



Regular Meeting

Item Number 3 – Open Session

Subject: Adoption of Proposed 2023–24 Operating Budget

Presenter(s): Julie Underwood

Item Type: Action

Date & Time: November 2, 2022 – 20 minutes

Attachment(s): Attachment 1 – Proposed 2023–24 Operating Budget Resolution

Attachment 2 – Proposed 2023–24 Operating Budget

PowerPoint(s): None

Item Purpose

This item presents the proposed 2023–24 Operating Budget of \$388.5 million for review and approval. During the September 2022 board meeting, staff presented the preliminary 2023–24 Operating Budget and provided an overview of estimated funding and resources requested for fiscal year 2023–24. This item provides refined cost estimates and includes a summary of total budgetary changes between the revised 2022–23, and the proposed 2023–24 Operating Budget. A detailed presentation of CalSTRS total 2023–24 budget, which includes the proposed 2023–24 Operating Budget, is provided in *Attachment 2*.¹

Recommendation

Staff recommends the board review and approve the proposed 2023–24 Operating Budget of \$388.5 million and 1,370 authorized positions.

Executive Summary

2023–24 Preliminary and Proposed Operating Budget Change

At the September 2022 board meeting, staff presented a preliminary 2023–24 Operating Budget of \$389.6 million. Since the September board meeting, the 2023–24 Operating Budget changed to \$388.5 million, reflecting an overall decrease of \$1.1 million, or (0.3%). The \$1.1 million decrease is due to lower-than-expected expenditures for State Mandates, resulting from a reduction in the Pro Rata Assessment issued by the Department of Finance (DOF) for the cost of providing central

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

administrative services. The following table provides a comparison of the total change between the preliminary and the proposed 2023–24 Operating Budget.

2023–24 Preliminary and Proposed Operating Budget Change

(dollars in millions)

Budget Category	Preliminary 2023–24	Proposed 2023–24	\$ Change	% Change
Total Operating Budget	\$389.6	\$388.5	(\$1.1)	(0.3%)

Proposed 2023–24 Operating Budget

As a result of this update, the proposed 2023–24 Operating Budget is \$388.5 million. This reflects a net decrease of \$1.9 million, or (0.5%), compared to the revised 2022–23 Operating Budget.² The following table provides a summary of CalSTRS’ prior year actuals, the revised 2022–23 and proposed 2023–24 Operating Budgets and highlights the total change by budget category between fiscal years 2022–23 and 2023–24.

Three-Year Overview

(dollars in millions)

Budget Category	Actual 2021–22	Revised 2022–23	Proposed 2023–24	\$ Change	% Change
Salaries	\$142.1	\$169.1	\$180.9	\$11.8	7%
Benefits	70.3	71.3	78.0	6.7	9%
Operating Expenses and Equipment	79.3	150.0	129.6	(20.4)	(14%)
Total Operating Budget	\$291.7	\$390.4	\$388.5	(\$1.9)	(0.5%)

Proposed 2023–24 Operating Budget Changes

The proposed 2023–24 Operating Budget includes \$17.3 million for Enterprisewide Strategic Support resources to advance CalSTRS’ strategic plan goals and initiatives and to support enterprisewide growth. This is fully offset by a net reduction of \$19.2 million for Other Budgetary Changes, largely associated with the reversal of prior year one-time contract costs; partially offset by increases for the third year of implementation of the Multi-Year Internal Investment Management Plan (Investment Management Plan) and nondiscretionary expenditures.

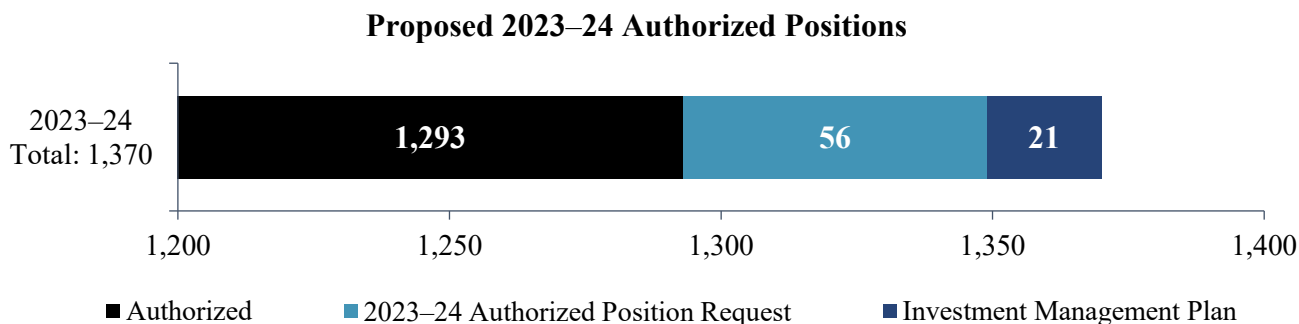
- **Enterprisewide Strategic Support** resources represent an increase of \$17.3 million and is composed of the following:
 - \$8.6 million for Workload Management to establish 56 authorized positions to support *Enhanced Member Services, Compliance and Risk Management, Administrative and Operational Support, and Collaborative Model Investment Administrative Support* functions.

² The 2022–23 Operating Budget was revised in the amount of \$15.9 million to continue system integration activities for the Pension Solution Project. Additional information is provided in the September 2022, Teachers’ Retirement Board [*Item 4 - Pension Solution Project Update and Budget Adjustment*](#).

- \$8.7 million for Technology Service Contracts to support ongoing maintenance and operations and various software enhancements.
- **Other Budgetary Changes** reflect a net decrease of \$19.2 million and is composed of the following:
 - \$9.9 million to establish 21 authorized positions previously approved as part of the Investment Management Plan, in support of CalSTRS Collaborative Model.
 - \$276 thousand for State Mandates, which includes adjustments for employee compensation and the Pro Rata Assessment issued by the DOF.
 - (\$29.4) million for reversal of one-time 2022–23 contract costs for JLL property management services (\$13.5) million and system integration activities for the Pension Solution Project (\$15.9) million.

Proposed 2023–24 Authorized Positions

The proposed 2023–24 Operating Budget includes 1,370 authorized positions, reflecting an increase of 77 positions to CalSTRS’ workforce,³ or approximately 6%, relative to the revised 2022–23 operating budget. This includes 21 authorized positions previously approved as part of the Investment Management Plan.



Additional Budget Authority

Additional budget authority for the proposed 2023–24 Operating Budget is requested as follows:

Teachers’ Retirement Fund Support Appropriation Savings

Pursuant to [Appendix III.1 of the Teachers’ Retirement Board Governance Manual](#), authorize the availability of the annual Teachers’ Retirement Fund (TRF) Support Appropriation savings, up to 3% , or \$10.1 million of the \$336.3 million 2023–24 TRF Support Appropriation, for expenditure two years after the initial 2023–24 appropriation. These savings would be available for unanticipated expenditures, only upon approval by the board. Note: This authority is requested as

³ CalSTRS workforce includes blanket positions, which are not included in the authorized position counts. Blanket positions provide staffing flexibility for urgent, one-time or limited-duration operational needs, are funded within existing appropriation authority and do not require formal authorization by the board, DOF or the Legislature.

part of the Operating Budget each year. Additional information regarding the TRF is provided in the *Additional Budget Authority* section, and in *Appendices 1 and 4 of Attachment 2*.

Teachers' Deferred Compensation Fund Budget Authority

Provide additional budget authority of up to 5%, or \$104.1 thousand over the proposed baseline Teachers' Deferred Compensation Fund (TDCF) budget of \$2.1 million, without further board approval, only as needed for unanticipated expenditures. Note: This authority is requested as part of the Operating Budget each year. Additional information regarding the TDCF is provided in the *Additional Budget Authority* section, and in *Appendices 1 and 4 of Attachment 2*.

Proposed 2023–24 Operating Budget Revision Authority

Authorize the revision of the 2023–24 Operating Budget, without further board approval, for mandatory adjustments required by the Administration. In the event the 2023–24 Operating Budget is revised, staff will inform the board as part of the quarterly budget performance updates, and in subsequent board agenda materials outlining the revisions. Note: This authority will be requested as part of the Operating Budget each year.

Additional Budgetary Considerations

Pension Solution Project

As part of the Pension Solution Project update presented in September 2022, the board approved an increase of \$30 million to the project budget to continue essential activities in 2022–23 on an interim basis. The Pension Solution Project budget was \$304.8 million. This augmentation brings the interim project budget to \$334.8 million. Note: This is an interim project budget adjustment. CalSTRS is currently in the process of quantifying the impacts of a revised project plan on the total project budget. Staff will present an update on the revised project plan and a request for additional funding for the 2023–24 fiscal year to the board during the March 2023 meeting.

Assembly Bill 1667

Assembly Bill 1667 ([*Chapter 754, Statutes of 2022*](#)), was enacted on September 29, 2022. This legislation will protect retirees by ensuring they are not held liable for prior benefit overpayments and is intended to reduce future employer reporting errors by requiring CalSTRS to provide timely, consistent and accurate compensation reporting guidance. In addition, AB 1667 will create a more transparent and accountable audit process that will work for all stakeholders.

Staff is in the process of quantifying the permanent workload impacts and associated resource requirements across the organization for the implementation of AB 1667. CalSTRS will be utilizing existing resources to assist with the initial implementation and will present a request for additional permanent resources, if needed, as part of the 2024–25 budget cycle.

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

Board Policy Linkage: Pursuant to [Appendix III.1 of the Teachers' Retirement Board Governance Manual](#), board members must ensure that only reasonable and necessary expenses are incurred in the governance and management of the system. This is accomplished through the annual Operating Budget, which staff proposes, the board approves, and both monitor on a regular basis. Note: Once the board approves the Operating Budget, adjustments to annual appropriations, which consist of the Teachers' Retirement Fund Support and Information Technology Project Funding (ITPF) appropriations, are presented to the DOF and the Legislature for inclusion in the Budget Act.
