



Regular Meeting

Item Number 14 – Open Session

Subject: Adoption of the Proposed 2022–23 Operating Budget

Presenter(s): Julie Underwood

Item Type: Action

Date & Time: November 5, 2021 – 15 minutes

Attachment(s): Attachment 1 – Proposed 2022–23 Operating Budget Resolution

PowerPoint(s): None

PURPOSE

This item presents the proposed 2022–23 Operating Budget of \$374.5 million for review and approval. During the September 2021 board meeting, staff presented an overview of estimated funding and resources requested for fiscal year 2022–23. This item provides refined cost estimates and a comparison of total budgetary changes between the revised 2021–22 and proposed 2022–23 Operating Budgets.¹

PROPOSED 2022–23 OPERATING BUDGET

At the September 2021 board meeting, staff presented an estimated net increase of \$49.8 million for funding and resources requested for fiscal year 2022–23, to support CalSTRS' enterprisewide operational support needs and anticipated changes for nondiscretionary expenditures. Since the September board meeting, the total estimated net increase for fiscal year 2022–23 changed from \$49.8 million, to \$48.6 million, reflecting a decrease of \$1.2 million, or approximately 2.4%. The decrease is attributed to changes in State Mandates, based on the final Pro Rata Assessment issued by the Department of Finance (DOF) for the cost of providing central administrative services to CalSTRS. The overall decrease in the Pro Rata Assessment is largely due to lower than planned shared service costs across various state agencies. In addition, based on recent guidance received from the DOF on blanket reclassifications, a request for Reclassification of Position Authority for 27 existing blanket² positions to a permanent authorized status is included, which does not have a budgetary impact.

¹ All figures in this agenda item are rounded for presentation purposes.

² Blanket positions are established to the extent they can be funded within existing appropriation authority; serve as a budgetary tool that provides staffing flexibility for urgent, one-time or limited-duration operational needs; and allow departments to hire above total authorized positions. Blanket positions do not require formal authorization by the board, DOF or the Legislature.

As a result of these updates, CalSTRS total proposed 2022–23 budget is currently projected at \$687.9 million and includes 1,293 authorized positions. Of this amount, \$313.4 million is for External Investment Management,³ and \$374.5 million represents the proposed operating budget, which reflects a net increase of \$48.6 million, or 15% compared to the revised 2021–22 Operating Budget.⁴ Overall, the net budget growth is primarily driven by one large service contract and includes various enterprisewide Operational Support & Management activities to facilitate ongoing business operations safely and securely. As prefaced in the September 2021 meeting,⁵ funding for a portion of Operational Support & Management expenditures were previously reviewed and approved by the board as part of the 2020–21 Operating Budget, and included in the 2020–21 Organizational Growth Budget Change Proposal (BCP), which was subsequently withdrawn to align with the state’s broader objectives to reduce spending, and mitigate the fiscal impacts of the COVID-19 pandemic on the state budget. The proposed 2022–23 Operating Budget also includes funding for State Mandates, the second year of scheduled expenditures for the continued implementation of the Multi-Year Internal Investment Management Plan (Investment Management Plan), which was reviewed and approved by the board, as part of the 2021–22 Operating Budget, and changes to the 403bComply Program.

The following table provides a three-year overview of CalSTRS’ prior year expenditures, revised 2021–22 Operating Budget, and the proposed 2022–23 Operating Budget, and highlights the total change in CalSTRS’ budget by category between fiscal years 2021–22 and 2022–23.

Three-Year Overview⁶

(dollars in millions)

Budget Category	Actual 2020–21	Revised 2021–22	Proposed 2022–23	\$ Change	% Change
Operating Budget					
Salaries	\$117.9	\$155.3	\$168.9	\$13.6	9%
Benefits	54.9	70.2	76.2	6.0	9%
Operating Expenses and Equipment					
General Expenses	14.8	29.8	28.6	(1.2)	(4%)
Consulting and Professional Services	30.5	38.9	44.4	5.5	14%
Facilities Operations	17.4	9.1	34.0	24.9	274%
Central Administrative Services	12.2	14.9	14.7	(0.2)	(1%)
Data Processing and Storage	7.6	7.7	7.7	-	0%
Total Operating Budget	255.3	325.9	374.5	48.6	15%
External Investment Management	261.4	299.8	313.4	13.6	5%
Total Budget	\$516.7	\$625.7	\$687.9	\$62.2	10%

³ External Investment Management fees are largely correlated to the value of assets under management and investment returns and are continuously appropriated. Continuous appropriations represent statutory expenditure authorization that exists from year to year without further legislative or board action.

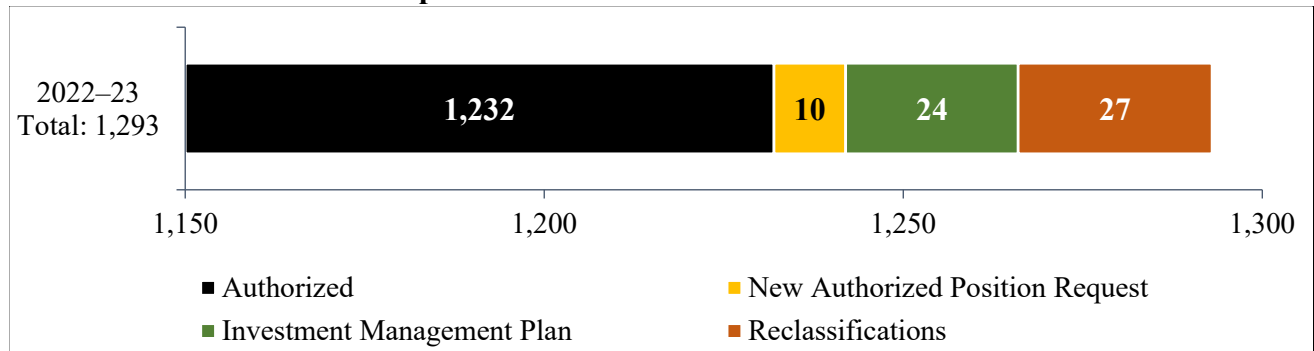
⁴ The 2021–22 Operating Budget was revised due to mandatory adjustments to statewide administrative expenditures. Additional details regarding these changes are provided in *Appendix 6*.

⁵ Additional details are provided in the September 2021, Teachers’ Retirement Board *Item 9 - Proposed 2022–23 Operating Budget Concepts, Other Budgetary Changes and Additional Budgetary Considerations*.

⁶ The proposed 2022–23 Operating Budget by fund is provided in *Appendix 1*.

The proposed 2022–23 Operating Budget includes 1,293 authorized positions, reflecting an increase of 61 positions to CalSTRS workforce, or approximately 5%, relative to 2021–22. This includes a request for 10 new authorized positions, 24 positions approved as part of the Investment Management Plan, and reclassification of 27 existing blanket positions. A breakout of authorized positions by branch is provided in *Appendix 2*.

Proposed 2022–23 Authorized Positions

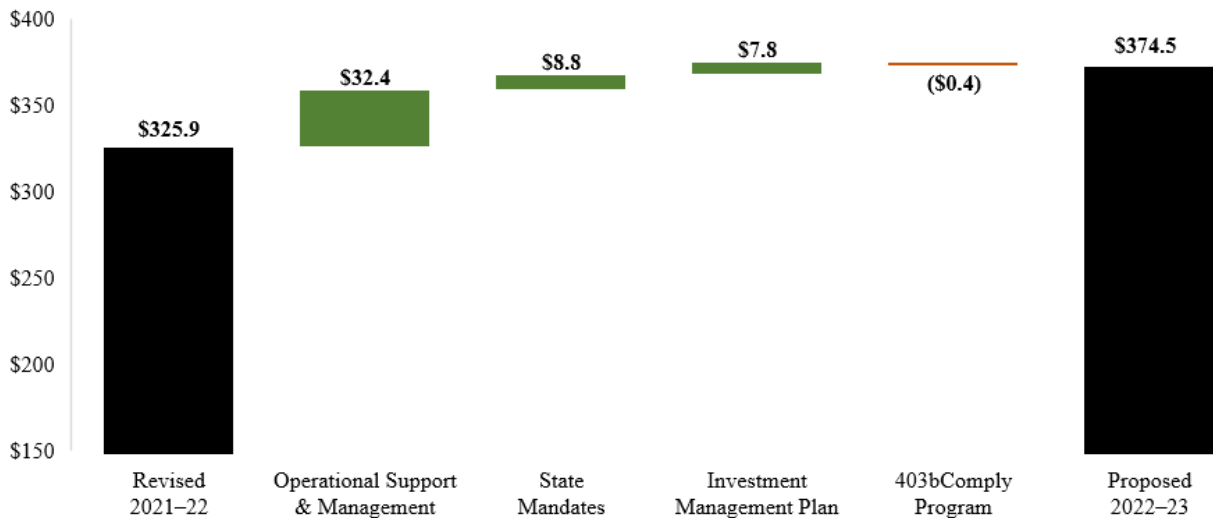


Proposed 2022–23 Operating Budget Changes – \$48.6 million

The proposed 2022–23 Operating Budget reflects a total net increase of \$48.6 million, or 15%, compared to the revised 2021–22 Operating Budget. The following chart displays the revised 2021–22 Operating Budget, total net changes by operational category, and the proposed 2022–23 Operating Budget. Additional detail regarding these changes is provided below.

Proposed 2022–23 Operating Budget Changes

(dollars in millions)



Operational Support & Management – \$32.4 million

The proposed 2022–23 Operating Budget includes an increase of \$32.4 million for Operational Support & Management activities to maintain and safeguard essential business operations. This

includes \$30.7 million for Service Contracts and \$1.7 million for enterprisewide Workload Management efforts to establish funding for 10 permanently authorized positions to CalSTRS' workforce. Workload functions for these positions are primarily associated with Information Security and Safeguarding Assets, and Enterprisewide Operational Support activities. As prefaced above, funding for a portion of these expenditures was previously reviewed and approved by the board as part of the *2020–21 Operating Budget* and included in the *2020–21 Organizational Growth BCP*, which was subsequently withdrawn.

Service Contracts – \$30.7 million

Service Contracts include an increase of \$30.7 million and are composed of \$24.9 million for Property Management Services for CalSTRS Headquarters Property, which includes the current headquarters building and the expansion facility, and \$5.8 million for Technology Capabilities.⁷

Property Management Services – \$24.9 million

The proposed 2022–23 Operating Budget includes a request for \$24.9 million for Property Management Services associated with the Jones Lang LaSalle Americas Inc. (JLL) contract amendment, approved by the Teachers' Retirement Board on June 9, 2021.⁸ Property Management Services under the amended contract cover the management, operation, maintenance, and capital improvements⁹ for CalSTRS' Headquarters Property.

Of the total \$24.9 million requested for 2022–23, \$11.4 million is for *permanent on-going* management, operation, maintenance, and capital improvement costs for CalSTRS' headquarters, and upon completion, the expansion facility. The remaining \$13.5 million represents *one-time* costs for third party tenant improvements and decommissioning infrastructure on future tenant floors in the current headquarters facility. Tenant improvement costs for the existing facility were evaluated and included as part of the overall financial analysis conducted for the headquarters expansion.

Technology Capabilities – \$5.8 million

Consistent with recognizing the strategic importance of maintaining robust information technology systems, the proposed 2022–23 Operating Budget includes a request for \$5.8 million to fund various on-going enhanced information technology (IT) capabilities. Supporting our technology and infrastructure platforms is a critical component of our business and essential to delivering quality services to our members, employers and stakeholders.

⁷ Funding for Technology Capabilities is not associated with the implementation of the new pension administration system, through the Pension Solution Project. Additional information regarding the Pension Solution Project budget is provided in the *Additional Budgetary Considerations* section.

⁸ Additional details regarding the JLL Property Management Services contract amendment are provided in the June 2021, Teachers' Retirement Board *Item 13d - Contracts Requiring Board Approval*.

⁹ Similar to the construction of the headquarters facilities, costs for capital improvements included in the proposed 2022–23 Operating Budget for CalSTRS' Headquarters Property, will be funded through the continuous appropriation. As such, of the \$24.9 million requested, \$15 million will be continuously appropriated.

Over the past few years, CalSTRS has experienced a significant increase in technology needs, primarily driven by the strategic importance of technology to our organization and enterprisewide growth, coupled with the transition to a longer-term blended work environment resulting from the COVID-19 pandemic. As a result, CalSTRS requires more robust and agile IT tools to ensure safe and secure continuity of business operations and services. Specifically, this funding request will cover on-going enterprisewide IT hardware and software renewals and maintenance costs, provide tools to continue to strengthen our overall information security posture, as well as provide IT consulting services to support our cloud-based solutions and quality assurance functionality. Without access to services and tools such as software updates, vendor support and maintenance services, CalSTRS' susceptibility to security risks, system compatibility issues, and untimely resolution of system issues increases, which can diminish business capabilities and the quality of services provided to our members, employers and stakeholders. Note: The need for increases to the operating budget for Technology Capabilities was previously reviewed and approved by the board as part of the *2020–21 Operating Budget* in the amount of \$2.1 million and was included in the *2020–21 Organizational Growth BCP*, which was subsequently withdrawn.

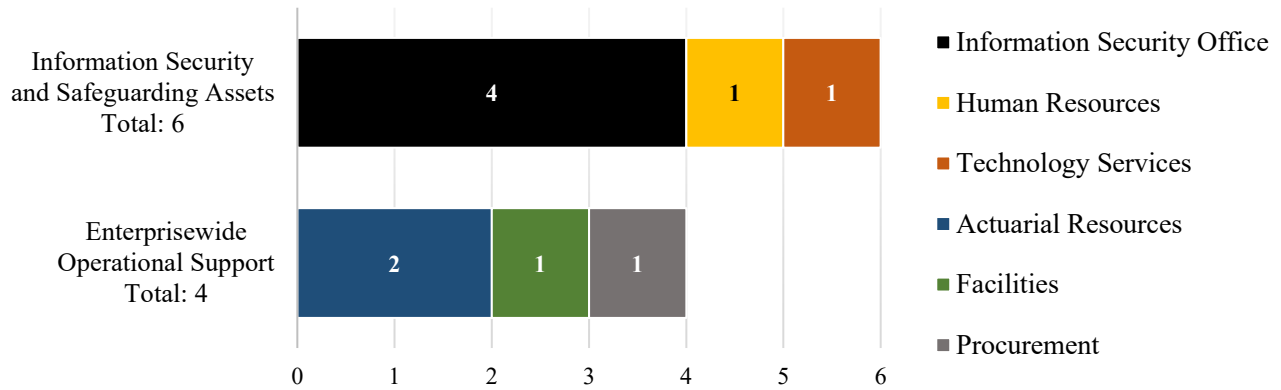
While CalSTRS' baseline operating budget includes an annual Information Technology Project Funding (ITPF) appropriation of \$18.5 million, the ITPF is reserved for new, large scale enterprisewide projects, authorized by the Enterprise Program Investment Council (EPIC). The ITPF is not used for on-going IT maintenance such as annual software license renewals and hardware refresh costs associated with CalSTRS' existing technology infrastructure. Moreover, funding requested for Technology Capabilities is not associated with the implementation of the new pension administration system, through the Pension Solution Project. Additional information regarding the Pension Solution Project budget is provided in the *Additional Budgetary Considerations* section.

Workload Management – \$1.7 million, 10 positions

As underscored with CalSTRS' ongoing priorities to securely transform business and service delivery models to maximize operational efficiency, the proposed 2022–23 Operating Budget includes \$1.7 million to establish funding for 10 permanently authorized positions. Workload functions for these positions are primarily associated with Information Security and Safeguarding Assets, in the amount of \$900,000, and Enterprisewide Operational Support activities, in the amount of \$800,000. In general, these resources will collectively maintain the security, confidentiality and integrity of data, enhance business resilience capabilities, advance business agility and user experience, and streamline processes and operational oversight. Note: These positions were previously reviewed and approved by the board as part of the *2020–21 Operating Budget* and included in the *2020–21 Organizational Growth BCP*, which was subsequently withdrawn. Additional details regarding the scope of each position are provided in *Appendix 3*.

The following chart displays this authorized position request for fiscal year 2022–23 by function and business area.

Authorized Position Request by Function and Business Area



Information Security and Safeguarding Assets – \$900,000, 6 positions

CalSTRS strives to proactively secure electronic data and systems, detect threats and remediate identified risks to strengthen our information security posture. These six positions will strengthen CalSTRS’ information security and data management efforts and effectively safeguard information assets by performing the following tasks:

- Prevent, monitor, detect and identify unforeseen information security risks, fraud and emerging cyber fraud security threats and impacts.
- Promote information security policies, information security design and technical documentation.
- Conduct information security audits, identify risk and recommend risk mitigation strategies.
- Provide cross-functional administrative support for the Technology Services Branch.

Inadequate information security risk management could have a significant impact on the delivery of over \$16 billion of member benefits annually, and CalSTRS’ Investment Portfolio, valued at approximately \$318.4 billion as of August 31, 2021. In addition, without proper resourcing for information security, risk of a data breach and fraud is intensified, which could have unequivocal financial and reputational impacts to the organization. This discipline is a crucial part of CalSTRS’ risk management responsibility to ensure comprehensive information security measures are deployed and the organization is appropriately staffed. Absent these resources, CalSTRS is at greater risk of an information security incident, which can result in financial, operational, legal and reputational damage.

Enterprisewide Operational Support – \$800,000, 4 positions

CalSTRS realizes the importance of ensuring the system is adequately staffed to provide enterprisewide operational support to enhance business services, achieve optimal operating efficiency, and adhere to quality assurance efforts. These four positions will assist the organization with achieving these objectives by performing the following tasks:

- Address increasing internal actuarial projects and quality assurance requirements. Oversee and review actuarial studies.
- Streamline procurement business processes to ensure adherence to laws, rules, regulations, and policies.
- Provide daily operational oversight of electronic content management services.

Expansion of operational support functions serve as a bridge to address existing workload demands and requirements that have advanced in scope, size and complexity, which are correlated with the overall growth and strategic direction of the organization. Absent these resources, the organization will be challenged with meeting the demands of an expanded workload and inefficiencies in overall business operations.

State Mandates – \$8.8 million

State Mandates include an increase of \$8.8 million for fiscal year 2022–23. State Mandates are largely associated with nondiscretionary costs, including augmentations to Wage Escalation for existing personnel and the annual Pro Rata Assessment issued by the DOF.

Wage Escalation – \$8.9 million

Wage Escalation is composed of employee compensation and benefits for existing staff and accounts for the largest increase associated with nondiscretionary costs in the amount of \$8.9 million. Salaries account for \$5.7 million, or 64%, and benefits account for \$3.2 million, or 36%, of the total increase. This is primarily due to general salary increases of 2.5%, merit salary adjustments of 5%, and the associated impact of these changes on total benefits.

Pro Rata Assessment – (\$110,000)

The annual Pro Rata Assessment will decrease by \$110 thousand, based on the current assessment provided by the DOF. Pro Rata represents assessments to reimburse the state’s General Fund for the costs of providing central administrative services to all state departments that benefit from the shared services. For example, the state processes payroll for CalSTRS’ employees. CalSTRS is required by the DOF to contribute on a pro rata basis for the cost of these services. Compared to the preliminary estimated increase provided in September of \$1.1 million, this represents a total decrease of \$1.2 million. The overall decrease is largely due to lower than planned shared service costs across various state agencies.

Multi-Year Internal Investment Management Plan – \$7.8 million

In November 2020,¹⁰ the board reviewed and approved the Investment Management Plan for \$40.9 million to establish 109 authorized positions and funding for external investment audit services, dispersed across fiscal years 2021–22 through 2025–26, as part of the 2021–22 Operating Budget. The Investment Management Plan is a five-year resource planning strategy to continue successful implementation efforts and growth of CalSTRS Collaborative Model, as we transition more assets to internal management and manage growth of assets under management.

The proposed 2022–23 Operating Budget includes the second year of scheduled funding and resources as outlined in the Investment Management Plan for \$7.8 million. This includes \$7.7 million to establish 24 authorized positions, and \$60,000 for external investment audit services. Additional details are provided in *Appendix 4*.

403bComply Program – (\$415,000)

The proposed 2022–23 Operating Budget includes a reduction of \$415 thousand for the 403bComply contract with TCG Services, the program’s third party administrator. The 403bComply service offers 403(b) plan implementation guidance, ongoing plan compliance and maintenance for employers offering a 403(b) defined contribution product. Effective June 1, 2021, as a result of overall changes in the management of the program, third party administrator services and the associated cost for those services are no longer required.¹¹

Reclassification of Position Authority

The DOF issued *Budget Letter BL 21–18*, which provides guidance on reclassifying full-time tenured staff performing permanent on-going work in blanket classifications, to a permanent authorized status within an existing appropriation authority. Application of this adjustment serves as an administrative tool, providing more transparency and operational flexibility to departments in managing the size and classifications of its workforce.

As part of the 2022–23 budget development process, staff conducted an enterprisewide analysis to determine if there were full-time tenured staff working in blanket classifications under existing appropriation authority, that require reclassification to a permanent authorized status. Based on this analysis, staff identified 27 existing positions performing permanent ongoing work that require position reclassification. Reclassification will not increase CalSTRS’ total staffing levels or require any additional funding authority. The positions impacted by this adjustment will be funded from existing budget authority, which was previously approved by the board.

¹⁰ Additional details regarding the Investment Management Plan are provided in the November 2020, Teachers’ Retirement Board *Item 2 - Approval of the Multi-Year Internal Investment Management Plan and Proposed 2021–22 Operating Budget*.

¹¹ Additional details regarding the 403bComply Program changes are provided in the September 2021, Teachers’ Retirement Board *Item 13 - Chief Executive Officer Report*.

Additional Budget Authority

Teachers' Retirement Fund Support Appropriation Savings

Pursuant to section 100.B.1 of the *Teachers' Retirement Board Policy Manual*, if CalSTRS ends the year with savings in the Teachers' Retirement Fund (TRF) support appropriation, these savings are available for expenditure for two years after the initial year of appropriation, upon board approval and is limited to 3% of that appropriation. These savings would be used for the purpose of meeting unanticipated system costs and promoting better service to the system's membership and cannot be encumbered without advance approval by the board. Staff requests the board to authorize the availability of up to 3%, or \$9.3 million of the \$310.5 million 2022–23 TRF support appropriation. Note: This authority is requested as part of the operating budget each year. Additional details regarding the TRF are provided in *Appendices 1 and 5*.

Teachers' Deferred Compensation Fund Budget Authority

The Teachers' Deferred Compensation Fund (TDCF) is used to account for ancillary activities associated with deferred compensation plans and programs offered by CalSTRS to enhance the tax-deferred financial options for members and their beneficiaries. Staff monitors the cash revenues received by the fund to ensure it is sufficient to cover expenditures for the program. If sufficient cash revenue is generated to support expansion of the program, staff requests the board approve additional budget authority of up to 5%, or \$96.4 thousand over the proposed baseline TDCF budget of \$1.9 million, only as needed for unanticipated expenditures. Note: This authority is requested as part of the operating budget each year. Additional details regarding the TDCF are provided in *Appendices 1 and 5*.

ADDITIONAL BUDGETARY CONSIDERATIONS

Additional Budgetary Considerations provide supplemental information on items currently under review that may impact CalSTRS budget. This includes the Pension Solution and Headquarters Expansion Projects. As previously reported to the board, both projects are experiencing delays, resulting in revised project schedules. CalSTRS staff is currently quantifying the budgetary impacts of the revised project schedules and will provide an update to the board once the fiscal impacts are finalized. At this time, CalSTRS budget does not include any fiscal impacts of schedule revisions for the Pension Solution and Headquarters Expansion Projects.

SUMMARY AND RECOMMENDATION

Staff recommends the board approve the attached *Proposed 2022–23 Operating Budget Resolution*, which formally approves the proposed 2022–23 Operating Budget of \$374.5 million and 1,293 authorized positions. The overall net increase proposed for the 2022–23 Operating Budget includes the proposals presented herein, which are summarized below.

Operational Support & Management – \$32.4 million

- Service Contracts – \$30.7 million
 - Property Management Services – \$24.9 million
 - Technology Capabilities – \$5.8 million
- Workload Management – \$1.7 million, 10 positions
 - Information Security and Safeguarding Assets – \$900,000, 6 positions
 - Enterprisewide Operational Support – \$800,000, 4 positions

State Mandates – \$8.8 million

- Wage Escalation – \$8.9 million
- Pro Rata Assessment – (\$110,000)

Multi-Year Internal Investment Management Plan – \$7.8 million

- Establish 24 Authorized Positions – \$7.7 million
- External Investment Audit Services – \$60,000

403bComply Program – (\$415,000)

Reclassification of Position Authority

- The reclassification of 27 blanket positions funded from existing budget authority, to a permanent authorized classification, pursuant to the guidance provided in *Budget Letter 21–18*.

Additional Budget Authority

- Pursuant to Section 100.B.1 of the *Teachers' Retirement Board Policy Manual*, authorize the availability of the TRF support appropriation savings of up to 3%, or \$9.3 million, of the \$310.5 million 2022–23 TRF support appropriation, for expenditure two years after the initial 2022–23 appropriation. These savings would be available for expenditure for unanticipated expenditures only upon approval by the board.
- Additional budget authority of up to 5%, or \$96.4 thousand over the baseline operating budget of \$1.9 million, only as needed for the TDCF for unanticipated expenditures.

APPENDICES

In addition to the analysis provided in the agenda, the following appendices are attached to provide supplemental information about CalSTRS’ prior year expenditures, revised 2021–22 Operating Budget, and the proposed 2022–23 Operating Budget.

APPENDIX 1

Operating Budget by Fund

CalSTRS administers a hybrid retirement system consisting of a defined benefit plan, cash balance and two defined contribution plans, a postemployment benefit plan and a fund used to account for ancillary activities associated with the deferred compensation plans and programs. The Teachers’ Retirement Law (Education Code section 22000 et seq.), as enacted and amended by the California Legislature and the Governor, established these plans and CalSTRS as the administrator. The terms of these plans may be amended through legislation. Accordingly, the proposed 2022–23 Operating Budget is administered through the TRF, TDCF and the Teachers’ Health Benefits Fund (THBF).

Operating Budget by Fund

(dollars in thousands)

Budget Category	Actuals 2020–21	Revised 2021–22	Proposed 2022–23	% Change
Teachers’ Retirement Fund	\$253,066	\$322,864	\$371,673	15%
Teachers’ Deferred Compensation Fund	1,611	2,216	1,929	(13%)
Teachers’ Health Benefits Fund	633	834	893	7%
Total	\$255,310	\$325,914	\$374,495	15%

Teachers’ Retirement Fund

The TRF was established by California Education Code section 22400 and is the largest fund CalSTRS administers. It is a multiple-employer, cost-sharing defined benefit plan composed of the Defined Benefit, Defined Benefit Supplement, Cash Balance Benefit, and the Purchasing Power Protection programs. The majority of CalSTRS’ operational expenses are sourced from the TRF, which includes 1,282 authorized positions.

Teachers' Retirement Fund¹²

(dollars in thousands)

Budget Category	Actuals 2020-21	Revised 2021-22	Proposed 2022-23	% Change
Salaries	\$117,161	\$154,354	\$167,703	9%
Benefits	54,409	69,636	75,467	8%
Operating Expenses and Equipment				
General Expenses	14,563	29,189	28,069	(4%)
Consulting and Professional Services	29,966	38,211	44,103	15%
Facilities Operations	17,422	9,050	33,943	275%
Central Administrative Services	11,957	14,766	14,730	0%
Data Processing and Storage	7,588	7,658	7,658	0%
Total Budget	\$253,066	\$322,864	\$371,673	15%

Teachers' Deferred Compensation Fund

The TDCF was established pursuant to Education Code section 24976 and is used to account for ancillary activities associated with deferred compensation plans and programs offered by CalSTRS to enhance the tax-deferred financial options for members and their beneficiaries. The TDCF includes eight authorized positions.

Teachers' Deferred Compensation Fund¹³

(dollars in thousands)

Budget Category	Actuals 2020-21	Revised 2021-22	Proposed 2022-23	% Change
Salaries	\$487	\$629	\$754	20%
Benefits	305	403	468	16%
Operating Expenses and Equipment				
General Expenses	101	372	372	0%
Consulting and Professional Services	540	750	335	(55%)
Central Administrative Services	178	62	-	(100%)
Total	\$1,611	\$2,216	\$1,929	(13%)

Teachers' Health Benefits Fund

The THBF is used to administer a cost-sharing, multiple-employer other postemployment benefit plan known as the Medicare Premium Payment (MPP) Program. The program was established pursuant to Education Code sections 25930 and 25940. The MPP Program pays Medicare Part A

¹² The projected increase in *Consulting and Professional Services* is due to the increase in funding requested for various Technology Capabilities. The projected increase in *Facilities Operations* is due to the increase in funding requested for Property Management Services for CalSTRS Headquarters Property.

¹³ The projected decrease in *Consulting and Professional Services* is primarily due to changes to the 403bComply Program. The projected decrease in *Central Administrative Services* is due to changes in the Pro Rata Assessment issued by the DOF.

premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the Defined Benefit Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium-free Medicare Part A. Members who enrolled in Medicare after July 1, 2012, are not eligible for CalSTRS' payment of late enrollment surcharges. Also, members who retire on or after July 1, 2012, are not eligible for coverage under the MPP Program. The THBF includes three authorized positions.

Teachers' Health Benefits Fund¹⁴

(dollars in thousands)

Budget Category	Actuals 2020–21	Revised 2021–22	Proposed 2022–23	% Change
Salaries	\$284	\$361	\$372	3%
Benefits	181	197	242	23%
Operating Expenses and Equipment				
General Expenses	123	218	232	6%
Consulting and Professional Services	-	30	30	0%
Central Administrative Services	45	28	17	(39%)
Total	\$633	\$834	\$893	7%

¹⁴ The projected decrease in *Central Administrative Services* is due to changes in the Pro Rata Assessment issued by the DOF.

APPENDIX 2

Operating Budget and Authorized Positions by Branch

CalSTRS is divided into functional areas, each referred to as a branch. Within each branch are business areas. Each branch has a corresponding functional budget. The following chart displays CalSTRS’ actuals for the 2020–21, the revised 2021–22, and the proposed 2022–23 Operating Budget. This includes salaries, benefits, and operating expenses and equipment.

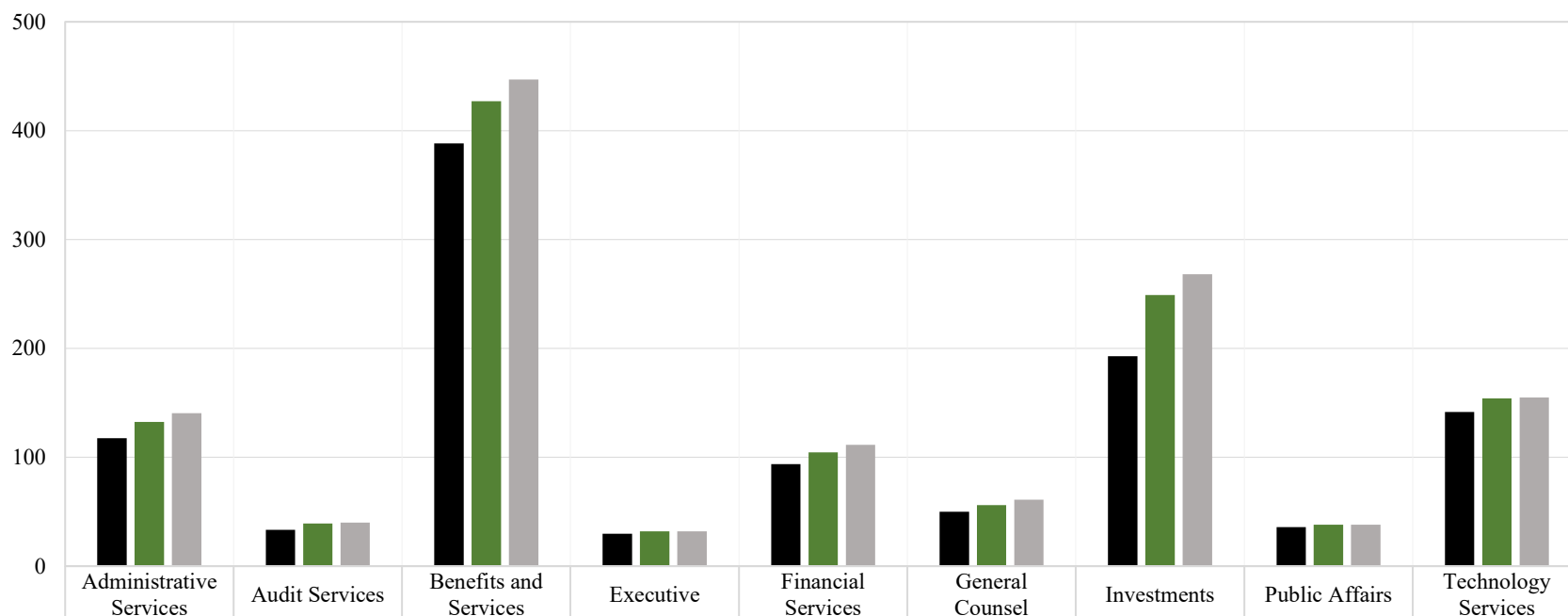
Operating Budget by Branch
 (dollars in millions)



CalSTRS total workforce by branch is displayed in the following chart. The proposed 2022–23 Operating Budget has 1,293 authorized positions, reflecting an increase of 61 positions to CalSTRS’ workforce, or approximately 5%, relative to 2021–22. This includes a request for 10 new authorized positions, 24 positions approved as part of the Investment Management Plan, and the reclassification of 27 existing blanket positions.

Authorized Positions by Branch

Actuals 2020–21
 Revised 2021–22
 Proposed 2022–23
1,082.9 *1,232* *1,293*



	Administrative Services	Audit Services	Benefits and Services	Executive	Financial Services	General Counsel	Investments	Public Affairs	Technology Services
■ Actuals 2020–21	117.6	33.4	388.2	29.8	93.7	49.9	192.9	35.8	141.6
■ Revised 2021–22	132.5	39.0	427.0	32.0	104.5	56.0	249.0	38.0	154.0
■ Proposed 2022–23	140.5	40.0	447.0	32.0	111.5	61.0	268.0	38.0	155.0

APPENDIX 3

Workload Management

Workload and position scope for the 10 authorized positions presented as part of the 2022–23 Operating Budget proposal, is provided below. Workload for these positions is primarily associated with Information Security and Safeguarding Assets and Enterprisewide Operational Support activities, which are essential for CalSTRS to maintain effective business operations.

Information Security and Safeguarding Assets – 6 positions

Information Security Office - 4
<i>Information Technology Specialist I*</i> - This position will provide support to enhance information security documentation and infrastructure. This position is required to collaborate with peers in the documentation and assessment of new technologies which will enhance CalSTRS' existing information security infrastructure.
<i>Information Technology Specialist I*</i> - This position will conduct information security auditing, identify risk and recommend risk mitigation strategies. The need for this position is to ensure CalSTRS' information security is in compliance with policies and regulations and to recommend risk mitigation strategies. Without this position, CalSTRS is at greater risk of cybersecurity incidents that could result in financial, operational and reputational harm.
<i>Information Technology Specialist I*</i> - This position will provide technical information security consultation to CalSTRS related information technology projects. The need for this position is for technical expertise in identifying unforeseen information security risks. Without this position, CalSTRS is at greater risk of cybersecurity incidents that could result in financial, operational and reputational harm.
<i>Information Technology Specialist I</i> - This position will provide fraud monitoring and response when potential risks are detected. The need for this position is driven by significant increases in the occurrence and sophistication of cyber fraud around the world. Without this position, CalSTRS is at greater risk of cybersecurity incidents that could result in financial, operational and reputational harm.

Human Resources - 1
<i>Associate Personnel Analyst*</i> - This position will provide a multitude of personnel transactions from new hires to long-term employees for the Technology Services Branch and projects. The need for this position is driven by the continued growth in CalSTRS staffing, as well as the ever-evolving internal organizational structure of the Technology Services Branch and projects. Without this position, personnel transactions related to staff associated with the Technology Services Branch and projects would be impacted and significantly delayed.

Technology Services - 1

Staff Services Analyst* - This position will provide administrative support related to procurement, budgeting, and personnel related items for the Technology Services Branch. The need for this position is due to the increase in IT staff and the associated administrative support and training necessary for IT staff in an everchanging technological environment. Without this position Technology Services will not be able to meet business needs, will be unable to process procurement transactions timely and will increase the time to fill positions.

Enterprisewide Operational Support - 4 positions

Actuarial Resources - 2

Research Program Specialist III - This position will provide support for the actuarial functions at CalSTRS. The need for this position is due to an increase in scope of work and workload for Actuarial Resources including the review of external actuary work as well as an increase in stakeholder requests. Without this position, Actuarial Resources will not be able to accomplish their business objectives or respond to requests in a timely manner.

Senior Pension Actuary* - This position will lead, oversee, and review the actuarial studies, provide documentation for audits, risk and compliance and perform general administration assignments. The need for this position is due to the increase in actuarial workload ranging from requests from the Teachers' Retirement Board to requests from external stakeholders. Without this position, the Actuarial Resources unit may not be able to address internal and external actuarial requests in a timely manner.

Facilities - 1

Staff Services Manager I* - This position will provide daily operational oversight of the Facilities Mail & Imaging Services unit. The need for this position is due to ongoing technical collaboration required between the Facilities Mail & Imaging Services unit and Electronic Content Management Services to ensure the Imaging system functions correctly. Without this position, the technical understanding of the Imaging system would be impaired, and enhancements could be significantly delayed.

Procurement - 1

Staff Services Manager I* - This position will be the point of contact between Procurement Management and Technology Services with regard to ensuring procurement activities follow laws, rules, regulations, and policies. This position will also work on documenting business processes. The need for this position is due to the need for business processes to be documented and reflect changing laws, rules, and policies. Without this position, significant delays may occur with purchasing and the Procurement Office will not meet their service level agreements.

**An existing resource classified in a blanket position and funded from organizational savings is currently performing the duties described. Approval of this request would provide permanent funding and position authority to continue performing the duties described on an on-going basis.*

APPENDIX 4

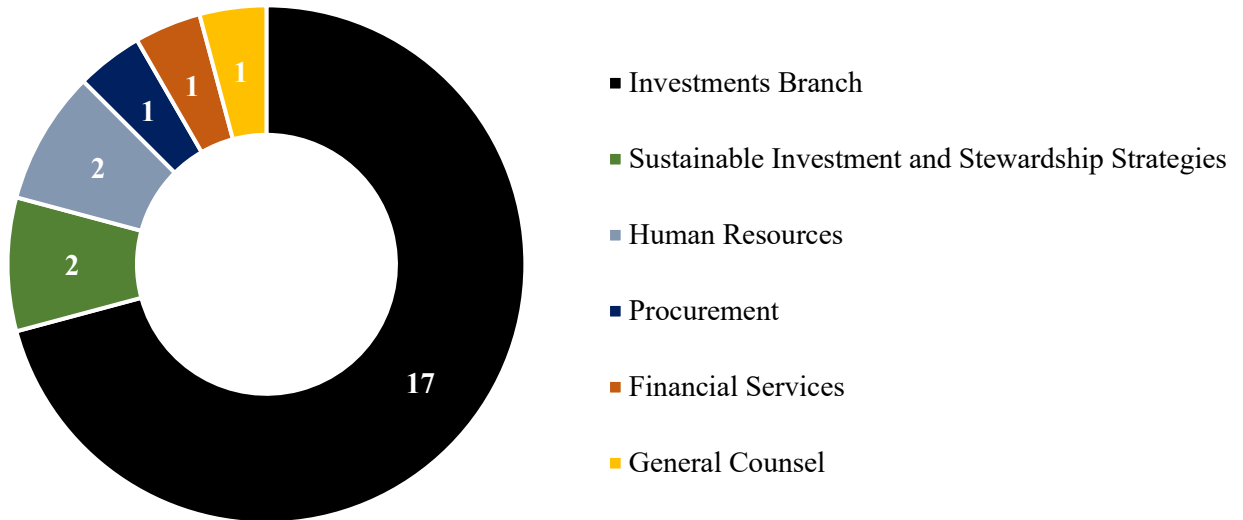
The following table provides the five-year funding and resource forecast approved by the board as part of the Investment Management Plan, that will be added to CalSTRS baseline Operating Budget each fiscal year.

Five-Year Funding and Resource Forecast
(dollars in millions)

	2021–22	2022–23	2023–24	2024–25	2025–26	Total
Budget	\$12.3	\$7.8	\$9.9	\$6.5	\$4.4	\$40.9
Authorized Positions	30	24	21	19	15	109

The following chart displays the 24 authorized positions approved for fiscal year 2022–23 by business area.

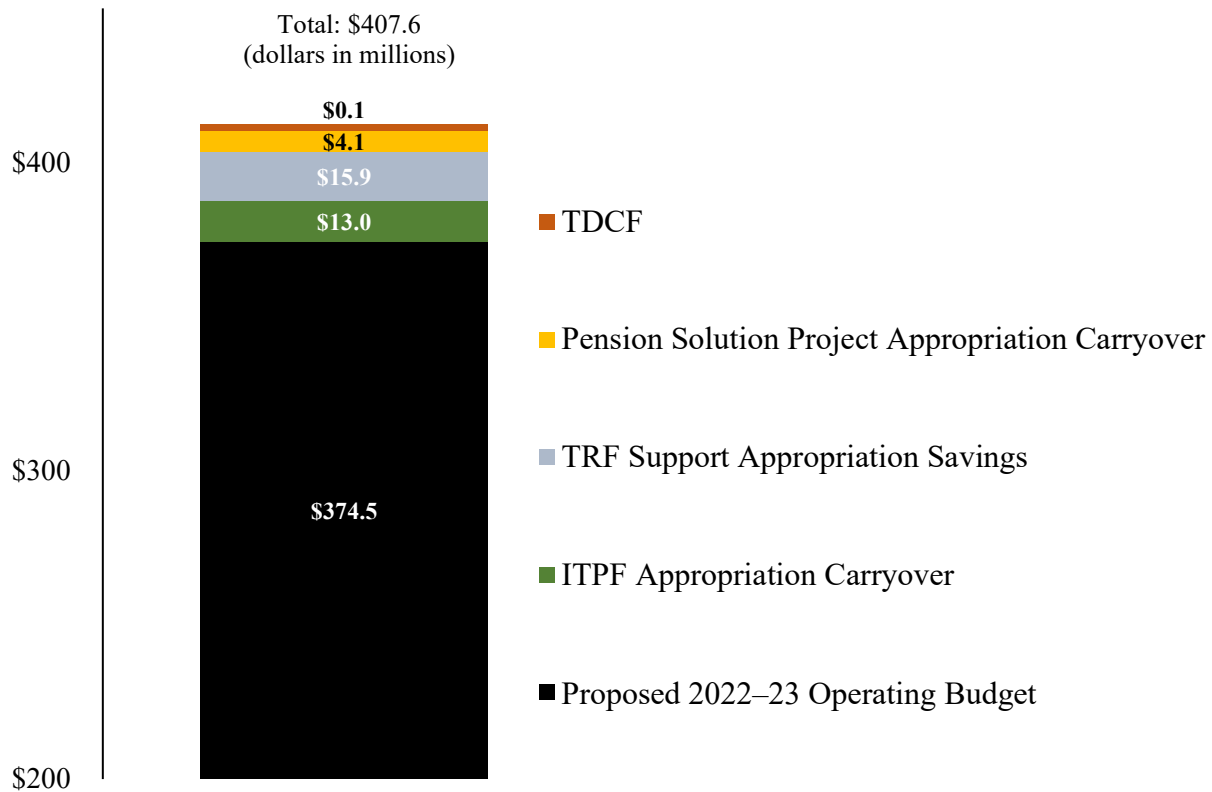
2022–23 Authorized Positions by Business Area



APPENDIX 5

Other Budget Detail

2022–23 Total Estimated Spending Authority



Upon board approval, CalSTRS can expend up to \$374.5 million in fiscal year 2022–23. In addition, CalSTRS has additional spending authority, resulting from prior board approvals, available for expenditure in fiscal year 2022–23. As a result, CalSTRS can end the year with total expenditures greater than the proposed 2022–23 Operating Budget. There are four primary sources of additional spending authority. These include the ITPF appropriation carryover, TRF support appropriation savings, Pension Solution Project appropriation carryover, and additional budget authority for the TDCF.

As summarized in the following chart, total estimated spending authority above the 2022–23 Operating Budget is currently projected at \$33.1 million. Based on these estimates, CalSTRS can expend up to \$407.6 million in fiscal year 2022–23. Additional detail is provided on the following page.

Sources of Spending Authority above the 2022–23 Operating Budget¹⁵

(dollars in millions)

Funding Source	Fiscal Year¹⁶	Encumbrance Date	Liquidation Date	\$ Amount
ITPF Appropriation Carryover	2021–22	6/30/2024	6/30/2026	\$13.0
TRF Support Appropriation Savings	2020–21	6/30/2023	6/30/2025	8.0
TRF Support Appropriation Savings	2021–22	6/30/2024	6/30/2026	7.9
Pension Solution Project Appropriation Carryover	2014–15 to 2020–21	6/30/2023	6/30/2025	4.1
TDCF	2022–23	6/30/2023	6/30/2025	0.1
Total				\$33.1

Information Technology Project Funding Appropriation Carryover – \$13.0 million

CalSTRS’ baseline Operating Budget includes an annual ITPF appropriation of \$18.5 million for enterprisewide projects as authorized by EPIC. Pursuant to the annual Budget Act, each year this amount is available to encumber for up to three years, and two additional years for liquidation. Funds not encumbered in the initial fiscal year they were appropriated are carried over for up to two fiscal years and can be designated to projects authorized by EPIC. Based on current projections, \$13.0 million is available for encumbrance through June 30, 2024, and liquidation by June 30, 2026. These funds will be utilized as projects are approved by EPIC.

Teachers’ Retirement Fund Support Appropriation Savings – \$15.9 million

Pursuant to section 100.B.1 of the *Teachers’ Retirement Board Policy Manual*, if CalSTRS ends the year with savings in the Teachers’ Retirement Fund support appropriation, these savings are available for expenditure for two years after the initial appropriation, upon board approval, and are limited to 3% of that appropriation. These savings would be used for the purpose of meeting unanticipated system costs and promoting better service to the system’s membership. Upon board approval, \$8.0 million is available to encumber by June 30, 2023, and through June 30, 2025, to liquidate, and \$7.9 million is available to encumber by June 30, 2024, and through June 30, 2026, to liquidate.

Pension Solution Project Appropriation Carryover – \$4.1 million

Of the total \$304.8 million total spending authority for the Pension Solution Project, \$4.1 million represents the estimated carryover amount from the 2014–15 through 2020–21 appropriations. This funding is available for encumbrance through June 30, 2023, and liquidation through June 30, 2025. The encumbrance and liquidation periods for the Pension Solution Project reflect extensions to the original encumbrance and liquidation dates, which were approved as part of the *2020–21 Operating Budget*. The project will use these carryover balances by the respective dates.

¹⁵ The ITPF and Pension Solution Project appropriations are based on current projections and are subject to change.

¹⁶ Fiscal year in which funding was originally authorized.

Teachers’ Deferred Compensation Fund – \$96,400

As discussed in the *Additional Budget Authority* section, staff requested additional budget authority of up to 5%, currently estimated at \$96.4 thousand for the TDCF in 2022–23. The additional spending authority is only accessible if sufficient cash revenues are generated to support an expansion of the program, only as needed for unanticipated expenditures.

Operating Budget by Appropriation

The following table displays the proposed 2022–23 Operating Budget and key differences compared to what is anticipated for inclusion in the Budget Act of 2022.¹⁷ The Budget Act is primarily composed of the annual TRF support and ITPF appropriations.

The Budget Act does not include direct transfers, other continuous appropriations, or the TDCF and the THBF budget. Direct transfers include the Pro Rata Assessment and SB 84 (*Chapter 50, Statutes of 2017*)¹⁸ loan payment, which are assessed by the DOF for all state agencies. Other continuous appropriations are primarily composed of budget for fiduciary insurance, investment audits and the Sustainable Investment and Stewardship Strategies division, within the Investments Branch.

Proposed 2022-23 Operating Budget by Appropriation
(dollars in thousands)

Category	\$ Amount
Budget Act	
Teachers' Retirement Fund Support Appropriation	\$310,520
Information Technology Project Funding Appropriation	18,500
Total Budget Act	329,020
Direct Transfers	17,530
Other Continuous Appropriations	25,123
Total Teachers' Retirement Fund Budget	371,673
Teachers' Deferred Compensation Fund	1,929
Teachers' Health Benefits Fund	893
Total Proposed 2022–23 Operating Budget	\$374,495

¹⁷ Additional information regarding the *Budget Act* can be found on the DOF website.

¹⁸ SB 84 authorized a \$6 billion supplemental payment from the state’s Surplus Money Investment Fund to the California Public Employees’ Retirement System to reduce long-term retirement contribution rates for all state agencies. Effective 2018–19, all state agencies are required to begin repayment of the loan.

APPENDIX 6

Revised 2021–22 Operating Budget¹⁹

In 2020–21, as part of the state’s response to address the fiscal impact of the global COVID-19 pandemic on California’s economy, the Administration commenced immediate measures to mitigate the financial impact to the state, pursuant to the *Budget Act of 2020 (AB 89, Chapter 7, Statutes of 2020)*. This included mandatory reductions to statewide administrative expenditures, including changes to employee compensation and a permanent operational efficiency reduction in most state operational expenditures. Notable changes to employee compensation included, but were not limited to: a mandatory two-day, or 16 hours a month, reduction in pay equating to approximately 9.23%, administered through a Personal Leave Program for fiscal years 2020–21 and 2021–22; suspension of a 2.5% general salary increase that would have been effective on July 1, 2020, until July 1, 2022; and the associated impact of these reductions on benefits.

Subsequently, the state’s financial status improved due to the higher-than-anticipated tax revenue and new federal funding from multiple stimulus bills. Pursuant to the *Budget Act of 2021 (AB 128, Chapter 21, Statutes of 2021)*, effective July 1, 2021, the 9.23% reduction in pay was eliminated, and eligible employees received a 4.55% general salary increase. This increase accounts for the previously negotiated 2.5% salary increase that was originally scheduled for July 1, 2020, the 2.0% salary increase already scheduled for July 1, 2021, and a compounded percentage of 0.05%.²⁰

As a result of these directives, the 2021–22 board-approved operating budget was revised from \$309.8 million, to \$325.9 million. This reflects an overall net change of \$16.1 million, or 5.2%, relative to the original board approved operating budget.

CalSTRS Revised 2021–22 Operating Budget
(dollars in millions)

	Approved 2021–22	Operational Efficiency	Employee Compensation	Revised 2021–22	\$ Change	% Change
Total	\$309.8	(\$2.4)	\$18.5	\$325.9	\$16.1	5.2%

¹⁹ Additional details are provided in *CalSTRS 2020–21 and 2021–22 Biennial Budget*.

²⁰ Adjustments to employee compensation listed herein are based upon the current *Side Letter of Agreement* for the SEIU, Local 1000, dated June 4, 2021.

RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD

SUBJECT: Proposed 2022–23 Operating Budget Resolution

RESOLUTION NO. XX-XX

WHEREAS, Article XVI, Section 17 of the California Constitution gives the Teachers' Retirement Board plenary authority over the administration of the California State Teachers' Retirement System; and,

WHEREAS, Section 100.B.1 of the Board Policy Manual requires that the Operating Budget for CalSTRS be approved by the board; and,

WHEREAS, CalSTRS staff has proposed and recommends the fiscal year 2022–23 Operating Budget of \$374.5 million, including 1,293 authorized positions, to be allocated to the Teachers' Retirement Fund, Teachers' Deferred Compensation Fund, and Teachers' Health Benefits Fund as \$371.7 million, \$1.9 million and \$900 thousand, including 1,282, eight, and three authorized positions, respectively; and,

WHEREAS, the annual Budget Act allows the board to authorize the availability of savings in the Teachers' Retirement Fund support appropriation for expenditure for two years after the fiscal year 2022–23 appropriation, of up to 3%, or \$9.3 million of that appropriation; and,

WHEREAS CalSTRS staff recommends authorization of additional budget authority for the fiscal year 2022–23 Operating Budget for the Teachers' Deferred Compensation Fund of up to 5%, or \$96.4 thousand, over the baseline operating budget, for unanticipated expenditures, subject to the availability of resources in the fund; and,

WHEREAS, the board has reviewed and considered the written and oral presentations provided by staff in November 2021, in support of the recommendation that the fiscal year 2022–23 Operating Budget be approved; therefore be it,

RESOLVED, by the Teachers' Retirement Board as follows:

1. The board hereby finds and declares that the foregoing recitals are true and correct.
2. The board hereby approves the fiscal year 2022–23 Operating Budget of \$374.5 million, including 1,293 authorized positions, to be allocated to the Teachers' Retirement Fund, Teachers' Deferred Compensation Fund, and Teachers' Health Benefits Fund as \$371.7 million, \$1.9 million and \$900 thousand, including 1,282, eight, and three authorized positions, respectively; and be it further,

3. The board hereby authorizes the availability of savings in the Teachers' Retirement Fund support appropriation for expenditure for two years after the fiscal year 2022–23 appropriation of up to 3%, or \$9.3 million of that appropriation; and be it further,

4. The board hereby authorizes additional budget authority for the fiscal year 2022–23 Operating Budget from the Teachers' Deferred Compensation Fund of up to 5%, or \$96.4 thousand, over the baseline operating budget, for unanticipated expenditures, subject to the availability of resources in the fund.

Adopted by:
Teachers' Retirement Board
On November 4, 2021

Cassandra Lichnock
Chief Executive Officer

Reviewed by:

Brian J. Bartow
General Counsel