



## Regular Meeting

### Item number 13 – Open session

**Subject:** Proposed 2025–26 Operating Budget Concepts

**Presenter(s):** Julie Underwood

**Item type:** Information

**Date and time:** September 26, 2024– 20 minutes

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**Attachment(s):** None

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

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

This item presents the proposed 2025–26 Operating Budget Concepts (Budget Concepts), Other Budgetary Changes, and Other Budgetary Considerations for review and discussion. Budget Concepts represent new funding requests for strategic plan priorities and ongoing operational needs. Other Budgetary Changes represent routine annual adjustments for nondiscretionary expenditures. Other 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 2025–26 Operating Budget, which will be presented in November 2024, for review and adoption.

#### **Background**

With projected state budget shortfalls in both 2024–25 and 2025–26, the Administration’s primary budget focus is to develop and maintain a long-term fiscally responsible budget that preserves critical state services, while making state government more efficient. To help mitigate the multiyear budget shortfalls, the 2025–26 state budget policy letter issued by the Department of Finance (DOF) directs departments to limit new requests that would significantly expand and/or create new ongoing commitments that could further impact the state’s fiscal outlook.<sup>2</sup>

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

<sup>2</sup> Additional detail regarding the state’s 2025–26 budget policy letter is provided in [Budget Letter 24-21](#).

The state’s projected budget shortfall and ongoing economic uncertainty emphasize the need for CalSTRS to continue exercising fiscal prudence in our financial and budgetary planning practices. In recognition of, and in alignment with the Administration’s objectives, CalSTRS is limiting its resource requests for the 2025–26 fiscal year, to those that maintain ongoing business operations and support our strategic plan and annual business plan priorities that are currently underway.

While 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.

### **2025–26 Budget Highlights**

The 2025–26 Budget Concepts and Other Budgetary Changes reflect a total net Operating Budget decrease of \$189.4 million, compared to the 2024–25 Operating Budget. Of this amount, Budget Concepts currently represent an increase of approximately \$6.3 million, and Other Budgetary Changes represent a net decrease of \$195.7 million.

*Budget Concepts* represent an increase of \$6.3 million and is composed of the following:

- \$2.6 million to establish 15 permanently authorized positions to support workload associated with [\*Assembly Bill 1667\*](#) (AB 1667), and enterprisewide strategic plan initiatives, including Diversity, Equity, and Inclusion (DEI) and Innovation efforts.
- \$3.7 million for information technology (IT) service contracts, which includes permanent funding for security software, SAP managed services, and software maintenance & operations (M&O) costs.

*Other Budgetary Changes* represent a net decrease of \$195.7 million and is composed of the following:

- \$5.7 million increase for state mandates, which includes estimated adjustments for employee compensation and the Pro Rata Assessment issued by DOF.
- \$4.4 million increase to establish 15 authorized positions previously approved as part of the Multi-Year Internal Investment Management Plan in support of the CalSTRS Collaborative Model.
- (\$205.8) million reduction of one-time Pension Solution Project funding approved in 2024–25 to continue system implementation activities and complete the project.

As a result, the preliminary 2025–26 Operating Budget is \$421.6 million, reflecting a 31.0% net decrease compared to 2024–25. This includes 1,431 total authorized positions, representing an increase of 30 positions, or approximately 2.1%, relative to 2024–25. This includes funding to establish 15 authorized positions as part of the Budget Concepts referenced above, and 15

authorized positions previously approved as part of the Multi-Year Internal Investment Management Plan, in support of the CalSTRS Collaborative Model.

*2024–25 and 2025–26 Operating Budget Overview  
 (dollars in millions)*

Budget category	Estimated 2024–25 <sup>3</sup>	Preliminary 2025–26	Amount change	Percent change
Total Operating Budget	\$611.0	\$421.6	(\$189.4)	(31.0%)
Authorized positions	1,401	1,431	30	2.1%

**Proposed 2025–26 Budget Concepts - \$6.3 million**

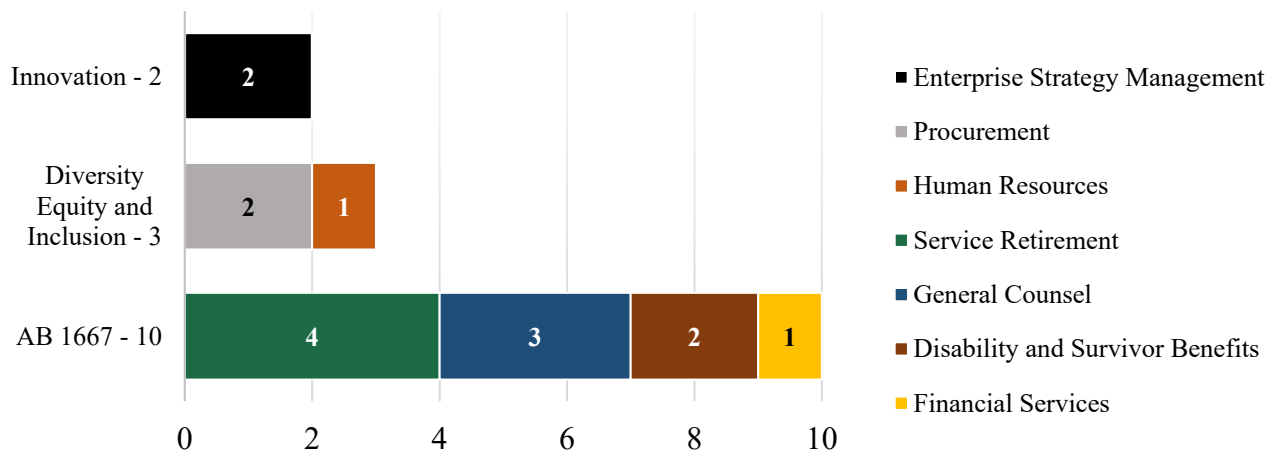
Budget Concepts represent new funding requests for strategic plan priorities and ongoing operational needs. These reflect an increase of \$6.3 million. A summary of each proposal is provided below.

**Authorized Positions – \$2.6 million, 15 positions**

This proposal includes \$2.6 million to establish 15<sup>4</sup> permanently authorized positions dispersed across seven business areas. These resources will support workload associated with AB 1667, and enterprisewide strategic plan initiatives, including DEI and Innovation efforts.

The following chart displays the total authorized position request by business area:

*2025–26 Authorized Position Request by Business Area*



<sup>3</sup> The 2024–25 Operating Budget will be revised based on pending efficiency reductions pursuant to [Budget Letter 24-20](#) and [Budget Letter 24-24](#) issued by the DOF. A revised 2024–25 Operating Budget will be presented in November 2024. Additional detail regarding the efficiency reductions is provided in the *Other Budgetary Considerations* section.

<sup>4</sup> This proposal will provide funding and position authority for 14 of the 15 positions that are currently funded through temporary savings.

*Assembly Bill 1667 – \$1.8 million, 10 Positions*

This proposal includes \$1.8 million to establish 10 permanently authorized positions to address workload associated with AB 1667. AB 1667 provides relief prospectively for CalSTRS' retirees affected by benefit overpayments resulting from errors that were not their own. AB 1667 is intended to improve reporting and reduce future errors by providing additional resources to clarify creditable compensation and creditable service requirements. Key tasks include but are not limited to:

- Researching, reviewing and analyzing member benefit overpayments; preparing formal decision letters; and processing reissue payments.
- Preparing documentation for overpayment liability; recommending resolutions for payment discrepancies; and providing status updates with members.
- Ensuring compliance with applicable laws, rules and regulations.
- Performing billing and collection processes to recover benefit overpayments from employers and the General Fund.
- Conducting legal research and analyses; drafting advisory opinions and other legal documents; and representing CalSTRS in administrative hearings.

*Diversity, Equity, and Inclusion – \$500,000, 3 positions*

This proposal includes \$500 thousand to establish three permanently authorized positions. Two positions will address workload associated with [Executive Order N-16-22](#), [Assembly Bill 2019](#), [Senate Bill 588](#). Collectively, these bills require additional outreach efforts to advance economic equity in state procurement processes. One position will lead enterprisewide DEI efforts in alignment with CalSTRS' strategic plan. Key tasks include, but are not limited to:

- Plan and organize procurement outreach efforts to certified women, disabled veterans, minorities, and LGBTQ community owned businesses.
- Manage CalSTRS enterprisewide DEI program, including development and maintenance of DEI policy; foster integration of DEI principles and practices; and establish measures of success throughout the organization.
- Develop key performance indicators in partnership with business stakeholders across the organization to monitor and track progress of DEI initiatives.

*Innovation – \$300,000, 2 positions*

This proposal includes \$300 thousand to establish two permanently authorized positions pursuant to CalSTRS' strategic plan priority to lead innovation and manage change, and in alignment with [Executive Order N-12-23](#) to responsibly employ GenAI within state government. Key tasks include, but are not limited to:

- Assist with managing innovation and AI projects through monitoring and reporting progress; develop project plans and timelines; collect, organize, and analyze data related to

innovation activities; establish and monitor performance metrics; and assist with the establishment of an AI framework.

- Conduct assessments on current innovation capabilities and identify strategies for improvement; assist in development of enterprisewide innovation culture exercises and training; facilitate workshops; and communicate with stakeholders.

### **IT Service Contracts – \$3.7 million**

This proposal also includes \$3.7 million for IT service contracts for security software, SAP managed services, and software M&O costs. Additional details are provided below.

#### *Security Software – \$1.7 million*

Consistent with CalSTRS’ strategic plan to strengthen preparedness capabilities to address change and disruptions, this proposal includes \$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. This software will unify security services under a single technology platform to strengthen our information security posture in both the cloud and hybrid work environments, provide advanced cybersecurity, and enhance data privacy and email security.

#### *SAP Managed Services – \$1.2 million<sup>5</sup>*

This proposal includes \$1.2 million for the SAP Managed Services contract, which was approved by the Teachers’ Retirement Board on January 10, 2024. Services include essential maintenance and operations support for CalSTRS’ existing SAP solutions, including BusinessDirect, Concur, and HRLink systems. The BusinessDirect system relies primarily on SAP technology and incorporates the functionality essential to maintain CalSTRS’ financial and management needs at the highest level of integrity and efficiency. BusinessDirect provides CalSTRS with one comprehensive system for the tracking and reporting of critical activities as diverse as budgeting, procurement, asset management, contract processing, business partner relationship management, accounts payable, accounts receivable, investment accounting, tax and financial reporting. SAP Concur is CalSTRS’ travel and expense management system, and HR Link is an all-inclusive system for Human Resources processes that utilizes SAP SuccessFactors modules.

#### *Software M&O – \$800 thousand*

This proposal includes \$800 thousand for various software M&O costs. This includes funding for additional network circuits for cloud datacenter accessibility and improve data redundancy,

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<sup>5</sup> Additional information is provided in the January 2024 Teachers’ Retirement Board Item [#16d Contracts Requiring Board Approval](#).

additional Microsoft product support due to increases in application usage, and license fees for new software to access our remote network.

### **Other Budgetary Changes – (\$195.7) million**

Other Budgetary Changes represent estimated adjustments for standard nondiscretionary expenditures that occur routinely each year. These reflect a net decrease of \$195.7 million. A summary of each adjustment is provided below.

#### **State Mandates – \$5.7 million**

- *Employee Compensation:* Total employee compensation adjustments reflect an estimated increase of \$4.7 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>6</sup>
- *Pro Rata Assessment:* The assessment is estimated to increase by \$1.0 million, based on a 5-year historical average growth rate of approximately 9.3%. The Pro Rata Assessment represents General Fund recoveries of shared statewide general administrative costs from departments that benefit from shared services. DOF will send the final assessment in the fall. Accordingly, a revised estimate will be presented as part of the proposed 2025–26 Operating Budget in November.

#### **Internal Investment Management Plan – \$4.4 million, 15 Positions**

- Increase of \$4.4 million to establish 15 authorized positions for the fifth year of scheduled expenditures for the continued implementation of the Internal Investment Management Plan. The Internal Investment Management Plan was approved as part of the 2021–22 Operating Budget in support of the CalSTRS Collaborative Model, which is our investment cost savings initiative.<sup>7</sup>

#### **Pension Solution Project – (\$205.8) million**

There is a reduction of \$205.8 million for one-time budget authority approved in fiscal year 2023–24 to complete the project. This one-time funding was approved by the board in November 2023, as part of [Item 9 – Adoption of the proposed 2024-25 Operating Budget](#). This change is not a reduction to the overall Pension Solution Project budget. This represents a reduction to the 2025–26 Operating Budget baseline for the one-time expenditure in fiscal year 2024–25.

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<sup>6</sup> Employee compensation adjustments are based on the current [collective bargaining agreement](#) between the SEIU Local 1000 and the state.

<sup>7</sup> Additional detail is provided in [CalSTRS 2020 and 2021-22 Biennial Budget](#) report.

## **Other Budgetary Considerations**

Other Budgetary Considerations provide supplemental information on items currently under review that may impact CalSTRS' budget. Additional details are provided below.

### **2024–25 Operating Budget Revisions**

Staff is working with the DOF to quantify the fiscal impacts of [Budget Letter 24-20](#) and [Budget Letter 24-24, which may](#) impact CalSTRS' 2024–25 Operating Budget. Any revisions to the 2024–25 Operating Budget will be reflected in the 2024–25 revised Operating Budget that will be included as part of the proposed 2025–26 Operating Budget presented to the board for adoption in November 2024.

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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.

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