



## Regular Meeting

### Item Number 16 – Open Session

**Subject:** Proposed 2024–25 Operating Budget Concepts

**Presenter(s):** Julie Underwood and Pritpal Bains

**Item Type:** Information

**Date & Time:** September 14, 2023 – 15 minutes

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**Attachment(s):** None

**PowerPoint(s):** Proposed 2024–25 Operating Budget Concepts

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#### **Item Purpose**<sup>1</sup>

This item presents the proposed 2024–25 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 2024–25 Operating Budget, which will be presented in November 2023, for review and adoption.

#### **Executive Summary**

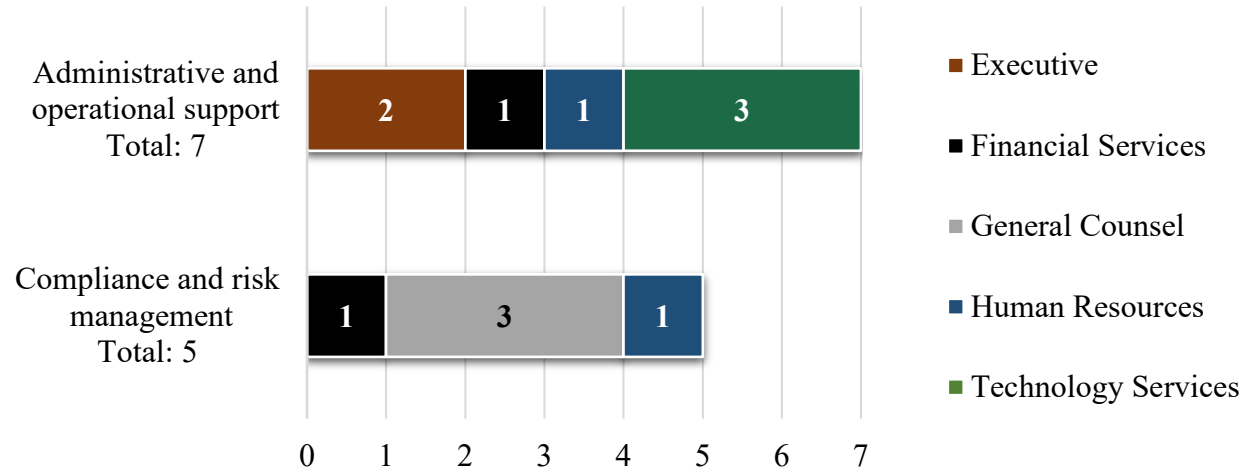
The 2024–25 Budget Concepts and Other Budgetary Changes reflect a total net Operating Budget decrease of \$70.5 million, compared to the 2023–24 Operating Budget. Of this amount,

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

Budget Concepts currently represent an increase of approximately \$1.9 million,<sup>2</sup> and Other Budgetary Changes represent a net decrease of \$72.4 million.

*Budget Concepts* include an increase of \$1.9 million to establish 12 authorized positions for *administrative and operational support* and *compliance and risk management* functions. The following chart displays the total authorized position request by function and business area.



- \$1.1 million for seven positions for *administrative and operational support* functions, dispersed across four business areas (*Executive*–2, *Financial Services*–1, *Human Resources*–1, *Technology Services*–3).
- \$800 thousand for five positions to support *compliance and risk management* functions, dispersed across three business areas (*Financial Services*–1, *General Counsel*–3, *Human Resources*–1).

*Other Budgetary Changes* represent a net decrease of \$72.4 million and is composed of the following:

- \$8.2 million for state mandates, which includes estimated adjustments for employee compensation and the Pro Rata Assessment issued by the Department of Finance.
- \$6.6 million to establish 19 authorized positions previously approved as part of the Multi-Year Internal Investment Management Plan (Investment Management Plan) in support of the CalSTRS Collaborative Model.

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<sup>2</sup> Budget Concepts will be revised based on refined estimates, and will include a request for additional funding to complete the Pension Solution Project. Refer to the *Other Budgetary Considerations* section below for more information.

- (\$87.2) million reduction of one-time Pension Solution Project funding approved in 2023–24 to continue system implementation activities. This adjustment will be revised to include a request for additional funding to complete the Pension Solution Project as part of the 2024–25 Operating Budget, which will be presented at the November 2023 board meeting. Refer to the *Other Budgetary Considerations* section below for more information.

As a result, the preliminary 2024–25 Operating Budget is \$405.2 million, reflecting a 14.8% decrease compared to 2023–24. This includes 1,401 total authorized positions, representing an increase of 31 positions, or approximately 2.3%, relative to 2023–24. This includes funding to establish 12 authorized positions as part of the Budget Concepts referenced above, and 19 authorized positions previously approved as part of the Investment Management Plan.

*2023–24 and 2024–25 Operating Budget overview<sup>3</sup>*  
(dollars in millions)

<b>Budget category</b>	<b>Estimated 2023–24</b>	<b>Preliminary 2024–25</b>	<b>Amount change</b>	<b>Percent change</b>
Total Operating Budget	\$475.7	\$405.2	(\$70.5)	(14.8%)
Authorized positions	1,370	1,401	31	2.3%

**Background**

For the 2024–25 budget cycle, the Administration’s primary budget focus continues to be maintaining a balanced budget that preserves critical state services. With lower projected revenues and increased economic uncertainty, 2024–25 state budget directives are requesting departments to limit new requests that would significantly expand and/or create new ongoing commitments.<sup>4</sup> In recognition of, and in alignment with the state’s objectives, CalSTRS is limiting its resource requests to those that maintain ongoing business operations and achieve strategic plan priorities and annual business plan initiatives.

Remaining fiscally prudent, CalSTRS will continue to evaluate long-term resource needs across the organization. As additional resource needs are identified, they will be presented to the board for review and approval in subsequent budget proposals.

**Proposed 2024–25 Operating Budget Concepts – \$1.9 million**

In support of CalSTRS’ strategic priorities and objectives, fiscal year 2024–25 Budget Concepts include \$1.9 million to establish 12 permanent authorized positions to CalSTRS’ workforce.

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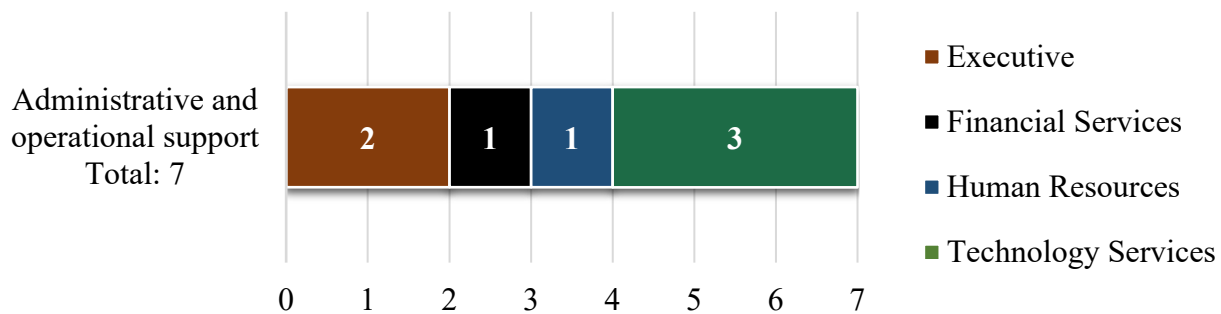
<sup>3</sup> The preliminary 2024–25 Operating Budget will be revised based on refined estimates, and additional funding for the Pension Solution Project. An updated 2024–25 Operating Budget will be presented in November 2023.

<sup>4</sup> Additional details regarding the state’s 2024–25 budget directives are provided in [Budget Letter 23–14](#).

These resources will address workload primarily associated with *administrative and operational support*, and *compliance and risk management* functions across the organization.

**Administrative and operational support – \$1.1 million, 7 positions**

Administrative and operational support plays an integral role in maintaining our core business functions. These seven positions will be dispersed across four business areas (*Executive–2, Financial Services–1, Human Resources–1, Technology Services–3*) to support increased administrative and operational workload demands, as displayed in the following chart.



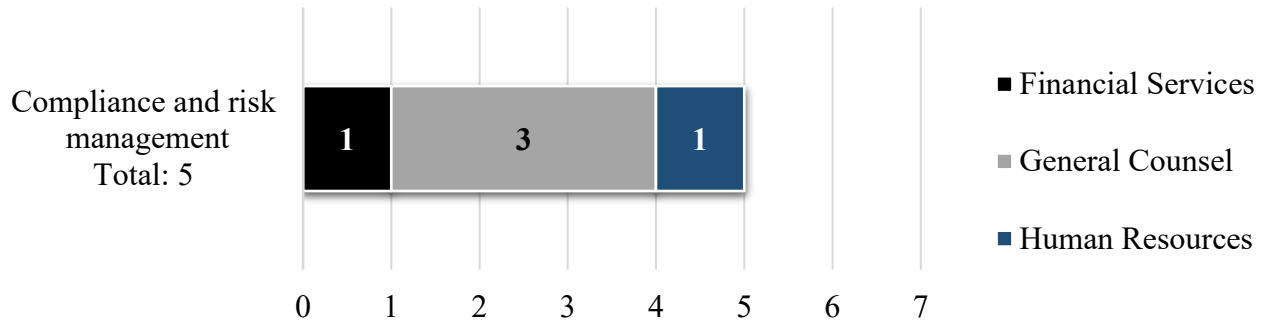
These positions will perform the following key tasks:

- Provide audio and visual support for the headquarters and member service center locations, process IT service, change and incident requests to support critical business applications, and assist with various project management activities.
- Perform various administrative and clerical support activities, including management and coordination of travel, meetings, and trainings.
- Evaluate and enhance enterprisewide performance measurement activities, develop metrics and reporting to monitor organizational health and performance.
- Review member refund applications, process member refund payments, perform various accounting reconciliation and analysis activities, and review, research and respond to member refund inquiries.
- Enhance leadership onboarding and development programs including integration of diversity, equity, and inclusion strategies, collect data, develop reports, and perform best practices research.

**Compliance and risk management – \$800 thousand, 5 positions**

It is vital for CalSTRS to have proper resourcing for securing and maintaining the confidentiality and integrity of data and ensuring the organization adheres to compliance requirements, including laws, regulations, policies, processes, procedures, and administrative directives. To help mitigate information security, operational, financial, legal, and reputational risks to the

organization, five positions are being requested for three business areas (*Financial Services–1, General Counsel–3, Human Resources–1*) as displayed in the following chart.



These positions will perform the following key tasks:

- Manage information security defense and monitoring activities, including audit life-cycle activities, third-party reviews, and oversight of cloud technology environments to ensure compliance with information security laws, regulations, policies, standards, and guidelines.
- Track legal and regulatory requirements, update internal policies and processes, monitor regulatory compliance and risk exposure, test compliance activities, and help with developing risk mitigation plans.
- Administer processing and review of Public Records Act requests, subpoenas, and Form 700 and 600 filings to ensure compliance with laws, regulations, policies, processes, procedures, and directives.
- Conduct confidential investigations for Equal Employment Opportunity and performance-related violations, document and report case investigation activities and findings, and provide recommendations to ensure compliance with laws, regulations, policies, and rules in the workplace.

### **Other Budgetary Changes – (\$72.4 million)**

Other Budgetary Changes represent estimated adjustments for standard nondiscretionary expenditures that occur routinely each year. These reflect a net decrease of \$72.4 million. A summary of each adjustment is provided below.

#### **State Mandates – \$8.2 million**

- *Employee compensation:* Total employee compensation adjustments reflect an estimated increase of \$7.2 million for salaries and benefits, primarily composed of 3.0% for general salary increases, and 5.0% for merit salary adjustments for eligible employees.<sup>5</sup>
- *Pro Rata Assessment:* The assessment is estimated to increase by \$1.0 million, based on a 5-year historical average growth rate of 5.1%. The Pro Rata Assessment represents General Fund recoveries of shared statewide general administrative costs from departments that benefit from shared services.

#### **Investment Management Plan – \$6.6 million, 19 Positions**

- Increase of \$6.6 million to establish 19 authorized positions for the fourth year of scheduled expenditures for the continued implementation of the Investment Management Plan. This was approved as part of the 2021–22 Operating Budget in support of the CalSTRS Collaborative Model.

#### **Pension Solution Project – (\$87.2) million**

There is a reduction of \$87.2 million for one-time Pension Solution Project funding for system implementation activities in fiscal year 2023–24. This one-time funding was approved by the board in March 2023, as part of [\*Item 8 – Pension Solution Project Update and Budget Adjustment\*](#), and by the Department of Finance and the legislature as part of the [\*CalSTRS 2023–24 Budget Change Proposals\*](#). This change is not a reduction to the overall Pension Solution Project budget. This represents a reduction to the 2024–25 Operating Budget baseline for the one-time expenditure in fiscal year 2023–24. This adjustment will be revised to include a request for additional funding to complete the Pension Solution Project, which will be presented at the November 2023 board meeting. Refer to the *Other Budgetary Considerations* section below for more information.

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<sup>5</sup> Employee compensation adjustments are based on the current tentative [\*collective bargaining agreement\*](#) between the SEIU Local 1000 and the State, which is pending ratification. Therefore, employee compensation estimates are subject to change.

### **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. Additional details are provided below.

#### **Pension Solution Project**

CalSTRS is in the process of securing new system implementation and support vendors to complete the Pension Solution Project. Once these vendors are secured, and the associated costs are finalized, CalSTRS will have sufficient information to quantify the full budgetary impacts to complete the project.

A final Pension Solution Project budget, that includes the remaining funding needed to complete the project, will be presented as part of the 2024–25 Operating Budget at the November 2023 board meeting.

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Strategic Plan Linkage: Of the total \$1.9 million Budget Concepts, \$1.2 million and eight positions are for enterprisewide growth. The remaining \$687 thousand, and four positions are directly associated with the [CalSTRS 2022–25 Strategic Plan](#).

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.

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