



Regular Meeting

Item Number 5 – Open Session

Subject: Proposed 2023–24 Operating Budget Concepts, Other Budgetary Changes and Additional Budgetary Considerations

Presenter(s): Julie Underwood

Item Type: Information

Date & Time: September 1, 2022 – 30 minutes

Attachment(s): None

PowerPoint(s): Proposed 2023–24 Operating Budget Concepts

Item Purpose¹

This item presents the proposed 2023–24 Operating Budget Concepts (Budget Concepts), Other Budgetary Changes, and Additional Budgetary Considerations for review and discussion. Budget Concepts represent new funding requests for strategic priorities and enterprisewide growth. Other Budgetary Changes represent routine annual adjustments for nondiscretionary expenditures. Additional Budgetary Considerations provide supplemental information on items currently under review that may impact the Operating Budget.

Recommendation

This is an information item only. Staff is requesting the board review and provide input on the Budget Concepts. The board’s input will be incorporated into the proposed 2023–24 Operating Budget, which will be presented in November 2022, for review and adoption.

Executive Summary

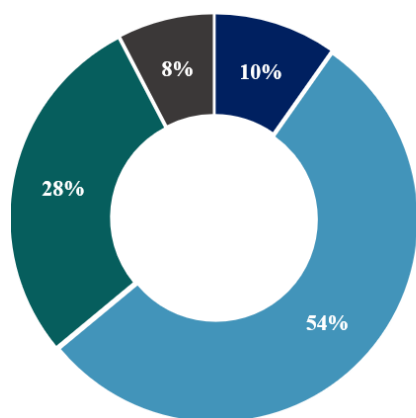
The 2023–24 Budget Concepts and Other Budgetary Changes reflect a total net Operating Budget increase of \$15.1 million. Of this amount, Budget Concepts represent an increase of \$17.3 million, and Other Budgetary Changes represent a net decrease of \$2.2 million. Key highlights regarding these changes are provided below.

Guided by the [2022–25 Strategic Plan](#), Budget Concepts include \$8.6 million to establish 56 authorized positions, addressing workload management across the organization to support *Enhanced Member Services, Compliance and Risk Management, Administrative and Operational Support, and Collaborative Model Investment Administrative Support* functions. Budget

¹All figures are rounded for presentation purposes and represent preliminary estimates that are subject to change.

Concepts also include an additional \$8.7 million for technology service contracts to support ongoing maintenance and operations and various software enhancements. Of the total \$17.3 million, \$16.0 million, and 53 positions are directly associated with a strategic plan goal. The remaining \$1.3 million and 3 positions are for addressing other enterprisewide growth.

2023–24 Budget Concepts by Strategic Plan Goal and Enterprisewide Growth



Goal 1: Trusted stewards - \$1.7 million

*\$1.5 million for 10 positions
 \$200 thousand for technology service contracts*

Goal 2: Leading innovation and managing change - \$9.4 million

*\$5.5 million for 36 positions
 \$3.9 million for technology service contracts*

Goal 3: Sustainable organization - \$4.9 million

*\$1.1 million for 7 positions
 \$3.8 million for technology service contracts*

Enterprisewide growth - \$1.3 million

*\$500 thousand for 3 positions
 \$830 thousand for technology service contracts*

Other Budgetary Changes represent a net decrease of \$2.2 million. This includes an increase of \$9.9 million to establish 21 authorized positions previously approved as part of the Multi-Year Internal Investment Management Plan (Investment Management Plan) in support of CalSTRS Collaborative Model, and an increase of \$1.4 million for State Mandates. This is fully offset by a decrease of \$13.5 million for one-time JLL property management services contract costs.

As a result of the total net increase of \$15.1 million, the preliminary 2023–24 Operating Budget is estimated at \$389.6 million, reflecting a 4.0% increase relative to 2022–23.² This includes 1,370 authorized positions, reflecting an increase of 77 positions, or approximately 6.0%, relative to 2022–23. As prefaced above, this includes funding for 56 new authorized positions and 21 authorized positions previously approved by the board as part of the Investment Management Plan.

*2022–23 and 2023–24 Operating Budget Overview
 (dollars in millions)*

Budget Category	Estimated 2022–23	Preliminary 2023–24	Amount Change
Salaries	\$169.1	\$180.8	\$11.7
Benefits	71.3	77.9	6.6
Operating Expenses and Equipment	134.1	130.9	(3.2)
Total	\$374.5	\$389.6	\$15.1

²The 2022–23 Operating Budget will be revised for telework stipends approved through [collective bargaining](#), and interim funding requested for the Pension Solution Project. A revised 2022–23 Operating Budget will be presented in November 2022, once these adjustments are finalized. Additional information on the Pension Solution Project is provided in the *Additional Budgetary Considerations* section.

Background

As part of the state’s response to mitigate the fiscal impacts of the pandemic on California’s economy, the state issued several budget directives for fiscal years 2020–21 through 2022–23, informing departments to reduce costs and limit new requests. In recognition of the state’s objectives, CalSTRS participated in these reduction measures and limited requests for new funding. As a result of limiting our funding requests over the past three budget cycles, our 2023–24 Budget Concepts reflect the organization’s compounded resource needs that are necessary to address the previous and current requirements in supporting ongoing business operations, in achieving our strategic plan priorities and in accomplishing the annual business plan initiatives.

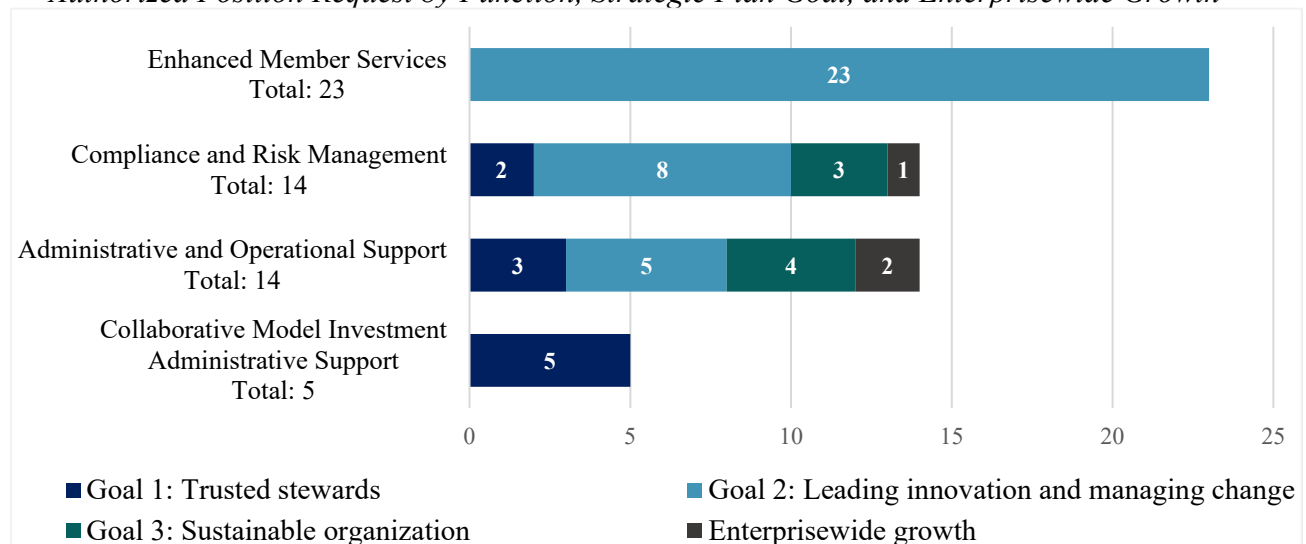
Budget Concepts – \$17.3 million

The 2023–24 Budget Concepts largely focuses on achieving long-term strategic plan priorities and annual business plan initiatives. Collectively, this funding will further enhance the development, expansion, and continuous improvement efforts of programs and processes across the organization. Ensuring the pension system is adequately resourced is an essential component to successfully advance CalSTRS’ mission, vision and strategy. On that basis, Budget Concepts represent \$17.3 million to establish 56 permanent authorized positions, in the amount of \$8.6 million, to address workload management and provide funding of \$8.7 million for technology service contracts as follows:

Workload Management – \$8.6 million, 56 positions

This proposal requests \$8.6 million to establish 56 permanent authorized positions to CalSTRS’ workforce. The workload for these positions is primarily associated with *Enhanced Member Services, Compliance and Risk Management, Administrative and Operational Support, and Collaborative Model Investment Administrative Support* business functions. The following chart displays the total authorized position request by function, 2022–25 Strategic Plan goal and other enterprisewide growth.

Authorized Position Request by Function, Strategic Plan Goal, and Enterprisewide Growth



Enhanced Member Services – \$3.3 million, 23 positions

CalSTRS is committed to providing exceptional service to our members and their beneficiaries and is continuously improving our member service and support functions. In alignment with this objective and consistent with the second goal of the strategic plan—*leading innovation and managing change*—CalSTRS is requesting 21 positions to improve existing processes to enhance the reliability and accuracy of member account data and retirement benefit calculations through the Employer Reporting to Final Benefit project. This request also includes two positions to address increased workload associated with processing benefit payments for members who have concurrent membership with other retirement systems and benefits that exceed Internal Revenue Code section 415 limits. These 23 positions will be dispersed across four business areas (*Benefits and Services–17, General Counsel–3, Financial Services–2, Audit Services–1*) and will be performing the following key tasks:

- Expand and formalize a pre-benefit member account review process to validate and analyze contribution data submitted by employers for reliability and accuracy prior to benefit inception.
- Expand and formalize quality management functions, which include developing new quality control procedures for employer reporting processes and sampling inquiries and interactions with employers to ensure adherence to defined standards.
- Work with employers to remediate reporting errors resulting from inaccurate member account data and inaccurate reporting of employer and employee contributions.
- Perform complex account analysis and support increased member communication.

Compliance and Risk Management– \$2.5 million, 14 positions

One of CalSTRS' objectives is to continue to secure and maintain the confidentiality and integrity of data and ensure adherence to compliance requirements. CalSTRS current compliance and risk functions are decentralized amongst all business areas, which embody various compliance and risk activities at the branch and unit levels. These activities include compliance with laws, policies, procedures and administrative directives for each area. In support of all three goals of the *2022–25 Strategic Plan*, and enterprisewide growth, these 14 positions will be dispersed across five business areas (*General Counsel–4, Procurement–4, Technology Services–3, Financial Services–2, Audit Services–1*) to address additional workload and enhance existing compliance and risk management processes by performing the following key tasks:

- Manage and oversee procurement compliance functions, including adherence to procurement laws, rules, regulations and policies.
- Perform various tax research and reporting, including processing of tax withholdings and 1099s and ensuring compliance with Internal Revenue Service tax laws and regulations.
- Assist with litigation caseload and processing of public records act requests.
- Support the governance, risk and compliance system, which facilitates the tracking and mitigation of governance, risk and compliance items.

Administrative and Operational Support – \$2.0 million, 14 positions

Enterprisewide administrative and operational support functions play an integral role in maintaining our core business functions as the departments grow. In support of all three goals of the *2022–25 Strategic Plan*, and enterprisewide growth, these 14 positions will be dispersed across six business areas (*Human Resources–4, Facilities–3, Technology Services–3, Public Affairs–2, Financial Services–1, Procurement–1*) to support increased workload demands across the organization by performing the following key tasks:

- Manage and oversee building operations and facility needs of CalSTRS Headquarters property, which includes the current building and the expansion facility, that is expected to be completed in early 2023.
- Oversee organizational change management initiatives through the execution of key priorities in *CalSTRS 2022–25 Strategic Plan*.
- Provide support for various production capabilities, including creation of digital and written content for CalSTRS’ website, social media and other communications media.
- Provide maintenance and operations for the workplace management system to support a longer-term blended work environment.

Collaborative Model Investment Administrative Support – \$800 thousand, 5 positions

The CalSTRS Collaborative Model is an investment strategy to manage more assets internally to reduce costs and generate higher returns to support a strong investment portfolio. In alignment with this longer-term initiative and consistent with the first goal of CalSTRS strategic plan—to *ensure a well-governed, financially sound trust fund*—this request includes five investment administrative support positions³ for two business areas (*Technology Services–4, Human Resources–1*) to assist the Investments Branch with the continued implementation of the Collaborative Model by performing the following key tasks:

- Provide human resources support functions associated with the overall growth in the Investments Branch.
- Coordinate, plan and manage implementation of investment technology infrastructure.
- Perform investment data analytics to ensure data integrity and proper organization, storage and cleansing of data.
- Support investment data architecture, ensuring safeguards are in place for data management and analysis.

Technology Service Contracts – \$8.7 million⁴

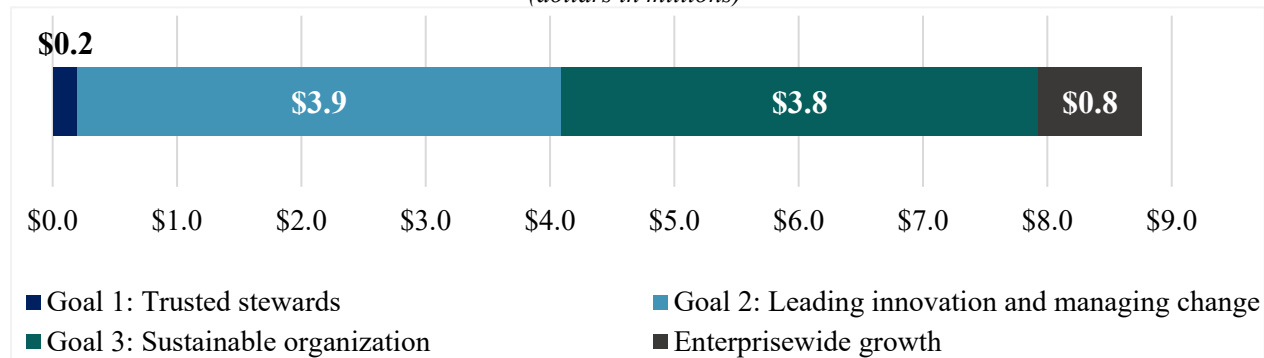
This proposal requests \$8.7 million for various technology service contracts. This funding will support ongoing maintenance and operation costs for our cloud data center platform and member call center system, back-up power supply units for computing equipment, cybersecurity tools and

³ These resources were not originally requested as part of the [2021–22 Multi-Year Internal Investment Management Plan](#) Budget Change Proposal, as the organization planned to evaluate additional resource needs as implementation continued.

⁴ Funding for technology service contracts in this section is not associated with the Pension Solution Project.

infrastructure. This funding will also address increases in vendor support as well as implementation and enhancement of various technologies as part the *2022–25 Strategic Plan*. Continuing to build and support a robust technology infrastructure platform is a critical component of delivering quality services to our members and their beneficiaries, employers and various stakeholder communities. Over the past few years, CalSTRS has experienced significant increases in technology requirements and costs, largely driven by the overall growth in the size and complexity of the organization, and all our efforts to improve efficiency and innovation throughout the organization. The chart below illustrates the \$8.7 million technology service contracts by strategic plan goal and enterprisewide growth.

Technology Service Contracts by Strategic Plan Goal and Enterprisewide Growth
(dollars in millions)



Other Budgetary Changes – (\$2.2 million)

Other Budgetary Changes represent estimated changes for standard nondiscretionary expenditures that occur routinely each year. These reflect a net decrease of \$2.2 million. A summary of each adjustment is provided below.

Investment Management Plan – \$9.9 million, 21 positions

- Increase of \$9.9 million to establish 21 authorized positions for the third year of implementation of the Investment Management Plan, which was approved as part of the [2021–22 Operating Budget](#) in support of CalSTRS Collaborative Model.

State Mandates – \$1.4 million

- *Pro Rata Assessment:* The assessment is estimated to increase by \$1.1 million, based on a 5-year historical average growth rate of 7.4%. CalSTRS is required by the Department of Finance to contribute on a pro rata basis for the cost of central administrative services. The Pro Rata Assessment represents General Fund recoveries of shared statewide general administrative costs from departments that benefit from shared services.
- *Employee Compensation:* Total employee compensation adjustments reflect a net increase of \$300 thousand. This includes an increase of \$4.3 million composed of 2.5% for general salary increases and 5% for merit salary adjustments for eligible employees. This is partially offset by a reduction of \$4.0 million for the \$260 monthly healthcare stipends provided to employees enrolled in a CalPERS health plan that will expire on June 30, 2023.

Property Management Services – (\$13.5) million

- There is \$13.5 million reduction to our baseline operating budget for one-time contract costs associated with the JLL property management services contract. This represents one-time costs approved as part of the [2022–23 Operating Budget](#) for future third party tenant improvements for leased floors within the CalSTRS headquarters facility.

Additional Budgetary Considerations

Pension Solution Project

As previously reported, CGI and CalSTRS have mutually agreed that CGI will transition the remaining portion of the project to an interim vendor, Sagitec, CGI's subcontractor. The CGI contract expires June 2023. To ensure progress continues on the project, CGI is currently transitioning key knowledge and work-in-progress to Sagitec and CalSTRS and will continue to provide essential services to CalSTRS through June 2023.

As part of the *Pension Solution Project Update and Budget Adjustment agenda item #4* presented to the board in September 2022, staff requested the board approve an increase of \$30 million to the project budget for the Sagitec contract to continue essential activities in 2022–23 on an interim basis. The current Pension Solution Project budget is \$304.8 million. This augmentation will bring the interim project budget to \$334.8 million. Note this is an interim project budget adjustment. CalSTRS intends to develop a future procurement for a new system integrator to bring the project to completion. Staff is currently in the process of quantifying the impacts of a revised project plan on the total project budget and will provide an update to the board during the November 2022 meeting. After a final system integrator is selected, we will provide the board a final project plan and project budget.

Strategic Plan Linkage: Of the total \$17.3 million Budget Concepts, \$16.0 million, and 53 positions are directly associated with *CalSTRS 2022–25 Strategic Plan*. The remaining \$1.3 million and 3 positions are for other enterprisewide growth.

Board Policy Linkage: Pursuant to [Appendix III.1 of the Teachers' Retirement Board Governance Manual](#), board members must ensure that only reasonable and necessary expenses are incurred in the governance and management of the system. This is accomplished through the annual operating budget, which the staff proposes, the board approves, and both monitor on a regular basis.
