



# Regular Meeting

## Item Number 9 – Open Session

**Subject:** Proposed 2022–23 Operating Budget Concepts, Other Budgetary Changes and Additional Budgetary Considerations

**Presenter(s):** Julie Underwood

**Item Type:** Information

**Date & Time:** September 2, 2021 – 20 minutes

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**Attachment(s):** None

**PowerPoint(s):** None

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### **PURPOSE**<sup>1</sup>

This item presents the proposed 2022–23 Operating Budget Concepts, Other Budgetary Changes and Additional Budgetary Considerations, for review and discussion. Budget Concepts provide an overview of funding and resources requested to support CalSTRS’ enterprisewide operational support needs. Other Budgetary Changes provide a summary of estimated budget adjustments, largely associated with nondiscretionary expenditures. Additional Budgetary Considerations present supplemental information on items currently under review that may impact CalSTRS’ budget.

Due to mandatory adjustments to 2021–22 statewide employee compensation,<sup>2</sup> only estimated operating budget changes are provided in this item, and not a total Operating Budget as presented in previous years. Staff is working with the Department of Finance (DOF) to quantify the fiscal impacts of changes to employee compensation, which will be included as part of the proposed 2022–23 Operating Budget presented to the board for adoption in November 2021.

### **BACKGROUND AND HISTORY**

In alignment with CalSTRS’ projected growth and operational demands, funding for the Concepts presented herein, were originally requested and approved by the board in November 2019, as part of the [2020–21 Operating Budget](#), and included in the [2020–21 Organizational Growth Budget Change Proposal](#) (BCP), which was submitted to the DOF and Legislature as part of the annual state budget process. Subsequently, the COVID-19 pandemic emerged, causing an overall decline in economic activity, with corresponding negative effects on projected state revenues. In the spirit of the state’s broader objectives to reduce spending to mitigate the fiscal impacts of the pandemic on the state budget, CalSTRS voluntarily withdrew the *2020–21 Organizational Growth BCP*.

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<sup>1</sup> All figures in this agenda item are rounded for presentation purposes.

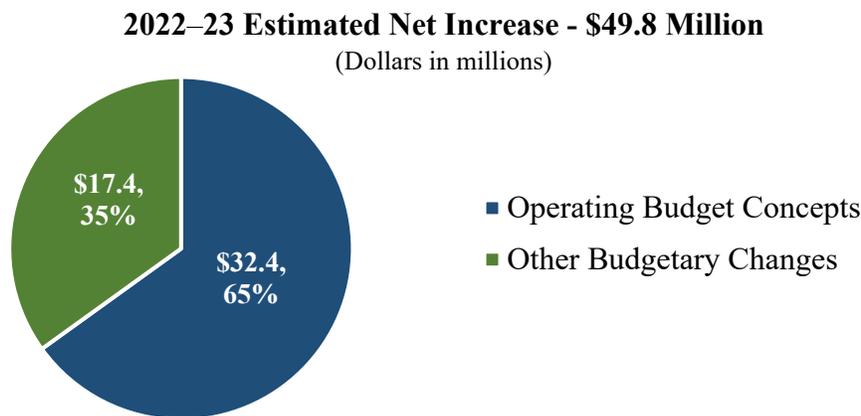
<sup>2</sup> Pursuant to the *Budget Act of 2021* ([AB 128, Chapter 21, Statutes of 2021](#)).

This extraordinary circumstance required a unified effort by all state agencies to maintain a balanced state budget. Therefore, CalSTRS elected to participate in these budgetary reduction measures.

While the organization would ultimately require funding for resources as originally forecasted, to help mitigate the short-term impact on our core business operations and strategic objectives, we reassessed priorities and workload to accomplish our mission, while maintaining ongoing project deliverables. This included realignment of existing resources, reprioritizing work functions across the organization and making tactical decisions to continue managing enterprisewide operations. Since such time, operational workload demands within certain business functions have outpaced resource availability, which is no longer sustainable. As a result, the proposed 2022–23 Operating Budget Concepts include a portion of the resources originally requested in the *2020–21 Organizational Growth BCP*, to ensure adequate resource capacity to effectively manage essential business operations. This is in alignment with the state’s 2022–23 budget directives,<sup>3</sup> to maintain a structurally balanced budget by mitigating cost, while conducting effective and efficient business operations. Remaining fiscally prudent, we will continue evaluating long-term operational resource needs across the organization. As additional resource needs are identified, they will be presented to the board for review in subsequent budget proposals.

### **2022–23 KEY HIGHLIGHTS**

In support of CalSTRS’ strategic priorities and objectives, the proposed 2022–23 Operating Budget Concepts and Other Budgetary Changes currently reflect a net estimated increase of \$49.8 million.<sup>4</sup> Operating Budget Concepts represent an increase of \$32.4 million, which include funding for various Service Contracts and address enterprisewide Workload Management efforts to facilitate ongoing business functions safely and securely. As prefaced above, funding for these Concepts was previously reviewed and approved by the board, as part of the *2020–21 Operating Budget*. Other Budgetary Changes represent a net increase of \$17.4 million, largely due to estimates for State Mandates, continued implementation of the Multi-Year Internal Investment Management Plan (Investment Management Plan), which was reviewed and approved in November 2020, as part of the [2021–22 Operating Budget](#), and changes to the 403bComply Program. The following chart displays the total estimated net increase of \$49.8 million.

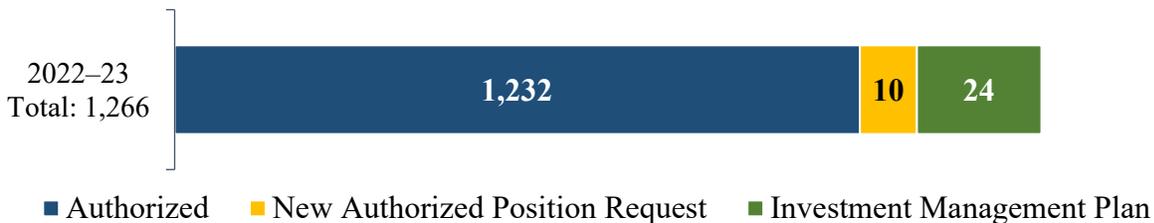


<sup>3</sup> Additional details regarding the state’s 2022–23 budget directives are provided in [Budget Letter 21–22](#).

<sup>4</sup> All figures provided in this agenda item are estimates and are subject to change.

The 2022–23 Operating Budget proposes 1,266 authorized positions, reflecting an increase of 34 positions to CalSTRS’ authorized workforce, or approximately 2.8%, relative to 2021–22. This includes funding to establish 10 new authorized positions and 24 authorized positions previously approved as part of the Investment Management Plan.

### Proposed 2022–23 Authorized Positions



### **PROPOSED 2022–23 OPERATING BUDGET CONCEPTS – \$32.4 million**

Our proposed 2022–23 Operating Budget Concepts represent an estimated increase of \$32.4 million 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.

#### **Service Contracts – \$30.7 million**

Service Contracts include an estimated 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.<sup>5</sup> Details regarding Service Contracts are discussed below.

#### **Property Management Services – \$24.9 Million**

The 2022–23 Operating Budget Concepts include 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.<sup>6</sup> Property Management Services under the amended contract cover the management, operation, maintenance, and capital improvements 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

<sup>5</sup> Funding for Technology Capabilities is not associated with the implementation of the new pension administration system, through the Pension Solution Project. Details regarding the Pension Solution Project budget are provided in the *Additional Budgetary Considerations* section.

<sup>6</sup> Additional details regarding the JLL Property Management Services contract amendment are provided in [Item 13d - Contracts Requiring Board Approval](#).

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 2022–23 Operating Budget Concepts include 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.

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 due to the ongoing 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, as well as provide tools to strengthen our overall information security posture, IT consulting services to optimize operations with cloud-based solutions and support additional quality assurance functionality. Without access to services and tools such as software updates and 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 to our members, employers and stakeholders.

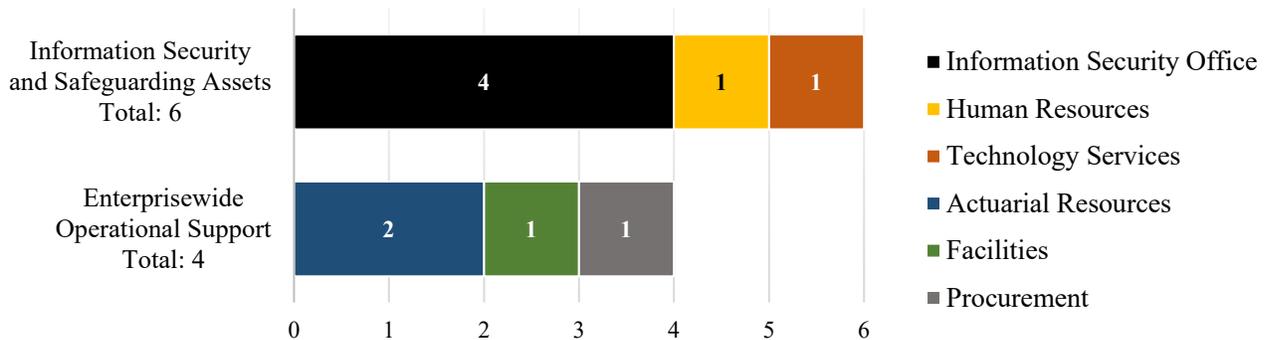
While CalSTRS' baseline operating budget includes an annual Information Technology Project Funding (ITPF) appropriation of \$18.5 million, the ITPF is reserved for new, large scale enterprisewide projects, authorized by the Enterprise Program Investment Council. The ITPF is not used for on-going IT maintenance 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. Details regarding the Pension Solution Project budget are provided in the *Additional Budgetary Considerations* section.

#### **Workload Management – \$1.7 million, 10 positions**

As underscored with our ongoing priorities to securely transform business and service delivery models to maximize operational efficiency, the 2022–23 Operating Budget Concepts include \$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. Additional detail regarding the scope of each position is provided in *Appendix 1*.

The following chart displays the total 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 the advancement of 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 approximately \$16.7 billion of member benefits annually, and CalSTRS’ Investment Portfolio, valued at approximately \$308.6 billion as of June 30, 2021 (unaudited). 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 new and 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 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 related to preparation, oversight and review of actuarial studies; providing additional documentation for audit, risk and compliance; diminished ability to meet critical internal and external deadlines; risk of missing service level agreements; noncompliance with laws, rules, regulations and policies; and inefficiencies in overall business operations.

**OTHER BUDGETARY CHANGES - \$17.4 million**

Other Budgetary Changes represent an estimated increase of \$17.4 million, composed of budget adjustments largely associated with nondiscretionary expenditures. This includes \$10.0 million for State Mandates, \$7.8 million for the continued implementation of the Investment Management Plan, and a reduction of \$415,000 associated with changes to the 403bComply Program, which are discussed below.

**State Mandates – \$10.0 million**

State Mandates include an estimated increase of \$10.0 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 estimated 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 estimated 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 – \$1.1 million

CalSTRS is required by the DOF 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, which apportions the costs of providing central administrative services to all state departments that benefit from shared services.

The 2022–23 Pro Rata Assessment is estimated to increase by \$1.1 million, based on a 5-year average growth rate of 10%. Historically, increases in the assessment have been largely driven by costs for retirees' health and dental benefits and services provided by various state agencies, such as pension benefit payments and payroll processing for CalSTRS members and staff, respectively. This estimate will change based on the final assessment that will be issued by the DOF in the fall of 2021.

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

In November 2020, 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 the CalSTRS Collaborative Model as we transition more assets to internal management and manage growth of assets under management.

The 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 2*.

### **403bComply Program – (\$415,000)**

Other Budgetary Changes include 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.

### **ADDITIONAL BUDGETARY CONSIDERATIONS**

Additional Budgetary Considerations provide supplemental information on items currently under review that may impact CalSTRS' budget. This includes the Pension Solution Project, the Headquarters Expansion Project, and Reclassification of Position Authority, which are discussed below. CalSTRS staff is currently quantifying potential budgetary impacts for these items and will provide an update to the board during the November 2021 meeting.

### **Pension Solution Project**

The Pension Solution Project supports our multiyear efforts to replace the legacy pension administration system, START. The new system, BenefitConnect, will increase our ability to respond to customer and business needs, gain long-term operational efficiencies, improve internal controls, and enhance services to our members and their beneficiaries, the school employer community and CalSTRS staff. The current Pension Solution Project budget is \$304.8 million.

As previously reported to the board, the project is experiencing delays. CGI Technologies and Solutions Inc., the vendor contracted to configure and implement the new pension administration system, has delivered a revised draft schedule based on the current rollout strategy indicating a delay of approximately 18 to 24 months. CalSTRS and CGI are reviewing the revised timelines to ensure impact to business operations is considered and if needed, explore any other modifications to the implementation rollout strategy. CalSTRS staff is currently quantifying the impacts of the revised project timeline on the total project budget and will provide an update to the board once the revised schedule is finalized.

### **Headquarters Expansion Project**

The CalSTRS Headquarters Expansion (HQE) Project was approved with a total budget not to exceed \$300 million (excluding the cost of financing) for construction of an expansion building adjacent to CalSTRS' existing headquarters, using tax-exempt lease revenue bond financing.

As previously reported to the board, due to delays in the issuance of architectural building permits, the estimated project completion date of the headquarters expansion was moved from the fall to winter of 2022. Impacts of the extended construction timeline on the total project budget are yet to be determined. CalSTRS staff is currently quantifying the impacts of the revised construction schedule on the total project budget and will provide an update to the board once the final portion of the permit is received, and the impact is evaluated.

### **Reclassification of Position Authority**

As part of the 2022–23 budget development process, 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. 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 is currently evaluating additional blanket positions within CalSTRS' workforce performing permanent on-going workload, that require reclassification to a permanent authorized status. CalSTRS staff will provide an update to the board on the current analysis of our existing blanket positions, during the November 2021 meeting.

## **SUMMARY**

The proposed 2022–23 Operating Budget Concepts and Other Budgetary Changes reflect an estimated net increase of \$49.8 million, composed of the following:

### **Proposed 2022–23 Operating Budget Concepts - \$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

### **Other Budgetary Changes - \$17.4 million**

- State Mandates – \$10.0 million
- Multi-Year Internal Investment Management Plan – \$7.8 million
- 403bComply Program – (\$415,000)

As discussed above, the estimated net increase of \$49.8 million includes \$40.2 million for Concepts previously reviewed and approved by the board. This includes \$32.4 million for Property Management Services, Technology Capabilities, and funding to establish 10 new authorized positions to address enterprisewide Workload Management efforts. These Concepts were reviewed and approved by the board in November 2019, as part of the *2020–21 Operating Budget*. In addition, \$7.8 million was previously reviewed and approved for the Multi-Year Internal Investment Management Plan, in November 2020, as part of the *2021–22 Operating Budget*. The remaining \$9.6 million represents new requests associated with nondiscretionary items, which includes adjustments for State Mandates and changes to the 403bComply Program.

The board’s input on the previously reviewed and approved items and new requests, along with refined cost estimates and known information for Additional Budgetary Considerations, will be incorporated into the proposed 2022–23 Operating Budget presented to the board for review and adoption in November 2021.

**APPENDICES**

In addition to the analysis provided above, the following appendices provide supplemental information regarding the proposed 2022–23 Operating Budget Concepts and Other Budgetary Changes.

**APPENDIX 1**

Workload and position scope for the 10 authorized positions presented as part of the 2022–23 Operating Budget Concepts 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

<b>Information Security Office - 4</b>
<b><i>Information Technology Specialist I*</i></b> - 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.
<b><i>Information Technology Specialist I*</i></b> - 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.
<b><i>Information Technology Specialist I*</i></b> - 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.
<b><i>Information Technology Specialist I</i></b> - 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.

<b>Human Resources - 1</b>
<b><i>Associate Personnel Analyst*</i></b> - 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, support the BusinessRenew project, 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 all of the 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 2**

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**

