independent entity from San Bernardino County (County). Management of SBCERA is vested in the SBCERA Board, which serves as the managing fiduciary for the accounting and control of employer and employee (member) contributions and investment income. The Plan's provisions may be amended by the State legislature and in some cases require approval by the County's Board of Supervisors (BOS).

The Board consists of nine voting members and three alternate members as follows:

Board of Retirement
Board Chair Neal Waner (Appointed by Board of Supervisors)
Board Vice Chair Marc Bracco (Elected by Safety Members)
Additional Members Appointed by Board of Supervisors Michael Kennedy Jean-Rene Basle Janice Rutherford
Additional Members Elected by SBCERA Members Louis Fiorino (Elected by General Members) Dawn Stafford (Elected by Retired Members) Vere Williams (Elected by General Members)
Ex-Officio Member Ensen Mason, Auditor-Controller/Treasurer/Tax Collector
Alternates Harry Hatch (Elected by Retired Members) Jared Newcomer (Elected by Safety Members) John Johnson (Designated by Ex-Officio Member)

SBCERA Mission Statement

It is the mission of SBCERA to provide the members and their beneficiaries with those retirement and related benefits and services which they have earned, and which are commensurate with their years of service and compensation.

It is the responsibility of those charged with administration of SBCERA to:

- Effectively collect contributions to fund liabilities incurred;
- Diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return;
- Administer the benefits impartially, fairly and in accordance with the applicable law;
- Deliver service to the membership in an accurate, courteous, prompt, professional and cost-efficient manner;
- Appropriately set employer and member contributions in accordance with responsible funding practices; and
- Strategically plan for the future.

Statement of Governance Principles

To ensure accountability and authority for governance and management of SBCERA, the Board established governing principles to identify and distinguish between the roles of the Board and the Chief Executive Officer (CEO).

The Board's principal role is to ensure that SBCERA is appropriately administered, and its fund assets managed, with the overriding goal of protecting Plan assets, including adopting and monitoring policies, and reviewing and evaluating investment performance, financial, and administrative operations. The Board has delegated to the CEO the responsibility for the day-to-day administration and management of SBCERA, which is consistent with Board policy and delegation of authority. This includes broad responsibility for investment decisions, as delegated, staff supervision including training and development, services to members and beneficiaries, budgeting, media relations, succession planning, and actuarial valuations. Policy and direction set by the Board is implemented through the CEO so that a strong relationship between the Board and CEO exist. A clear delineation of authority is critical to the accomplishment of the Board's goals and objectives.

Strategic Plan & Priorities

To create a common understanding with informed direction, the Board and management developed a Strategic Plan, which the Board adopted in May 2019, and will consider updating its strategic priorities as part of a new plan in June 2022. The Strategic Plan identifies six Core Values of SBCERA:

Integrity: We will be honest, ethical, and trustworthy in all aspects in serving our members, employees, and our community.

Accountability & Transparency: We will ensure that the decisions we make and how we conduct business is clearly communicated and understood. We will be accountable for our conduct in serving our members, employees, and community.

Commitment: We will approach our work enthusiastically.

Effectiveness: We will be results-oriented in a cost-effective manner, capitalizing on our strengths and capabilities.

Professional Excellence: We will be skilled, confident, and capable.

Collaboration: We will work together as a team and with key stakeholders.

The Strategic Plan also identifies five Pillars that support and define the Strategies we use to prioritize and identify projects:

- Operational Excellence & Efficiency
- Superior Service Experience
- Quality Employer and Workplace
- Prudent Fiscal Management
- Effective Communications

SBCERA Organizational Chart (Proposed, as of July 1, 2022)



BUDGET POLICY

A budget should provide information that is valuable, understandable, and enables the Board to rely upon the information contained therein when making future decisions about the organization. To accomplish this, the Board approved the *Expenditure Budget Approval Policy* (Budget Policy), which provides the Board and the CEO with a clear process for establishing its annual expenditure budget, covering all expenditures of SBCERA. The Budget Policy ensures the annual budget is presented and adopted in a timely and transparent manner, and meets the statutory requirements as stated in the *Budget Appropriations and Statutory Limit* section of this report. The budget presented herein was prepared in accordance with the Budget Policy.

Budget Process

When developing the annual budget for Board approval, the CEO consults with the Department Chiefs, with consideration to SBCERA's Mission Statement, Statement of Governance Principles, Budget Policy, and Strategic Plan and Priorities as approved by the Board. The annual budget for the upcoming fiscal year is approved by the Board no later than June of each year. The CEO is responsible for operating within the Board approved budget and has the authority to spend up to the appropriated amounts.

After the budget is approved, the CEO 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). The Budget Policy also grants the CEO authority to transfer funds within each of the four broad categories of the budget (Personnel Costs, Professional Services, Operational Services and Supplies, and Capital Expenditures) to accomplish the goal of administering the operations of SBCERA. However, funds may not be moved from one broad budget category to another without approval from the Board. The Chief Financial Officer (CFO) provides quarterly budget review reports to the Board with comments on deviations from the adopted budget for each category of expenditure.

Basis of Accounting

SBCERA's expenditure budget and financial statements are prepared using the accounting principles and reporting guidelines in accordance with applicable standards set forth by the Governmental Accounting Standards Board (GASB). The financial statements are prepared on an accrual basis, under which, revenues are recognized when earned and expenses are recorded when the liability is incurred. For example, employer and member contributions are recognized as revenues when due, pursuant to formal commitments and statutory requirements. Investment income is recognized as revenue when earned. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Other expenses are recognized when the corresponding liabilities are incurred.

Funding and Debt Obligations

SBCERA provides funding of the budget and the Plan through employer and member contributions (which are actuarially determined each year) and investment earnings and does not incur debt to fund these expenditures. SBCERA is not governed by any legal debt limits. There are no issuances of any type of debt outstanding, and SBCERA does not anticipate incurring debt in the near future.

Budget Appropriations and Statutory Limit

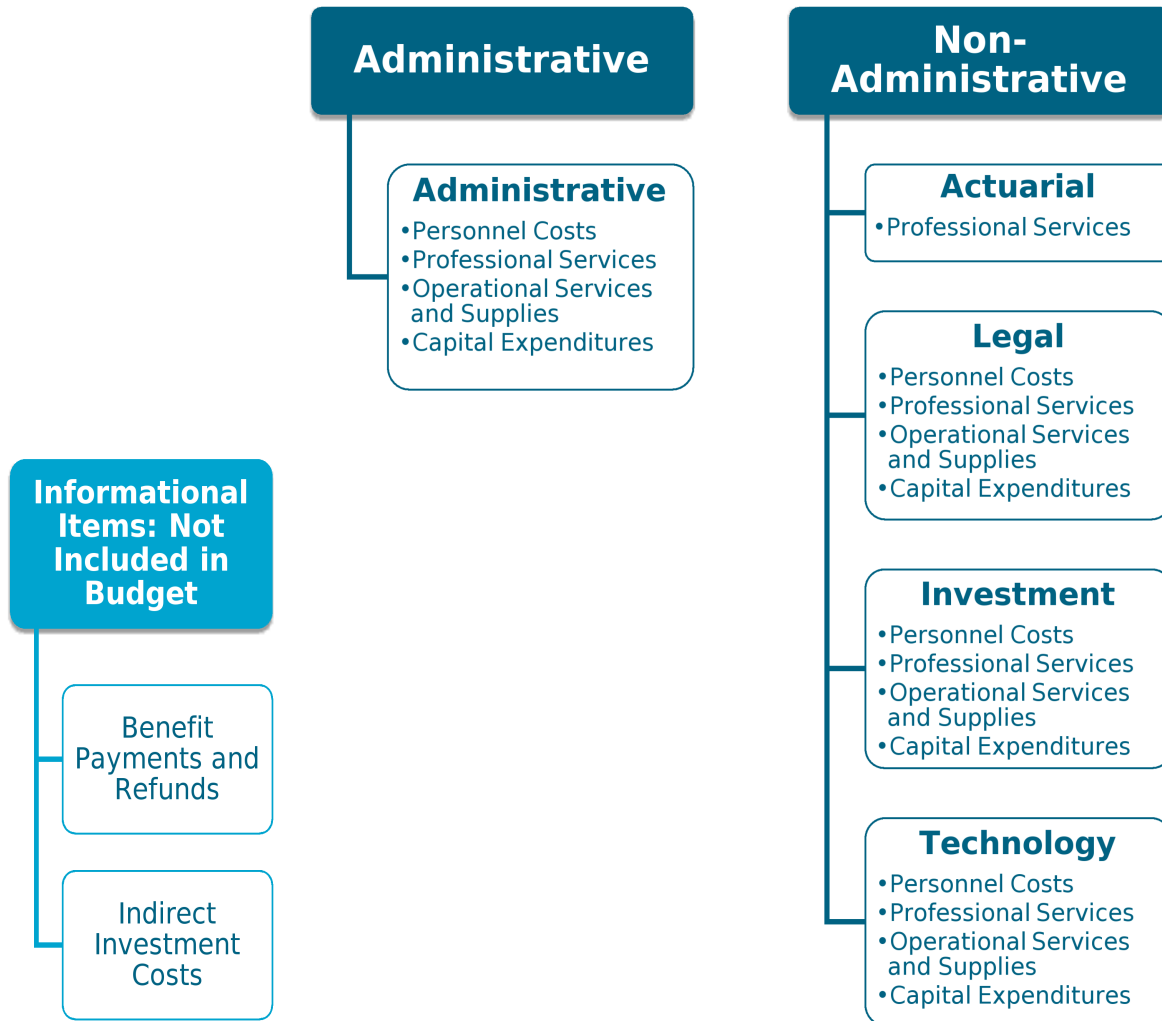
SBCERA is required by California Government Code (GC) section 31580.2, of the CERL, to prepare and approve an annual administrative expenditure budget covering the entire administrative expense of the Plan (also referred to as "appropriations"). The expense incurred in any year may not exceed twenty-one hundredths of one percent (21 basis points or 0.21%) of the Actuarial Accrued Liability (AAL) of the Plan (referred to as the "statutory limit") and those expenses are charged against the earnings of the retirement fund and are referred to as Administrative Expenditures.

Certain expenses of SBCERA are excluded from the statutory limit described in section 31580.2, including, but not limited to, those set forth in GC 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 technology expenditures. Therefore, those expenditures are budgeted for separately and referred to as Non-Administrative Expenditures (except where excluded – see the *Informational Items* section of this report, for further information).

Budget Structure

This SBCERA annual budget covers expenditures for the fiscal year from July 1, 2022 to June 30, 2023 (the fiscal year ending June 30, 2023) (FY 22/23), and consists of two distinct functional areas, Administrative and Non-Administrative (see the *Budget Appropriations and Statutory Limit* section of this report, for further information). Non-Administrative Expenditures are further categorized into four functional sub-areas: Actuarial, Legal, Technology, and Investment. The appropriations for each functional area are presented in the following categories of expenditures (if applicable), Personnel Costs, Professional Services, Operational Services and Supplies, and Capital Expenditures as outlined on the following page.

Budget Structure (Continued)



Capital Expenditures

SBCERA invests in capital assets for the purposes of furthering its Plan objectives. The purchases of capital assets are referred to as Capital Expenditures, and include land, building, equipment, furniture, leasehold improvements, software, and technology infrastructure. Pursuant to the *Capital and Controlled Assets Policy*, purchases of \$25,000 or more per item (the capitalization threshold), which have an initial useful life extending beyond a single fiscal year, are considered capital expenditures. Depreciation and amortization are provided using the straight-line method over the useful lives of the assets, which range from three to thirty-nine years. Depreciation and amortization expense are not included in the annual budget. See *Appendix 1 – Capital Expenditures Summary*, on page 39 for a complete list of the included projects and line items.

Informational Items (Not Included in Expenditure Budget)

Expenditures for benefit and refund payments paid to members and their beneficiaries are the largest expenditures incurred by the Plan. Pursuant to the Budget Policy, benefit and refund payments are excluded from the expenditure budget as those expenditures are not discretionary; they are paid pursuant to Plan requirements. Therefore, estimated actual costs for the current fiscal year, and a projection for actual costs for the upcoming fiscal year, are presented in the *Payments Not Included in Expenditure Budget* section of this report for informational purposes only, not as a budgetary line item.

In addition, 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 securities lending fees are excluded from the expenditure budget, as those expenditures are included in the net asset value (fair value) of the investment and those values are presented to the Board by staff and/or SBCERA's investment consultant monthly. Nevertheless, to ensure full transparency, these expenditures (estimated actual costs for the current fiscal year and a projection for actual costs for the upcoming fiscal year) are provided in the *Payments Not Included in Expenditure Budget* section of this report for informational purposes only, not as a budgetary line item.

Again, these informational items (benefit and refund payments, and indirect investment costs) are included to ensure all expenditures of SBCERA are reported to the Board in a transparent manner.

INITIATIVES TO SUPPORT STRATEGIC PRIORITIES

The costs associated with these projects are one-time costs. The costs for annual licensing or maintenance are likely similar to or less than what is currently budgeted for the contemporary situation.

Project	Purpose	Pillar	Priority	Administrative Budget Impact	Non-Administrative Budget Impact
Pension Administration System Project	The continuation of the multi-year project will include designing new systems, documentation, and testing. The project will also focus on design and software changes with the current system vendor.	Operational Excellence & Efficiency	Modernize and streamline technology	\$ -	\$ 2,778,000
		Superior Service Experience	Implement industry-leading technology		
		Effective Communications	Standardize data transfer platforms		
			Cost-effectiveness and controls of services provided by third party		
Additional Security Configurations	These projects include physical and data security configurations.	Operational Excellence & Efficiency	Modernize and streamline technology	\$ -	\$ 185,000
Software Solutions - Cloud Based	The projects in this initiative will provide implementation for the general ledger, contract management, and DocuSign.	Operational Excellence & Efficiency	Modernize and streamline technology	\$ 50,000	\$ 235,000
		Superior Service Experience	Implement industry-leading technology		
		Effective Communications	Standardize data transfer platforms		
		Prudent Fiscal Management	Cost-effectiveness and controls of services provided by third party		
SBCERA Space Reconfiguration	These projects include reconfiguring space to centralize the call center and the data center by expanding into empty building space on the second floor and relocating Information Services. Additional interior building signage is also included in this initiative.	Operational Excellence & Efficiency	Space utilization/expansion	\$ 105,000	\$ 350,000
		Quality Employer & Workplace	Process re-engineering and work assignment realignments		
		Superior Service Experience			

ANNUAL BUDGET SUMMARY

Annual Budget Summary | By Expenditure Budget

The entire 2022 - 2023 annual budget is presented below in summary, by expenditure budget – Administrative and Non-Administrative:

Annual Budget Summary By Expenditure Budget 2022-2023 Annual Budget						
	<u>FY 22/23</u>	<u>FY 21/22</u>	<u>FY 21/22</u>			
	Proposed Budget	Approved Budget	Estimated Actual	Increase/ (Decrease) over FY 21/22 Budget	Change over FY 21/22 Budget	Share of Total Budget
Administrative Budget						
Personnel Costs	\$ 10,038,000	\$ 8,220,100	\$ 8,000,000	\$ 1,817,900	22.1 %	32.8 %
Professional Services	1,119,000	1,116,050	825,162	2,950	0.3 %	3.7 %
Operational Services and Supplies	1,964,000	1,759,700	920,508	204,300	11.6 %	6.4 %
Capital Expenditures	105,000	340,000	104,315	(235,000)	(69.1)%	0.3 %
Total Administrative Budget	13,226,000	11,435,850	9,849,985	1,790,150	15.7 %	43.3 %
Non-Administrative Budget						
Actuarial Appropriations						
Professional Services	255,000	255,000	178,000	—	— %	0.8 %
Total Actuarial Appropriations	255,000	255,000	178,000	—	— %	0.8 %
Legal Appropriations						
Personnel Costs	1,668,000	1,483,000	1,347,000	185,000	12.5 %	5.5 %
Professional Services	360,000	490,000	321,245	(130,000)	(26.5)%	1.2 %
Operational Services and Supplies	105,000	80,750	55,946	24,250	30.0 %	0.3 %
Capital Expenditures	35,000	35,000	—	—	— %	0.1 %
Total Legal Appropriations	2,168,000	2,088,750	1,724,191	79,250	3.8 %	7.1 %
Investment Appropriations						
Personnel Costs	2,606,000	2,336,800	1,755,000	269,200	11.5 %	8.5 %
Professional Services	3,802,000	3,381,100	3,605,627	420,900	12.4 %	12.4 %
Operational Services and Supplies	319,000	345,300	296,718	(26,300)	(7.6)%	1.0 %
Capital Expenditures	—	—	—	—	— %	— %
Total Investment Appropriations	6,727,000	6,063,200	5,657,345	663,800	10.9 %	22.0 %
Technology Appropriations						
Personnel Costs	1,904,000	1,504,700	1,233,000	399,300	26.5 %	6.2 %
Professional Services	450,000	315,000	315,000	135,000	42.9 %	1.5 %
Operational Services and Supplies	2,285,000	1,849,500	1,537,530	435,500	23.5 %	7.5 %
Capital Expenditures	3,563,000	3,733,200	2,158,796	(170,200)	(4.6)%	11.7 %
Total Technology Appropriations	8,202,000	7,402,400	5,244,326	799,600	10.8 %	26.8 %
Total Non-Administrative Budget	17,352,000	15,809,350	12,803,862	1,542,650	9.8 %	56.7 %
Total Budget	\$ 30,578,000	\$ 27,245,200	\$ 22,653,847	\$ 3,332,800	12.2 %	100.0 %

Annual Budget Summary | By Category

The entire 2022 - 2023 annual budget is presented below in summary, by category – Personnel Costs, Professional Services, Operational Services and Supplies, and Capital Expenditures:

Annual Budget Summary By Category 2022-2023 Annual Budget						
	<u>FY 22/23</u>	<u>FY 21/22</u>	<u>FY 21/22</u>			
	<u>Proposed</u>	<u>Approved</u>	<u>Estimated</u>	<u>Increase/ (Decrease)</u>	<u>Change</u>	<u>Share of</u>
	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>over FY 21/22</u>	<u>over FY</u>	<u>Total</u>
				<u>Budget</u>	<u>21/22</u>	<u>Budget</u>
					<u>Budget</u>	<u>Budget</u>
Personnel Costs						
Administrative	\$ 10,038,000	\$ 8,220,100	\$ 8,000,000	\$ 1,817,900	22.1 %	32.8 %
Legal	1,668,000	1,483,000	1,347,000	185,000	12.5 %	5.5 %
Investment	2,606,000	2,336,800	1,755,000	269,200	11.5 %	8.5 %
Technology	1,904,000	1,504,700	1,233,000	399,300	26.5 %	6.2 %
Total Personnel Costs	16,216,000	13,544,600	12,335,000	2,671,400	19.7 %	53.0 %
Professional Services						
Administrative	1,119,000	1,116,050	825,162	2,950	0.3 %	3.7 %
Actuarial	255,000	255,000	178,000	–	– %	0.8 %
Legal	360,000	490,000	321,245	(130,000)	(26.5)%	1.2 %
Investment	3,802,000	3,381,100	3,605,627	420,900	12.4 %	12.4 %
Technology	450,000	315,000	315,000	135,000	42.9 %	1.5 %
Total Professional Services	5,986,000	5,557,150	5,245,034	428,850	7.7 %	19.6 %
Operational Services and Supplies						
Administrative	1,964,000	1,759,700	920,508	204,300	11.6 %	6.4 %
Legal	105,000	80,750	55,946	24,250	30.0 %	0.3 %
Investment	319,000	345,300	296,718	(26,300)	(7.6)%	1.0 %
Technology	2,285,000	1,849,500	1,537,530	435,500	23.5 %	7.5 %
Total Operational Services and Supplies	4,673,000	4,035,250	2,810,702	637,750	15.8 %	15.3 %
Capital Expenditures						
Administrative	105,000	340,000	104,315	(235,000)	(69.1)%	0.3 %
Legal	35,000	35,000	–	–	– %	0.1 %
Technology	3,563,000	3,733,200	2,158,796	(170,200)	(4.6)%	11.7 %
Capital Expenditures	3,703,000	4,108,200	2,263,111	(405,200)	(9.9)%	12.1 %
Total Budget	\$ 30,578,000	\$ 27,245,200	\$ 22,653,847	\$ 3,332,800	12.2 %	100.0 %

Annual Budget Summary | By Personnel Costs versus All Other Budget Items

Annual Budget Summary by Personnel Costs versus All Other Budget Items for the Fiscal Year Ending June 30, 2023						
	<u>FY 22/23</u>	<u>FY 21/22</u>	<u>FY 21/22</u>			
	Proposed Budget	Approved Budget	Estimated Actual	Increase/ (Decrease) over FY 21/22 Budget	Change over FY 21/22 Budget	Share of Total Budget
Personnel Costs	\$ 16,216,000	\$ 13,544,600	\$ 12,335,000	\$ 2,671,400	19.7%	53%
All Other Budget	14,362,000	13,700,600	10,318,847	661,400	4.8%	47%
Total Budget	\$ 30,578,000	\$ 27,245,200	\$ 22,653,847	\$ 3,332,800	12.2%	100%

STATUTORY LIMIT

Based on an Actuarial Accrued Liability (AAL) of \$15.0 billion (as of the most recent actuarial valuation dated June 30, 2021), the statutory limit for administrative expenditures is approximately \$31.4 million, representing a \$1.4 million increase over the prior year's statutory limit of \$30.0 million. The AAL is calculated once a year, by SBCERA's independent actuary. The next actuarial valuation for June 30, 2022, will be presented to the Board in November 2022, at which time the AAL may be revised. If the AAL increases, the statutory limit for the proposed budget can only be increased with Board approval.

The statutory limit is calculated as follows:

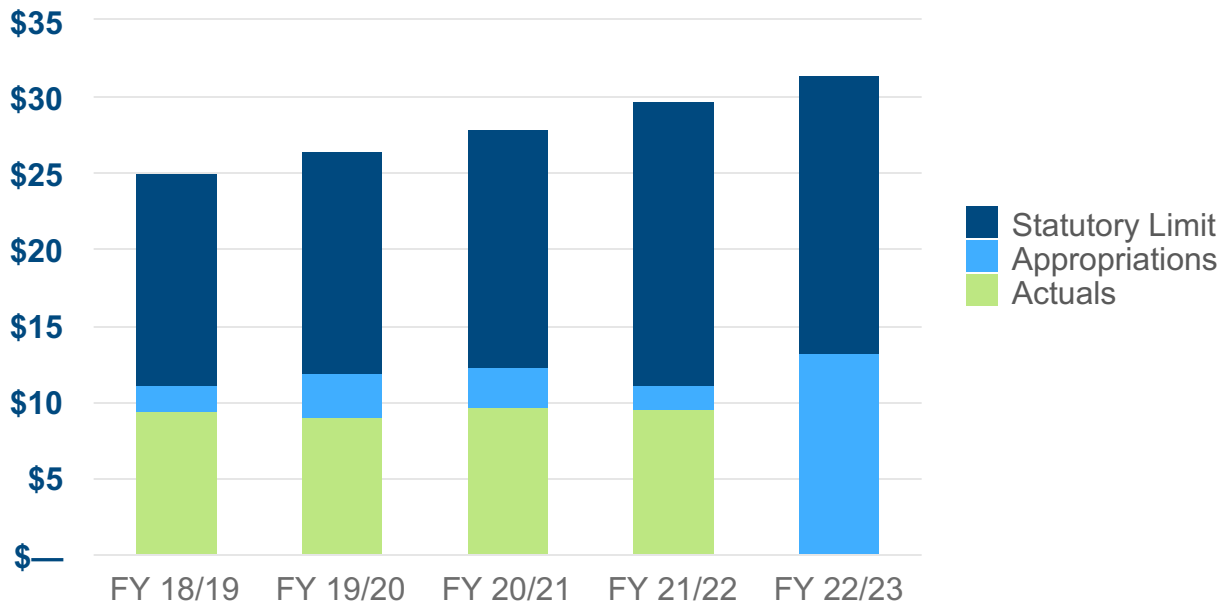
Calculation of Statutory Limit - Administrative Budget			
AAL as of June 30, 2021 ¹	A	\$	14,957,435,405
Basis Points per GC §31580.2	B		0.0021
Statutory limit on 0.21% allowed per §31580.2	A*B=C		31,410,614
Administrative Budget	D	\$	13,226,000
Budget as % of Statutory Limit	D/C		42.1 %
Budget as Basis points of AAL	D/A		0.0009
Unrestricted Contingency Fund	C-D	\$	18,184,614

¹ See page 39 of the June 30, 2021 Actuarial Valuation and Review.

The proposed administrative expenditure budget appropriations are \$13,226,000, or approximately 42% of the statutory limit. The remaining \$18 million will be set aside as an Unrestricted Contingency Fund, available for further appropriation with Board approval. The following section presents the proposed appropriations for each category of expenditure for the Administrative Budget.

A summary of the statutory limits, appropriations, and actual expenditures from the most recent five years of Administrative Expenditure Budgets (including the proposed budget year) is provided on the following page. Where actual amounts are not yet known, estimates have been used.

Summary of Statutory Limits, Appropriations, and Actuals (Amounts in Millions)



ADMINISTRATIVE BUDGET

Annual Budget Summary Administrative Budget 2022-2023 Annual Budget						
	<u>FY 22/23</u>	<u>FY 21/22</u>	<u>FY 21/22</u>			
	<u>Proposed</u>	<u>Approved</u>	<u>Estimated</u>	<u>Increase/</u>	<u>Change</u>	<u>Share of</u>
	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>(Decrease)</u>	<u>over FY</u>	<u>Admin</u>
				<u>over FY 21/22</u>	<u>21/22</u>	<u>Budget</u>
				<u>Budget</u>	<u>Budget</u>	<u>Budget</u>
Administrative Budget						
Personnel Costs						
Staff Salaries and Benefits	\$ 10,024,000	\$ 8,204,100	\$ 8,000,000	\$ 1,819,900	22.2 %	75.8 %
Board Stipends	14,000	16,000	14,000	(2,000)	(12.5)%	0.1 %
Total Personnel Costs	10,038,000	8,220,100	8,014,000	1,817,900	22.1 %	75.9 %
Professional Services						
Audit	65,000	65,000	60,500	—	— %	0.5 %
Communication Consulting	—	22,000	21,000	(22,000)	(100.0)%	— %
Payroll Services	20,000	20,000	18,000	—	— %	0.2 %
Document Imaging	55,000	55,000	55,000	—	— %	0.4 %
Medical Consultants	600,000	600,000	423,000	—	— %	4.5 %
Miscellaneous	389,000	339,050	310,000	49,950	14.7 %	2.9 %
Transcribing	15,000	15,000	6,000	—	— %	0.1 %
Total Professional Services	1,144,000	1,116,050	893,500	27,950	2.5 %	8.6 %
Operational Services and Supplies						
Building Rent	700,000	640,000	700,000	60,000	9.4 %	5.3 %
Claims/Judgments/ Court Orders	35,000	75,000	—	(40,000)	(53.3)%	0.3 %
General Maintenance - Furniture/ Equipment	18,000	12,500	10,000	5,500	44.0 %	0.1 %
Insurance	315,000	285,000	201,515	30,000	10.5 %	2.4 %
Memberships/Publications/ Subscriptions	41,000	41,600	36,000	(600)	(1.4)%	0.3 %
Office Expense	135,000	143,400	90,000	(8,400)	(5.9)%	1.0 %
Postage & Handling	75,000	75,000	75,000	—	— %	0.6 %
Printing	70,000	70,000	27,000	—	— %	0.5 %
Rented Equipment	115,000	110,000	110,000	5,000	4.5 %	0.9 %
Staff Career Development Fund	25,000	15,000	6,000	10,000	66.7 %	0.2 %
Communication Services	190,000	67,200	67,200	122,800	182.7 %	1.4 %
Training/Seminars/Conferences	110,000	90,000	16,356	20,000	22.2 %	0.8 %
Travel - Air, Lodging, Meals, Misc.	100,000	100,000	65,000	—	— %	0.8 %
Non-Capital - Furniture & Equipment	10,000	35,000	35,491	(25,000)	(71.4)%	0.1 %
Total Operational Services and Supplies	1,939,000	1,759,700	1,439,562	179,300	10.2 %	14.7 %
Capital Expenditures	105,000	340,000	104,315	(235,000)	(69.1)%	0.8 %
Total Budget	\$ 13,226,000	\$ 11,435,850	\$ 10,451,377	\$ 1,790,150	15.7 %	100.0 %

ADMINISTRATIVE BUDGET *(Continued)*

The proposed appropriations of \$13,226,000 represent an increase from the prior year appropriated budgeted expenditures of \$11,435,850. The difference in proposed appropriations represents a increase of approximately \$1,790,150 or 15.7% over the prior year approved budget. These differences are all discussed in detail in the *Cost Category Analysis* section below.

Cost Category Analysis

Personnel Costs

Personnel Costs include salary and benefits for SBCERA employees and stipends for Board members. Overall, appropriations in this category are projected to increase by approximately \$1,817,900 or 22.1% over the prior year and represent 75.9% of the total appropriated administrative expenditures. The increase in Personnel Costs for the Administrative budget is attributed to a decrease in Board Stipends (\$2 thousand) based on actual experience, merit and benefit increases (\$498 thousand) based on increased benefit costs and scheduled merit increases, an estimated 8% cost of living (COLA) adjustment (\$365 thousand), and the full-board cost of position additions and changes (\$953 thousand). The COLA is subject to bargaining. For the purposes of this Annual Budget, the estimated COLA being used is 8%.

Appendix 3, on page 41, illustrates the relationship between asset growth, membership growth and the growth rate of approved staff positions for the six fiscal years ending June 30, 2022.

SBCERA personnel are budgeted as follows:

Summary of Personnel - Administrative Budget			
Department¹	Budgeted June 30, 2022	Budgeted June 30, 2023	Net Change in Budgeted Positions
Administration	3	3	—
Human Resources	2	3	1
Communications	3	4	1
Member Services	21	21	—
Fiscal Services	18	20	2
Disability Unit	7	8	1
Information Services	2	2	—
Total Positions	56	61	5
¹ Includes all SBCERA staff except for the legal, investment, and non-Admin IS department positions.			

There are 61 Administrative Staff positions for the FY 22/23 Administrative Budget, all of which are being funded as part of this Administrative Budget. This is a five position net increase over the prior year budget as amended, including two position changes/reclassifications. Positions are being added to the Human Resources, Fiscal Services, Disability, and Communication departments.

Clerk of the Board/Executive Assistant (Administration): This position name change and salary range adjustment more accurately reflects the work that is being assigned with greater focus on the complexities of SBCERA's board and committee meetings. This alignment is also comparable with other CERL systems and other independent special districts.

Human Resources Technician (Human Resources): This new position will provide for Human Resources initiatives, including staff training and development, and cross-training efforts as we move into the next stages of the PG refresh project, and employee engagement efforts.

Government Affairs Manager (Communications): This new position will work collaboratively with SBCERA's management and legal services team on legislative efforts with a variety of governmental bodies in addition to SBCERA employers. This position will also have responsibility for architecting new employer education initiatives, focused on executive, payroll, and HR staff.

Communications & Stakeholder Relations Director (Communications): This position name change and salary range adjustment reflects the increased area of responsibility for the currently held manager position. This position will also oversee the newly created Government Affairs Manager.

Accounting Manager (Fiscal Services): This additional position will support a vertical team structure in Fiscal Services. Vertical teams have an advantage in that they facilitate quicker decision making and better designation of tasks to employees. As part of the initiatives to support the strategic plan, roles in the fiscal department will be better defined and provide clear roles and responsibilities. The vertical team structure will help facilitate that strategic initiative.

Senior Accountant (Fiscal Services): This additional position will support the vertical team initiative in fiscal services. Additionally, the implementation of several new software products over the last year has eliminated data entry and creates the need for more analysis. This analysis is best performed at a higher level.

Office Specialist (Fiscal Services): This position will be reclassified from a vacant Accounting Technician position. The implementation of vertical teams will be best supported with a clerical position that can provide increased imaging needs, mailing needs, and retiree payroll processing needs.

Retirement Benefit Manager (Member Services): This position name change creates consistency amongst the managerial level staff. Additionally, the name better reflects the position as the primary expert for matters relating to retirement benefits.

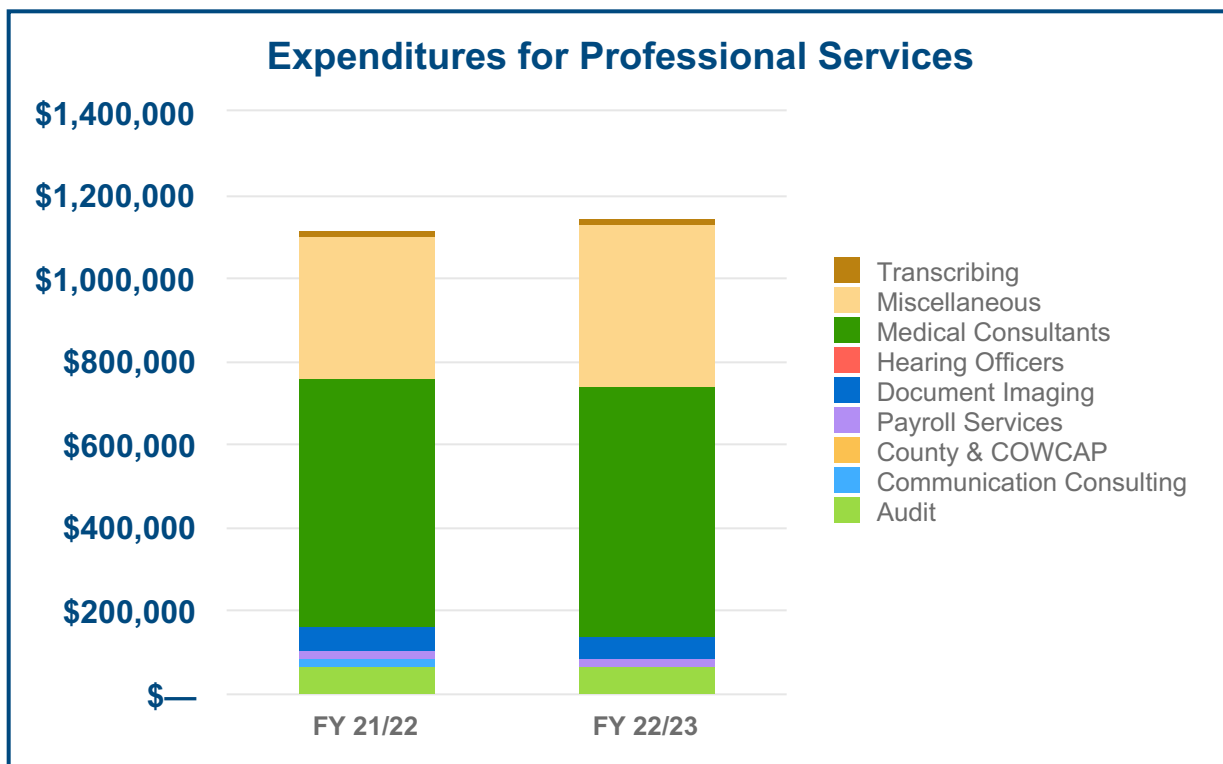
Disability Retirement Specialist (Disability Unit): This additional position will increase the available total staff to provide direct counseling and case management for disability retirement applicants. The number of applicants has increased over the last year by almost 33% and this will allow the team to efficiently provide service while minimizing overtime expenses.

Disability Retirement Benefit Technician (Disability Unit): This position will be reclassified from a currently vacant Office Specialist position. The modification will allow the unit to reorganize the work to more adequately support the disability retirement process, full-time student verifications, active death claims, and medical records processing.

Professional Services

These costs include professional services provided by outside contractors/vendors including, but not limited to, medical consulting, communications consulting, and audit services. Overall, appropriations in this category are projected to increase by approximately \$27,950 or 2.5% over the prior year and represent 8.6% of the total appropriated administrative expenditures.

Miscellaneous: Increases include \$50,000 for the new CertiDeath death notification vendor. The implementation of this new service is designed to reduce overpayments to recipients who have passed away. After initial implementation, SBCERA has already prevented more than \$50,000 in overpayments to deceased members.



Operational Services and Supplies

Operational Services and Supplies include, but are not limited to, office rent, fiduciary insurance, general maintenance, office expense, postage and shipping, printing services, rented equipment, staff career development fund, telephone costs, training (including seminars and conferences for staff and trustees), travel (non-due diligence), claims and judgments, and purchases of non-capital assets less than \$25,000.

Overall, appropriations in this category are projected to increase by approximately \$179,300 or 10.2% over the prior year and represent 14.7% of the total appropriated administrative expenditures.

Building Rent: Rent expense will increase 3% (\$20,000) according to our Lease Agreement with the property manager. Additional appropriations for increased operating expenses which are passed on to SBCERA are included here.

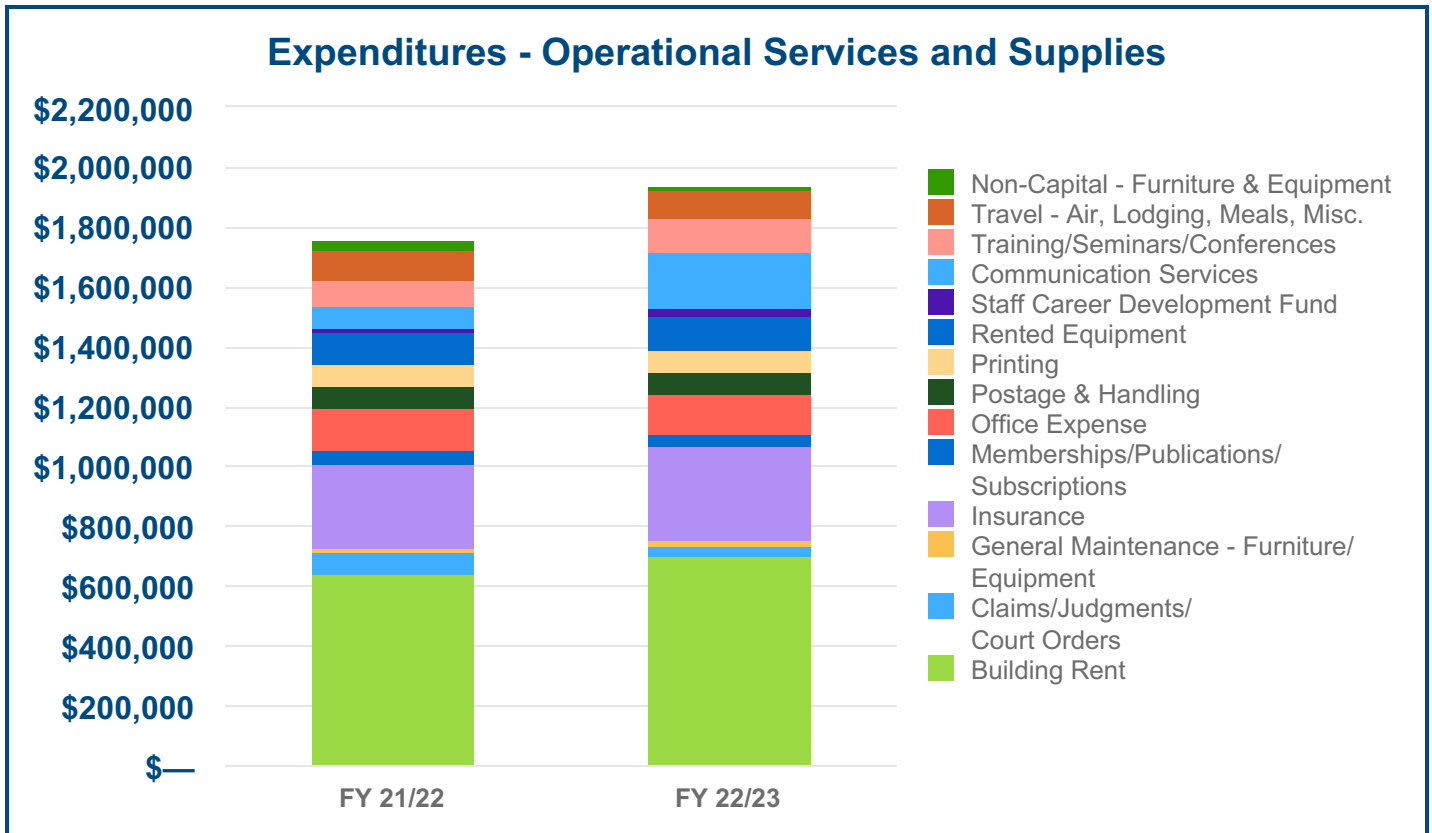
Insurance: Overall insurance costs are expected to increase by 28% due to rising insurance costs. However, workers compensation is being transferred to Personnel Costs to properly allocate it to Administrative and Non-Administrative budgets.

Operational Services and Supplies (Continued)

Office Expense: Office Expense continues to decrease. This decrease is primarily a result of decreased toner use, which has continued into the office reopening, as SBCERA has moved into a more paperless environment.

Training/Seminars/Conferences: Costs in this line item increased slightly to accommodate increased staff positions.

Communication Services: This line item has been expanded to include all telephone and communication-related software/apps. These items were originally in the Technology line items but have been realigned for transparent presentation. The newly moved items include Zoom, Slack, all DialPad expenses, cell phone charges, and fax services.



Capital Expenditures

Capital Expenditures will decrease by \$235,000 from the prior year budget. For a complete list of Capital Expenditures, see *Appendix 1 – Capital Expenditures Summary* on page 39.

SBCERA Call Center Relocation to First Floor: This project is budgeted at \$70,000 and includes furniture and the labor associated with moving the furniture. This project will move all of the call center employees to the same location for better collaboration and superior member service.

Indoor Signage: This project is budgeted at \$35,000 and includes the final SBCERA signage and artwork in the interior spaces of the SBCERA suites.

NON-ADMINISTRATIVE BUDGET

Certain expenses of SBCERA are excluded from the statutory limit described in GC section 31580.2, including, but not limited to, those set forth in GC 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. These expenditures are considered non-administrative and are budgeted for in the Non-Administrative Expenditure Budget, pursuant to the SBCERA *Expenditure Budget Approval Policy*. The proposed appropriations in summary form for the Non-Administrative Expenditure Budget are provided below.

Annual Budget Summary Non-Administrative Budget 2022-2023 Annual Budget						
	<u>FY 22/23</u>	<u>FY 21/22</u>	<u>FY 21/22</u>			
	<u>Proposed Budget</u>	<u>Approved Budget</u>	<u>Estimated Actual</u>	<u>Increase/ (Decrease) over FY 21/22 Budget</u>	<u>Change over FY 21/22 Budget</u>	<u>Share of Non-Admin Budget</u>
Non-Administrative Budget						
Actuarial Appropriations						
Professional Services	\$ 255,000	\$ 255,000	\$ 183,000	\$ -	- %	1.5 %
Total Actuarial Appropriations	255,000	255,000	183,000	-	- %	1.5 %
Legal Appropriations						
Personnel Costs	1,668,000	1,483,000	1,347,000	185,000	12.5 %	9.6 %
Professional Services	360,000	490,000	395,450	(130,000)	(26.5)%	2.1 %
Operational Services and Supplies	105,000	80,750	40,345	24,250	30.0 %	0.6 %
Capital Expenditures	35,000	35,000	-	-	- %	0.2 %
Total Legal Appropriations	2,168,000	2,088,750	1,782,795	79,250	3.8 %	12.5 %
Investment Appropriations						
Personnel Costs	2,606,000	2,336,800	2,300,000	269,200	11.5 %	15.0 %
Professional Services	3,802,000	3,381,100	3,586,000	420,900	12.4 %	21.9 %
Operational Services and Supplies	319,000	345,300	296,373	(26,300)	(7.6)%	1.8 %
Capital Expenditures	-	-	-	-	- %	- %
Total Investment Appropriations	6,727,000	6,063,200	6,182,373	663,800	10.9 %	38.8 %
Technology Appropriations						
Personnel Costs	1,904,000	1,504,700	1,233,000	399,300	26.5 %	11.0 %
Professional Services	450,000	315,000	315,000	135,000	42.9 %	2.6 %
Operational Services and Supplies	2,285,000	1,849,500	1,811,487	435,500	23.5 %	13.2 %
Capital Expenditures	3,563,000	3,733,200	2,158,796	(170,200)	(4.6)%	20.5 %
Total Technology Appropriations	8,202,000	7,402,400	5,518,283	799,600	10.8 %	47.3 %
Total Non-Administrative Budget	\$ 17,352,000	\$ 15,809,350	\$13,666,451	\$ 1,542,650	9.8 %	100.0 %

NON-ADMINISTRATIVE BUDGET (Continued)

Overall, the total Non-Administrative Expenditure Budget for the fiscal year ending June 30, 2023, is approximately \$17,352,000, which is an increase of \$1,542,650 or 9.8% from the prior year appropriations of \$15,809,350. The differences for all four functional areas (Actuarial, Legal, Investment, and Technology) are discussed starting on page 27.

Non-Administrative Personnel Changes

Personnel Costs include salary and benefits for SBCERA employees in the Legal, Investment, and Information Systems departments. A portion of the Information Systems salaries (2 positions) are expensed in the Administrative Budget. Overall, appropriations in this category are projected to increase by approximately \$854 thousand and represent 35.6% of the total appropriated non-administrative expenditures. The increase in Personnel Costs for the Non-Administrative budget is attributed to merit and benefit increases (\$126 thousand) based on increased benefit costs and scheduled merit increases, an estimated 8% cost of living (COLA) adjustment (\$220 thousand), and the full-board cost of position additions and changes (\$508 thousand). The COLA is subject to bargaining. For the purposes of this Annual Budget, the estimated COLA being used is 8%.

Appendix 3, on page 41, illustrates the relationship between asset growth, membership growth and the growth rate of approved staff positions for the six fiscal years ending June 30, 2022.

SBCERA non-administrative personnel are budgeted as follows:

Summary of Personnel - Non-Administrative Budget			
Department¹	Budgeted June 30, 2022	Budgeted June 30, 2023	Net Change in Budgeted Positions
Legal	6	7	1
Investment	8	8	—
Information Services	8	10	2
Total Positions	22	25	3

¹ Includes all SBCERA staff in the legal, investment, and IS departments.

Office Specialist (Legal Services): The Office Specialist position presently on the organization chart will be budgeted and filled in FY 22/23. The additional clerical staff will be helpful now that Staff Counsel position has been filled.

Deputy Clerk of the Board/Senior Executive Secretary (Investments): This position name change and salary range adjustment more accurately reflects the work that is being assigned with greater focus on the complexities of SBCERA's board and committee meetings. This alignment is also comparable with other CERL systems and other independent special districts.

Non-Administrative Personnel Changes (*Continued*)

Information Security Manager (Information Systems): This position name change creates consistency amongst the managerial level staff. Additionally, the name better reflects the position as the primary expert for matters relating to information security.

Information Security Engineer (Information Systems): This new position will focus on SBCERA's cybersecurity. This position will focus on solutions for information handling compliance, data security, and system hardening in line with applicable policies and procedures for both on-premise and cloud-based networks.

Information Services Operations Manager (Information Systems): This new position will oversee SBCERA's physical technology program, application systems, development management, and Cloud services.

Business Systems Engineer (Information Systems): This position was previously under filled as an Associate Business Systems Engineer. This position will be fully employed as the incumbent moves to the higher level after adequate training and experience has been gained.

Actuarial Appropriations

An Actuarial Valuation and Review (valuation) is prepared once a year by an independent actuary in accordance with generally accepted actuarial principles and practices. The valuation establishes the funding requirements for the upcoming fiscal year and analyzes the preceding years' experience.

Every three years the actuary prepares an Actuarial Experience Study and Review of Economic Actuarial Assumptions (triennial experience study) to review the assumptions made about all future events that could affect the amount and timing of the benefits to be paid and the assets to be accumulated, including mortality, service, and compensation experience of the members and their beneficiaries, and evaluating the assets and liabilities of the Plan. The next review is scheduled for the fiscal year ending June 30, 2022, to be performed in the FY 22/23. In addition, every five years, an audit is conducted of the primary actuary's valuation to provide an independent actuarial opinion as to the accuracy and veracity of valuation results currently performed by SBCERA's independent actuary. The next audit is due for the June 30, 2023 valuation.

The use of realistic actuarial assumptions is important in maintaining adequate funding, while paying the vested benefit amounts to participants already retired and to those near retirement. Actuarial assumptions used do not determine the actual cost of the Plan. The actual cost is determined solely by the benefits and administrative expenditures paid out, offset by investment income or loss. However, it is desirable to estimate as closely as possible what the actual cost will be to permit an orderly method for setting aside contributions today to provide benefits in the future, and to maintain equity among generations of participants and taxpayers.

Annual Budget Summary Non-Administrative Budget Actuarial Appropriations 2022-2023 Annual Budget						
	FY 22/23	FY 21/22	FY 21/22			
	Proposed Budget	Approved Budget	Estimated Actual	Increase/ (Decrease) over FY 21/22 Budget	Change over FY 21/22 Budget	Share of Non- Admin Budget
Actuarial Appropriations						
Professional Services						
Actuarial Valuation/Experience Study	\$ 140,000	\$ 140,000	\$ 83,000	\$ —	— %	0.8 %
Actuarial Consulting	115,000	115,000	100,000	\$ —	— %	0.7 %
Total Professional Services	255,000	255,000	183,000	—	— %	1.5 %
Total Actuarial Appropriations	\$ 255,000	\$ 255,000	\$ 183,000	\$ —	— %	1.5 %

Cost Category Analysis

Professional Services

Overall, the budgeted actuarial appropriation is \$255,000, the same as appropriated for the prior fiscal year. The prior fiscal year included an appropriation for the Experience Study that will not happen until this fiscal year.

Legal Appropriations

Legal Appropriations include legal staff salaries and benefits, professional non-investment legal services, and operational services and supplies for the legal department. At \$2,088,750, there is an increase of \$79,250, or 3.8%, from the prior year appropriations. The overall increase is explained below in the *Cost Category* section.

Annual Budget Summary Non-Administrative Budget Legal Appropriations 2022-2023 Annual Budget						
	FY 22/23	FY 21/22	FY 21/22	Increase/ (Decrease)	Change over FY	Share of
	Proposed Budget	Approved Budget	Estimated Actual	over FY 21/22 Budget	21/22 Budget	Non- Admin Budget
Legal Appropriations						
Personnel Costs						
Staff Salaries and Benefits	\$ 1,668,000	\$ 1,483,000	\$ 1,347,000	\$ 185,000	12.5 %	9.6 %
Total Personnel Costs	1,668,000	1,483,000	1,347,000	185,000	12.5 %	9.6 %
Professional Services						
Outside Attorney Fees	300,000	430,000	320,000	(130,000)	(30.2)%	1.7 %
Hearing Officers	60,000	60,000	75,450	—	— %	0.3 %
Total Professional Services	360,000	490,000	395,450	(130,000)	(26.5)%	2.0 %
Operational Services and Supplies						
General Maintenance - Furniture/ Equipment	1,500	1,500	—	—	— %	— %
Memberships/Publications/ Subscriptions	28,000	24,000	19,954	4,000	16.7 %	0.2 %
Office Expense	2,000	9,550	891	(7,550)	(79.1)%	— %
Software/Software Licensing & Support	24,000	4,500	—	19,500	433.3 %	0.1 %
Training Seminars/Conferences	24,500	15,600	13,000	8,900	57.1 %	0.1 %
Travel - Air, Lodging, Meals, Misc.	20,000	20,600	6,500	(600)	(2.9)%	0.1 %
Non-Capital - Furniture & Equipment	5,000	5,000	—	—	— %	— %
Total Operational Services and Supplies	105,000	80,750	40,345	24,250	30.0 %	0.5 %
Capital Expenditures	35,000	35,000	—	—	— %	0.2 %
Total Legal Appropriations	\$ 2,168,000	\$ 2,088,750	\$ 1,782,795	\$ 79,250	3.8 %	12.3 %

Cost Category Analysis

Personnel Costs

Staff Salaries and Benefits: Overall, appropriations in this category are projected to increase by approximately \$185,000 or 12.5% from the prior year and represent 9.6% of the total appropriated non-administrative expenditures. As discussed on page 25, the Office Specialist position is now being budgeted for.

Cost Category Analysis

Personnel Costs (Continued)

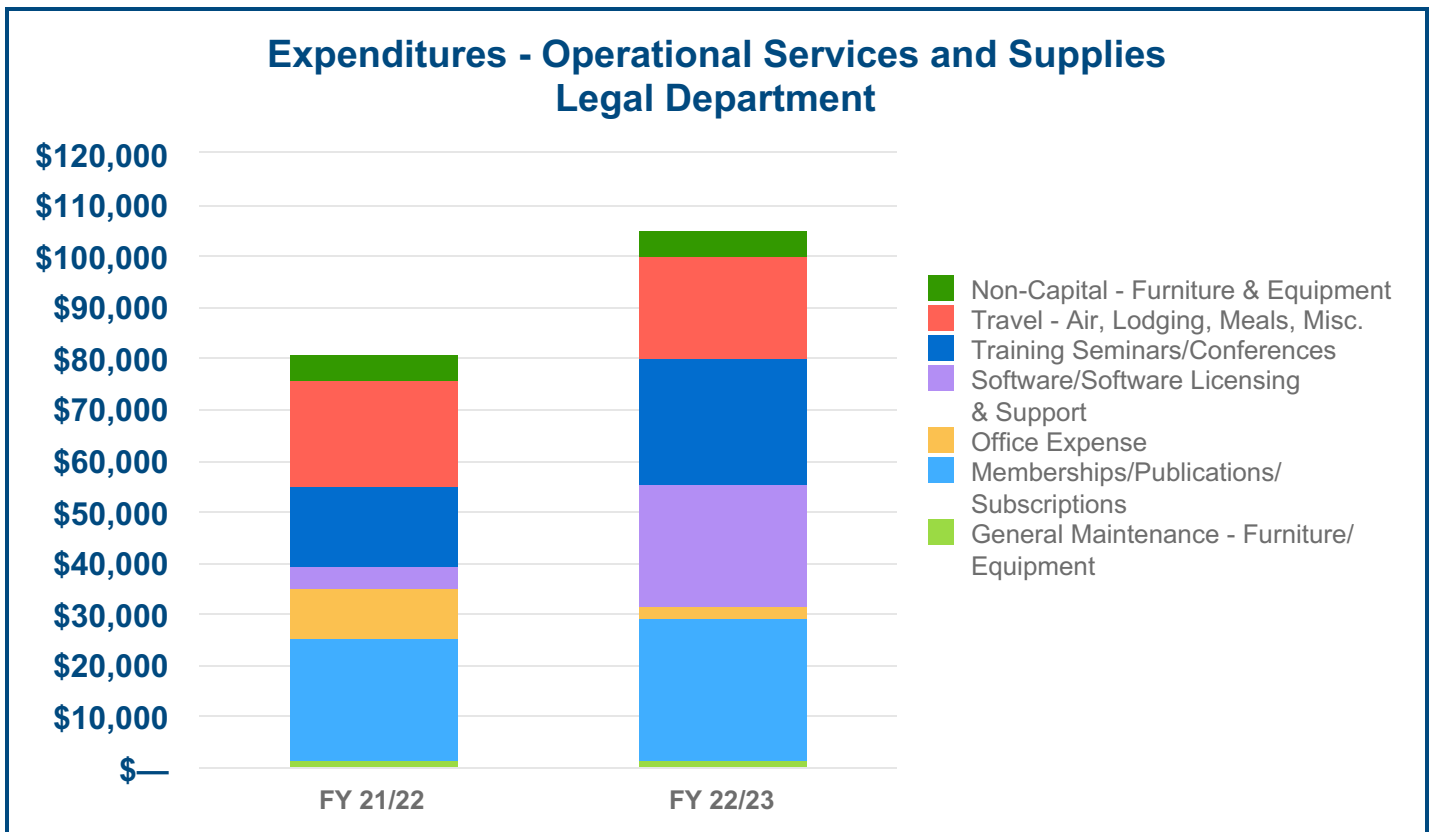
The overall increase of \$185,000 in personnel costs is due to net salary and benefit increases pursuant to the SBCERA Employment Resolution, Salary Rate and Step Advancement Plan, a net increase in position changes, and an estimated 8% COLA.

Professional Services

Professional Services includes outside attorney fees for non-investment issues and miscellaneous services. Outside attorneys assist SBCERA with legal matters arising from the Plan, employer, member, and benefit issues including litigation, if needed. Overall, appropriations in this category are projected to decrease because of the Alameda decision.

Operational Services and Supplies

Operational Services and Supplies includes legal department expenditures such as, but not limited to, staff memberships/subscriptions, software, staff training and conferences, and staff travel. Overall, appropriations in this category are projected to increase both from increased subscription costs for ProLaw and increased travel expenses after adding the Staff Counsel in the prior year.



Capital Expenditures

The Legal department is the source and main contact for reviewing and drafting SBCERA contracts. The existing method of tracking contracts can be improved through better control processes. Migrating the current process for managing contracts and agreements to a software platform will improve efficiency and security, as well as centralize SBCERA's contracts. Some of the contract management software products that have been reviewed, incorporate these elements by making contracts easily accessible, providing accurate reporting for contract analysis, improving productivity, making drafting and negotiating contracts fast and straightforward, increasing compliance, and reducing risk. It is evident from the review of contract management software vendors that the software can automate and streamline the entire contract lifecycle from beginning to termination of services. With the assistance of software management, SBCERA will be positioned to administer agreements and negotiate renewals and comply with regulatory requirements more effectively. Moreover, the software will assist with contract oversight, as well as align with SBCERA's Strategic Planning Goals of Operational Excellence and Efficiency. \$35,000 is budgeted to fund this project as part of the initial implementation of the contract software management. This amount was also budgeted in the prior fiscal year, but the project was not substantially completed.

For a complete list of Capital Expenditures, see *Appendix 1 – Capital Expenditures Summary* on page 39.

NON-ADMINISTRATIVE BUDGET

Investment Appropriations

Investment Appropriations include investment staff salaries and benefits, professional investment legal services, custodian fees, investment consultants, and operational services and supplies for the investment department. Overall, costs in this functional area will increase by \$663,800 or 10.9% and represent 38.7% of the total appropriated expenditures.

Annual Budget Summary Non-Administrative Budget Investment Appropriations 2022-2023 Annual Budget						
	<u>FY 22/23</u>	<u>FY 21/22</u>	<u>FY 21/22</u>			
	<u>Proposed Budget</u>	<u>Approved Budget</u>	<u>Estimated Actual</u>	<u>Increase/ (Decrease) over FY 21/22 Budget</u>	<u>Change over FY 21/22 Budget</u>	<u>Share of Non-Admin Budget</u>
Investment Appropriations						
Personnel Costs						
Staff Salaries and Benefits	\$ 2,606,000	\$ 2,336,800	\$ 2,300,000	\$ 269,200	11.5 %	15.0 %
Total Personnel Costs	2,606,000	2,336,800	2,300,000	269,200	11.5 %	15.0 %
Professional Services						
Attorney fees	135,000	129,000	95,000	6,000	4.7 %	0.8 %
Consulting	2,266,000	2,251,000	2,241,000	15,000	0.7 %	13.1 %
Custodian Fees	950,000	750,000	850,000	200,000	26.7 %	5.5 %
Solovis Reporting Fees	450,000	250,000	400,000	200,000	80.0 %	2.6 %
Miscellaneous	1,000	1,100	—	(100)	(9.1)%	— %
Total Professional Services	3,802,000	3,381,100	3,586,000	420,900	12.4 %	22.0 %
Operational Services and Supplies						
Building Rent	155,000	145,000	145,000	10,000	6.9 %	0.9 %
General Maintenance - Furniture/ Equipment	3,000	24,000	—	(21,000)	(87.5)%	— %
Memberships/Publications/ Subscriptions	8,500	8,100	8,000	400	4.9 %	— %
Office Expense	19,500	14,200	7,750	5,300	37.3 %	0.1 %
Software/Software Licensing & Support	87,000	87,000	84,000	—	— %	0.5 %
Training Seminars/Conferences	6,000	6,000	893	—	— %	— %
Travel - Air, Lodging, Meals, Misc.	35,000	56,000	50,016	(21,000)	(37.5)%	0.2 %
Non-Capital - Furniture & Equipment	5,000	5,000	714	—	— %	— %
Total Operational Services and Supplies	319,000	345,300	296,373	(26,300)	(7.6)%	1.7 %
Capital Expenditures	—	—	—	—	— %	— %
Total Investment Appropriations	\$ 6,727,000	\$ 6,063,200	\$ 6,182,373	\$ 663,800	10.9 %	38.7 %

Cost Category Analysis

Personnel Costs

Personnel Costs includes salary and benefits for SBCERA investment department employees. Overall, appropriations in this category are projected to increase by approximately \$269,200 or 11.5% from the prior year, which represents 15.0% of the total appropriated non-administration expenditures. The increase covers merit increases and an estimated 8% COLA.

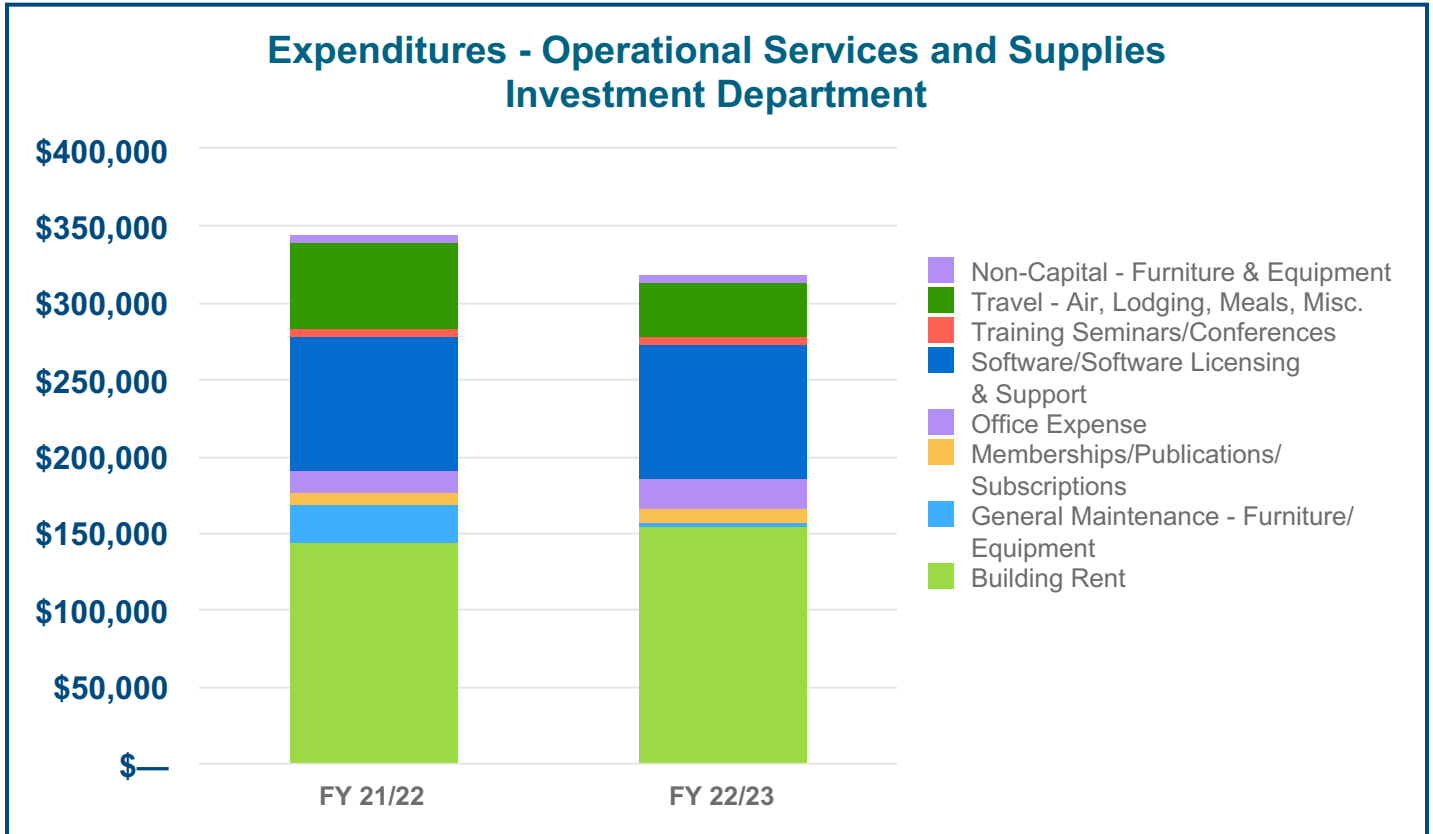
Professional Services

Professional Services includes outside attorney fees related to investment issues, consulting services, custodian fees, Solovis reporting fees, and miscellaneous professional services. Overall, appropriations in this category are projected to increase by \$420,900, or 12.4% over the prior budget. This increase primarily incorporates increased expenses for the Solovis reporting platform from State Street. The solution lends to the transparency and reporting integrity of performance reporting.

Operational Services and Supplies

Operational Services and Supplies includes, but is not limited to, staff professional memberships and subscriptions, office expense, rent, software, staff training and travel, and trustee due diligence travel. Overall, appropriations in this category are projected to decrease by approximately \$26,300 or 7.6% from the prior year, which represents 1.7% of the total appropriated non-administrative expenditures.

Travel: Costs in this line item are projected to decrease by \$21,000 primarily due to international travel requirements in the prior year for due diligence compliance.



Capital Expenditures

No capital expenditures for the investment department are requested.

NON-ADMINISTRATIVE BUDGET

Technology Appropriations

Appropriations for computer software, computer hardware, and computer technology consulting services in support of these computer products, including an allocation of personnel expenses, are considered Technology Appropriations except for those technology expenditures specifically allocated to the legal and investment departments.

Annual Budget Summary Non-Administrative Budget Technology Appropriations 2022-2023 Annual Budget						
	<u>FY 22/23</u>	<u>FY 21/22</u>	<u>FY 21/22</u>			
	<u>Proposed Budget</u>	<u>Approved Budget</u>	<u>Estimated Actual</u>	<u>Increase/ (Decrease) over FY 21/22 Budget</u>	<u>Change over FY 21/22 Budget</u>	<u>Share of Non-Admin Budget</u>
Technology Appropriations						
Personnel Costs						
Staff Salaries and Benefits	\$ 1,904,000	\$ 1,504,700	\$ 1,233,000	\$ 399,300	26.5 %	11.0 %
Total Personnel Costs	1,904,000	1,504,700	1,233,000	399,300	26.5 %	11.0 %
Professional Services						
Consulting Services	450,000	315,000	315,000	135,000	42.9 %	2.6 %
Total Professional Services	450,000	315,000	315,000	135,000	42.9 %	2.6 %
Operational Services and Supplies						
Data Processing & Equipment	145,000	200,000	200,000	(55,000)	(27.5)%	0.8 %
General Maintenance	10,000	11,000	11,000	(1,000)	(9.1)%	0.1 %
Software/Software Licensing	1,804,000	1,441,500	1,490,487	362,500	25.1 %	10.4 %
Training Seminars/Conferences	80,000	71,000	10,000	9,000	12.7 %	0.5 %
Non-Capital - Furniture & Equipment	246,000	126,000	100,000	120,000	95.2 %	1.4 %
Total Operational Services and Supplies	2,285,000	1,849,500	1,811,487	435,500	23.5 %	13.2 %
Capital Expenditures	3,563,000	3,733,200	2,158,796	(170,200)	(4.6)%	20.5 %
Total Technology Appropriations	\$ 8,202,000	\$ 7,402,400	\$ 5,518,283	\$ 799,600	10.8 %	47.3 %

Cost Category Analysis

Personnel Costs

Personnel costs include Information Services personnel Staff Salaries and Benefits related to the support of the computer software, computer hardware, and computer technology consulting services in support of Technology Expenditures. An allocation is made to the Administrative Budget for administrative services.

This category is projected to increase \$399,300 or 26.5% over the prior budget and encompasses merit increases, an estimated COLA of 8%, and the additional positions as presented starting on page 25.

Professional Services

Professional Services costs include consulting services in support of computer software and hardware. These services focus on preventive, detective, and corrective measures required to properly protect SBCERA’s network and data from intrusion, and to quickly identify and mitigate any potential security breaches.

Appropriations are projected to increase by \$135,000 or 42.9% over the prior year and represent 2.6% of the total appropriated expenditures. The project to support the Pension Administration System (PAS) refresh project, which is a Strategic Priority, and already under contract with Linea Solutions, was budgeted here in the prior year. The project continues into FY 22/23 and is included in Capital Expenditures for the Technology Appropriations. Further information on this is discussed on page 12, *Initiatives to Support Strategic Priorities*.

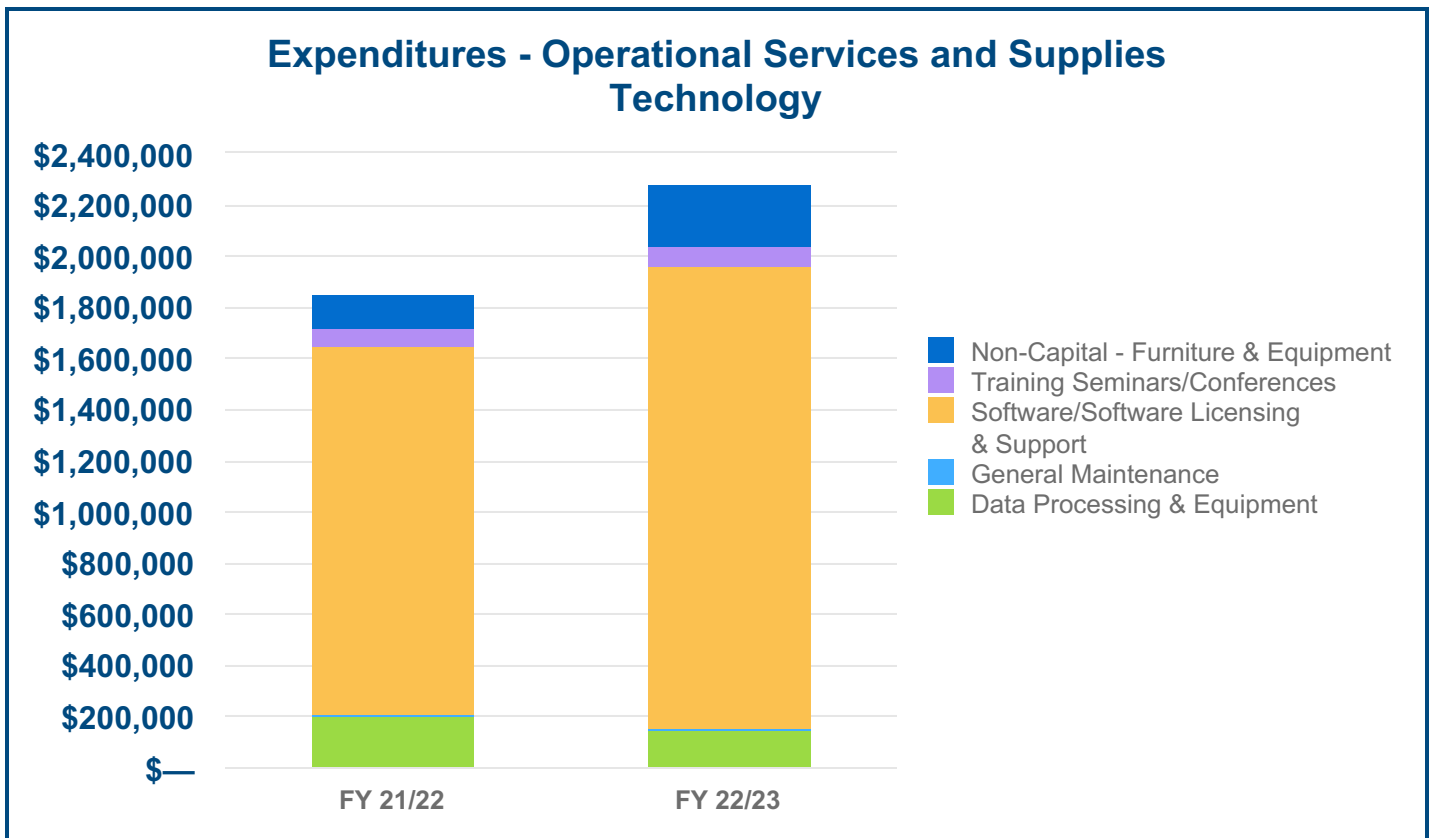
Operational Services and Supplies

Operational Services and Supplies costs include, but are not limited to, data processing & equipment, non-capital – IT hardware & software, and licensing & support for software. Appropriations in this category are projected to increase by approximately \$435,500 or 23.5% from the prior year and represents 13.2% of the total appropriated expenditures.

Software/Software Licensing & Support: Costs in this line item have increased 25% over the prior year. The increases are primarily attributed to moving toward cloud-based solutions and licensing fees after implementation.

Non-Capital – IT Hardware & Software: Within Operational Services and Supplies, Non-Capital – IT Hardware & Software includes the following projects:

Technology Appropriations - Non-Capital		
Desktops, tablets, notebooks	\$	65,000
Mobile conference equipment		35,000
Seminar equipment		35,000
Monitors, keyboards, misc. hardware		30,000
Board AV enhancements		30,000
Trustee equipment		25,000
Scanning station replacements		10,000
Wireless production network access points		16,000
Total Non-Capital - IT Hardware & Software	\$	246,000



Capital Expenditures

Capital Expenditures are projected to increase significantly to account for the Pension Administration System Initiative. For further information, see page 12, *Initiatives to Support Strategic Priorities*. For a complete list of capital expenditures, see *Appendix 1 – Capital Expenditure Summary*, on page 39.

PAYMENTS NOT INCLUDED IN BUDGET

Benefits and Refunds

Payments made to members and their beneficiaries for benefits and refunds are not discretionary; they are paid pursuant to Plan requirements and are presented below for informational purposes only.

Benefits & Refunds Paid to Plan Members and Their Beneficiaries				
(Amounts in Thousands)				
FY 18/19	FY 19/20	FY 20/21	Estimated FY 21/22	Projected FY 22/23
\$578,508	\$621,564	\$660,822	\$721,830	\$740,000

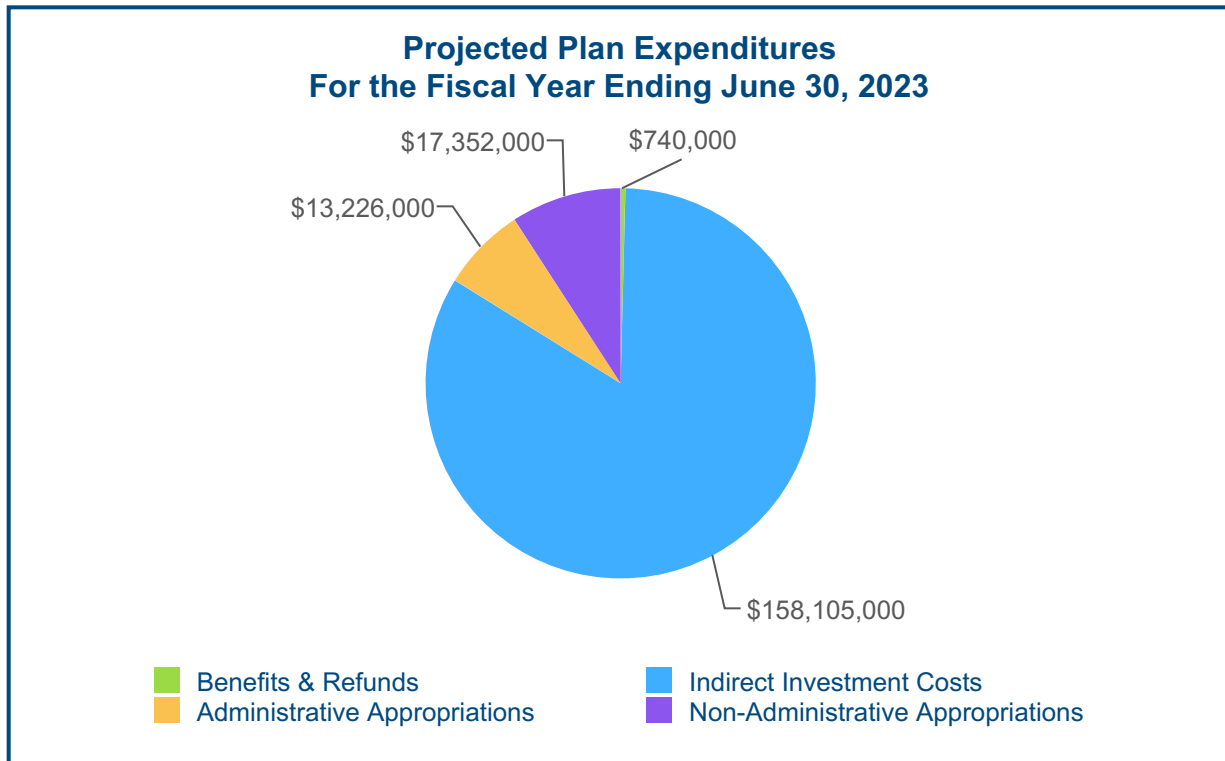
Indirect Investment Costs

Payments made for indirect investment costs are deducted directly from investment returns and are presented below for informational purposes only.

Indirect Investment Costs					
(Amounts in Thousands)					
	FY 18/19	FY 19/20	FY 20/21	Estimated FY 21/22	Projected FY 22/23
Management Fees	\$ 89,800	\$ 88,495	\$ 114,566	\$ 120,000	\$ 130,000
Other Investment Expenses ¹	63,148	50,925	23,853	25,000	28,000
Securities Lending Fees	2,453	1,592	87	100	105

¹These costs include foreign income tax and other indirect flow-through investment expenses

Based on the estimates for the payments not included in the expenditure budget, the following is the total projected plan expenditures for the fiscal year ending June 30, 2023:



APPENDIX

In addition to the analysis already provided, the following appendices are attached to provide supplementary information as follows:

- 1) Appendix 1 – Capital Expenditures Summary
- 2) Appendix 2 – Staff Position Summary

Appendix 1 – Capital Expenditures Summary

Capital Expenditures Summary	
2022 - 2023 Annual Budget	
Administrative Budget:	
SBCERA Call Center Relocation to First Floor	\$ 70,000
Indoor Signage	35,000
Total Additions for Administrative Budget	\$ 105,000
Non-Administrative Budget:	
Legal Appropriations	
Contract Management Software	\$ 35,000
Total Additions for Legal Appropriations	\$ 35,000
Technology Appropriations:	
Pension Administration Software Project: LRS	\$ 1,859,000
Pension Administration Software Project: Phase II	919,000
Seminar/IS Reconfiguration	350,000
DocuSign Implementation	200,000
Additional Information Security Configurations	145,000
General Ledger Implementation	50,000
Additional Physical Security Configurations	40,000
Total Additions for Technology Appropriations	\$ 3,563,000
Total Additions for Non-Administrative Budget	\$ 3,598,000
Total Additions for Capital Expenditures¹	\$ 3,703,000
¹ The additions for capital expenditures approved for the year ending June 30, 2023 will be capitalized and expensed over their estimated useful life.	

Appendix 2 – Staff Position Summary

Staff Position Summary	
2022 - 2023 Annual Budget	
SBCERA Staff - Full-Time Equivalents (FTE)	FTE
June 30, 2022 Administrative Positions	56
Positions Removed from Organizational Chart	(2)
Additional Positions on Organizational Chart	7
June 30, 2023 Administrative Positions Budgeted	61
June 30, 2022 Legal Positions	6
Positions Removed from Organizational Chart	–
Additional Positions on Organizational Chart	1
June 30, 2023 Legal Positions Budgeted	7
June 30, 2022 Investment Positions	8
Positions Removed from Organizational Chart	–
Additional Positions on Organizational Chart	–
June 30, 2023 Investment Positions Budgeted	8
June 30, 2022 Technology Positions	8
Positions Removed from Organizational Chart	–
Additional Positions on Organizational Chart	2
June 30, 2023 Technology Positions Budgeted¹	10
Total SBCERA Staff Positions for June 30, 2023	86

1) Excludes 2 Information Systems positions included in Administrative budget.

Appendix 3 – Staff Position Analysis

Growth Analysis							
(Dollar Amounts in Thousands)							
	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	Growth Rate
Actuarial Value of Assets	\$ 9,385,977	\$10,020,863	\$10,642,401	\$11,133,173	\$12,258,925		\$ 2,872,948 30.6 %
Active & Deferred Members	26,657	27,676	28,549	29,308	29,697	30,400	3,743 14.0 %
Retirees & Beneficiaries	12,179	12,716	13,244	13,833	14,292	14,988	2,809 23.1 %
Approved Staff Positions	77	77	78	76	75	80	3 3.9 %

The chart above illustrates that SBCERA's growth rate of assets and membership far outpaces the rate of approved staff position growth. Note that the asset value presented above utilizes the Actuarial Value of Assets (AVA) which is smoothed over 5 years. The AVA for the fiscal year ending June 30, 2022 will not be available until the Actuarial Valuation for the fiscal year ending June 30, 2022 is complete. Using the total proposed positions to be added for the 2022-2023 Annual Budget (6 positions), the growth rate is 12%, which is less than the rate of membership and asset growth.

Members Served by Staff						
	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22
Total Membership	38,836	40,392	41,793	43,141	43,989	45,388
Approved Staff Positions	77	77	78	76	75	80
Membership per Position	504	525	536	568	587	567

The average Members Served by Staff metric can be measured by dividing the total membership population by the approved staff positions for each respective year. For the Fiscal Year ending June 30, 2022 that number is approximately 567 members per position.