



Finance and Administration Committee Agenda Item 6a

March 15, 2016

Item Name: CalPERS Budget Policy (Second Reading)

Program: Financial Office

Item Type: Action

Recommendation

Staff recommends the Board adopt the CalPERS Budget Policy which includes the revisions to the policy resulting from the CalPERS Board's first reading of the policy during the February 2016 meeting of the Finance and Administration Committee.

Executive Summary

The CalPERS Budget Policy is to:

- Ensure CalPERS budgeting practices align with the allocation and utilization of resources to meet the organization's mission, vision, and value.
- Define the roles and responsibilities of the CalPERS Board, management and staff.

Establishing the CalPERS Budget Policy will ensure the organization's role to maintain a fiscally sustainable balanced budget that translates the intentions of the CalPERS Strategic Plan objectives into an itemized, authorized and systematic plan of operation, expressed in dollar amounts.

Strategic Plan

Enterprise priorities are identified through the strategic and business planning process and as part of the budget process and in constructing the budget, these priorities are included in the discussions and considerations for the development of the budget.

Additionally, in accordance with the Government Finance Officers Association (GFOA) best practices, CalPERS establishes several criteria for an effective budget process which includes:

- Incorporating a long-term perspective.
- Establishing linkages to broad organizational goals.
- Focusing budget decisions on results and outcomes.
- Involving and promoting effective communication with stakeholders.

Background

There are two formal budget processes during the fiscal year; the Annual and Mid-Year. The budget processes reviews the organization's existing and new requests for resources required to meet CalPERS mission, Strategic Plan, and Business Plan priorities.

The proposed CalPERS Annual Budget is reviewed by the CalPERS Finance and Administration Committee of the Board of Administration and upon approval by the CalPERS Board, the CalPERS Annual Budget has an effective date of July 1 in the new fiscal year.

The approved CalPERS Annual Budget may be revised mid-year to amend for board directed, critical, emergency, or unforeseen circumstances that arise after the start of the new fiscal year and that need to be addressed and funded in the current year. The revised CalPERS Mid-Year Budget is reviewed by the CalPERS Finance and Administration Committee of the Board of Administration and upon approval by the CalPERS Board, the CalPERS Mid-Year Budget has an effective date of January 1 in the current fiscal year.

Analysis

During the February 2016 meeting with the Finance and Administration Committee, the CalPERS Board performed a first reading of the CalPERS Budget Policy and provided staff with guidance on potential policy revisions. Based on feedback from the Committee, criteria used for the development and prioritization of the budget are included. In addition, details of the constitutional authority over pension funds and the requirement for legislative approval for funding and position authority regarding the CalPERS Health Program's Contingency Reserve Fund have been included. A section on Financial Forecasting has also been added to the policy based on Committee feedback.

Budget and Fiscal Impacts

The budget and fiscal impacts of implementing the CalPERS Budget Policy will formalize the Annual Budget process, establish budgetary controls, manage available resources and align with the strategic plan to cultivate a high-performing, risk-intelligent, and innovative organization.

Benefits and Risks

The benefit to the organization of establishing the CalPERS Budget Policy formalizes the budget process, establishes budgetary controls, manages available resources and aligns with the strategic plan to cultivate a high-performing, risk-intelligent, and innovative organization.

The risk to the organization of not establishing the CalPERS Budget Policy includes potential resource shortfalls that may inhibit the ability to achieve organizational goals, missed opportunity to achieve full cost savings, inability to deliver quality customer service and proactively monitor for compliance.

Attachments

Attachment 1 – CalPERS Budget Policy- Redlined version

Attachment 2 – CalPERS Budget Policy- Final version

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