May 27, 2026

Trustees, Board of Retirement
Other Interested Parties

Subject: Meeting of the Kern County Employees' Retirement Association Finance Committee

Ladies and Gentlemen:

A meeting of the Kern County Employees' Retirement Association Finance Committee will be held on Tuesday, June 2, 2026, at 2:30 p.m. in the KCERA Boardroom, 11125 River Run Boulevard, Bakersfield, California, 93311.

How to Participate: Listen to or View the Board Meeting
To listen to the live audio of the Board meeting, please dial one of the following numbers and enter ID# 858 9556 1204:

- (669) 900-9128; U.S. Toll-free: (888) 788-0099 or (877) 853-5247

To access live audio and video of the Board meeting, please use the following:

- https://us02web.zoom.us/j/85895561204?pwd=HEDGqgJdyMaml0HiCe1R4Zxt0E18tP.1
- Passcode: 969583

Items of business will be limited to the matters shown on the attached agenda. If you have any questions or require additional service, please contact KCERA at (661) 381-7700 or send an email to Administration@kcera.org.

Sincerely,

Dominic D. Brown
Chief Executive Officer

Attachments

❖ ***KCERA Board Agenda Notifications:*** *Sign up here on the KCERA website.*

AGENDA:

All agenda item supporting documentation is available for public review on KCERA's website at www.kcera.org following the posting of the agenda. Any supporting documentation that relates to an agenda item for an open session of any regular meeting that is distributed after the agenda is posted and prior to the meeting will also be available for review at the same location.

AMERICANS WITH DISABILITIES ACT
(Government Code Section 54953.2)

Disabled individuals who need special assistance to listen to and/or participate in the meeting of the Board of Retirement may request assistance by calling (661) 381-7700 or sending an email to Administration@kcera.org. Every effort will be made to reasonably accommodate individuals with disabilities by making meeting materials and access available in alternative formats. Requests for assistance should be made at least two (2) days in advance of a meeting whenever possible.

CALL TO ORDER

ROLL CALL (IN PERSON)

SB 707 REMOTE APPEARANCE(S)
Item 1 withdrawn from agenda if no trustee(s) request to appear remotely:

1. Trustee(s) who have notified the Committee of a "Just Cause" to attend this meeting via teleconference. (See Government Code Section 54953.8.3).

CONSENT MATTERS
All items listed with an asterisk (*) are considered to be routine and non-controversial by staff and will be approved by one motion if no member of the Committee or public wishes to comment or ask questions. If comment or discussion is desired by anyone, the item will be removed from the consent agenda and will be considered in the listed sequence with an opportunity for any member of the public to address the Committee concerning the item before action is taken. Staff recommendations are shown in caps after each item.

*2. Memo from Deputy Director of Compliance Tarrah Shockley regarding application of the Actuarial Valuation to KCERA's Supplemental Retiree Benefit Reserve (SRBR) and Declining Employer Payroll Policies – RECOMMEND THE BOARD OF RETIREMENT RECEIVE AND FILE

*3. Agreement for Audit Services with UHY LLP – RECOMMEND THE BOARD OF RETIREMENT AUTHORIZE CHIEF EXECUTIVE OFFICER TO SIGN AGREEMENT, SUBJECT TO LEGAL ADVICE AND REVIEW

PUBLIC COMMENTS

4. The public is provided the opportunity to comment on agenda items at the time those agenda items are discussed by the Committee. This portion of the meeting is reserved for persons to address the Committee on any matter not on this agenda but under the jurisdiction of the Committee. Committee members may respond briefly to statements made or questions posed. They may ask a question for clarification and, through the Chair, make a referral to staff for factual information or request staff to report back to the Committee at a later meeting. Speakers are limited to two minutes. Please state your name for the record prior to making a presentation.

MATTERS FOR CONSIDERATION

Staff recommendations are shown in caps after each item.

5. Discussion and appropriate action on KCERA's Regular Interest and Excess Interest Crediting Policy presented by Chief Executive Officer Dominic Brown and Chief Legal Officer Jennifer Zahry – RECOMMEND THE BOARD OF RETIREMENT ADOPT PROPOSED EDITS TO KCERA'S REGULAR INTEREST AND EXCESS INTEREST CREDITING POLICY, RATIFY INTEREST CREDITED FROM DECEMBER 31, 2010 THROUGH JUNE 30, 2026, AND/OR TAKE OTHER APPROPRIATE ACTION

6. Presentation on KCERA Organizational Landscape and Budget Governance by Chief Executive Officer Dominic Brown – HEAR PRESENTATION

7. Discussion and appropriate action on the recommended FY 2026-2027 KCERA Operating Budget presented by Chief Executive Officer Dominic Brown, Chief Operations Officer Matt Henry, and Chief Financial Officer Angela Kruger – RECOMMEND THE BOARD OF RETIREMENT APPROVE

REFERRALS TO STAFF, ANNOUNCEMENTS, OR REPORTS

8. On their own initiative, Committee members may make a brief announcement, refer matters to staff, subject to KCERA's rules and procedures, or make a brief report on their own activities.

9. Adjournment

Date: June 2, 2026

To: Trustees, Finance Committee

From: Tarrah Shockley, Deputy Director of Compliance

Subject: **Application of Actuarial Valuation to SRBR and Declining Employer Payroll Policies**

This memorandum updates your Committee on the application of the annual Actuarial Valuation (valuation) to both the KCERA Supplemental Retiree Benefit Reserve (SRBR) and Declining Employer Payroll policies. The valuation concluded that SRBR benefits are actuarially funded within the range specified by policy and, therefore, no modification or suspension of benefits is required by your Committee or the Board of Retirement.

In conjunction with the valuation, staff reviewed plan sponsors currently designated as declining employers, as well as those being monitored under the Declining Employer Payroll Policy. Based on that review, no changes are recommended at this time. There are currently two employers designated as declining employers, and both continue to make employer contributions toward reducing their Unfunded Actuarial Accrued Liability (UAAL).

Staff will continue to monitor participating employers and will report to your Committee any plan sponsor that meets the triggering events outlined in the Declining Employer Payroll Policy.

Therefore, it is recommended that your Committee recommend the Board of Retirement receive and file this report.

Memorandum from the Office of
The Chief Executive Officer
Dominic D. Brown

Date: June 2, 2026

To: Trustees, Finance Committee

From: Dominic D. Brown, Chief Executive Officer

Subject: **Agreement for Audit Services**

KCERA previously entered a three-year contract with UHY to provide audit services. The services include an independent audit of KCERA's financial statements and audit of GAS 68 schedules. KCERA Staff is pleased with the quality of services UHY has provided and recommends accepting this one-year term after which a regularly scheduled request for proposals will be issued for the services mentioned above. All terms and conditions have been reviewed by legal staff.

Therefore, it is recommended that the Finance Committee approve Staff's proposed audit firm and recommend them to the Board of Retirement at their regular meeting June 10, 2026.

AGREEMENT FOR PROFESSIONAL SERVICES

(KCERA – UHY LLP)

INDEPENDENT CONTRACTOR

THIS AGREEMENT is made and entered into this ____ day of ________, 2026, by and between the KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION, a public retirement system organized and existing under the County Employees Retirement Law of 1937, (hereinafter "KCERA"), with its principal location at 11125 River Run Boulevard, Bakersfield, CA 93311 and UHY LLP, a limited liability partnership with principal location at 8601 Robert Fulton Drive, Suite 210, Columbia, MD 21046 (hereinafter "UHY");

W I T N E S S E T H:

WHEREAS:

(a) KCERA is a multi-tier 401(a) defined benefit public retirement system administered by its Board of Retirement (hereinafter "Board") in accordance with the County Employees Retirement Law of 1937 and related laws; and

(b) KCERA is obligated pursuant to Government Code section 7504(b) to secure the services of a qualified person or entity to perform an attest audit of the KCERA's financial statements and to submit the audited financial statements to the State Controller each fiscal year; and

(c) Government Code section 31593 of the California Employees' Retirement Law of 1937 requires KCERA to conduct an audit of the retirement system at least once every 12 months and report upon its financial condition; and

(d) KCERA desires to retain UHY to perform such services as listed in Attachment "A"; and

(e) UHY, by reason of its qualifications, experience, and facilities for doing the type of work herein contemplated, has offered to provide the required services on the terms set forth herein.

NOW, THEREFORE, IT IS AGREED between the parties hereto as follows:

1. **Services to be Rendered**. UHY shall provide the services described in Attachment A, attached hereto and incorporated herein. Such services shall be monitored by the Chief Executive Officer of the KCERA ("Chief Executive Officer") or his designee.

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/ / /

2. **Compensation to Consultant**. KCERA agrees to compensate UHY for professional services performed in accordance with the terms and conditions of this AGREEMENT as outlined in the Fees section of Attachment A.

3. **Reimbursement Policy and Billing Requirements**. All invoices for payment shall be submitted in a form approved by KCERA, and shall contain an itemization of costs and fees broken down and also stated as a cumulative total. Invoices shall be sent to KCERA for review and processing. Payment will be made to UHY within thirty (30) days of receipt and approval of each invoice by KCERA. With regard to the fees paid for the Annual Comprehensive Financial Report, KCERA shall withhold ten percent (10%) from each payment, and the final payment shall be made after the Board approves the final audit report.

4. **Term**. This Agreement shall commence as of the date first written above and shall remain in effect until completion of the audit and other audit services for the period from July 1, 2025 to June 30, 2026, unless sooner terminated as hereinafter provided.

5. **Representations**. UHY makes the following representations which are agreed to be material to and form a part of the inducement for this Agreement:

a. UHY has the expertise, support staff and facilities necessary to provide the services described in this Agreement and Attachment A; and

b. UHY does not have any actual or potential interests adverse to KCERA nor does UHY represent a person or firm with an interest adverse to KCERA with reference to the subject of this Agreement; and

c. UHY shall diligently provide all required services in a timely and professional manner in accordance with the terms stated in this Agreement.

6. **Assignment**. UHY shall not assign or transfer this Agreement or any part hereof without the prior express and written approval of KCERA.

7. **Independent Contractor**. In the performance of all services under this Agreement, UHY shall be, and acknowledges that UHY is, in fact and law, an independent contractor and not an agent or employee of KCERA. UHY has and retains the right to exercise full supervision and control of the manner and methods of providing services to KCERA under this Agreement. UHY retains full supervision and control over the employment, direction, compensation and discharge of all persons assisting UHY in the provision of services under this Agreement. With respect to UHY's employees, if any, UHY shall be solely responsible for payment of wages, benefits and other compensation, compliance with all occupational safety, welfare and civil rights laws, tax

withholding and payment of employee taxes, whether federal, state or local, and compliance with any and all other laws regulating employment.

8. **Indemnification**. UHY agrees to indemnify, defend and hold harmless KCERA and KCERA's agents, board members, elected and appointed officials and officers, employees, volunteers and authorized representatives from losses, liabilities, charges, damages, claims, liens, causes of action, awards, judgments, costs, and expenses (including, but not limited to, reasonable attorneys' fees, reasonable expert fees, and investigation costs), which arise out of or are in any way connected with any negligent act or omission of UHY or UHY's officers, agents, employees, independent contractors, sub-contractors of any tier, or authorized representatives. Without limiting the generality of the foregoing, the same shall include injury or death to any person or persons; damage to any property, regardless of where located; and any workers' compensation claim or suit arising from or connected with the negligent acts or omissions of UHY in its performance of the services performed pursuant to this Agreement or performed on behalf of UHY by any person or entity.

9. **Insurance**. UHY, at its sole cost and expense, will insure its activities in connection with work under this proposal and obtain, keep in force and maintain insurance at a minimum as follows:

a. Liability Insurance Requirements:

(1) UHY shall maintain in full force and effect, at all times during the term of this Agreement, the following insurance:

(a) Commercial General Liability insurance, including, but not limited to, Contractual Liability insurance (specifically concerning the indemnity provisions of this Agreement), Personal Injury insurance (including bodily injury and death), and Property Damage insurance for liability arising out of Consultant's performance of work under this Agreement. Said insurance coverage shall have minimum limits for Bodily Injury and Property Damage liability of One Million Dollars ($1,000,000) for each occurrence and Two Million Dollars ($2,000,000) in the aggregate.

(b) Workers' Compensation insurance in statutory amounts.

(c) Automobile Liability insurance against claims of Personal Injury (including bodily injury and death) and Property Damage covering all owned, leased, hired and non-owned vehicles used in the performance of services pursuant to this Agreement with minimum limits for Bodily Injury and Property Damage liability of One Million Dollars ($1,000,000). Such insurance shall be provided by a business or commercial vehicle policy.

(d) Professional Liability (Errors and Omissions) Insurance, for liability arising out of, or in connection with, the performance of all required services under this Agreement, with limits of not less than One Million Dollars ($1,000,000) for each occurrence and Two Million Dollars ($2,000,000) in the aggregate.

(2) If any of the insurance coverage required under this Agreement are written on a claims-made basis, the insurance policy shall provide an extended reporting period of not less than four (4) years following termination of this Agreement or completion of Consultant's work specified in this Agreement, whichever is later.

b. Prior to UHY commencing any of its obligations under this Agreement, evidence of insurance in the form of Certificates of Insurance in compliance with the requirements above shall be furnished to KCERA's Chief Executive Officer. UHY shall maintain the above-stated insurance coverage until the termination of this Agreement. Such insurance coverage shall not be reduced, modified, or canceled without thirty (30) days prior written notice to KCERA. UHY shall immediately obtain replacement coverage for any insurance policy that is terminated, canceled, not renewed, or whose policy limits have been exhausted or upon receipt of written notification of the insolvency of the insurer that issued the policy.

c. All insurance shall be issued by a company or companies listed in the current "Best's Key Rating Guide" publication with a minimum of an "A-;VII" rating, or, in the alternative, by a company or companies who have been pre-approved by KCERA.

d. All insurance afforded by UHY pursuant to this Agreement shall be primary to and not contributing to any other insurance maintained by KCERA. Insurance coverage in the minimum amounts set forth herein shall not be construed to relieve UHY for any liability, whether within, outside, or in excess of such coverage, and regardless of solvency or insolvency of the insurer that issues the coverage; nor shall it preclude KCERA from taking such other actions as are available to it under any other provision of this Agreement or otherwise in law.

e. Failure by UHY to maintain all such insurance in effect at all times required by this Agreement shall be a material breach of this Agreement by UHY. KCERA, at its sole option, may terminate this Agreement and seek to obtain actual damages from UHY resulting from such breach. In the alternative, KCERA may purchase such required insurance coverage, and without further notice to UHY, KCERA deduct from sums due to UHY any premiums and associated costs advanced or paid by KCERA for such insurance (the "Alternative Action"). If the balance of monies owed to UHY pursuant to this Agreement are insufficient to reimburse KCERA for the premiums and any associated costs, UHY agrees to reimburse KCERA for the premiums and pay for all costs associated with the purchase of said insurance. Any failure by KCERA to take the

Alternative Action shall not relieve UHY of its obligation to obtain and maintain the insurance coverage required by this Agreement.

10. **Termination**. This Agreement may be terminated by written notice as follows: (a) by either party at any time for failure of the other party to comply with the terms and conditions of this Agreement through no fault of the party initiating the termination; (b) by either party upon sixty (60) days prior written notice to the other party; or (c) upon mutual agreement of both parties. In the event of termination, UHY shall stop work immediately and shall be entitled to compensation for all satisfactory professional service fees performed prior to termination and for expense reimbursement submitted in accordance with the Agreement. Any such compensation and/or reimbursement shall not exceed the applicable maximum dollar amount set forth in Attachment A. In the event this Agreement is terminated by either UHY or KCERA, UHY shall submit to the Chief Executive Officer all files, memoranda, documents, correspondence and other items generated in the course of performing this Agreement, within fifteen (15) days after the effective date of any written Notice of Termination.

11. **Ownership of Documents**. All reports, documents and other items generated or gathered in the course of providing services to KCERA under this Agreement are and shall remain the property of KCERA, and shall be returned to KCERA upon full completion of all services by UHY or termination of this Agreement, whichever first occurs.

12. **Notices**. All notices required or provided for in this Agreement shall be provided to the parties at the following addresses, by personal delivery or deposit in the U.S. Mail, postage prepaid, registered, certified mail or e-mail, addressed as specified below. Notices delivered personally shall be deemed received upon receipt; mailed or expressed notices shall be deemed received five (5) days after deposit. A party may change the address to which notice is to be given by giving notice as provided in this Section.

To KCERA:	Dominic D. Brown, Chief Executive Officer 11125 River Run Boulevard Bakersfield, California 93311 legal@kcera.org
To UHY:	UHY LLP 8601 Robert Fulton Drive, Suite 210 Columbia, MD 21046 jostroski@uhy-us.com

Nothing in this Agreement shall be construed to prevent or render ineffective delivery of notices required or permitted under this Agreement by leaving such notice with the receptionist or other person if like capacity employed by UHY or in KCERA's office.

13. **Conflict of Interest**. UHY has read and is aware of the provisions of Section 1090 et seq. and Section 87100 et seq. of the Government Code relating to conflict of interest of public officers and employees. UHY agrees that they are unaware of any financial or economic interest of any public officer or employee of the KCERA relating to this Agreement. It is further understood and agreed that if such a financial interest does exist at the inception of this Agreement, the KCERA may immediately terminate this Agreement by giving written notice thereof. UHY shall comply with the requirements of Government Code section 87100 et seq. during the term of this Agreement.

14. **Sole Agreement**. This document, including Attachment "A", contains the entire agreement of the parties relating to the services, rights, obligations and covenants contained herein and assumed by the parties respectively. No inducements, representations or promises have been made, other than those recited in this Agreement. No oral promise, modification, change or inducement shall be effective or given any force or effect.

15. **Authority to Bind KCERA**. It is understood that UHY, in UHY performance of any and all duties under this Agreement, except as otherwise provided in this Agreement, has no authority to bind KCERA to any agreements or undertakings.

16. **Modifications of Agreement**. This Agreement may be modified in writing only, signed by the parties in interest at the time of the modification.

17. **Non-waiver**. No covenant or condition of this Agreement can be waived except by the written consent of KCERA. Forbearance or indulgence by KCERA in any regard whatsoever shall not constitute a waiver of the covenant or condition to be performed by UHY. KCERA shall be entitled to invoke any remedy available to KCERA under this Agreement or by law or in equity despite said forbearance or indulgence.

18. **Choice of Law/Venue**. The parties hereto agree that the provisions of this Agreement will be construed pursuant to the laws of the State of California. This Agreement has been entered into and is to be performed in the County of Kern. Accordingly, the parties agree that the venue of any action relating to this Agreement shall be in the County of Kern.

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19. **Confidentiality**.

a. UHY acknowledges and agrees that KCERA is a public agency subject to state laws, including, without limitation, (A) the Ralph M. Brown Act (California Government Code Sections 54950 et seq.), which governs meetings for local legislative bodies; and (B) the California Public Records Act (California Government Code Sections 7920.000 et seq.) (the "Act"), which provides generally that all records relating to a public agency's business, including reports of transactions and proceedings, constitute "public records or files," and are open to public inspection, disclosure, and copying in the manner provided in the Act, unless specifically exempted under the Act;

b. UHY will not make any claim against KCERA if KCERA makes available to the public any report, notice or other information it receives from UHY, which KCERA, in good faith, determines is not exempt from public disclosure under applicable law, including, without limitation, the Act.

c. Upon expiration or termination of this Agreement, the provisions of this Section 19 shall continue to survive.

d. Auditor shall not, without the written consent of the KCERA, communicate confidential information, designated in writing or identified in this Agreement as such, to any third party and shall protect such information from inadvertent disclosure to any third party in the same manner that they protect their own confidential information, unless such disclosure is required in response to a validly issued subpoena or other process of law or regulation. Upon completion of this Agreement, the provisions of this paragraph shall continue to survive. Any and all information related to individual members of KCERA is designated as confidential.

e. For purposes of this Agreement, "Confidential Information" shall mean any and all information (whether a trade secret or not; whether proprietary or not) disclosed by either party to the other that relates to the parties' proprietary information, technology, know-how, research and development, or business which is of value to such disclosing party, including, without limitation, processes, know-how, designs, software, flow charts, logic diagrams, business plans, negotiations and contracts with other companies, financial statements, cost and expense data, marketing strategies, KCERA lists, pricing, terms, personnel matters, licenses, licensees, and licensors; provided, however, that Confidential Information shall not include information which is (A) rightfully in possession of the receiving party prior to disclosure by the disclosing party provided that the source of such information was not known by the receiving party to be bound by a confidentiality agreement or other contractual, legal or fiduciary obligation of confidentiality to the disclosing party or any other party with respect to such information, (B) rightfully obtained from a third party authorized to make such disclosure, without breach of the terms and conditions of this Agreement, or otherwise, (C) independently developed by the receiving party as conclusively demonstrated by contemporaneous documents, (D) available to the public without restrictions, (E) approved for disclosure with the prior written approval of the disclosing party, or (F) disclosed by court order or as otherwise required by law, provided that the party required to disclose such information provides prompt advance notice to enable the other party to seek a protective order or otherwise prevent such disclosure. Furthermore, any contemplated transactions are considered ongoing, and the terms and substance of any related discussions, negotiations or investigations between the parties are deemed to be Confidential Information.

20. **Enforcement of Remedies**. No right or remedy herein conferred on or reserved to KCERA is exclusive of any other right or remedy herein or by law or equity provided or permitted, but each shall be cumulative of every other right or remedy given hereunder or now or hereafter existing by law or in equity or by statute or otherwise, and may be enforced concurrently or from time to time.

21. **Severability**. Should any part, term, portion or provision of this Agreement be decided finally to be in conflict with any law of the United States or the State of California, or otherwise be unenforceable or ineffectual, the validity of the remaining parts, terms, portions, or provisions shall be deemed severable and shall not be affected thereby, provided such remaining portions or provisions can be construed in substance to constitute the agreement which the parties intended to enter into in the first instance.

22. **Compliance with Law**. UHY shall observe and comply with all applicable state and federal laws, ordinances, rules and regulations now in effect or hereafter enacted, each of which are hereby made a part hereof and incorporated herein by reference.

23. **Captions and Interpretation**. Paragraph headings in this Agreement are used solely for convenience, and shall be wholly disregarded in the construction of this Agreement. No provision of this Agreement shall be interpreted for or against a party because that party or its legal representative drafted such provision, and this Agreement shall be construed as if jointly prepared by the parties.

24. **Time of Essence**. Time is hereby expressly declared to be of the essence of this Agreement and of each and every provision hereof, and each such provision is hereby made and declared to be a material, necessary, and essential part of this Agreement. It is agreed by and between and the parties, however, that neither party shall be liable to the other for delays in performance that are caused in whole or in part by the other party, by third parties over which the

parties hereto do not have the legal right to control, or by forces de majeure.

25. **Counterparts**. This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

26. **Non-discrimination**. Neither UHY, nor any officer, agent, employee, servant or subcontractor of UHY shall discriminate in the treatment or employment of any individual or groups of individuals on the grounds of race, color, religion, national origin, age, or sex, either directly, indirectly or through contractual or other arrangements.

27. **Audit, Inspection and Retention of Records**. UHY agrees to maintain and make available to KCERA accurate books and records relative to all its activities under this Agreement. UHY shall permit KCERA to audit, examine, and make excerpts and transcripts from such records, and to conduct audits of all invoices, materials, records of personnel, or other data related to all other matters covered by this Agreement. UHY shall maintain such data and records in an accessible location and condition for a period of not less than three (3) years from the date of final payment under this Agreement, or until after the conclusion of any audit, whichever occurs last. The State of California and/or any federal agency having an interest in the subject of this Agreement shall have the same rights conferred upon KCERA herein.

28. **Non-Collusion Covenant**. UHY represents and agrees that it has in no way entered into any contingent fee arrangement with any firm or person concerning the obtaining of this Agreement with KCERA. UHY has received from KCERA no incentive or special payments, nor considerations not related to the provision of services under this Agreement.

[Remainder of page left intentionally blank]

29. **Signature Authority**. Each party has full power and authority to enter into and perform this Agreement, and the person signing this Agreement on behalf of each party has been properly authorized and empowered to enter into this Agreement.

30. **Third Parties**. The KCERA and UHY are the only parties to this Agreement and are the only parties to enforce its terms. Nothing in this Agreement gives, is intended to give, or shall be construed to give or provide, any right or benefit, whether directly or indirectly or otherwise, to third persons.

IN WITNESS WHEREOF, each party to this Agreement has signed this Agreement upon the date indicated, and agrees, for itself, its employees, officers, partners and successors, to be fully bound by all terms and conditions of this Agreement.

APPROVED AS TO CONTENT:

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

By ________________________________
Dominic D. Brown
KCERA Chief Executive Officer

UHY LLP

By ________________________________
Jason Ostroski
Managing Director

APPROVED AS TO FORM:

By ________________________________
Jennifer Esquivel Zahry
KCERA Chief Legal Officer

ATTACHMENT A

KCERA – UHY
SERVICES AND FEE SCHEDULE FY 2025-2026

I. Audit Services

Auditor will audit the financial statements of fiduciary net position and changes in fiduciary net position, which collectively comprise the basic financial statements of Kern County Employees' Retirement Association, as of and for the fiscal year ending June 30, 2026, and the related notes to the financial statements for the listed fiscal year.

KCERA requires the Auditor to express an opinion on the fair presentation of the financial statements in conformity with generally accepted accounting principles. The Auditor shall be responsible for performing certain limited procedures involving required supplementary information required by the Governmental Accounting Standards Board as mandated by generally accepted auditing standards.

The Auditor will review the basic requirement of internal controls for KCERA. The Auditor will advise KCERA about the appropriateness of accounting policies and their application. The Auditor will evaluate KCERA's compliance with accounting principles generally accepted in the United States of America.

The Auditor will review the Annual Comprehensive Financial Report (ACFR) that KCERA issues annually. The Auditor will not be required to audit the supporting schedules contained in the ACFR. However, the Auditor is to provide an "in-relation-to" opinion on the supporting schedules based on the auditing procedures applied during the audit of the general-purpose financial statements. The Auditor is not required to audit the introductory, investment, actuarial and statistical sections of the report but to review them for consistency. KCERA's ACFRs can be found online at www.kcera.org.

The Auditor will review census data and member data found in KCERA's pension administration system when auditing samples of member records.

KCERA may ask the Auditor to perform other services not specifically provided for under this section. If such a request is made, the Auditor will submit a separate proposal for completing the engagement, along with a proposed fee schedule. KCERA reserves the right to contract for any additional audits or reviews with whomever it chooses.

Audit Services Fee
Not-to-Exceed Maximum Price

Annual Comprehensive Financial Report
Fiscal Year Ended June 30, 2026 $49,500

II. GASB Statement No. 68 Schedule

Express an opinion in accordance with AU-C 805, *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (AICPA, Professional Standards)* on any stand-alone schedules such as the Schedule of Employer Allocations, Schedule of Collective Pension Amounts or Schedule of Pension Amounts by Employer.

The auditor shall express an opinion about whether KCERA's Schedule of Employer Allocations, and the total for all entities of the columns entitled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense included in KCERA's Schedule of Pension Amounts by Employer are fairly presented, in all material respects, in conformity with auditing standards generally accepted in the United States.

The auditor shall also conduct any required communication with the auditors of KCERA's employers and perform any required testing in order to identify differences in the member census data provided by KCERA's employers.

GASB 68 Schedule
Fiscal Year Ended June 30, 2026 $5,450

KCERA

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Interest Crediting

Presented by:

Dominic D. Brown, KCERA Chief Executive Officer

Finance Committee, June 2, 2026

Background

- The market conditions in 2002 prompted the Board to direct Staff to work with KCERA's then-actuary Ira M. Summer, FSA of Public Pension Professionals, Inc. (P3), to develop a formal policy to address the crediting of interest to Applicable Reserve Accounts in the negative return environment. The initial Interest Crediting Policy, as drafted in 2003, required Staff to credit up to one-half the assumed rate to Applicable Reserve Accounts on December 31 and June 30 of each year.
- The Policy was amended in 2006 and 2007 in consultation with KCERA's new actuary (Milliman) to address other funding issues. The provisions requiring crediting to Applicable Reserve Accounts at one-half the assumed rate twice annually remained unchanged until 2010.

Background

- Around that time, fiduciary counsel Michael Toumanoff of Manatt, Phelps, Phillips, LLP, was advising several CERL systems on the proper application of the applicable interest crediting statutes (Articles 5.0 and 5.5 of the CERL).
- Like other systems, KCERA began consulting with Michael Toumanoff about its Interest Crediting Policy. In October 2010, he appeared before KCERA's Audit-Actuarial Committee and provided education and proposed revisions to KCERA's Policy.
- Fiduciary counsel's proposed revisions were ultimately approved by KCERA's Board on December 8, 2010.

Background

- The 2010 revisions to the Interest Crediting Policy struck prior references to crediting interest at “one-half of the assumed rate” twice a year and instead stated:
  - the reserves and member accounts will be credited at the annual assumed rate
  - allocations of interest credits as of June 30 of each fiscal year will take into consideration interest credits made as of December 31 of the same fiscal year in determining whether or not the full annual assumed interest rate has been allocated
- The policy change was not implemented and KCERA continued its historical practice of crediting interest at one-half of the annual assumed rate.
- Application of interest remained the same under both the historical practice and the 2010 revisions until December 31, 2019, because KCERA did not have sufficient available earnings to apply more than one-half of its assumed rate to the Applicable Reserve Accounts until then.

Interpretation of Legal Authority

- Article 5.5 at California Government Code section 31615 states in relevant part:
  - Regular interest at the actuarial rate, or at the highest rate possible if net earnings, as defined in Section 31613 are not sufficient to credit the full actuarial rate, shall be credited semiannually on June 30 and December 31 to all contributions, reserves, and accounts in the retirement fund, except the Contingency Reserve Account, which have been on deposit for six months immediately prior to those dates.
- Fiduciary Counsel has opined that:
  - revisions to the Policy recommended by attorney Toumanoff in 2010 remain consistent with the interest crediting requirements under Article 5.5 of the CERL;
  - alternatively, Section 31615 can be reasonably interpreted to allow KCERA to continue its long-standing process of crediting interest to Applicable Reserve Accounts at one-half the assumed rate twice annually.

Action Item

Align KCERA's policy and practice

- This can be accomplished by either of the following methods:
  - **Option I –** Maintain long-standing practice and revise the Policy to revert to provisions in place prior to 2010 (i.e., maintain status quo and continue crediting interest up to ½ the assumed rate semiannually)
  - **Option II –** Align practice with the Policy (i.e., change long-standing practice and credit interest up to the assumed rate on 12/31 and the remainder, if any, on 6/30)

Implementation of Options

- **Option I –** Maintain Current Practice
  a. Ratify prior interest credited since 2010; and amend policy

- **Option II –** Align Practice with Policy
  a. Institute corrections of all accounts
     1. Confirm interest credits for refunds, retirements, or payments of contributions and interest
     2. Institute counseling for refunds and those eligible for payment of contributions and interest
  b. Assess individual impact to members at retirement, when refunding, or when paying a lump sum payment that includes interest
     1. Ensure ongoing compliance

Current Practice

	Available Earnings	Beginning Valuation Value (including CCR & unallocated SRBR)	Ending Valuation Value (including CCR & unallocated SRBR)	Interest Available to Credit	Actual Allocated Interest	Annual Allocated Interest
6/30/2024	209,814,116	5,761,516,901	5,958,281,877	3.64%	3.50%	7.00%
12/31/2023	218,820,756	5,570,808,575	5,761,516,901	3.93%	3.50%	
6/30/2023	221,289,716	5,398,699,262	5,570,808,575	4.10%	3.63%	7.25%
12/31/2022	251,682,032	5,233,638,119	5,398,699,262	4.81%	3.63%	
6/30/2022	301,234,053	5,085,431,298	5,233,638,119	5.92%	3.63%	7.25%
12/31/2021	302,991,720	4,934,824,364	5,085,431,298	6.14%	3.63%	
6/30/2021	234,551,070	4,793,240,179	4,934,824,364	4.89%	3.63%	7.25%
12/31/2020	183,510,418	4,635,029,604	4,793,240,179	3.96%	3.63%	
6/30/2020	118,339,381	4,549,473,053	4,635,029,604	2.60%	2.37%	6.99%
12/31/2019	133,418,847	4,418,117,756	4,549,473,053	3.02%	4.61%	
6/30/2019	100,472,188	4,363,462,759	4,418,117,756	2.30%	2.25%	5.42%
12/31/2018	93,751,596	4,291,194,861	4,363,462,759	2.18%	3.17%	
6/30/2018	137,963,724	4,178,331,738	4,291,194,861	3.30%	3.24%	6.82%
12/31/2017	147,620,574	4,037,301,965	4,178,331,738	3.66%	3.58%	
6/30/2017	139,005,405	4,035,011,429	4,037,301,965	3.44%	3.38%	6.62%
12/31/2016	126,677,749	3,806,918,002	4,035,011,429	3.33%	3.25%	
6/30/2016	95,722,161	3,840,604,202	3,806,918,002	2.49%	2.42%	4.70%
12/31/2015	86,113,406	3,651,052,866	3,840,604,202	2.36%	2.28%	
6/30/2015	109,175,008	3,672,057,463	3,651,052,866	2.97%	2.97%	6.23%
12/31/2014	113,040,283	3,461,787,003	3,672,057,463	3.27%	3.26%	

Current Policy

	Contingency Reserve Current Policy	Available Earnings	Beginning Valuation Value (including CCR & unallocated SRBR)	Ending Valuation Value (including CCR & unallocated SRBR)	Interest Available to Credit	What would have been allocated under current policy	Annual Allocated Interest
6/30/2024	27,905,498	190,125,730	5,781,205,287	5,934,469,113	3.29%	2.81%	7.00%
12/31/2023	-	233,043,580	5,556,585,751	5,781,205,287	4.19%	4.19%	
6/30/2023	38,842,108	158,863,071	5,461,125,908	5,556,585,751	2.91%	2.20%	7.25%
12/31/2022	-	263,804,895	5,221,515,256	5,461,125,908	5.05%	5.05%	
6/30/2022	129,666,446	179,803,091	5,206,862,260	5,221,515,256	3.45%	0.96%	7.25%
12/31/2021	-	309,827,773	4,927,988,312	5,206,862,260	6.29%	6.29%	
6/30/2021	60,460,459	234,551,070	4,793,240,179	4,927,988,312	4.89%	3.29%	7.25%
12/31/2020	(16,355,000)	183,510,418	4,635,029,604	4,793,240,179	3.96%	3.96%	
6/30/2020	(16,355,000)	118,339,381	4,549,473,053	4,635,029,604	2.60%	2.60%	5.62%
12/31/2019	(16,355,000)	133,418,847	4,418,117,756	4,549,473,053	3.02%	3.02%	
6/30/2019	(16,355,000)	100,472,188	4,363,462,759	4,418,117,756	2.30%	2.30%	4.49%
12/31/2018	(16,355,000)	93,751,596	4,291,194,861	4,363,462,759	2.18%	2.18%	
6/30/2018	(16,355,000)	137,963,724	4,178,331,738	4,291,194,861	3.30%	3.30%	6.96%
12/31/2017	(16,355,000)	147,620,574	4,037,301,965	4,178,331,738	3.66%	3.66%	
6/30/2017	(16,355,000)	139,005,405	4,035,011,429	4,037,301,965	3.44%	3.44%	6.77%
12/31/2016	(16,355,000)	126,677,749	3,806,918,002	4,035,011,429	3.33%	3.33%	
6/30/2016	(16,355,000)	95,722,161	3,840,604,202	3,806,918,002	2.49%	2.49%	4.85%
12/31/2015	(16,355,000)	86,113,406	3,651,052,866	3,840,604,202	2.36%	2.36%	
6/30/2015	(16,355,000)	109,175,008	3,672,057,463	3,651,052,866	2.97%	2.97%	6.24%
12/31/2014	(16,355,000)	113,040,283	3,461,787,003	3,672,057,463	3.27%	3.27%	

Interest: Practice vs. Policy

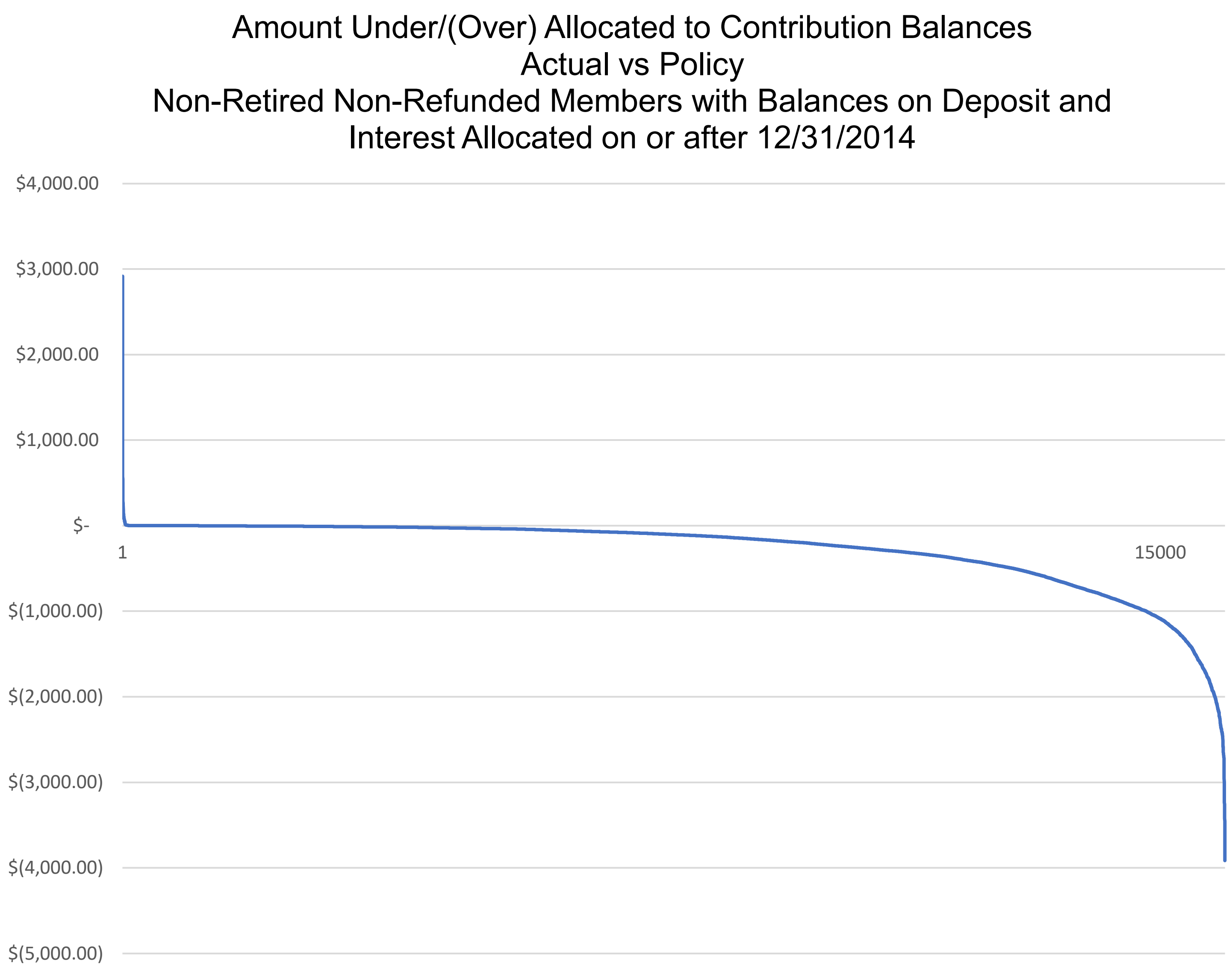
CURRENT PRACTICE				CURRENT POLICY			
	Interest Available to Credit	Actual Allocated Interest	Annual Allocated Interest		Interest Available to Credit	What would have been allocated under current policy	Annual Allocated Interest
6/30/2024	3.64%	3.50%	7.00%	6/30/2024	3.29%	2.81%	7.00%
12/31/2023	3.93%	3.50%		12/31/2023	4.19%	4.19%	
6/30/2023	4.10%	3.63%	7.25%	6/30/2023	2.91%	2.20%	7.25%
12/31/2022	4.81%	3.63%		12/31/2022	5.05%	5.05%	
6/30/2022	5.92%	3.63%	7.25%	6/30/2022	3.45%	0.96%	7.25%
12/31/2021	6.14%	3.63%		12/31/2021	6.29%	6.29%	
6/30/2021	4.89%	3.63%	7.25%	6/30/2021	4.89%	3.29%	7.25%
12/31/2020	3.96%	3.63%		12/31/2020	3.96%	3.96%	
6/30/2020	2.60%	2.37%	6.99%	6/30/2020	2.60%	2.60%	5.62%
12/31/2019	3.02%	4.61%		12/31/2019	3.02%	3.02%	
6/30/2019	2.30%	2.25%	5.42%	6/30/2019	2.30%	2.30%	4.49%
12/31/2018	2.18%	3.17%		12/31/2018	2.18%	2.18%	
6/30/2018	3.30%	3.24%	6.82%	6/30/2018	3.30%	3.30%	6.96%
12/31/2017	3.66%	3.58%		12/31/2017	3.66%	3.66%	
6/30/2017	3.44%	3.38%	6.62%	6/30/2017	3.44%	3.44%	6.77%
12/31/2016	3.33%	3.25%		12/31/2016	3.33%	3.33%	
6/30/2016	2.49%	2.42%	4.70%	6/30/2016	2.49%	2.49%	4.85%
12/31/2015	2.36%	2.28%		12/31/2015	2.36%	2.36%	
6/30/2015	2.97%	2.97%	6.23%	6/30/2015	2.97%	2.97%	6.24%
12/31/2014	3.27%	3.26%		12/31/2014	3.27%	3.27%	

Reserves: Practice vs. Policy

	Current Practice			Current Policy		
	Ending Valuation Value (including CCR & unallocated SRBR)	Contingency Reserve Practice		Ending Valuation Value (including CCR & unallocated SRBR)	Contingency Reserve Current Policy	
6/30/2024	5,958,281,877	4,092,734	5,962,374,611	5,934,469,113	27,905,498	5,962,374,611
12/31/2023	5,761,516,901	19,688,386	5,781,205,287	5,781,205,287	-	5,781,205,287
6/30/2023	5,570,808,575	24,619,284	5,595,427,858	5,556,585,751	38,842,108	5,595,427,858
12/31/2022	5,398,699,262	62,426,646	5,461,125,908	5,461,125,908	-	5,461,125,908
6/30/2022	5,233,638,119	117,543,583	5,351,181,702	5,221,515,256	129,666,446	5,351,181,702
12/31/2021	5,085,431,298	121,430,962	5,206,862,260	5,206,862,260	-	5,206,862,260
6/30/2021	4,934,824,364	53,624,406	4,988,448,771	4,927,988,312	60,460,459	4,988,448,771
12/31/2020	4,793,240,179	(4,616,909)	4,788,623,270	4,793,240,179		4,793,240,179
6/30/2020	4,635,029,604	(16,355,000)	4,618,674,604	4,635,029,604	(16,355,000)	4,618,674,604
12/31/2019	4,549,473,053	(16,355,000)	4,533,118,053	4,549,473,053		4,549,473,053
6/30/2019	4,418,117,756	(16,355,000)	4,401,762,756	4,418,117,756	(16,355,000)	4,401,762,756
12/31/2018	4,363,462,759	(16,355,000)	4,347,107,759	4,363,462,759		4,363,462,759
6/30/2018	4,291,194,861	(16,355,000)	4,274,839,861	4,291,194,861	(16,355,000)	4,274,839,861
12/31/2017	4,178,331,738	(16,355,000)	4,161,976,738	4,178,331,738		4,178,331,738
6/30/2017	4,037,301,965	(16,355,000)	4,020,946,965	4,037,301,965	(16,355,000)	4,020,946,965
12/31/2016	4,035,011,429	(16,355,000)	4,018,656,429	4,035,011,429		4,035,011,429
6/30/2016	3,806,918,002	(16,355,000)	3,790,563,002	3,806,918,002	(16,355,000)	3,790,563,002
12/31/2015	3,840,604,202	(16,355,000)	3,824,249,202	3,840,604,202		3,840,604,202

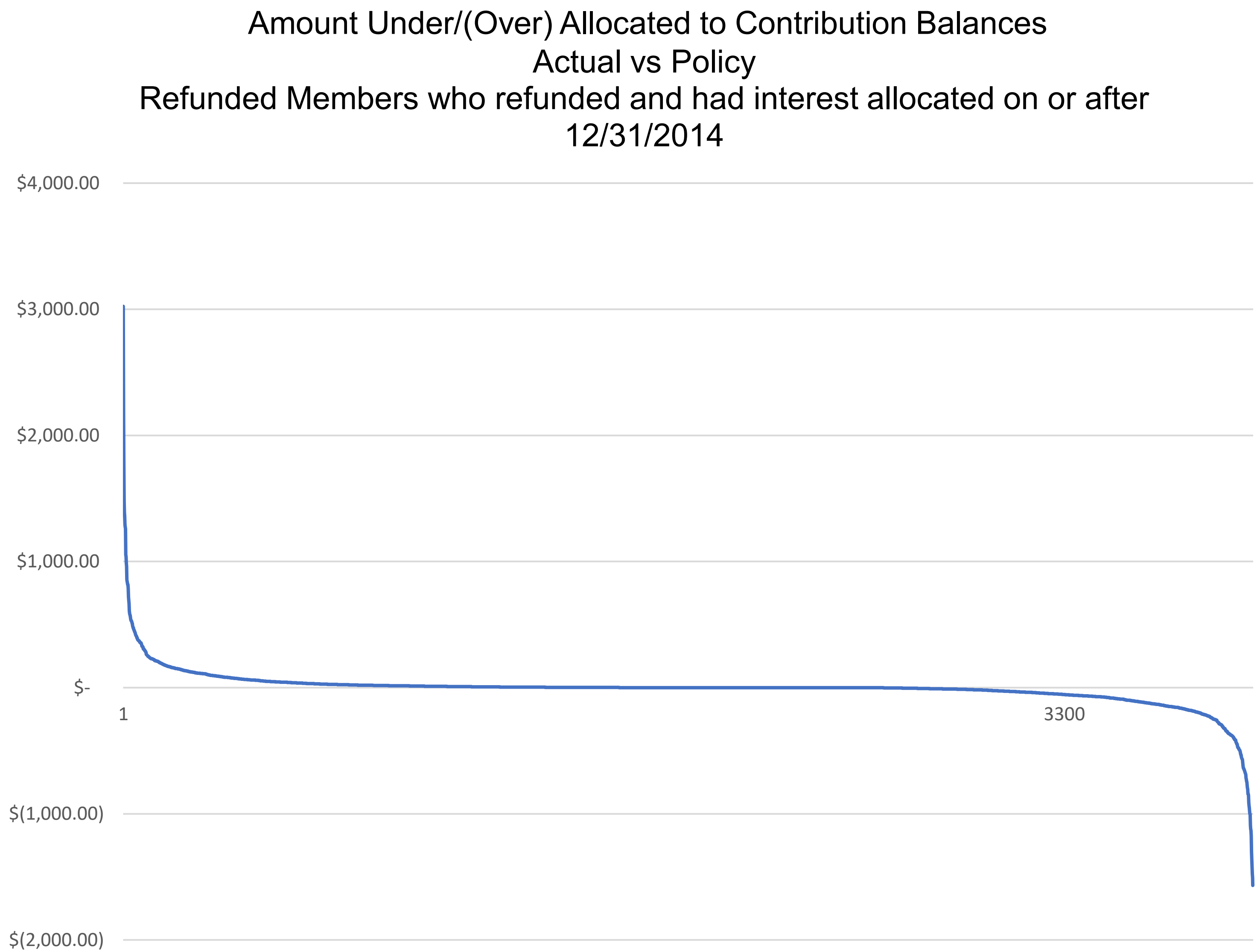
Potential Impact to Members with Contributions on Deposit

Total (Over) Allocated	$	(4,567,128.02)
Median	$	(104.28)
Average	$	(286.57)
Underallocated > $10	$	10,170.93
(These are primarily members who refunded an underallocated balance and later reenrolled)		
		Members
$10 - $50		15
$50 - $100		13
$100 - $250		10
$250 - $500		5
> $500		5
Max Underallocated	$	2,915.79
Overallocated > $10	$	(4,568,601.86)
		Members
$10 - $50		3,082
$50 - $100		1,728
$100 - $250		2,679
$250 - $500		2,345
$500 - $1000		1,920
$1000 - $2500		1,107
> $2,500		32
Max Overallocated	$	(3,915.27)
Members - No Change		724



Potential Impact to Refunded Members

Total (Over) Allocated	$	(28,950.98)
Median	$	0.13
Average	$	(7.31)
Underallocated Amt > $10	$	114,433.56
		Members
$10 - $50		617
$50 - $100		202
$100 - $250		216
$250 - $500		54
> $500		33
Max	$	3,023.51
(Overallocated) > $10	$	(145,054.24)
		Members
$10 - $50		392
$50 - $100		255
$100 - $250		299
$250 - $500		92
> $500		46
Max (Over) Allocated	$	(1,567.98)
Members - No Change		635



Interest Crediting Process

Earnings Available for Reserves

less

7.0% Interest to all Reserves

equals

Excess (Deficient) Net Earnings

less

Rebuilding of Contingency Reserve to up to 3% of Net Assets

Legal Framework – Board Discretion

- Cal. Const., art. XVI section 17 – The Board has plenary power to administer the system, deliver promised benefits, discharge duties for the exclusive purpose of providing benefits to the members, minimizing employer contributions, and defraying reasonable expenses of administering the system with the care and diligence of a prudent person.
- California case law confirms the broad discretion of retirement boards in dealing with benefit administration and correction. Example: Section 31531 of the CERL allows the Board to estimate a member's length of service or age where it is impracticable to determine from available records. The Board has the discretion to determine what is impractical.

Legal Framework – Board Discretion

- KCERA's mission is to expertly administer retirement benefits, prudently invest the assets of the Association, and provide quality membership services to eligible public employees, retirees, and their beneficiaries.
- The Board of Retirement is statutorily obligated to exercise its fiduciary duty to administer the Plan for the exclusive benefit of the membership.

Legal Framework – Board Discretion

Factors to Consider – Any factors the Board believes are relevant including:

- Magnitude of Error
- Varying impacts on members
- Impact on the Valuation Value of Assets
- Impact on other reserves
- Hard and Soft Cost of Correcting
- Risk/Cost of Litigation

Spectrum of discretion:

Adjust all ⟷ Require prudent adjustments ⟷ Adjust none

Recommendation

- Based on a comprehensive analysis of member data and consideration of the issues discussed during the presentation, including the Board's fiduciary duties to the Plan and its members, Staff recommends <u>Option I</u> above, which ratifies KCERA's long-standing practice of crediting interest (up to ½ the assumed rate semiannually) and reverts the Policy to provisions which were in place prior to 2010.

KCERA
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Questions?

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REGULAR INTEREST AND EXCESS INTEREST CREDITING POLICY

PURPOSE

I. The purpose of this policy is to establish the process to be used by the Kern County Employees' Retirement Associations ("KCERA") to credit semi-annual interest to reserves. This policy shall include, but may not be limited to, the following:

1. Defining the reserves maintained by KCERA;
2. Determining the regular and excess rates of interest at which reserves are to be credited; and
3. Determining the priorities and sequence by which interest will be credited to the reserves.

GOVERNING LAW

II. KCERA is governed by provisions of the County Employees Retirement Law of 1937 ("CERL"), as well as other federal and State laws relating to public retirement systems.

CERL generally governs interest crediting and excess earnings. Under CERL, interest is credited every 6 months. Various reserves and designations are established and maintained by the Board under procedures adopted by the Board pursuant to Article 5.5 of CERL.

OBJECTIVES

III. The policy has been developed with the following objectives:

1. To comply with appropriate legal and regulatory requirements.
2. To maintain consistency between the reserving structure and the actuarial funding of KCERA.
3. To limit, to the extent possible, the volatility of interest crediting from period to period.
4. To limit, to the extent possible, the charging of losses to valuation reserves.

5. To assure that the reserve values track the market value of assets over the long term.

CURRENT RESERVES

IV. KCERA maintains the following reserves:

Valuation Reserves:

Member Deposit Reserves – The reserves to which basic member contributions are credited. These contributions may be refunded to the member upon separation from service or left on deposit by the member upon separation from service (deferred retirement). Upon retirement of a member, a transfer is made to Retired Member Reserves (Annuity).

2.0% Cost-of-Living Member Deposit Reserves – The reserves to which 2.0% cost-of-living member contributions are credited, if applicable. These contributions may be refunded to the member upon separation from service or left on deposit by the member upon separation from service (deferred retirement). Upon retirement of a member, a transfer is made to 2.0% Cost-of-Living Reserves.

0.5% Cost-of-Living Member Deposit Reserves – The reserves to which 0.5% cost-of-living member contributions are credited, if applicable. These contributions may be refunded to the member upon separation from service or left on deposit by the member upon separation from service (deferred retirement). Upon retirement of a member, a transfer is made to 0.5% Cost-of-Living Reserves.

Employer Advance Reserves – The reserves to which basic employer contributions are credited. Upon retirement of a member, a transfer is made to Retired Member Reserves (Pension).

Retired Member Reserves (Annuity & Pension) – The reserves to which transfers are made from Member Deposit Reserves and Employer Advance Reserves at the time of a member's retirement. The total of these reserves should equal the present value (excluding cost-of-living increases) of the total benefit due all retirees and eligible beneficiaries.

2.0% Cost-of-Living Reserve – The reserve to which 2.0% cost-of-living employer contributions are credited.

0.5% Cost-of-Living Reserve ((FKA[1]) Allocated Supplemental Retiree Benefit Reserve (0.5% COLA Reserve)) – In accordance with the 2001 Settlement Agreement between KCERA and the Kern Law Enforcement Association et al ("Ventura Settlement"), funds were earmarked from the Supplemental Retiree Benefit Reserve (SRBR) to fund some of the cost associated with an increase from a 2.0% COLA benefit to a 2.5% COLA benefit. Unlike the Unallocated SRBR, this

[1] FKA, as used throughout this policy stands for Formerly Known As).

portion of the SRBR is treated as a valuation reserve and can only be used to provide the additional 0.5% COLA benefit. This reserve is used to pay for an additional 0.5% COLA benefit until the allocated amount is exhausted. As of June 30, 2023, the allocated amount has been exhausted. Effective with the interest crediting period ending December 31, 2024, the 0.5% Cost-of-Living Reserve is the reserve to which 0.5% cost-of-living employer contributions are credited.

Non-valuation Reserves:

COLA Contribution Reserve (CCR) – The amounts in the CCR, established pursuant to Section 31617, are set aside to provide credit towards future employer contributions for the 2% COLA benefits. The funds in the CCR, if any, are applied as of the subsequent July 1 in lieu of cash contributions otherwise expected to be paid by the employers. Any funds in the CCR as of June 30 will be used to determine the amount that employer contributions will be reduced for the subsequent fiscal year commencing July 1 twelve months later. Such amounts will be transferred from the CCR to the 2.0% Cost-of-Living Reserve on July 1 of the subsequent fiscal year twelve months later. Any interest earned on the CCR after June 30 will remain in the CCR and be used towards the subsequent year's June 30 determination of the credits.

Contingency Reserve – The reserve is maintained in an amount equal to 3% of the total market value of assets to provide funds to offset future deficiencies in interest earnings, losses on investment or other contingencies. This reserve consists of the minimum 1% required pursuant to Section 31616 plus a discretionary 2% as also permitted by Section 31616. If the Contingency Reserve is negative, then it will be included as an offset to the valuation value of assets used to determine the employers' contribution rates in the annual actuarial valuation.

Supplemental Retiree Benefit Reserve (SRBR) – This reserve is used for the payment of benefits provided to members who are retired or beneficiaries as determined by the Board in accordance with Section 31618 of the CERL. The SRBR Reserve is divided into two parts:

1. 0.5% Cost-of-Living Reserve (FKA Allocated SRBR (0.5% COLA Reserve)) – This reserve was originally funded by the SRBR. However, this reserve is now treated as a valuation reserve and can only be used to provide the additional 0.5% COLA benefit.
2. Unallocated SRBR – This reserve is the remaining amount of the total SRBR less the 0.5% Cost-of-Living Reserve (FKA Allocated SRBR (0.5% COLA Reserve)).

Financial Statement Reserves and Accounts:

Market Stabilization Reserve – The difference between the current market value of assets and the actuarial value of assets used to establish the above reserves.

GENERAL POLICIES

V.

1. Base “Available Earnings” on actual current period earnings of the fund calculated on the actuarial value of assets as determined under the Board’s funding policy, plus any positive balance in the Contingency Reserve.

2. Credit regular interest at ½ the assumed annual valuation interest rate every six months on the valuation reserves, the CCR and the Unallocated SRBR. Earnings will be credited ~~twice each year~~ to all reserves that have been on deposit for six full months, in accordance with Section 31615 of the CERL. The crediting of interest will take effect on June 30 and December 31 of each year. ~~Allocations of interest credits as of June 30 of each fiscal year will take into consideration interest credits made as of December 31 of the same fiscal year in determining whether or not the full assumed annual interest rate has been allocated.~~

3. Maintain a 3% Contingency Reserve. This reserve is made up of the minimum 1% required pursuant to Section 31616 plus a discretionary 2% as permitted also by Section 31616.

4. Any Available Earnings remaining after crediting full interest to valuation reserves, the CCR and the Unallocated SRBR, and restoring the Contingency Reserve to its target level constitute Excess Earnings. The Excess Earnings will be allocated in the following order of priority:

   A. Allocate up to the amount determined to be payable by participating employers for the 2.0% COLA benefit contributions in the prior fiscal year to the CCR. This allocation is made even if all or a portion of the employers’ contributions for the 2.0% COLA benefits for that twelve-month period were made with credits from the CCR for such prior period instead of contributions actually paid by the employers.

   B. Allocate one-half of the remaining earnings to the Unallocated SRBR.

   Allocate the other one-half of the remaining earnings to the valuation reserves and the CCR in proportion to the amounts in each of those reserves, on the balance in the fund for at least six full months. The 0.5% Cost-of-Living Reserve (FKA Allocated SRBR (0.5% COLA Reserve)) does not participate in this allocating of remaining earnings.

REGULAR INTEREST CREDITING POLICY

VI. **Step 1 Determine “Available Earnings” for accounting period as the sum of:**

A. Earnings of the retirement fund for the period based on actuarial value of assets, expressed in dollars. This could be a negative amount.

B. Positive balance in the Contingency Reserve.

If sum of A. and B. is negative, such negative amount is only credited to the Contingency Reserve but not to the valuation reserves, the CCR or the Unallocated SRBR.

Step 2 Credit interest to the valuation reserves, the CCR and the Unallocated SRBR:

A. Credit the valuation reserves, the CCR and the Unallocated SRBR at a rate up to ½ the assumed annual valuation interest rate.

B. Deduct the interest credited above from Available Earnings. If the amount of interest credited is more than the Available Earnings, credit in Step 2A only up to the amount of the Available Earnings.

Step 3 Maintain a Contingency Reserve of 3.0%:

Transfer from any remaining Available Earnings into the Contingency Reserve the amount required to maintain a Contingency Reserve of 3% of market value.

EXCESS INTEREST CREDITING POLICY

VII. **Step 1 Apply any remaining available earnings as follows:**

A. Allocate up to the amount determined to be payable by participating employers for the 2.0% COLA benefit contributions in the prior fiscal year to the CCR. This allocation is made even if all or a portion of the employers’ contributions for the 2.0% COLA benefits for that twelve-month period were made with credits from the CCR for such prior period instead of contributions actually paid by the employers.

B. Allocate one-half of any remaining earnings to the Unallocated SRBR.

Allocate the other one-half of the remaining earnings to the valuation reserves and the CCR in proportion to the amounts in each of those reserves, on the balance in the fund for at least six full months. The 0.5% Cost-of-Living Reserve (FKA Allocated SRBR (0.5% COLA Reserve)) does not participate in this allocation of remaining earnings.

Step 2 Consider discretionary uses of the Unallocated SRBR:

The usage of funds in the Unallocated SRBR is entirely at the discretion of the Board according to its SRBR benefit payment policy.

ADOPTION AND EFFECTIVE DATE

VIII. This policy has been adopted by a majority vote of the KCERA Board, and can be amended by the KCERA Board by a majority vote. This policy is effective with the six-month interest crediting period ending December 31, ~~2024~~2026~~5~~.

POLICY REVIEW AND HISTORY

1) This policy will be reviewed at least every five (5) years.
2) This policy was:
   a) Adopted by the Board on October 30, 2013.
   b) Amended by the Board on June 8, 2022 and November 6, 2024.

c) Amended by the Board on _______________.

KCERA

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Organizational Landscape and Budget Governance

Presented by:

Dominic D. Brown

Chief Executive Officer

June 2, 2026

Governance & Budget

- KCERA was established under the provisions of the County Employee Retirement Law of 1937 (CERL) by resolution of the Kern County Board of Supervisors. These provisions vest plenary authority of the management of the retirement system with the Board of Retirement.
- The complexity of benefits administration has increased significantly over the years, and the resource requirements to discharge those fiduciary duties are also increasing.
    - *Ventura* Decision, Tier I/Tier II, Service Purchases, PEPRA, Retiree Return to Work, Hospital Authority, Payroll Providers, Declining Employers, Affordable Care Act, Reciprocity, Portfolio Growth, *Alameda* Decision, etc.

Governance Landscape

- KCERA Board
  - 4-1-4 composition
- Government Code
  - An entire section of the government code is dedicated to the CERL and as the Plan Document, it governs the administration of KCERA's defined benefit system
- County Salary Schedule
- KCERA is responsible for delivering the pension promises made by our plan sponsors to their employees, to the extent allowed by our Plan and governing laws

The Five Fiduciary Pillars

Primary Loyalty to Members

- Avoid “two hat” conflicts of interest
- Attract and retain capable staff
- Provide superior member service
- Minimize risk of loss

Exclusive Benefit of Members

- Avoid diverting assets for other purposes
- Avoid impacting plan for others’ goals
- Pay only reasonable expenses to administer fund

Prudent Care and Expertise

- Establish and follow good governance policies as a Board
- Be transparent
- Engage and delegate to expert staff and consultants
- Monitor and adjust as needed

Diversify the Assets

- Establish collective risk tolerance
- Seek risk-adjusted returns across all markets
- Weigh each investment for its contribution to whole program

Follow the Law

- Establish and comply with written plan documents
- Be mindful of public official role

ReedSmith

Delegation and Oversight

- A public fiduciary may (often must!) delegate, but only to others who are held to the same fiduciary standards
- You have specific authority to delegate to staff

  CERL sec. 31522.1: "The board of retirement … may appoint such administrative, technical, and clerical staff personnel as are required to accomplish the necessary work of the boards. "
- But don't "set and forget" – prudent delegation requires vigilant oversight: Monitor, evaluate, adjust when appropriate
- Engage advisors (auditors, consultants, counsel) to help you exercise your oversight role

KCERA'S "Stakeholders"

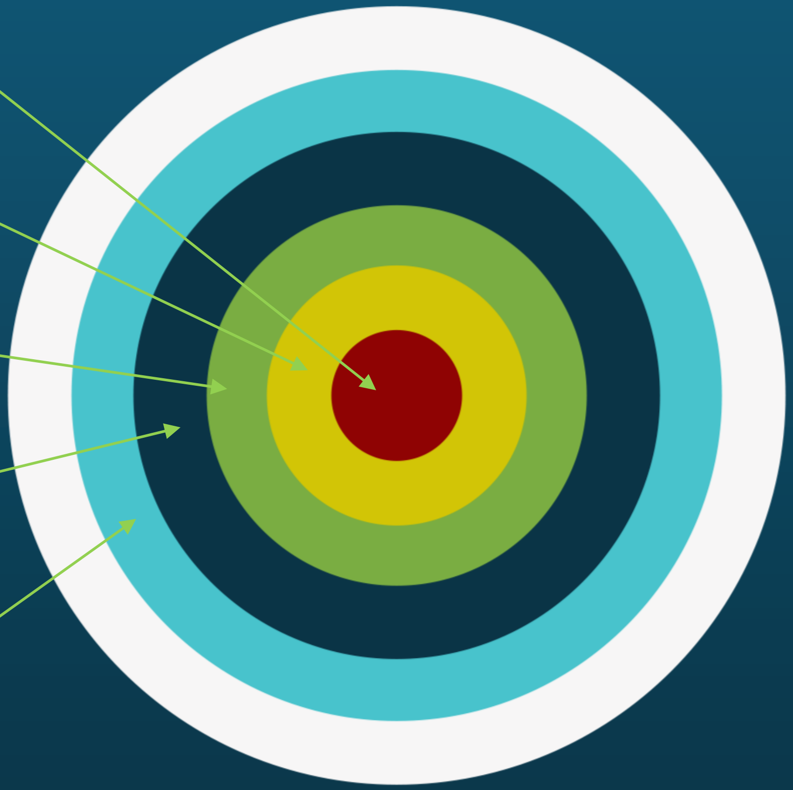
Members & Beneficiaries

Contributing Employers: County and Districts

Retiree Orgs.

General Public & Taxpayers

Third Parties: Unions, consultants, vendors…



Cal. Gov. Code section 31522.1 Appointment of Staff Personnel

CERL – Cal. Gov. Code section 31522.1 –

The board of retirement and both the board of retirement and board of investment may appoint such administrative, technical, and clerical staff personnel as are required to accomplish the necessary work of the board.. The appointments shall be made from eligible lists created in accordance with the civil service or merit system rules of the county in which the retirement system governed by the boards is situated. The personnel shall be county employees and shall be subject to the county civil service or merit system rules or resolution adopted by the board of supervisors for the compensation and shall be included in the salary ordinance of county officers and employees.

California Constitution
Art. XVI, section 17 (Prop 162) (1992)

- “Notwithstanding any other provisions of law or this Constitution to the contrary, the retirement board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the system, subject to all of the following:
- (a) The retirement board of a public pension or retirement system shall have the sole and exclusive fiduciary responsibility over the assets of the public pension or retirement system. The retirement board shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries...”

Expenses of Investing Money

CERL – Cal. Gov. Code section 31596.1 –

The expenses of investing its moneys shall be borne solely by the system. The following types of expenses shall not be considered a cost of administration of the retirement system, but shall be considered as a reduction in earnings from those investments or a charge against the assets of the retirement system as determined by the board: ….

- California Code, Cal. Gov't Code § 31596.1, Expenses of investing

Uncompensated Operational Risks

- Errors in benefits, including tier placement, rate determinations, reciprocity analysis, service purchase calculations, special pay designations, MOU terms, COLA application, salary history analysis, etc.
- Slow response times to members including inquiries regarding retirement planning, service purchases, disability, DROs, etc.
- Attract and retain competent staff to carry out organizational responsibilities
- Headline risk

APPFA & COSO

- The Association of Public Pension Fund Auditors, Inc. has published a document entitled *Operational Risks of a Defined Benefit and Related Plans and Controls to Mitigate those Risks*. A review of this document has revealed many risks that require additional resources in order to be sufficiently mitigated

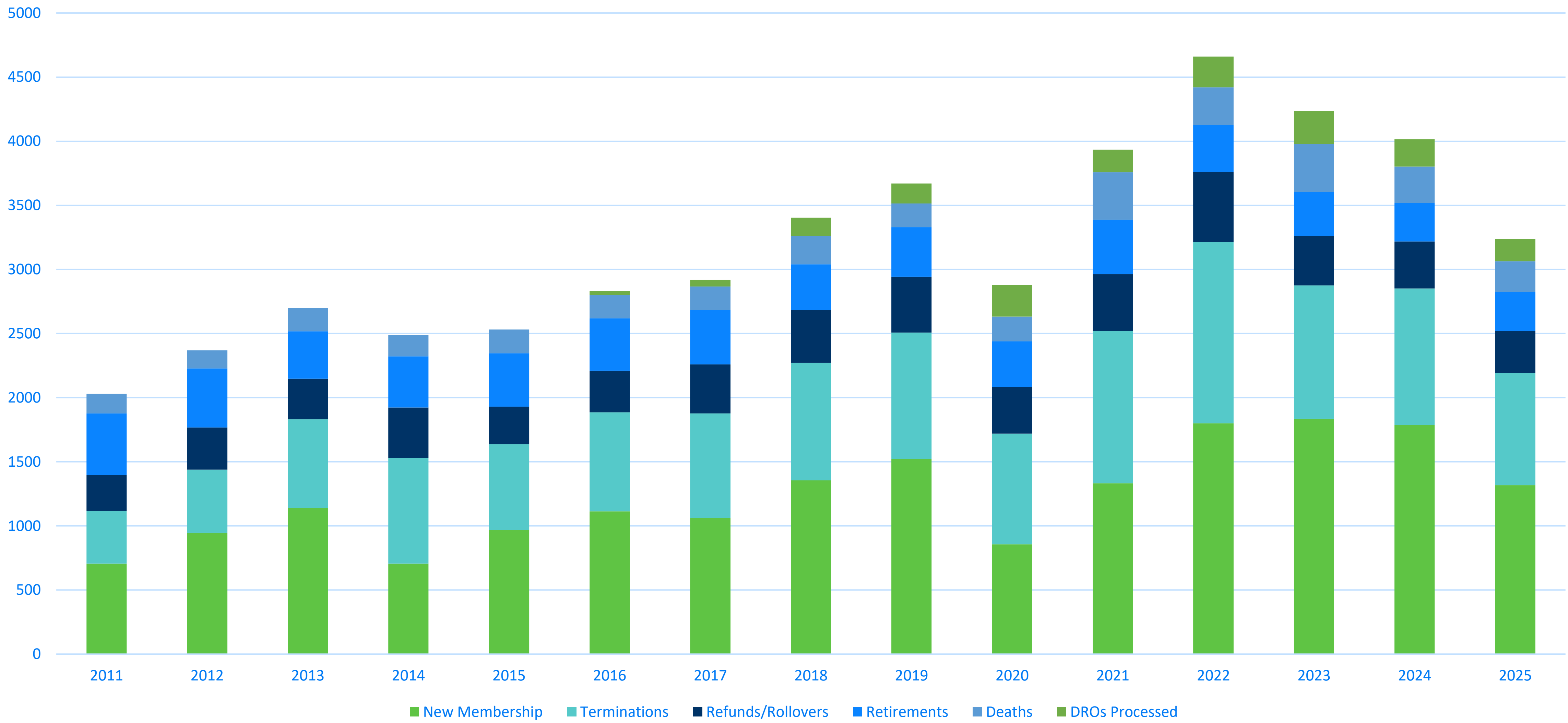
  https://www.appfa.org/assets/docs/APPFA_OpRisk-Feb13-Final7.pdf

- COSO is an internal control framework that is used by accounting firms, the County, and other organizations for creating and evaluating business processes and internal controls

  https://www.coso.org/_files/ugd/3059fc_1df7d5dd38074006bce8fdf621a942cf.pdf

- Staff has analyzed business processes throughout the organization and identified risks and opportunities to mitigate risks and improve service to our members

Member Activity by Year

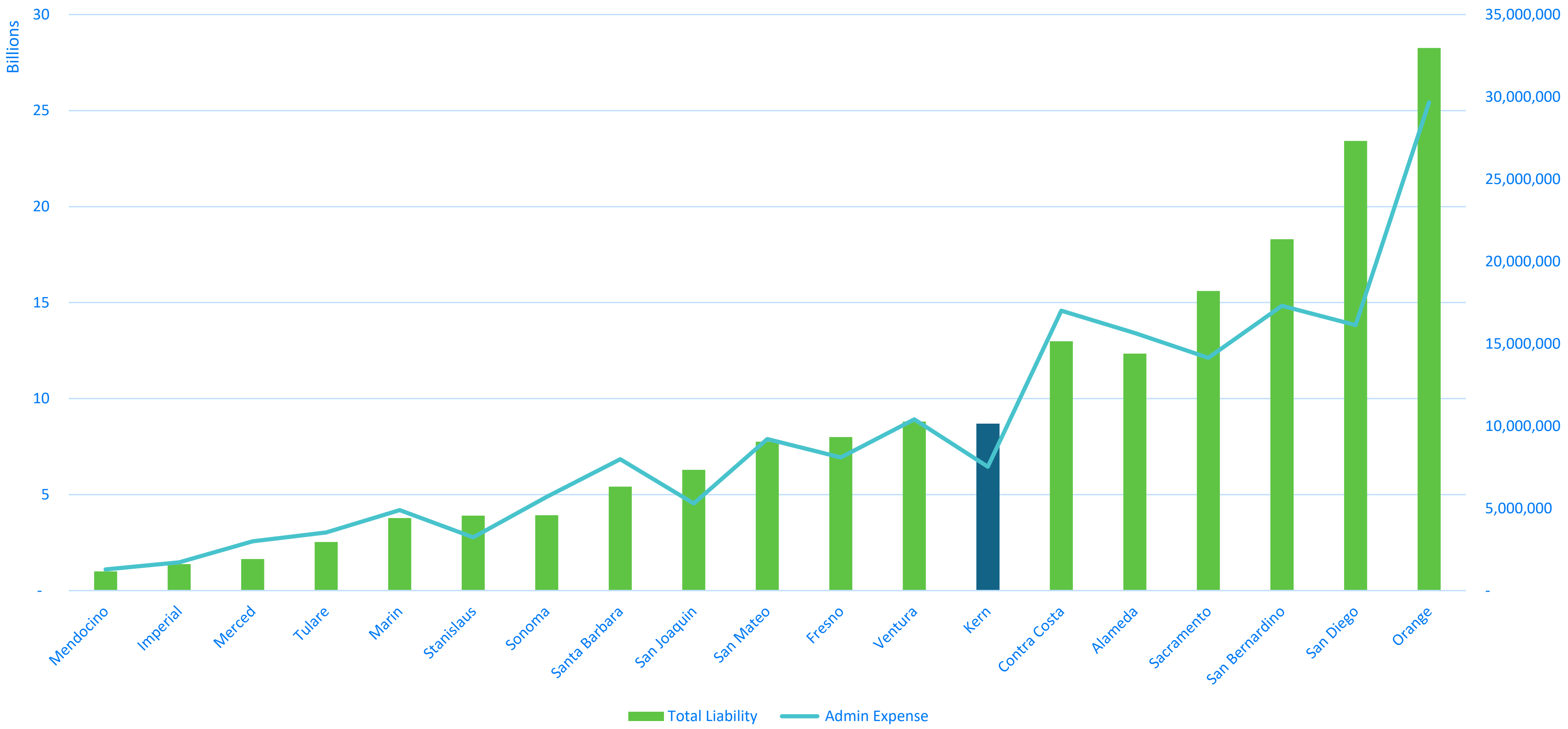


Benchmarking

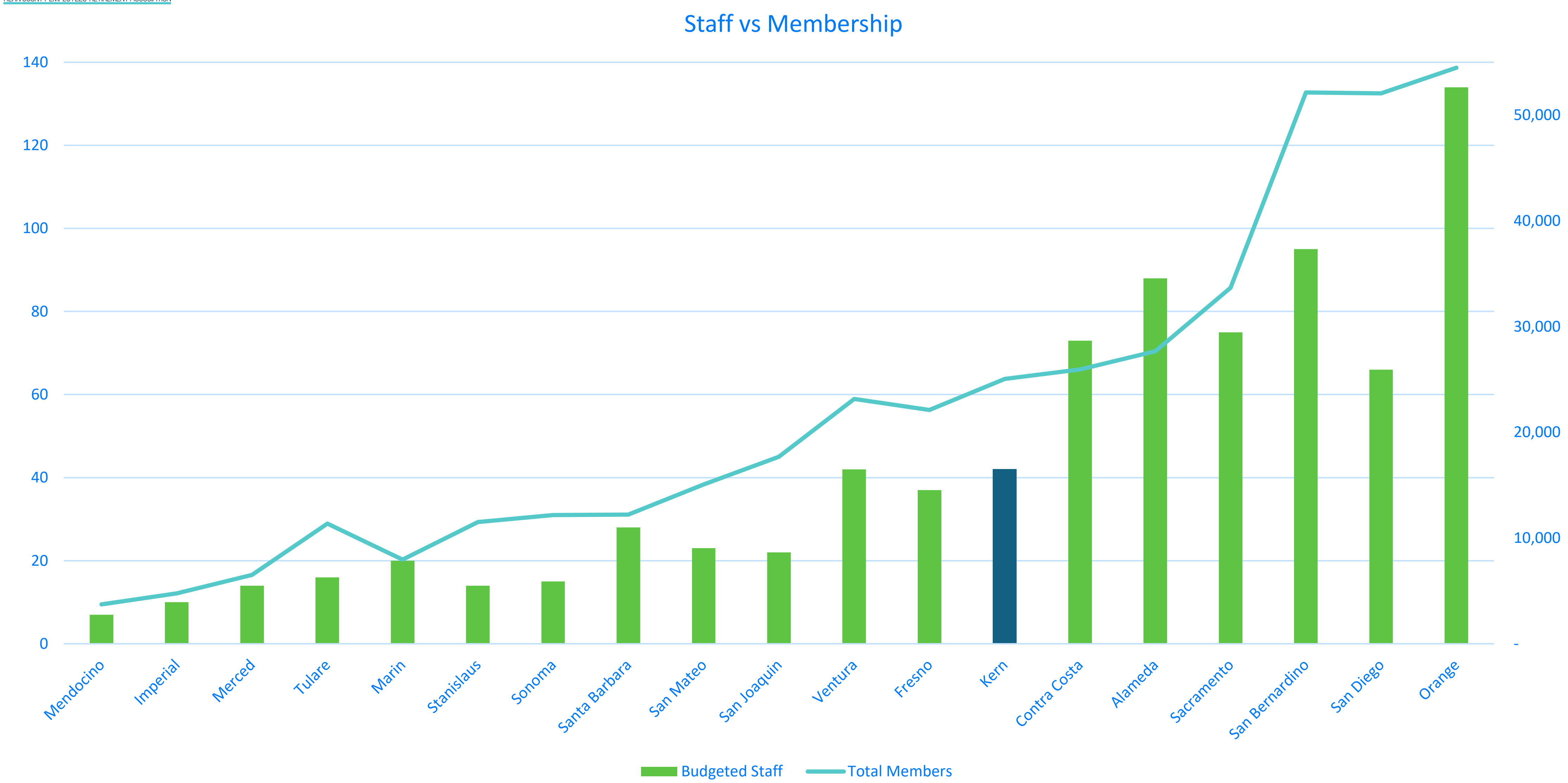
- The KCERA Board of Retirement is charged with exercising its fiduciary duty to determine the resources required in order to fulfill the KCERA mission and has independent budgetary authority to administer the system
- Other California State Association of County Retirement Systems (SACRS) peers can be a very helpful benchmark to help determine reasonable resource requirements
    - KCERA has a very low administrative expense ratio compared to peers


Total Liability vs. Admin Expense Ratio
Billions
25
20
15
10
5
-
0.200%
0.150%
0.100%
0.050%
0.000%
Mendocino
Imperial
Merced
Tulare
Marin
Stanislaus
Sonoma
Santa Barbara
San Joaquin
San Mateo
Fresno
Ventura
Kern
Contra Costa
Alameda
Sacramento
San Bernardino
San Diego
Orange
Total Liability
Admin Expense Ratio

Total Liability vs. Admin Expense



KCERA
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION



Conclusions

- KCERA must discharge its fiduciary duty to administer the plan prudently, including ensuring the Plan has adequate resources to administer benefits
- When compared with SACRS peers, KCERA's administrative expense ratio is very low because KCERA strives to be lean and efficient
- Staff has put together a plan to help KCERA discharge all fiduciary duties, while keeping administrative expenses as low as possible

KCERA's Mission Statement:

KCERA's mission is to expertly administer retirement benefits, prudently invest the assets of the Association, and provide quality membership services to eligible public employees, retirees, and their beneficiaries.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Budget

For Fiscal Year

2026-27

Presented by:
Chief Executive Officer Dominic D. Brown, CPA, CFE

Chief Operations Officer Matthew Henry, CFE

Chief Financial Officer Angela Kruger, CPFO

June 2, 2026

Table of Contents

SECTION I

Letter from the Chief Executive Officer

June 02, 2026

Members of the Board of Retirement:

I am pleased to present to you the proposed Operating Expense Budget for fiscal year 2026-27.

Highlights of the 2025-26 and 2026-27 budgets include:

- The largest budgetary category is staff, which comprises 59.9% of the total proposed budget. The 2025-26 projected actual expense for staffing is $7.4 million, which is $674,281 less than what was approved.
- The proposed 2025-26 Administrative Expense Budget of $7.7 million (8.66 basis points) is $11.0 million (12.34 basis points) under the statutory limit of 21 basis points of the actuarial accrued liability of the retirement system, pursuant to Government Code Section 31580.2. See *Section IV – Administrative Expenses.*
- For 2026-27, staff recommends a budget of $14.20 million, which is $0.78 million or 5.9% more than last year's approved budget of $13.42 million. The most significant increases are attributed to technology and investment related expenses .

Key Events for Fiscal Year 2025-26

Throughout the fiscal year, KCERA continued to focus on operational efficiency, member service enhancements, and organizational development. While staffing expenditures remained below budget due to unexpected vacancies during portions of the year, staff continued to maintain service levels and advance key organizational initiatives.

The Disability Unit continued making measurable progress in reducing the backlog of disability claims through process improvements and streamlined case management efforts.

KCERA also continued investing in staff education and professional development to ensure employees remain current on industry developments and regulatory changes. Increased activity by the Investment Team, including additional due diligence and investment-related training, contributed to higher education and professional development expenditures during the year. Additionally, certain investment consultant-related expenditures have been incorporated into the budget in recent years to improve transparency and financial reporting.

Several facility and security improvements were completed during the year to support staff safety and operational needs. KCERA completed the installation of security fencing along the east side of the building and added security monitoring systems near building exits to improve employee safety. The organization also completed development of the remaining office space to provide additional employee workspaces.

Board elections were successfully administered in-house during the fiscal year at a lower cost than originally anticipated. No Board elections are anticipated during fiscal year 2026-27.

Construction associated with the planned restroom addition was delayed due to the unexpected need to replace a building air conditioning unit. The project is expected to continue in the upcoming fiscal year.

Future Expectations

As KCERA moves into fiscal year 2026-27, management will continue emphasizing operational efficiency, transparency, fiscal responsibility, and member service. The organization remains committed to maintaining a culture focused on accountability, professional development, and prudent risk management.

Although the proposed operating budget reflects increases associated with staffing costs, technology investments, and continuing education, KCERA's Administrative Expense ratio remains unchanged from the prior year at 8.66 basis points, remaining substantially below the statutory limit of 21 basis points.

Projected staffing increases are primarily attributable to annual step increases and promotions. Subscription and membership expenditures are also increasing to ensure staff remain informed of evolving industry standards, regulatory requirements, and best practices.

KCERA will continue investing in technology, operational improvements, and staff development initiatives to support long-term organizational sustainability and effective administration of member benefits. The organization also expects to continue planned facility improvements, including completion of the restroom addition project delayed during the current fiscal year.

Management is very grateful to the Board for the support it has received over the last year, and I am pleased to present you with KCERA's budget for 2026-27.

Sincerely,

Dominic D. Brown

Dominic D. Brown
Chief Executive Officer

SECTION II

Administrative Expenses

Administrative Expense Budget

The administrative expenses incorporate the limits of Section 31580.2 of the County Employees Retirement Act of 1937, whereby administrative expenses are “capped” at 0.21% of KCERA’s actuarially accrued liabilities. The liability is calculated by KCERA's actuary. Pursuant to the relevant code sections, certain costs are excluded from the expense cap, namely those associated with investment related costs, expenditures for computer software, hardware and related technology consulting services.

Comparison of Administrative Expenses to Limits (Section 31580.2)	FY25 Budget	FY26 Budget*	FY27 Proposed Budget**
Total actuarial accrued liabilities	$8,332,592,000	$8,685,408,000	$8,912,400,000
Limit on expenses in basis points	21.00	21.00	21.00
Maximum allowed	$17,498,443	$18,239,357	$18,716,040
Operating expenses budget***	$12,954,348	$13,417,181	$14,238,947
Less information technology expenses	$(788,882)	$(807,095)	$(1,194,573)
Less investment and legal expenses***	$(4,848,927)	$(5,089,607)	$(5,285,371)
Administrative expenses	$7,316,539	$7,520,479	$7,721,003
Over (Under) Maximum	**$(10,181,904)**	**$(10,533,221)**	**$(10,995,037)**
Basis Points	**8.78**	**8.66**	**8.66**

* Based on total actuarial accrued liabilities for pension as of June 30, 2023 (latest available actuarial valuation).

** Based on projected valuation value of assets and actuarial accrued liabilities (ASOP 51 Risk Report updated estimate (April 4, 2024).

*** Includes prior period adjustments for non-admin custodial services.

SECTION III

Operating Expense Budget

Operating Expense Budget

KCERA's mission is to expertly administer retirement benefits, prudently invest the assets of the Association, and provide quality membership services to eligible public employees, retirees and their beneficiaries. The annual Operating Expense Budget is a detailed plan established to estimate the anticipated costs of carrying out that mission.

The Board annually adopts the operating budget for the administration of KCERA. Each month, the Board reviews year-to-date actual expenses to ensure budget compliance.

Important assumptions in the fiscal year 2026-27 budget include:

- Staffing expenses have increased primarily due to annual step increases, promotions, and ongoing efforts to maintain competitive compensation levels.

- Disability services expenditures remain stable while KCERA continues reducing the backlog of disability claims through operational efficiencies and streamlined processes.

- Continued investment-related activity, including due diligence efforts, professional development, and investment consultant services, has contributed to increased expenditures in several investment-related categories.

- Information technology expenditures increased primarily due to planned infrastructure and security enhancements, including new firewalls, a security camera system, replacement of UPS battery systems, and prepaid multi-year firewall software subscriptions.

- Board elections conducted during fiscal year 2025-26 were completed in-house at lower-than-anticipated costs. No Board elections are currently anticipated for fiscal year 2026-27.

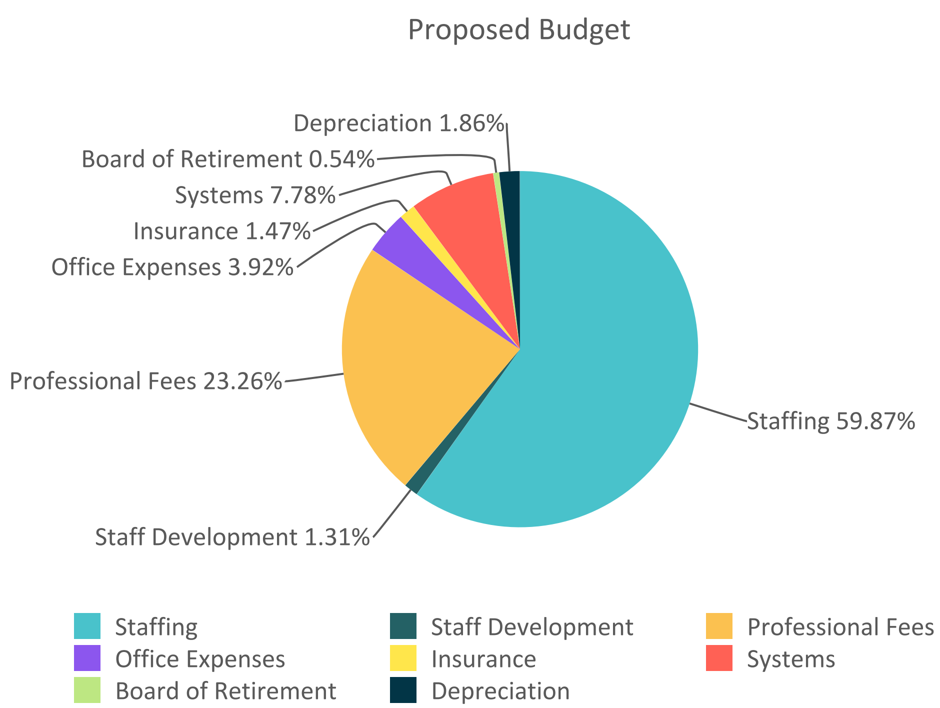
- Office expenses, including member outreach activities, have been budgeted lower to better reflect current spending trends and operational efficiencies realized during the fiscal year. KCERA also completed development of the remaining office workspace area. Planned restroom improvements were delayed due to the unexpected replacement of a building air conditioning unit and are expected to continue during fiscal year 2026-27.

KCERA's requested fiscal year 2026-27 Operating Expense Budget may be viewed on the following pages.

Operating Expense Budget Summary

Expense Type	FYE 26 Approved Budget*	FYE 27 Proposed Budget	Increase (Decrease)	FYE 27 % of Total Operating Expenses
Staffing	$ 8,102,299	$ 8,522,952	$ 420,653	59.87 %
Staff Development	152,200	186,000	33,800	1.31 %
Professional Fees	3,180,500	3,312,300	131,800	23.26 %
Office Expenses	620,919	557,701	(63,218)	3.92 %
Insurance	199,594	209,527	9,933	1.47 %
Systems	728,715	1,108,183	379,468	7.78 %
Board of Retirement	187,000	77,000	(110,000)	0.54 %
Depreciation	245,954	265,284	19,330	1.86 %
Expenses	**$13,417,181**	**$14,238,947**	**$ 821,766**	**100 %**

* Includes prior period adjustments for non-admin custodial services.



Total Proposed Budget

Expense Type	FYE 26 Approved Budget	FYE 26 Estimated Expenses	Over (Under)	FYE 27 Proposed Budget	Proposed vs. Approved Over (Under)	% Change
Personnel Costs						
Salaries	5,184,129	4,840,222	(343,907)	5,435,248	251,119	
Benefits	2,918,170	2,587,796	(330,374)	3,087,704	169,534	
Total Personnel Costs	8,102,299	7,428,018	(674,281)	8,522,952	420,653	5.19 %
Staff Development						
Education & professional development	122,000	160,742	(2,001)	142,000	20,000	
Staff recognition	5,200	5,512	312	6,000	800	
Total Staff Development	152,200	125,511	(26,689)	186,000	33,800	22.21 %
Professional Services						
Actuarial fees	157,250	218,826	61,576	163,200	5,950	
Audit fees	53,300	53,300	—	54,950	1,650	
Consultant fees	90,000	57,890	(32,110)	90,000	—	
Custodial fees	562,000	537,567	(24,433)	579,200	17,200	
Disability services	250,000	245,202	(4,798)	250,000	—	
Due diligence	25,000	25,846	846	38,000	13,000	
Investment consultants	1,602,950	1,651,435	48,485	1,671,950	69,000	
Legal fees	465,000	455,859	(9,141)	465,000	—	
Total Professional Services	3,180,500	3,245,925	40,425	3,312,300	106,800	3.36 %
Office Expenses						
Building expenses	232,000	218,577	(13,423)	197,000	(35,000)	
Communication platforms	60,939	59,882	(1,057)	65,001	4,062	
Equipment lease & maintenance	25,100	16,257	(8,843)	12,000	(13,100)	
Member engagement	50,000	29,887	(20,113)	38,000	(12,000)	
Subscriptions & memberships	36,200	34,250	(1,951)	63,000	26,800	
Office supplies & misc. admin.	83,700	68,342	(15,358)	83,700	—	
Payroll & accounts payable fees	25,000	—	(25,000)	—	(25,000)	
Postage	30,000	21,541	(8,459)	30,000	—	
Other services - Kern County	40,000	40,000	—	30,000	(10,000)	
Utilities	37,980	34,556	(3,424)	39,000	1,020	
Total Office Expenses	620,919	523,292	(97,628)	557,701	(63,218)	(10.18)%
Insurance	199,594	193,753	(5,841)	209,527	9,933	4.98 %
Information Technology Systems						
Audit-security & vulnerability scan	4,000	3,960	(40)	12,930	8,930	
Business continuity expenses	10,000	11,178	1,178	10,600	600	
Hardware	51,114	37,759	(13,355)	224,150	173,036	
Licensing & support	288,158	191,008	(97,150)	224,520	(63,638)	
Software	356,243	354,867	(1,376)	609,583	253,340	
Website design & hosting	19,200	16,385	(2,815)	26,400	7,200	
Total Information Technology Systems	728,715	615,157	(113,558)	1,108,183	379,468	52.07 %
Board of Retirement						
Board compensation	16,000	12,000	(4,000)	14,500	(1,500)	
Board conferences & training	50,000	55,610	5,610	55,000	5,000	
Board elections	112,500	69,189	(43,311)	—	(112,500)	
Board meetings	8,500	6,964	(1,536)	7,500	(1,000)	
Total Board of Retirement	187,000	143,763	(43,237)	77,000	(110,000)	(58.82)%
Depreciation	245,954	242,160	(3,794)	265,284	19,330	7.86 %
Total Operating Expenses	**13,417,181**	**12,517,579**	**(920,809)**	**14,238,947**	**796,766**	**5.94 %**

* Includes prior period adjustments for non-admin custodial services.

Proposed Administrative Budget

Expense Type	FYE 26 Approved Budget	FYE 26 Estimated Expenses	Over (Under)	FYE 27 Proposed Budget	Proposed vs. Approved Over (Under)	% Change
Staffing						
Salaries	3,793,751	3,553,034	(240,717)	3,985,577	191,826	
Benefits	2,156,200	1,966,352	(189,848)	2,330,879	174,679	
Staffing Total	5,949,951	5,519,386	(430,565)	6,316,456	366,505	6.16 %
Staff Development						
Education & professional development	97,600	95,999	(1,601)	142,000	44,400	
Staff recognition	4,160	4,410	250	6,000	1,840	
Staff Development Total	101,760	100,409	(1,351)	148,000	46,240	45.44 %
Professional Fees						
Audit fees	53,300	53,300	—	54,950	1,650	
Consultant fees	90,000	57,890	(32,110)	90,000	—	
Disability – administration	250,000	245,202	(4,798)	250,000	—	
Legal & actuarial (non-admin) fees	77,750	70,737	(7,013)	67,700	(10,050)	
Professional Fees Total	471,050	427,129	(43,921)	462,650	(8,400)	(1.78)%
Office Expenses						
Building expenses	185,600	174,862	(10,738)	157,600	(28,000)	
Communication platforms	40,000	47,906	7,906	30,400	(9,600)	
Equipment lease & maintenance	20,080	13,006	(7,074)	9,600	(10,480)	
Member engagement	50,000	29,887	(20,113)	38,000	(12,000)	
Subscriptions & memberships	28,960	27,400	(1,561)	50,400	21,440	
Office supplies & misc. admin.	66,960	54,674	(12,286)	66,960	—	
Other services - Kern County	40,000	40,000	—	30,000	(10,000)	
Payroll & accounts payable fees	25,000	—	(25,000)	—	(25,000)	
Postage	30,000	21,541	(8,459)	30,000	—	
Utilities	30,384	27,645	(2,739)	31,200	816	
Office Expense Total	516,984	436,921	(80,064)	444,160	(72,824)	(14.09)%
Insurance	159,675	155,002	(4,673)	167,622	7,947	4.98 %
Board of Retirement						
Board compensation	16,000	12,000	(4,000)	14,500	(1,500)	
Board conferences & training	50,000	55,610	5,610	55,000	5,000	
Board elections	112,500	69,189	(43,311)	—	(112,500)	
Board meetings	8,500	6,964	(1,536)	7,500	(1,000)	
Board of Retirement Total	187,000	143,763	(43,237)	77,000	(110,000)	(58.82)%
Depreciation	134,059	167,196	33,137	143,115	9,056	
Total Operating Expenses	**7,520,479**	**6,949,806**	**(570,674)**	**7,759,003**	**238,524**	**3.17 %**

Operating Expense Budget 2026-27 Proposed Budget vs. 2025-26 Approved Budget	Variance Over (Under)
Personnel Costs	
• Increased cost for personnel, due to regular increases in salaries and benefits consistent with COLA and annual step increments	420,653
Staff Development	
• Increased investment due diligence travel and education	33,800
Professional Services	
• Contracted increases in actuarial service fees	5,950
• Contracted increases in annual audit service fees	1,650
• Increase in custodial expenses related to separately managed investment accounts and ongoing portfolio activity	17,200
• Increase in investment consultant services associated with expanded investment activity, due diligence efforts, and portfolio oversight	69,000
Office Expenses	
• Office renovation projects completed during the fiscal year	(35,000)
• Recategorization of software and audio video equipment to ITS	(13,100)
• Office and member outreach expenses budgeted lower to reflect current spending trends and increased operational efficiencies	(12,000)
• Increase in subscriptions and memberships to maintain professional development.	26,800
• Realized savings in operating expenses due to increased efficiency of processes	(29,918)
Information Technology Systems	
• Increased audit, security, and vulnerability testing expenditures associated with ongoing cybersecurity and compliance initiatives	8,930
• Increased security and infrastructure expenditures related to replacement firewalls, upgraded security camera systems, and UPS battery replacement equipment	173,036
• Decrease in licensing and support expenses due to contract restructuring or timing of implementation	(63,638)
• Increased software expenditures related primarily to prepaid multi-year firewall software subscriptions and cybersecurity enhancements	253,340
Board of Retirement	
• No trustees elections in 2026-27	(112,500)

Operating Expense Budget 2025-26 Estimated Expenses vs. 2025-26 Approved Budget	Variance Over (Under)
Personnel Costs	
• Savings in salaries due to unexpected vacancies during the year	(674,281)
• Staff development expenditures exceeded budget due to increased professional development, continuing education, and investment-related due diligence activities	(26,689)
Professional Fees	
• Savings in other actuarial fees	61,576
• Decrease in consulting services	(32,110)
• Custodial fees were lower than anticipated primarily due to timing associated with the closure of separately managed accounts	(24,433)
• Disability claim review expenditures were lower than anticipated due to continued progress in reducing the backlog of cases and improved processing efficiencies"	(4,798)
• Increase in investment consultant services associated with expanded investment activity, due diligence efforts, and portfolio oversight	48,485
• Legal expenses lower than anticipated due to timing.	(9,141)
Office Expenses	
• Decreased building and property management expenses	(13,423)
• Decrease in anticipated office and member engagement expenses	(20,113)
• Decrease in memberships and subscriptions	(1,951)
• Savings in office supplies and expenses moving to electronic data	(15,358)
• Savings realized from transitioning Accounts Payable functions in-house	(25,000)
• Postage expenses were lower than anticipated, primarily due to increased utilization of electronic communications	(8,459)
• Decreased office expenses resulting from improved operational efficiencies	(13,324)
Insurance	
• Net decrease in insurance expenses	(5,841)
Systems	
• Applied savings from other IT expenses to purchase hardware	(13,355)
• Decrease in licensing and support expenses due to contract restructuring or timing of implementation	(97,150)
• Savings from security audit and other IT expenses	(1,376)
Board of Retirement	
• Decrease in trustees' attendance at conferences/training	5,610
• Board Election lower that initially anticipated	(43,311)

SECTION IV

Budget Policies and Process

Budget Policies and Process

Budget Policies

KCERA's budgeting policies and guidelines are based on the County Employees Retirement Law of 1937 ("CERL"), and the policies and charters of the Board of Retirement ("Board"). The California Government Code Section 31580.2 that governs the Kern County Employees' Retirement Association ("KCERA") specifies that the Board of Retirement "… shall annually adopt a budget covering the entire expense of administration of the retirement system, which expense shall be charged against the earnings of the retirement fund…"

The retirement system's administrative expenses are limited to 0.21% (21 basis points) of the Actuarial Accrued Liability. Government Code Sections 31522.6 and 31580.2(b) indicate that KCERA should exclude actuarial fees, investment-related expenses and technology from that portion of the operating expense budget subject to the statutory limit.

The Board annually adopts the operating budget for the administration of KCERA. Each line item is budgeted based on Board initiatives, past costs, vendor proposals, and estimates of anticipated expenses. The Board also reviews year-to-date actual expenses for budget compliance on a monthly basis. The budget may be amended throughout the fiscal year, if necessary. Budgeted amounts may be reallocated between categories at the discretion of the Chief Executive Officer. These reclassifications do not result in increases or decreases to the total approved budget. Increases or decreases to the total approved budget must be approved by the Board of Retirement. Action items to increase or decrease the approved budget are introduced by KCERA staff to the Finance Committee. If the Finance Committee deems the action item necessary, it will recommend approval to the Board of Retirement.

Budget Process

The Budget Team consists of the Chief Executive Officer, Chief Operations Officer, Chief Financial Officer, and the division managers of KCERA. The team members review the requirements of their respective divisions for the balance of the current fiscal year and the upcoming budget year. The Chief Financial Officer projects the current year-end actual expenses and the projected expenses for the budget year and finalizes the proposed budget.

The proposed budget is presented to the Finance Committee for review and feedback. Any revisions to the proposed budget recommended by the Finance Committee are incorporated to produce the final version the Committee recommends to the Board of Retirement for final adoption.

KCERA prepares the budget on an accrual basis in accordance with Generally Accepted Accounting Principles (GAAP) and consistent with KCERA's audited financial statements.

Organizational Chart