



Regular Meeting

Item number 3 – Open session

Subject: Adoption of Proposed 2025–26 Operating Budget

Presenter(s): Julie Underwood

Item type: Action

Date and time: November 7, 2024 – 15 minutes

Attachment(s): Attachment 1 – Proposed 2025–26 Operating Budget Resolution

Attachment 2 – Proposed 2025–26 Operating Budget

PowerPoint presentation(s): Proposed 2025–26 Operating Budget Overview

Item purpose

This item presents the proposed 2025–26 Operating Budget of \$421.1 million and 1,431 authorized positions for review and approval, including additional budget authority for unanticipated expenditures (as outlined on page 5), which is requested as part of the Operating Budget each year.

During the September 2024 board meeting, staff presented the preliminary 2025–26 Operating Budget and provided an overview of estimated funding and resources requested for fiscal year 2025–26. This item includes an increase in budget authority for the Pro Rata assessment issued by the Department of Finance (DOF) in the amount of \$2 million, which is the only change for 2025–26 since the September meeting. A detailed presentation of CalSTRS' total 2025–26 budget, which includes the proposed 2025–26 Operating Budget, is provided in *Attachment 2*.¹

Recommendation

Staff recommends the board approve the proposed 2025–26 Operating Budget of \$421.1 million and 1,431 authorized positions, including additional budget authority for unanticipated expenditures, as outlined on page 5.

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

Executive Summary

Proposed 2025–26 Operating Budget

The proposed 2025–26 Operating Budget is \$421.1 million. This reflects an overall net decrease of \$187.4 million, or 31%, compared to the revised 2024–25 Operating Budget. The following table provides a summary of CalSTRS’ prior year actuals, the revised 2024–25 and proposed 2025–26 Operating Budgets, and highlights the total change by budget category between fiscal years 2024–25 and 2025–26.

Three-Year Overview

(dollars in millions)

Budget Category	Actual 2023–24	Revised 2024–25²	Proposed 2025–26	\$ Change	% Change
Salaries	\$161.8	\$231.3	\$199.4	(\$31.9)	(14%)
Benefits	79.5	107.8	87.6	(20.2)	(19%)
Operating Expenses and Equipment	169.6	269.4	134.1	(135.3)	(50%)
Total Operating Budget	\$410.9	\$608.5	\$421.1	(\$187.4)	(31%)

Proposed 2025–26 Operating Budget Changes – (\$187.4) million

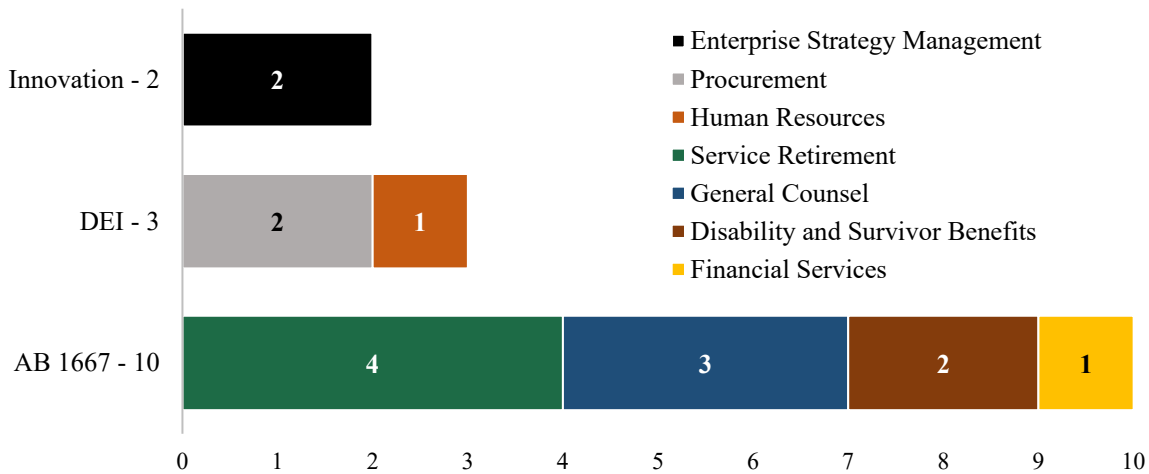
The proposed 2025–26 Operating Budget includes a net decrease of \$187.4 million, composed of \$2.6 million to establish 15 authorized positions, \$3.7 million for information technology (IT) service contracts, and (\$193.7) million for Other Budgetary Changes. Additional detail regarding these changes is provided below.

Authorized Positions – \$2.6 million, 15 positions

This includes \$2.6 million to establish 15 permanently authorized positions, to address workload associated with Assembly Bill (AB) 1667, and enterprisewide strategic plan initiatives, including Diversity, Equity, and Inclusion (DEI), and Innovation efforts. The following chart displays the total authorized position request by function and business area.

² To help mitigate the projected multi-year state budget shortfall, the 2024–25 Operating Budget was revised from \$611.0 million to \$608.5 million, reflecting a permanent reduction of \$2.5 million pursuant to [Budget Letter 24-20](#) and [Budget Letter 24-24](#) issued by the DOF.

2025–26 Authorized Position Request by Business Area



- \$1.8 million for ten positions to address workload associated with AB 1667, dispersed across four business areas. (*Service Retirement–4, General Counsel–3, Disability and Survivor Benefits–2, Financial Services–1*).
- \$500 thousand for three positions to support DEI efforts, dispersed across two business areas. (*Procurement –2, Human Resources –1*)
- \$300 thousand for two positions to support CalSTRS’ innovation efforts in one business area. (*Enterprise Strategy Management – 2*)

IT Service Contracts – \$3.7 million

This includes a request for \$3.7 million for IT service contracts for security software, SAP managed services, and software maintenance & operations (M&O) costs.

- \$1.7 million for security software to further enhance and protect our information security architecture – critical to maintaining core business operations and sustaining the security and integrity of data.
- \$1.2 million for SAP Managed Services contract, which was approved by the Teachers’ Retirement Board on January 10, 2024, to provide essential maintenance and operations support for CalSTRS’ existing SAP solutions.
- \$800 thousand for various software M&O costs. This includes funding for additional network circuits for cloud datacenter accessibility and improve data redundancy, additional Microsoft product support due to increases in application usage, and license fees for new software to access our remote network.

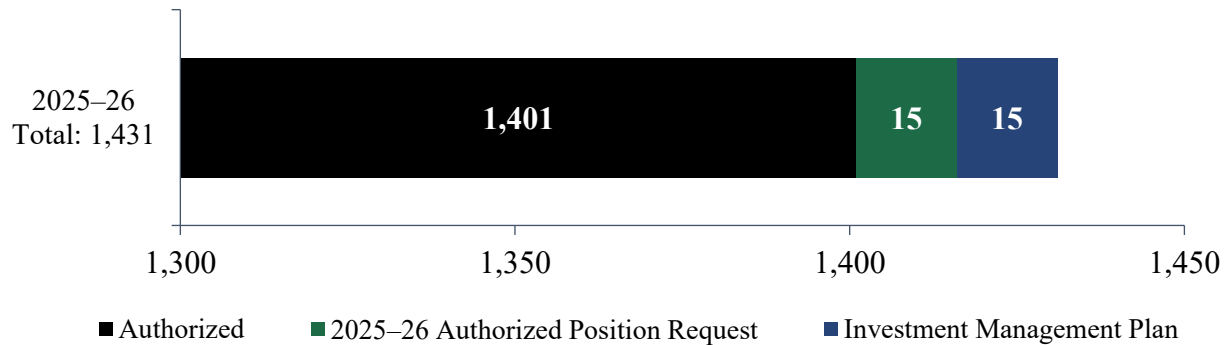
Other Budgetary Changes – (\$193.7) million

Other Budgetary Changes represent estimated adjustments for standard nondiscretionary expenditures that occur routinely each year. These reflect a net decrease of \$193.7 million, composed of administrative expenses, the Multi-Year Internal Investment Management Plan (Investment Management Plan), and the Pension Solution Project.

- \$7.7 million for administrative expenses, which includes adjustments for employee compensation and the Pro Rata assessment issued by the DOF.
- \$4.4 million to establish 15 authorized positions previously approved as part of the Investment Management Plan. This was approved as part of the 2021–22 Operating Budget, in support of the CalSTRS Collaborative Model as part of our cost savings initiative.
- (\$205.8) million for reduction of one-time Pension Solution Project funding approved in 2024–25 to continue system implementation activities and complete the project.

Proposed 2025–26 Authorized Positions

The proposed 2025–26 Operating Budget includes 1,431 authorized positions, reflecting an increase of 30 positions to CalSTRS’ workforce, or 2.1%, relative to the 2024–25 Operating Budget. This includes a request to establish 15 authorized positions as referenced above, and 15 authorized positions previously approved as part of the Investment Management Plan.



Additional Budget Authority

Additional budget authority for the proposed 2025–26 Operating Budget is requested for unanticipated expenditures. This authority is requested as part of the Operating Budget each year.

Teachers’ Retirement Fund Support Appropriation Savings

Pursuant to [Appendix III.1 of the Teachers’ Retirement Board Governance Manual](#), if CalSTRS ends the year with savings in the Teachers’ Retirement Fund (TRF) support appropriation, up to 3% of the Operating Budget can carry over into a future fiscal year. These savings are available for expenditure for two years after the initial year of appropriation, upon board approval, and would be used for unanticipated system costs and to promote better service to the system’s membership. Staff requests the board to authorize the availability of up to 3%, or \$10.9 million of the \$362.5 million 2025–26 TRF support appropriation. Additional information regarding the TRF is provided in *Appendices 1 and 3 of Attachment 2*.

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 to enhance the tax-deferred financial options. CalSTRS is requesting additional budget authority of up to 5%, or \$105.6 thousand over the proposed baseline budget of \$2.1 million, for the expansion of the program and/or unanticipated needs, to the extent the program generates sufficient cash revenues to cover the cost. Additional information regarding the TDCF is provided in *Appendices 1 and 3 of Attachment 2*.

Proposed 2025–26 Operating Budget Revision Authority

If the 2025–26 Operating Budget requires revision for required adjustments to statewide administrative expenditures, or as required by the Administration, staff is requesting authorization to revise the 2025–26 Operating Budget for such adjustments. Since these revisions would be required, staff is seeking the board’s authorization to adjust the Operating Budget without further board action. In the event the 2025–26 Operating Budget is revised, staff will inform the board outlining the revisions.

Strategic Plan linkage:

- Goal 1, Objective D – Grow strategic relationships with policymakers, stakeholders and partner organizations.
- Goal 2, Objective B – Grow capabilities and culture to support a strategic and innovative mindset.
- Goal 3, Objective A – Shape a resilient, sustainable, blended workforce that reflects fully integrated diversity, equity, and inclusion practices.

- Goal 3, Objective D – Strengthen preparedness capabilities to address change and disruptions.

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. Note: Once the board approves the Operating Budget, adjustments to annual appropriations, which consists of the Teachers' Retirement Fund Support and Information Technology Project Funding appropriations, are presented to the Department of Finance and the Legislature for inclusion in the Budget Act.