

# Teacher Retirement System of Texas



## Budget Committee

### FY15 Budget & FY16-17 Legislative Appropriations Request

July 2014



**TEACHER RETIREMENT SYSTEM OF TEXAS MEETING  
BOARD OF TRUSTEES  
AND  
BUDGET COMMITTEE**

*(Ms. Sissney, Committee Chair; Mr. Barth; Ms. Charleston; Mr. Moss; & Ms. Ramirez,  
Committee Members)*

**AGENDA**

**July 11, 2014 – 9:00 a.m.  
TRS East Building, 5<sup>th</sup> Floor, Boardroom**

1. Consider the approval of the June 5, 2014 committee meeting minutes – Nanette Sissney.
2. Discuss and consider recommending to the Board adoption of – Don Green:
  - A. The proposed fiscal year 2015 pension trust fund administrative operations budget, general provisions, and resolution authorizing transfer of pension trust funds to the TRS expense account to cover the expenses approved under the fiscal year 2015 budget, including an authorization to carry forward to from fiscal year 2014 to fiscal year 2015 authorized but unexpended TEAM Program balances.
  - B. The proposed fiscal year 2015 administrative operations budgets and general provisions for the TRS health benefits funds (retired and active plans), including the optional long-term care insurance program.
  - C. The proposed fiscal year 2015 administrative operations budget and general provisions for the 403(b) company certification and investment product registration program.
3. Discuss development of the Legislative Appropriations Request for the 2016-2017 Biennium – Don Green.

NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or act upon any item before the Budget Committee (Committee) at this meeting of the Committee. This meeting is not a regular meeting of the Board. However, because a quorum of the Board may attend the Committee meeting, the meeting of the Committee is also being posted as a meeting of the Board out of an abundance of caution.

## Minutes of the Budget Committee

June 5, 2014

The Budget Committee of the Board of Trustees of the Teacher Retirement System of Texas (TRS) met on Thursday, June 5, 2014, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas 78701. The following committee members were present:

Nanette Sissney, Chair  
Todd Barth  
Karen Charleston  
Christopher Moss

Others present:

Joe Colonna, TRS Trustee  
David Corpus, TRS Trustee  
David Kelly, TRS Trustee  
Anita Palmer, TRS Trustee  
Brian Guthrie, TRS  
Ken Welch, TRS  
Don Green, TRS  
Carolina de Onis, TRS  
Britt Harris, TRS  
Howard Goldman, TRS  
Jerry Albright, TRS  
Janet Bray, TRS  
Betsey Jones, TRS  
Marianne Woods Wiley, TRS  
Mohan Balachandran, TRS  
Chi Chai, TRS  
Sylvia Bell, TRS  
Jase Auby, TRS  
Kristi Vorce, TRS  
Eric Lang, TRS  
Shayne McGuire, TRS  
James Nield, TRS

Christine Bailey, TRS  
Mary Chang, TRS  
Hugh Ohn, TRS  
Mike Debbs, TRS  
Janie Duarte, TRS  
Dan Junell, TRS  
Dennis Gold, TRS  
Lynn Lau, TRS  
Jamie Michels, TRS  
Jim Pinkard, TRS  
Rhonda Price, TRS  
Bob Jordan, TRS  
Beckie Smith, TRS  
Susan Wade, TRS  
Steve Huff, Reinhart Boerner Van Deuren s.c.  
Dr. Keith Brown  
Brady O'Connell, Hewitt EnnisKnupp  
Steve Voss, Hewitt EnnisKnupp  
Ann Fickel, Texas Classroom Teachers Association  
Philip Mullins, TRS  
Tom Rogers, Texas Retired Teachers Association & Austin Retired Teachers Association

With a quorum of the committee present, the meeting convened at 12:00 p.m.

### **1. Consider the approval of the June 14, 2013 committee meeting minutes.**

On a motion by Mr. Moss, seconded by Mr. Barth, the committee unanimously approved the minutes of the June 14, 2013 committee meeting.

### **2. Discuss and consider recommending to the Board an increase in the current fiscal year budget to provide funding for professional services related to TRS-ActiveCare – Don Green.**

The committee discussed with staff the proposed increase of \$630,000 in the fiscal year 2014 administrative operations budget for TRS-ActiveCare to provide additional funding for professional services. Mr. Green explained that the additional funding was needed to cover expenditures that were higher than expected for professional services furnished in connection with the following:

- the procurements to select and engage the plan administrator and pharmacy benefit manager for TRS-ActiveCare;

- the study of compound drugs;
- the TRS-ActiveCare HMO procurement; and
- the sustainability study for the health benefit programs.

Ms. Sissney and Mr. Huff clarified for Mr. Kelly that the additional monies would come from the TRS-ActiveCare fund and not from the pension fund.

On a motion by Mr. Moss, seconded by Mr. Barth, the committee unanimously recommended that the board adopt the proposed resolution increasing the current fiscal year administrative operations budget for TRS-ActiveCare to provide an additional \$630,000 in funding for professional services related to TRS-ActiveCare.

**3. Discuss a change in the current fiscal year source of funding for external legal fees related to investment deals – Carolina de Onís and Don Green.**

Ms. de Onís and Mr. Green presented the new process for paying external investment counsel. Ms. de Onís clarified that staff was not asking the committee or board to approve increased funding for those counsel. Rather, she said, staff was presenting a different way of paying and accounting for such legal expenses.

Ms. de Onís provided background on the old process, which involved paying external investment counsel from the administrative operations budget of the Legal Services Department. She explained that it was too difficult to estimate volatile external legal costs up to two years before they were incurred because of the uncertainty involved in projecting the number and complexity of future investment deals for which related legal services would be needed.

Ms. de Onís said that with the new approach counsel's fees would be included with other transactional costs associated with an investment deal. She and Mr. Albright noted that, for reporting purposes, those costs would be attributed to the profit center in the Investment Management Division that was responsible for the deal. Along with Mr. Green, they said that tying legal expenses to other costs associated with a deal would help better determine its value. Ms. de Onís added that most investment banks used this approach.

Ms. de Onís said that the new process provides the following benefits:

- more accurate portfolio return data and incentive compensation calculations;
- incentives for portfolio managers to optimize legal expenditures;
- eliminates artificial constraints like a shortfall in the legal department's operating budget that could interfere with the exercise of TRS' fiduciary duties in making investment decisions;
- increased flexibility to better allocate legal budget dollars on behalf of TRS; and
- increased transparency of legal expenditures on investment transactions.

Mr. Green described the old process requiring TRS to obtain approval from the Office of the Attorney General to pay external legal fees and authorize the State Comptroller of Public Accounts to actually pay them. Under the new process, he explained, the Attorney General's Office would still approve payments. However, TRS' custodial bank, State Street Bank and Trust Company, and not the comptroller, would send the approved payments to the external firms after completion of a verification process. Ms. de Onís noted that neither the attorney general's office nor the comptroller had any issues with the new process. Mr. Guthrie added that TRS' Internal Audit Department also liked the change.

Ms. Sissney and Mr. Kelly asked staff to provide additional types of reporting on the amounts being paid external investment counsel under the new process so the committee and board could better track and assess those expenses.

**4. Receive historical financial data for fiscal years 2010-2014 and receive overview of proposed administrative operations budgets and general provisions for fiscal year 2015 – Don Green.**

Mr. Green presented some financial background as a prelude to the committee's and board's consideration of the fiscal year 2015 administrative operations budgets at the July 2014 meeting, including the following data:

- legislative caps on full-time employees (FTEs);
- TRS membership growth;
- additions to and deductions from the pension trust fund;
- pension fund balances;
- benefit processing numbers and administrative costs per member; and
- major funding components of the administrative operations budgets, that is, the pension trust fund, soft dollars, and health benefits funds.

Mr. Green recapped the administrative budgets for fiscal year 2014 by division and operating expense category. He said that most of the costs came from wages, benefits, and salaries, as it does with every state agency and most other entities. He noted that appropriations for TRS' administrative budget had remained flat since fiscal year 2012. He laid out preliminary budget recommendations for fiscal year 2015. He said that the proposed budget was about \$1.3 million less than that for fiscal year 2014. He explained that the fiscal year 2015 figures did not take into account any proposed compensation initiatives for Investment Management Division (IMD) staff or other employees. He discussed ways to fund the additional FTEs and compensation for IMD in fiscal year 2015. He addressed other expenditures and budget matters involving IMD, including FTEs and rent for its offices.

Mr. Guthrie added that part of the short-term equity adjustment for IMD staff could be undertaken by the end of the current fiscal year. He discussed options for funding the equity adjustment for IMD in the short-term, including using lapsed salaries of departed employees and

reprioritizing the soft dollar budget. He said the additional FTEs for IMD could be addressed in the fiscal year 2015 budget. The long-term IMD compensation initiative for fiscal year 2016 and fiscal year 2017, he explained, could be addressed in TRS' Legislative Appropriations Request for the next biennium. Responding to Ms. Sissney's questions, Mr. Guthrie provided further information about the proposal to reprioritize the soft dollar budget to help fund IMD compensation adjustments.

Mr. Green reviewed the appropriated and budgeted amounts for the TEAM program. He discussed the general provisions concerning the health benefit programs, including those related to budget execution authority. Mr. Green presented the salary growth rates assumed for public and higher education as they related to the proposed budgets, especially for the health benefits programs. He also reviewed the schedule of events related to the proposed administrative operations budgets for fiscal year 2015, including consideration of those budgets by the committee and board at the July meeting.

**5. Discuss development of TRS' Legislative Appropriations Request (LAR) for the 2016-2017 biennium – Don Green.**

Mr. Green reviewed the production and delivery schedule of the TRS' Legislative Appropriations Request (LAR) for the next biennium. He discussed issues related to the funding and long-term sustainability of TRS-Care and TRS-ActiveCare. He presented historical information on past requests and appropriations for the health benefits programs and TEAM. Responding to questions and comments from trustees, he discussed funding for compensation and facilities as they related to the LAR.

The meeting adjourned at 1:05 p.m.

# **FY2015 Request Administrative Operations**

## **FY 2015 Operating Budget Key Points**

The total operating budget requested for FY2015 across all funds lives within existing legislative authority and is relatively the same year over year. The total request is \$155.9 million, an increase of \$1,215,756 (or 0.79%) over FY2014. Based on strategic planning and shifting demands, funding has been reprioritized to emphasize the following:

- \$2.2 million is recommended for IMD based on external survey data in order to abide by the Board's desire to allow for compensation to be within the top quarter of public funds and the bottom quarter of private industry participants.
- Upon approval, the IMD amounts will be funded in FY2015 through a combination of a one-time shift to soft dollar revenue, a reduction in the travel budget, and assumed salary lapse. The amounts shifted to soft dollar revenue along with the reduction in travel in FY2015 will be restored to hard dollar funding going forward.
- \$500,000 is recommended to provide equity based salary adjustments in the Legal Department.
- \$101,000 is recommended to move non-IMD employees to the minimum salary for the appropriate salary group (i.e. the red zone).
- The total TEAM request will consist of the \$19.2 million, representing the remaining legislative authority for the current biennium, plus any unexpended administrative operations dollars that can be encumbered as additional capital authority as authorized by the GAA.

## SUMMARY OF FY2015 OPERATING BUDGET

	PENSION TRUST FUND			HEALTH BENEFITS FUNDS		403(b) Certification Program	TOTAL
	Administrative Operations	TEAM	Investment Soft Dollar	TRS-Care (Retired Plan)	TRS-ActiveCare (Active Plan)		
<b>REVENUES AND OTHER SOURCES</b>							
Legislative Appropriations - Administrative Operations	\$ 65,518,258						\$ 65,518,258
Appropriation Balance Available for FY 2015 - TEAM*		\$ 19,180,175					19,180,175
Unexpended Balance from FY2014	3,247,592						3,247,592
Legislative Pay Raises	1,424,241						1,424,241
Fringe Benefits Paid by the Pension Fund**	13,412,097						13,412,097
Performance Incentive Compensation Rider	11,200,000						11,200,000
Soft Dollar Resources			\$ 33,085,494				33,085,494
Reserved for Administrative Expenses				\$ 4,575,407	\$ 3,350,198	\$ 207,528	8,133,133
<b>TOTAL REVENUES AND OTHER SOURCES</b>	<b>\$ 94,802,188</b>	<b>\$ 19,180,175</b>	<b>\$ 33,085,494</b>	<b>\$ 4,575,407</b>	<b>\$ 3,350,198</b>	<b>\$ 207,528</b>	<b>\$ 155,200,990</b>
<b>OPERATING AND CAPITAL EXPENSES</b>							
Salaries and Other Personnel Costs	\$ 59,537,181	\$ 3,979,947		\$ 3,142,979	\$ 1,620,541	\$ 207,528	\$ 68,488,176
Professional Fees and Services	1,848,900	13,211,526	\$ 6,109,900	1,062,000	1,615,750		23,848,076
Consumable Supplies	534,560	15,000		6,000	3,000		558,560
Utilities	1,135,264	-		6,000	1,500		1,142,764
Travel	1,190,128	30,000		18,500	8,950		1,247,578
Rentals	2,393,893	-	275,000	100,158	75,557		2,844,608
Other Operating Expenses	11,432,467	1,688,702	26,700,594	239,770	24,900		40,086,433
Capital Expenses	5,529,795	255,000					5,784,795
<b>TOTAL OPERATING AND CAPITAL EXPENSES</b>	<b>\$ 83,602,188</b>	<b>\$ 19,180,175</b>	<b>\$ 33,085,494</b>	<b>\$ 4,575,407</b>	<b>\$ 3,350,198</b>	<b>\$ 207,528</b>	<b>\$ 144,000,990</b>
Performance Incentive Compensation	\$ 11,200,000						\$ 11,200,000
<b>TOTAL OPERATING AND CAPITAL EXPENSES INCLUDING PERFORMANCE INCENTIVE COMPENSATION</b>	<b>\$ 94,802,188</b>	<b>\$ 19,180,175</b>	<b>\$ 33,085,494</b>	<b>\$ 4,575,407</b>	<b>\$ 3,350,198</b>	<b>\$ 207,528</b>	<b>\$ 155,200,990</b>
Percentage Increase/(Decrease) from FY 2014 Budget	1.26%	-10.43%	0.00%	13.17%	8.66%	210.91%	-0.07%

\* Legislative appropriations for the biennium are \$34.6 million.

\*\* Includes estimated Employer Retirement Contributions, Employer FICA Contributions, Employer Health Insurance Contributions, and Benefit Replacement Pay.

**Resolution**  
**Authorizing Expenditure and Transfer of Trust Funds**  
**For Pension Trust Fund Administrative Operations**

**July 11, 2014**

**Whereas**, Section 825.312 of the Government Code provides that the retirement system shall pay from the expense account of the retirement system account for the pension trust fund all administrative expenses of the retirement system that are required to perform the fiduciary duties of the board;

**Whereas**, Section 825.313(d) of the Government Code provides that the TRS Board of Trustees (board) may authorize transferring from the interest account to the expense account of the retirement system an amount necessary to cover TRS' operating expenses for the fiscal year that are required to perform the fiduciary duties of the board;

**Whereas**, the General Provisions for the TRS Fiscal Year 2014 Budget adopted by the Board on June 13, 2013 authorizes the transfer of up to 12.5% of budgeted funds of an expense category between major expense categories so long as the total approved budget for operating expenses and capital outlay is not exceeded and the Executive Director in accordance with the General Provisions has authorized the transfer of Fiscal Year 2014 budgeted but unexpended funds from non-capital major expense categories in amounts less than 12.5% of each category into the TEAM Program capital expense category;

**Whereas**, Section 14.03(h) of Article IX of the General Appropriations Act for the 2014-2015 Biennium authorizes the transfer of appropriated but unexpended non-capital budget funds to capital budget funds and Section 14.03(i) of Article IX of the General Appropriations Act for the 2014-2015 Biennium provides that appropriated but unexpended capital budget funds from Fiscal Year 2014 are reappropriated and carried forward for Fiscal Year 2015; now, therefore be it

**Resolved**, That the board finds the expenditure of pension trust funds for operating expenses in Fiscal Year 2015 is required to perform the fiduciary duties of the board in administering the retirement system in the amount of \$103,482,363, as approved today in the Fiscal Year 2015 Budget and General Provisions for the Pension Trust Fund Administrative Operations, plus such additional amounts as may be necessary for the following expenditures:

- To pay the actual amount of performance incentive compensation payable in Fiscal Year 2015, if any; and
- To pay expenses incurred for the TEAM Program in Fiscal Year 2015 any unexpended TEAM Program capital budget funds that have been reappropriated in accordance with Section 14.03(i) of Article IX of the General Appropriations Act for the 2014-2015 ; and
- To achieve recovery of operational capabilities in the event of a catastrophic occurrence as contemplated by such General Provisions adopted by the board; and

***Resolved,*** That the staff is authorized to transfer from the interest account to the expense account an amount necessary to cover the expenses of the retirement system under the approved budget for Fiscal Year 2015, but not to exceed the amount of \$103,482,363 plus, any additional amounts necessary to pay performance incentive compensation payable in Fiscal Year 2015, any amounts carried forward as necessary for the TEAM Program as mentioned above and, as applicable, to achieve recovery of operational capabilities in the event of a catastrophic occurrence as contemplated by the General Provisions adopted by the board.

**FY2016 & FY2017  
Legislative Appropriations  
Request**

## 2016-2017 Legislative Appropriations Request (LAR)

The LAR instructions and policy letter were issued on June 23, 2014, generally requiring an agency's baseline request for General Revenue Funds and General Revenue-Dedicated Funds not to exceed the sum of amounts expended in fiscal year 2014 and budgeted in fiscal year 2015.

The LAR policy letter requires agencies to submit a supplemental schedule detailing a 10 percent reduction in General Revenue and General Revenue Dedicated funds. Exempt from the reduction are state contributions for pension and group benefits. The administrative operations funding for TRS is unaffected by this requirement. ***Submission of the LAR is the first step in a lengthy state budget process that will conclude at the end of next legislative session.***

### Pension Trust Fund

- Funding for pension fund state matching is predominately general revenue and general revenue dedicated. Historically we request funding based on our expectations of the growth in the covered salary amount for each sector of education.
- The pension fund salary growth assumptions are 2% for public education and 4% for higher education, as discussed during the June Board meeting. TRS will continue to assume a 6.8% statutory state matching contribution rate.

### Retired Plan (TRS Care)

- The state portion of TRS Care expenditures are entirely funded from general revenue. Historically we request funding based on our expectations of growth in the covered salary for public education. The salary growth assumptions are 2% as discussed during the June Board meeting.
- TRS' request for TRS-Care is twofold: the statutorily required 1% of payroll (estimated at \$300 million) plus an exceptional item for **\$874.8 million** to sustain the program through the end of FY2017. The LAR is always submitted based on current law and cannot assume statutory changes. The administrator's statement will reference that a study is being conducted that could lead to policy recommendations potentially affecting the requested amount.

## 2016-2017 Legislative Appropriations Request (LAR) – Cont'd

### Administrative Operations

#### Additional Staff Resources

- A total of 46 additional FTEs were requested enterprise wide which was reduced to the recommended 32 FTEs for an additional annual total of **\$2.5 million** requested to effectively carry out benefit and investment administration while maintaining current service levels.
- Primary workload drivers include legislation, increased retirements, reduced reliance on outsourcing, and the implementation of the TEAM program:
  - 15 FTEs for Investment Management Division
  - 11 FTEs for TEAM (7 for information technology, 4 in benefit accounting)
  - 2 FTEs for Legal Services (investment attorneys)
  - 2 FTEs for Information Technology (Non-TEAM)
  - 2 FTEs for staff recruitment and performance assessments

#### Sustainability of FY15 Implemented Policy

- **\$2.8 million** annually is requested for enterprise-wide equity adjustments including IMD (\$2.2 million), legal staff (\$500,000), and equity adjustments for Red River staff in the red zone (\$101,000).
- An additional **\$1.9 million** annually is requested to fund continued IMD equity adjustments (\$1.1 million) consistent with policy and to provide a non-IMD pool of 3.0% (\$800,000).

## 2016-2017 Legislative Appropriations Request (LAR) – Cont'd

### Other Administrative Items

- Maintaining routine capital project authority and requesting additional funding for building renovations (\$650,000), sump pump system upgrade (\$1.2 million), garage fire suppression system upgrade (\$1.5 million), and an additional generator (\$600,000).
- New riders allowing TRS to unexpended balance (UB) remaining authority in the administrative operations strategy and for space planning contingency.
- **\$40.2 million** is being requested for the TEAM program as well as the ability to transfer into the 2016 - 2017 biennium any unused administrative operations authority from the 2014 – 2015 biennium.
- **\$2.8 million** annually for operating costs increases related to rent, utilities, directors & officers insurance, software license fees, postage, consumable supplies and contracted building maintenance. Expected to rise in line with general inflation by approximately 2% year over year.

## 2016-2017 Legislative Appropriations Request (LAR)

### Summary of Request by Strategy

	<u>Appn FY14/15</u>	<u>Req FY16/17</u>	<u>Change</u>	
<b>Public Education Retirement</b> Includes covered payroll growth.	2,728,547,739	3,189,523,440	460,975,701	16.9%
<b>Higher Education Retirement</b> Includes covered payroll growth.	511,119,804	658,412,117	147,292,313	28.8%
<b>Administrative Operations</b> Includes additional FTEs, IMD equity adjustments, and funding for capital projects	137,256,482	160,291,422	23,034,940	16.8%
<b>TEAM Program</b>	34,623,621	40,186,567	5,562,946	16.1%
<b>Total Pension Fund</b>	<b>\$3,411,547,646</b>	<b>\$4,048,413,546</b>	<b>\$636,865,900</b>	<b>18.7%</b>
<b>TRS Care</b> Includes covered payroll growth and solvency.	495,062,968	1,431,531,171	936,468,203	189.2%
<b>Total Agency</b>	<b>\$3,906,610,614</b>	<b>\$5,479,944,717</b>	<b>\$1,573,334,103</b>	<b>40.3%</b>

# **Appendix A: FY2015 Request Supporting Data**

## Comparison by Department

	FY 2014 BUDGET	FY 2014 PROJ. (OVER)/UNDER BUDGET	FY 2014 PROJECTED EXPENSES	FY 2015 REQ. \$ INCR / (DECR) FY 2014 BUDGET	FY 2015 REQUESTED BUDGET	FY 2015 REQ. % INCR / (DECR) FY 2014 BUDGET
<b>Agency Support</b>						
Board -----	\$ 165,000	\$ 17,020	\$ 147,980	\$ (76,000)	\$ 89,000	-46.06%
Executive -----	720,921	4,690	716,231	22,998	743,919	3.19%
Internal Audit -----	1,563,386	106,080	1,457,306	(3,626)	1,559,760	-0.23%
Legal Department -----	7,157,346	-	7,157,346	(2,835,057)	4,322,289	-39.61%
Governmental Relations -----	305,734	483	305,251	13,623	319,357	4.46%
Communications -----	1,300,599	(5,101)	1,305,700	(92,785)	1,207,814	-7.13%
Human Resources -----	1,221,760	32,688	1,189,072	77,906	1,299,666	6.38%
Program Management Office -----	30,000	3,758	26,242	10,000	40,000	33.33%
Strategic Initiatives -----	695,720	9,161	686,559	(80,307)	615,413	-11.54%
Risk Management -----	1,142,973	96,039	1,046,934	85,053	1,228,026	7.44%
Agency Interns -----	217,000	62,977	154,023	(27,000)	190,000	-12.44%
Agency Wide Costs* -----	3,860,015	537,865	3,322,150	(507,579)	3,352,436	-13.15%
<b>TOTAL AGENCY SUPPORT DIVISION</b>	<b>\$ 18,380,454</b>	<b>\$ 865,660</b>	<b>\$ 17,514,794</b>	<b>\$ (3,412,774)</b>	<b>\$ 14,967,680</b>	<b>-18.57%</b>
<b>Investment Management Division</b>						
Soft Dollars	\$ 33,648,281	\$ 3,622,990	\$ 30,025,291	\$ 3,630,994	\$ 37,279,275	10.79%
	\$ 33,085,494	\$ 877,077	\$ 32,208,417	\$ -	\$ 33,085,494	
<b>TOTAL INVESTMENT MANAGEMENT DIVISION</b>	<b>\$ 66,733,775</b>	<b>\$ 4,500,067</b>	<b>\$ 62,233,708</b>	<b>\$ 3,630,994</b>	<b>\$ 70,364,769</b>	<b>5.44%</b>
<b>Benefit Services Division</b>						
Benefit Services Administration -----	\$ 500,235	\$ 204,562	\$ 295,673	\$ (187,671)	\$ 312,564	-37.52%
Benefit Processing -----	4,775,526	315,081	4,460,445	(83,126)	4,692,400	-1.74%
Benefit Counseling -----	3,797,340	25,539	3,771,801	482,411	4,279,751	12.70%
Member Data Services -----	1,350,525	90,333	1,260,192	15,557	1,366,082	1.15%
<b>TOTAL BENEFIT SERVICES DIVISION</b>	<b>\$ 10,423,626</b>	<b>\$ 635,515</b>	<b>\$ 9,788,111</b>	<b>\$ 227,171</b>	<b>\$ 10,650,797</b>	<b>2.18%</b>
<b>Financial Services Division</b>						
Financial Services Administration -----	\$ 228,812	\$ (13,509)	\$ 242,321	\$ 45,419	\$ 274,231	19.85%
General Accounting -----	2,138,856	64,549	2,074,307	219,328	2,358,184	10.25%
Benefit Accounting -----	1,511,904	95,975	1,415,929	(100,673)	1,411,231	-6.66%
Investment Accounting -----	584,601	89,631	494,970	(4,268)	580,333	-0.73%
Staff Services -----	1,973,854	85,551	1,888,303	157,972	2,131,826	8.00%
Facilities Services -----	5,133,643	3,773,616	1,360,027	67,707	5,201,350	1.32%
Printing, Mailing and Supply -----	3,190,940	327,429	2,863,511	(382,940)	2,808,000	-12.00%
<b>TOTAL FINANCE DIVISION</b>	<b>\$ 14,762,610</b>	<b>\$ 4,423,242</b>	<b>\$ 10,339,368</b>	<b>\$ 2,545</b>	<b>\$ 14,765,155</b>	<b>0.02%</b>

\*Includes funding for retiree insurance, agencywide furniture, supplies and printing, unemployment insurance and lump sum payments.

## Comparison by Department

	FY 2014 BUDGET	FY 2014 PROJ. (OVER)/UNDER BUDGET	FY 2014 PROJECTED EXPENSES	FY 2015 REQ. \$ INCR / (DECR) FY 2014 BUDGET	FY 2015 REQUESTED BUDGET	FY 2015 REQ. % INCR / (DECR) FY 2014 BUDGET
<b>Information Technology Division</b>						
Information Technology -----	\$ 1,734,603	\$ 73,214	\$ 1,661,389	\$ (13,994)	\$ 1,720,609	-0.81%
Network Infrastructure and Support -----	6,358,733	667,875	5,690,858	(233,091)	6,125,642	-3.67%
Information Systems Support, Green Team -----	1,574,236	28,723	1,545,513	186,954	1,761,190	11.88%
Technical Support -----	4,929,830	360,432	4,569,398	676,563	5,606,393	13.72%
Information Systems Support, Gold Team -----	1,276,494	20,265	1,256,229	73,322	1,349,816	5.74%
System Architecture -----	534,049	(17,211)	551,260	41,582	575,631	7.79%
<b>TOTAL INFORMATION TECHNOLOGY DIVISION</b>	<b>\$ 16,407,945</b>	<b>\$ 1,133,298</b>	<b>\$ 15,274,647</b>	<b>\$ 731,336</b>	<b>\$ 17,139,281</b>	<b>4.46%</b>
<b>TEAM PROGRAM</b>	<b>\$ 21,413,786</b>	<b>\$ 7,748,849</b>	<b>\$ 13,664,937</b>	<b>\$ (2,233,611)</b>	<b>\$ 19,180,175</b>	<b>-10.43%</b>
<b>Healthcare Policy and Administration</b>						
TRS Care -----	\$ 4,042,982	\$ 307,374	\$ 3,735,608	\$ 532,425	\$ 4,575,407	13.17%
TRS ActiveCare -----	3,001,450	28,036	2,973,414	247,510	3,248,960	8.25%
Optional Insurance -----	81,858	10,725	71,133	19,380	101,238	23.68%
403(b) Certification -----	66,748	15,713	51,035	140,780	207,528	210.91%
<b>TOTAL HEALTHCARE POLICY AND ADMINISTRATION</b>	<b>\$ 7,193,038</b>	<b>\$ 361,848</b>	<b>\$ 6,831,190</b>	<b>\$ 940,095</b>	<b>\$ 8,133,133</b>	<b>13.07%</b>
<b>TOTAL AGENCY, ALL FUNDS</b>	<b>\$ 155,315,234</b>	<b>\$ 19,668,479</b>	<b>\$ 135,646,755</b>	<b>\$ (114,244)</b>	<b>\$ 155,200,990</b>	<b>-0.07%</b>

## FY 2015 Operating Budget Pension Trust Fund

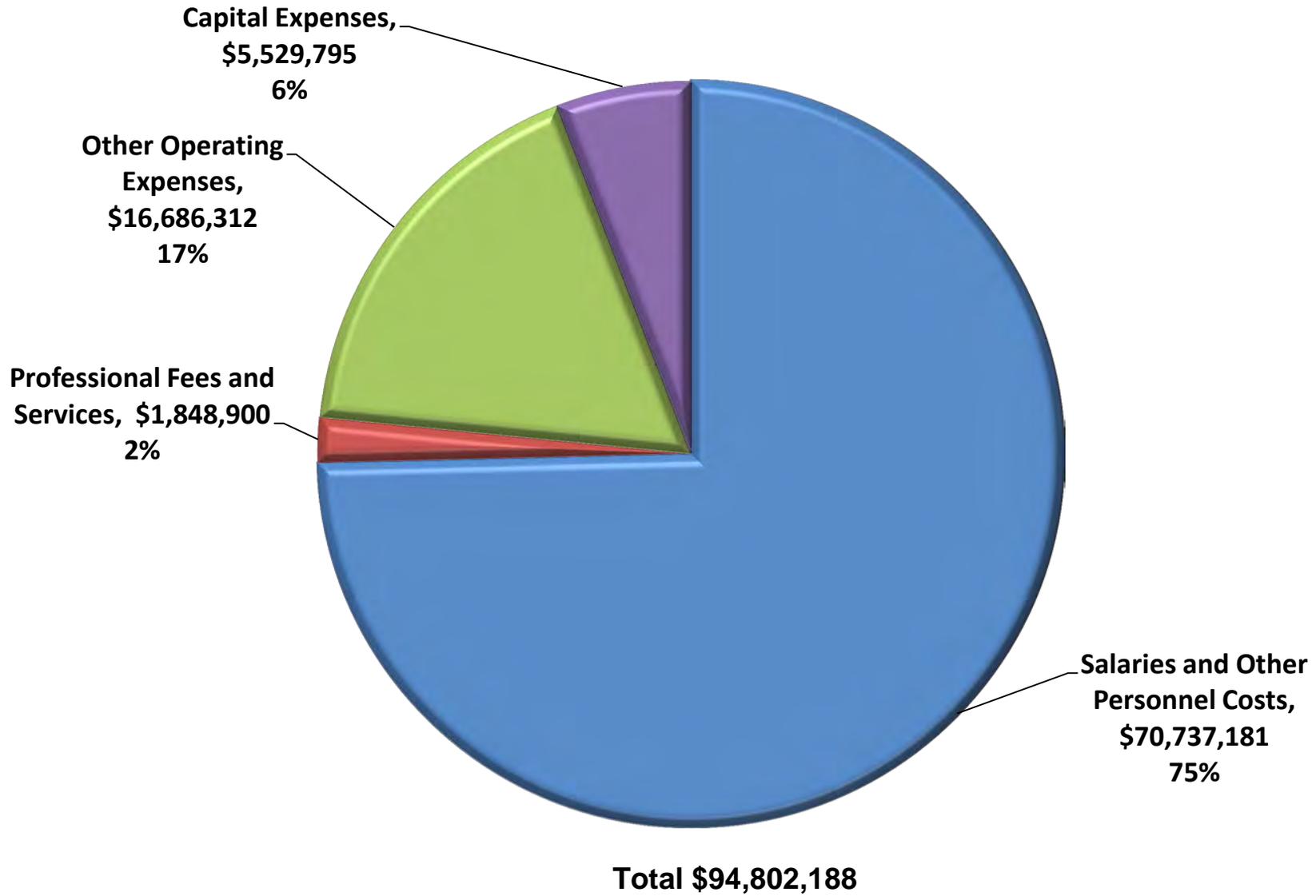
### Key Points

The total operating and capital expenses budget including performance incentive compensation for FY 2015 is \$95.5 million, and does not include the TEAM program. This is relatively at the same budgeted level as FY 2014.

- **Salaries and Other Personnel Costs** reflect an increase of \$6.8 million, or 11.7%, over FY 2014 budget amount. This increase includes full operational capacity of all 503.3 FTEs, a 2% legislative pay raise (\$830 thousand), a 10% increase in employer health insurance contributions (\$863 thousand), a 6.8% employer retirement contribution rate (\$464 thousand), and a \$1.85 million increase for incentive compensation.
  - **Investment Management Division Compensation:** Also included are approximately \$2.2 million for equity adjustments.
- **Professional Fees and Services** are projected to decrease by \$5.1 million, or 73.5%, under the current budgeted level. The decrease is mainly attributed to the payment of external legal counsel expenses from investment fund accounts the same as other transaction costs; and the payment of investment advisors using soft dollars versus pension funds.
- **Other Operating Expenses** are projected to decrease approximately \$.25 million, or 1.5%, under the current budgeted level. The decrease is mainly attributed to the reduction in the printing and postage costs associated with the TRS newsletter.
- **Capital Expenses** are projected at approximately \$5.5 million and include the following major projects: Building Renovations (\$175,000), Air Handler Replacement (\$3.6 million), Pressurization of Stairwells (\$360,000), Telecommunication Upgrades (\$410,000), Pension Legislation (\$200,000), and PC Workstation Refresh (\$350,000).
- **Performance Incentive Compensation** is based on current employees plus additional employees expected. Amounts are included in the FY 2015 budget at the current maximum payment amount of \$11.2 million. The maximum payment amount could fluctuate if base salaries are increased, vacancies are filled at higher salary rates, or employees terminate.

# Pension Trust Fund (excluding TEAM)

Fiscal Year 2015 Requested Budget  
Allocation by Major Expense Category



**Comparison by Expense Category  
Pension Trust Fund**

	FY 2014 BUDGET	FY 2014 PROJ. (OVER)/UNDER BUDGET	FY 2014 PROJECTED EXPENSES	FY 2015 REQ. \$ INCR / (DECR) FY 2014 BUDGET	FY 2015 REQUESTED BUDGET	FY 2015 REQ. % INCR / (DECR) FY 2014 BUDGET
<b>SALARIES AND OTHER PERSONNEL COSTS</b>						
Salaries and Wages -----	\$ 41,005,133	\$ 1,189,344	\$ 39,815,790	\$ 4,378,325	\$ 45,383,458	10.68%
Longevity Pay -----	660,240	39,620	620,620	(2,840)	657,400	-0.43%
Employer Retirement Contributions -----	2,732,644	79,276	2,653,368	384,711	3,117,355	14.08%
Employer FICA Contributions -----	3,471,120	268,248	3,202,872	(92,307)	3,378,813	-2.66%
Employer Health Insurance Contributions/Enrollment Fees -----	6,133,308	596,262	5,537,046	267,487	6,400,795	4.36%
Benefit Replacement Pay -----	120,653	11	120,642	10,981	131,634	9.10%
Other Employee Benefits -----	470,500	82,090	388,410	(2,774)	467,726	-0.59%
Performance Incentive Compensation -----	9,350,000	2,624,829	6,725,172	1,850,000	11,200,000	19.79%
<b>TOTAL SALARIES AND OTHER PERSONNEL COSTS</b>	<b>\$ 63,943,598</b>	<b>\$ 4,879,679</b>	<b>\$ 59,063,919</b>	<b>\$ 6,793,583</b>	<b>\$ 70,737,181</b>	<b>10.62%</b>
<b>PROFESSIONAL FEES AND SERVICES</b>	<b>\$ 6,967,914</b>	<b>\$ (1,123,748)</b>	<b>\$ 8,091,662</b>	<b>\$ (5,119,014)</b>	<b>\$ 1,848,900</b>	<b>-73.47%</b>
<b>OTHER OPERATING EXPENSES</b>						
Consumable Supplies and Fuels -----	\$ 521,210	\$ 69,356	\$ 451,854	\$ 13,350	\$ 534,560	2.56%
Utilities -----	1,074,955	76,303	998,652	60,309	1,135,264	5.61%
Travel -----	1,430,628	172,393	1,258,235	(240,500)	1,190,128	-16.81%
Rentals -----	2,203,531	1,009	2,202,522	190,362	2,393,893	8.64%
Dues, Fees and Staff Development -----	459,101	103,115	355,986	68,485	527,586	14.92%
Subscriptions and Reference Information -----	318,015	70,402	247,613	6,975	324,990	2.19%
Printing and Reproduction Services -----	454,450	(120,765)	575,215	(91,550)	362,900	-20.15%
Postage, Mailing and Delivery Services -----	2,621,300	277,471	2,343,829	(385,015)	2,236,285	-14.69%
Software Purchases and Maintenance -----	3,299,930	213,889	3,086,041	193,194	3,493,124	5.85%
Computer Hardware Maintenance -----	487,102	108,763	378,339	338,250	825,352	69.44%
Miscellaneous Expenses -----	1,395,500	89,430	1,306,070	(172,890)	1,222,610	-12.39%
Insurance Premiums -----	727,555	84,804	642,751	90,660	818,215	12.46%
Furniture and Equipment - Expensed -----	952,200	594,209	357,991	(385,100)	567,100	-40.44%
Maintenance - Buildings and Equipment -----	986,433	33,903	952,530	67,872	1,054,305	6.88%
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>\$ 16,931,910</b>	<b>\$ 1,774,282</b>	<b>\$ 15,157,628</b>	<b>\$ (245,598)</b>	<b>\$ 16,686,312</b>	<b>-1.45%</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 87,843,422</b>	<b>\$ 5,530,213</b>	<b>\$ 82,313,209</b>	<b>\$ 1,428,971</b>	<b>\$ 89,272,393</b>	<b>1.63%</b>
<b>CAPITAL EXPENSES</b>						
Furniture and Equipment -----	\$ 126,504	\$ 86,165	\$ 40,339	\$ (2,000)	\$ 124,504	-1.58%
Capital Budget Items -----	5,652,990	4,055,944	1,597,046	(247,699)	5,405,291	-4.38%
<b>TOTAL CAPITAL EXPENSES</b>	<b>\$ 5,779,494</b>	<b>\$ 4,142,109</b>	<b>\$ 1,637,385</b>	<b>\$ (249,699)</b>	<b>\$ 5,529,795</b>	<b>-4.32%</b>
<b>TOTAL OPERATING AND CAPITAL EXPENSES</b>	<b>\$ 93,622,916</b>	<b>\$ 9,672,322</b>	<b>\$ 83,950,594</b>	<b>\$ 1,179,272</b>	<b>\$ 94,802,188</b>	<b>1.26%</b>

## **FY 2015 Operating Budget TEAM Program**

### **Key Points**

The total operating and capital expenses budget for FY 2015 is approximately \$19.2 million compared to \$21.4 million for FY 2014. The TEAM capital project totals \$34.6 million in the FY 2014-15 biennium. The requested amount represents the current estimated remaining appropriation authority. Unexpended FY 2014 capital balance of \$7.7 million will be carried forward to FY 2015. Any estimated FY 2014 operating lapses will be transferred to the TEAM capital project and carried forward to FY 2015.

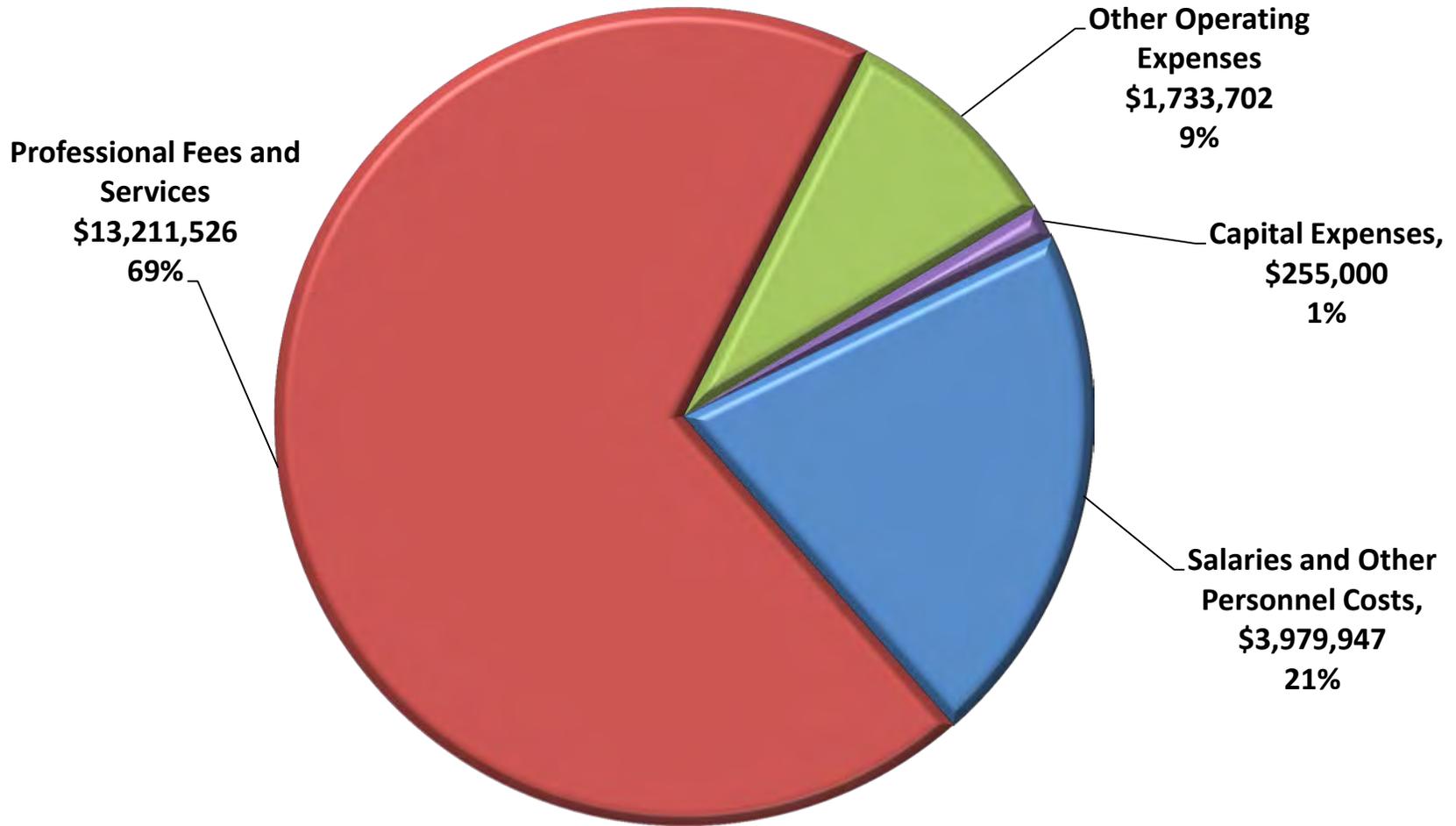
- **Salaries and Other Personnel Costs** reflect an increase of \$1.0 million, or 33.2%, over FY 2014 budget amount. The increase includes funding for 58 positions at full capacity during FY 2015.
- **Professional Fees and Services** reflect a slight increase of \$0.4 million or 2.9% over the current budgeted level. The decrease in budget is attributed to revised project estimates.
- **Other Operating Expenses and Capital Expenses** are projected to decrease approximately \$3.0 million, or 63.2%, under the FY 2014 budgeted level. The decrease is largely attributed to software purchases and maintenance incurred in FY 2014 compared to FY 2015.

### **Funding**

Funding is to be provided from pension trust funds as authorized by SB 1, 83<sup>rd</sup> Legislature, regular session, Article III, Capital Rider. In addition, pursuant to Rider 17, funds appropriated in the TEAM capital budget may be expended for salaries and wages of FTEs and contract workers assigned to the TEAM Program. Furthermore, the number of FTEs and contract workers assigned to TEAM are exempt from the FTE calculation for reporting purposes.

# TRS Enterprise Application Modernization (TEAM)

Fiscal Year 2015 Requested Budget  
Allocation by Major Expense Category



**Total \$19,180,175**

**Comparison by Expense Category  
TEAM Program**

	FY 2014 BUDGET	FY 2014 PROJ. (OVER)/UNDER BUDGET	FY 2014 PROJECTED EXPENSES	FY 2015 REQ. \$ INCR / (DECR) FY 2014 BUDGET	FY 2015 REQUESTED BUDGET	FY 2015 REQ. % INCR / (DECR) FY 2014 BUDGET
<b>SALARIES AND OTHER PERSONNEL COSTS</b>						
Salaries and Wages -----	\$ 2,449,141	\$ (116,287)	\$ 2,565,428	\$ 778,775	\$ 3,227,916	31.80%
Longevity Pay -----	25,920	1,020	24,900	4,620	30,540	17.82%
Employer Retirement Contributions -----	162,413	12,379	150,034	57,085	219,498	35.15%
Employer FICA Contributions -----	181,801	18,030	163,771	64,739	246,540	35.61%
Employer Health Insurance Contributions/Enrollment Fees -----	149,791	(46,179)	195,970	88,373	238,164	59.00%
Benefit Replacement Pay -----	4,125	-	4,125	(2,836)	1,289	-68.75%
Other Employee Benefits -----	15,095	15,095	-	905	16,000	6.00%
<b>TOTAL SALARIES AND OTHER PERSONNEL COSTS</b>	<b>\$ 2,988,286</b>	<b>\$ (115,942)</b>	<b>\$ 3,104,228</b>	<b>\$ 991,661</b>	<b>\$ 3,979,947</b>	<b>33.18%</b>
<b>PROFESSIONAL FEES AND SERVICES</b>	<b>\$ 12,842,500</b>	<b>\$ 4,947,291</b>	<b>\$ 7,895,209</b>	<b>\$ 369,026</b>	<b>\$ 13,211,526</b>	<b>2.87%</b>
<b>OTHER OPERATING EXPENSES</b>						
Consumable Supplies and Fuels -----	\$ 3,000	\$ 3,000	\$ -	\$ 12,000	\$ 15,000	400.00%
Utilities -----	-	-	-	-	-	-
Travel -----	25,000	1	24,999	5,000	30,000	20.00%
Rentals -----	-	-	-	-	-	-
Dues, Fees and Staff Development -----	150,000	-	150,000	-	150,000	-
Subscriptions and Reference Information -----	-	-	-	-	-	-
Printing and Reproduction Services -----	-	-	-	-	-	-
Postage, Mailing and Delivery Services -----	-	-	-	-	-	-
Software Purchases and Maintenance -----	4,210,000	2,970,893	1,239,107	(2,776,298)	1,433,702	-65.95%
Computer Hardware Maintenance -----	-	-	-	-	-	-
Miscellaneous Expenses -----	-	-	-	-	-	-
Insurance Premiums -----	-	-	-	-	-	-
Furniture and Equipment - Expensed -----	300,000	-	300,000	(200,000)	100,000	-66.67%
Maintenance - Buildings and Equipment -----	20,000	-	20,000	(15,000)	5,000	-75.00%
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>\$ 4,708,000</b>	<b>\$ 2,973,894</b>	<b>\$ 1,734,106</b>	<b>\$ (2,974,298)</b>	<b>\$ 1,733,702</b>	<b>-63.18%</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 20,538,786</b>	<b>\$ 7,805,243</b>	<b>\$ 12,733,543</b>	<b>\$ (1,613,611)</b>	<b>\$ 18,925,175</b>	<b>-7.86%</b>
<b>CAPITAL EXPENSES</b>						
Furniture and Equipment -----	\$ 875,000	\$ (56,394)	\$ 931,394	\$ (620,000)	\$ 255,000	-70.86%
Capital Budget Items -----	-	-	-	-	-	-
<b>TOTAL CAPITAL EXPENSES</b>	<b>\$ 875,000</b>	<b>\$ (56,394)</b>	<b>\$ 931,394</b>	<b>\$ (620,000)</b>	<b>\$ 255,000</b>	<b>-70.86%</b>
<b>TOTAL OPERATING AND CAPITAL EXPENSES</b>	<b>\$ 21,413,786</b>	<b>\$ 7,748,849</b>	<b>\$ 13,664,937</b>	<b>\$ (2,233,611)</b>	<b>\$ 19,180,175</b>	<b>-10.43%</b>

## **FY 2015 Operating Budget Soft Dollar Revenue**

### **Key Points**

Soft Dollar is a program where TRS generates investment trade credits which can be used for the purchase of goods and services related to the investment management function. Details of the program are outlined in the Soft Dollar Policy. The total Soft Dollar budget for FY 2015 is approximately \$33.1 million; which is at the same budgeted level for FY 2014.

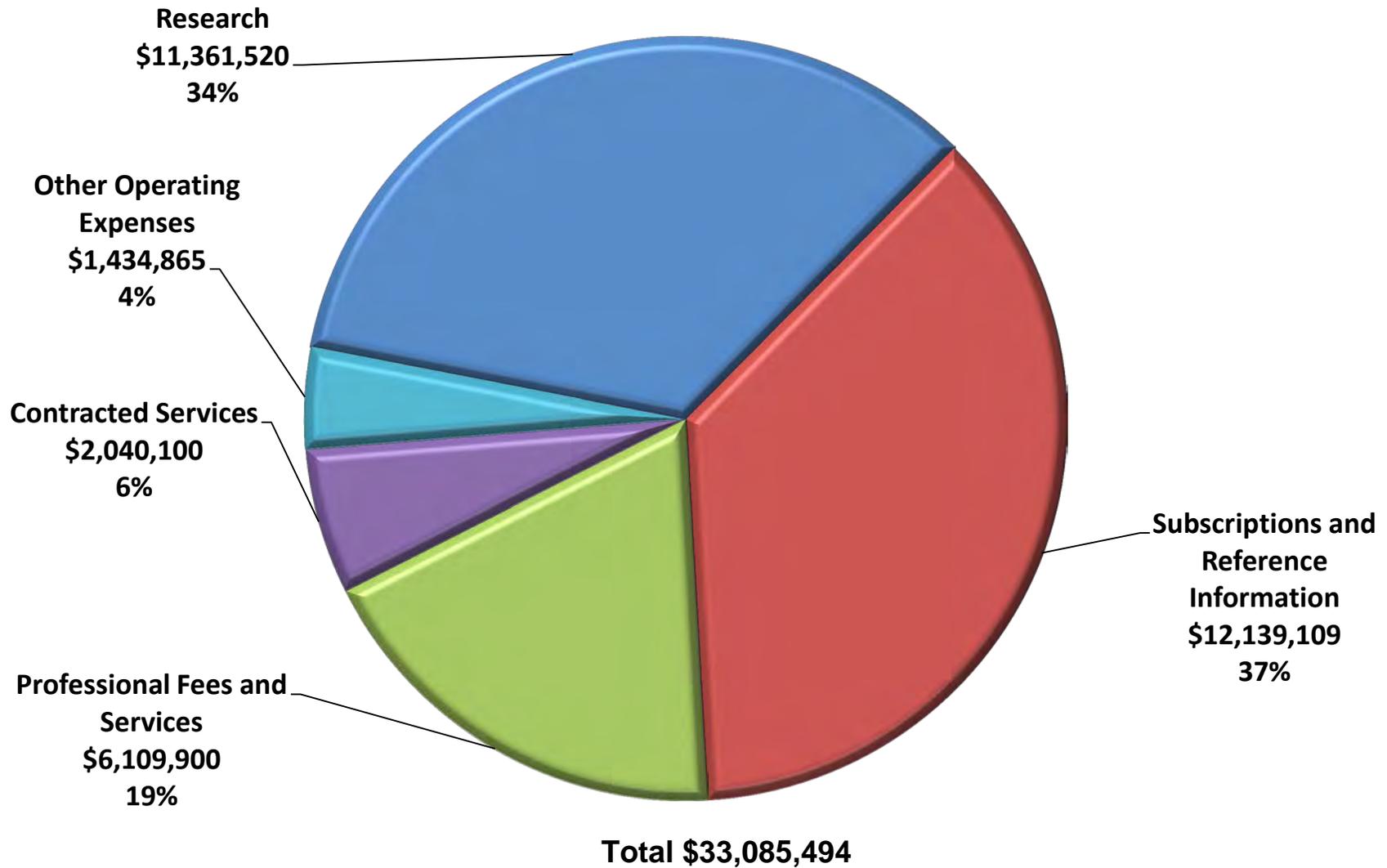
- **Professional Fees and Services** reflect an increase of \$1.4 million, or 30.6% due primarily to shifting investment advisor expenses from pension funds to soft dollar.
- **Other Operating Expenses** are projected to decrease by approximately \$1.4 million, or 5.0% largely due to a decrease in research expenses.

### **Funding**

- Contractor Provided Allowances
  - \$6.0 million TRS/State Street Bank Partnership Account
- Section 28(e) Arrangements
  - \$27.1 million Commission Sharing Agreement (CSA)

# Soft Dollar Administrative Operations

Fiscal Year 2015 Requested Budget  
Allocation by Major Expense Category



**Comparison by Expense Category  
Soft Dollar Sources**

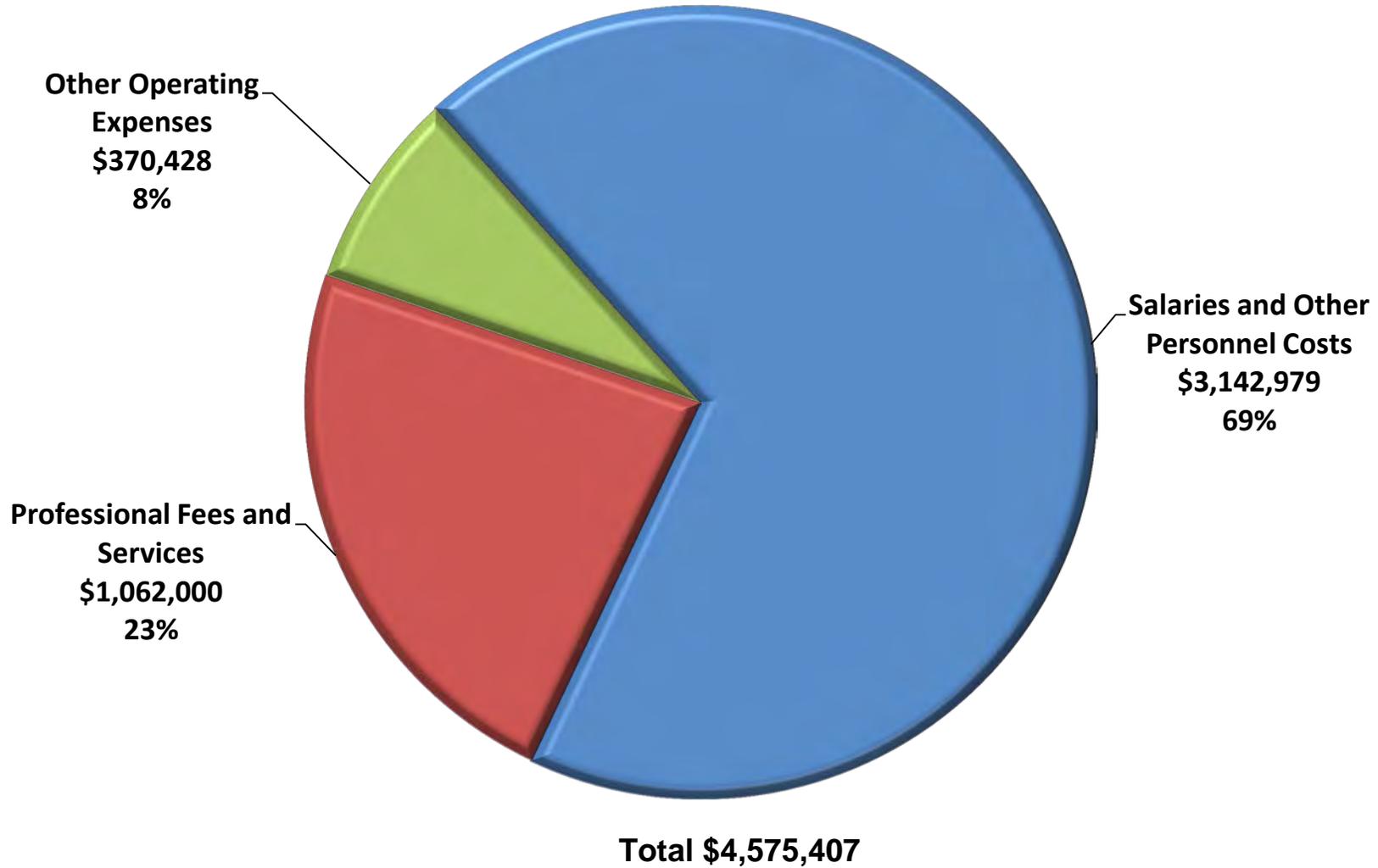
	FY 2014 BUDGET	FY 2014 PROJ. (OVER)/UNDER BUDGET	FY 2014 PROJECTED EXPENSES	FY 2015 REQ. \$ INCR / (DECR) FY 2014 BUDGET	FY 2015 REQUESTED BUDGET	FY 2015 REQ. % INCR / (DECR) FY 2014 BUDGET
<b>PROFESSIONAL FEES AND SERVICES</b>	\$ 4,678,863	\$ 957	\$ 4,677,906	\$ 1,431,037	\$ 6,109,900	30.59%
<b>OTHER OPERATING EXPENSES</b>						
Rentals -----	\$ 224,000	\$ -	\$ 224,000	\$ 51,000	\$ 275,000	22.77%
Dues, Fees and Staff Development -----	486,750	104,491	382,259	53,250	540,000	10.94%
Subscriptions and Reference Information -----	11,824,123	489,670	11,334,453	314,986	12,139,109	2.66%
Software Purchases and Maintenance -----	253,500	56,000	197,500	101,750	355,250	40.14%
Miscellaneous Expenses -----	60,600	2,260	58,340	204,015	264,615	336.66%
Contracted Services -----	1,742,658	86,202	1,656,456	297,442	2,040,100	17.07%
Research -----	13,815,000	137,497	13,677,503	(2,453,480)	11,361,520	-17.76%
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>\$ 28,406,631</b>	<b>\$ 876,120</b>	<b>\$ 27,530,511</b>	<b>\$ (1,431,037)</b>	<b>\$ 26,975,594</b>	<b>-5.04%</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 33,085,494</b>	<b>\$ 877,077</b>	<b>\$ 32,208,417</b>	<b>\$ -</b>	<b>\$ 33,085,494</b>	
<b>SOFT DOLLAR RESOURCES</b>						
State Street Bank Partnership Account -----	\$ 6,000,000	\$ -	\$ 6,000,000	\$ -	\$ 6,000,000	
Commission Sharing Arrangements-----	27,085,494	877,077	26,208,417	-	27,085,494	
<b>TOTAL</b>	<b>\$ 33,085,494</b>	<b>\$ 877,077</b>	<b>\$ 32,208,417</b>	<b>\$ -</b>	<b>\$ 33,085,494</b>	

## **FY 2015 Operating Budget TRS-Care (Retired Plan)**

The total operating budget for FY 2015 is approximately \$4.6 million compared to \$4.0 million for FY 2014, or an increase of 13.2%.

- **Salaries and Other Personnel Costs** reflect an increase of \$450,000, or 16.7%, over FY 2014 budget amount. This increase includes funding for 2 additional FTEs. Included is a 2% legislative pay raise, a 10% increase in employer health insurance contributions, a 6.8% employer retirement contribution rate and a slight increase in allocated Pension Trust Fund support costs.
- **Professional Fees and Services** are expected to increase slightly by \$54,000 or 5.4% above the current level. The increase is attributable to additional consulting services offset by a reduction for outside audits.
- **Other Operating Expenses** are projected to increase slightly by \$29,000 or 8.5% due to anticipated printing costs.

**TRS-Care (Retired Plan)**  
Fiscal Year 2015 Requested Budget  
Allocation by Major Expense Category



**Comparison by Expense Category  
TRS - Care**

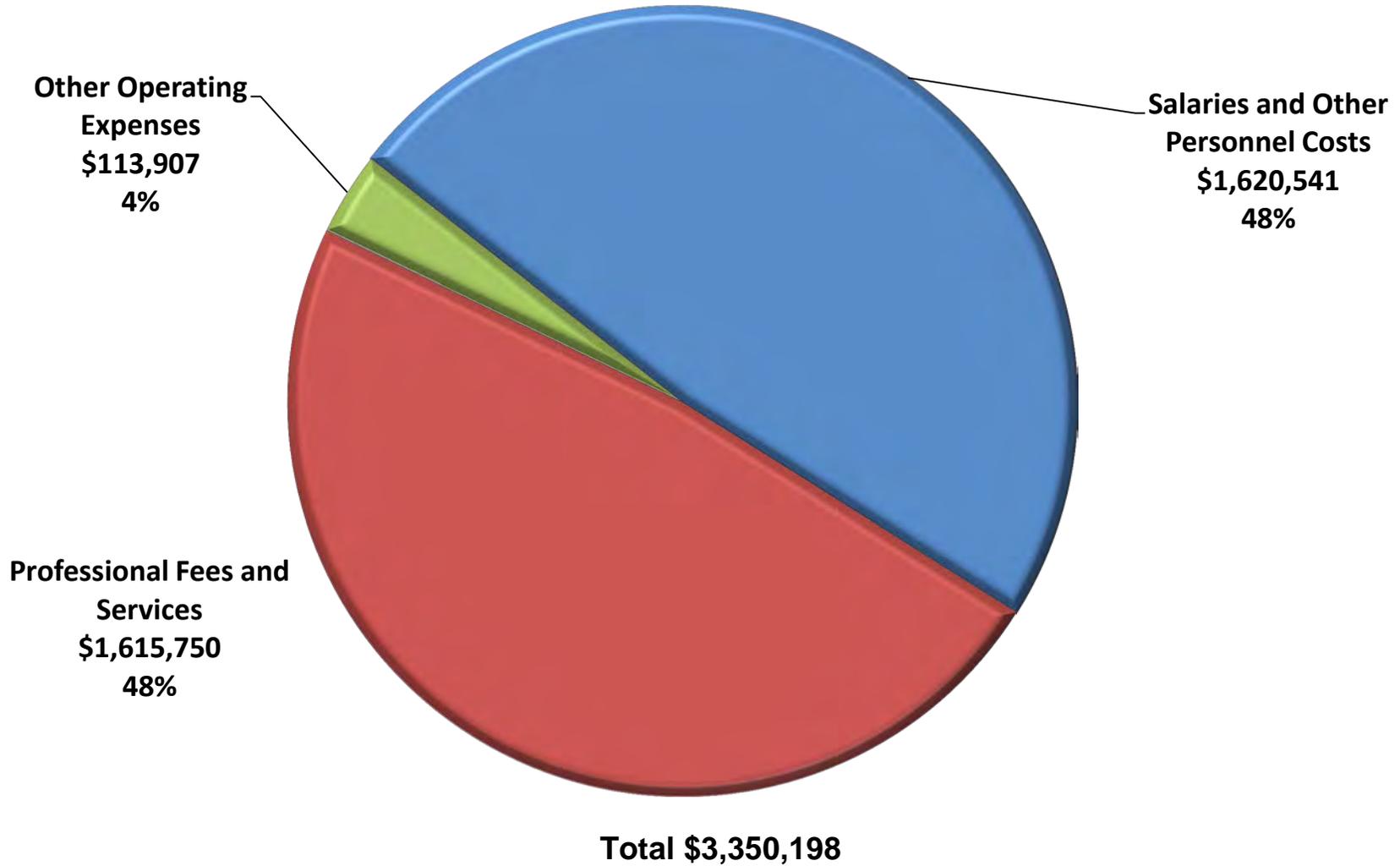
	FY 2014 BUDGET	FY 2014 PROJ. (OVER)/UNDER BUDGET	FY 2014 PROJECTED EXPENSES	FY 2015 REQ. \$ INCR / (DECR) FY 2014 BUDGET	FY 2015 REQUESTED BUDGET	FY 2015 REQ. % INCR / (DECR) FY 2014 BUDGET
<b>SALARIES AND OTHER PERSONNEL COSTS</b>						
Salaries and Wages -----	\$ 2,009,436	\$ 66,729	\$ 1,942,707	\$ 321,081	\$ 2,330,517	15.98%
Longevity Pay -----	56,480	9,080	47,400	2,240	58,720	3.97%
Employer Retirement Contributions -----	135,921	14,230	121,691	21,194	157,115	15.59%
Employer FICA Contributions -----	152,912	10,521	142,391	23,394	176,306	15.30%
Employer Health Insurance Contributions/Enrollment Fees -----	262,409	7,687	254,722	69,811	332,220	26.60%
Benefit Replacement Pay -----	12,563	1	12,562	(962)	11,601	-7.66%
Other Employee Benefits -----	64,000	39,000	25,000	12,500	76,500	19.53%
<b>TOTAL SALARIES AND OTHER PERSONNEL COSTS</b>	<b>\$ 2,693,721</b>	<b>\$ 147,248</b>	<b>\$ 2,546,473</b>	<b>\$ 449,258</b>	<b>\$ 3,142,979</b>	<b>16.68%</b>
<b>PROFESSIONAL FEES AND SERVICES</b>	<b>\$ 1,007,750</b>	<b>\$ 876</b>	<b>\$ 1,006,874</b>	<b>\$ 54,250</b>	<b>\$ 1,062,000</b>	<b>5.38%</b>
<b>OTHER OPERATING EXPENSES</b>						
Consumable Supplies and Fuels -----	\$ 5,200	\$ 254	\$ 4,946	\$ 800	\$ 6,000	15.38%
Utilities -----	5,200	41	5,159	800	6,000	15.38%
Travel -----	16,955	8,788	8,167	1,545	18,500	9.11%
Rentals -----	32,511	32,511	-	67,647	100,158	208.07%
Dues, Fees and Staff Development -----	4,175	2,399	1,776	1,125	5,300	26.95%
Subscriptions and Reference Information -----	570	570	-	-	570	
Printing and Reproduction Services -----	35,500	20,500	15,000	22,000	57,500	61.97%
Postage, Mailing and Delivery Services -----	185,800	76,700	109,100	(50,000)	135,800	-26.91%
Software Purchases and Maintenance -----	-	-	-	-	-	
Computer Hardware Maintenance -----	-	-	-	-	-	
Miscellaneous Expenses -----	20,600	10,149	10,451	-	20,600	
Insurance Premiums -----	-	-	-	-	-	
Furniture and Equipment - Expensed -----	5,000	4,571	429	-	5,000	
Maintenance - Buildings and Equipment -----	30,000	2,766	27,234	(15,000)	15,000	-50.00%
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>\$ 341,511</b>	<b>\$ 159,249</b>	<b>\$ 182,262</b>	<b>\$ 28,917</b>	<b>\$ 370,428</b>	<b>8.47%</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 4,042,982</b>	<b>\$ 307,373</b>	<b>\$ 3,735,609</b>	<b>\$ 532,425</b>	<b>\$ 4,575,407</b>	<b>13.17%</b>
<b>CAPITAL EXPENSES</b>						
Furniture and Equipment -----	\$ -	\$ -	\$ -	\$ -	\$ -	
Capital Budget Items -----	-	-	-	-	-	
<b>TOTAL CAPITAL EXPENSES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>TOTAL OPERATING AND CAPITAL EXPENSES</b>	<b>\$ 4,042,982</b>	<b>\$ 307,373</b>	<b>\$ 3,735,609</b>	<b>\$ 532,425</b>	<b>\$ 4,575,407</b>	<b>13.17%</b>

## **FY 2015 Operating Budget TRS-ActiveCare (Active Plan)**

The total operating budget for FY 2015 is approximately \$3.4 million compared to \$3.1 million for FY 2014, or an increase of 8.7%. The FY 2015 budget by program is as follows:

- **TRS-ActiveCare Plan** – total operating budget of almost \$3.2 million, an increase of 8.2% above the FY 2014 budget.
  - **Salaries and Other Personnel Costs** reflect an increase of \$17,000, or 1.1%, over FY 2014 budget amount. This increase includes funding for 1 additional FTE. Included is a 2% legislative pay raise, a 10% increase in employer health insurance contributions, and a 6.8% employer retirement contribution rate, all of which is offset by slight decrease in allocated Pension Trust Fund support costs.
  - **Professional Fees and Services** are projected to increase by approximately \$218,000 or 16.0% above the current level. The increase is attributable to an increase in consulting and audit services.
  - **Other Operating Expenses** are projected to increase by \$13,000 or 13.5% above the FY 2014 budget. This is due to an increase for allocated costs of reimbursement occupied office space based on current market rates.
- **Long-Term Care Insurance** - total operating budget of \$101,238 reflects an increase of 23.7% above the FY 2014 budget. The increase is primarily attributable to additional consulting services.

**TRS-ActiveCare (Active Plan)**  
Fiscal Year 2015 Requested Budget  
Allocation by Major Expense Category



**Comparison by Expense Category  
TRS ActiveCare**

	FY 2014 BUDGET	FY 2014 PROJ. (OVER)/UNDER BUDGET	FY 2014 PROJECTED EXPENSES	FY 2015 REQ. \$ INCR / (DECR) FY 2014 BUDGET	FY 2015 REQUESTED BUDGET	FY 2015 REQ. % INCR / (DECR) FY 2014 BUDGET
<b>SALARIES AND OTHER PERSONNEL COSTS</b>						
Salaries and Wages -----	\$ 1,181,026	\$ (32,087)	\$ 1,213,113	\$ 23,916	\$ 1,204,942	2.03%
Longevity Pay -----	31,720	6,640	25,080	(7,780)	23,940	-24.53%
Employer Retirement Contributions -----	82,133	2,609	79,524	(400)	81,733	-0.49%
Employer FICA Contributions -----	93,450	4,160	89,290	(7,397)	86,053	-7.92%
Employer Health Insurance Contributions/Enrollment Fees -----	155,421	8,129	147,292	(4,837)	150,584	-3.11%
Benefit Replacement Pay -----	10,463	1	10,462	(9,174)	1,289	-87.68%
Other Employee Benefits -----	51,100	31,100	20,000	20,900	72,000	40.90%
<b>TOTAL SALARIES AND OTHER PERSONNEL COSTS</b>	<b>\$ 1,605,313</b>	<b>\$ 20,552</b>	<b>\$ 1,584,761</b>	<b>\$ 15,228</b>	<b>\$ 1,620,541</b>	<b>0.95%</b>
<b>PROFESSIONAL FEES AND SERVICES</b>	<b>\$ 1,378,000</b>	<b>\$ (6,554)</b>	<b>\$ 1,384,554</b>	<b>\$ 237,750</b>	<b>\$ 1,615,750</b>	<b>17.25%</b>
<b>OTHER OPERATING EXPENSES</b>						
Consumable Supplies and Fuels -----	\$ 3,000	\$ 73	\$ 2,927	\$ -	\$ 3,000	
Utilities -----	1,500	1,236	264	-	1,500	
Travel -----	8,350	1,215	7,135	600	8,950	7.190%
Rentals -----	62,245	4,351	57,894	13,312	75,557	21.390%
Dues, Fees and Staff Development -----	9,000	6,135	2,865	-	9,000	
Subscriptions and Reference Information -----	900	375	525	-	900	
Printing and Reproduction Services -----	1,425	1,425	-	-	1,425	
Postage, Mailing and Delivery Services -----	4,775	2,843	1,932	-	4,775	
Software Purchases and Maintenance -----	-	-	-	-	-	
Computer Hardware Maintenance -----	-	-	-	-	-	
Miscellaneous Expenses -----	3,300	1,613	1,687	-	3,300	
Insurance Premiums -----	-	-	-	-	-	
Furniture and Equipment - Expensed -----	3,500	3,500	-	-	3,500	
Maintenance - Buildings and Equipment -----	2,000	2,000	-	-	2,000	
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>\$ 99,995</b>	<b>\$ 24,766</b>	<b>\$ 75,229</b>	<b>\$ 13,912</b>	<b>\$ 113,907</b>	<b>13.91%</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 3,083,308</b>	<b>\$ 38,764</b>	<b>\$ 3,044,544</b>	<b>\$ 266,890</b>	<b>\$ 3,350,198</b>	<b>8.66%</b>
<b>CAPITAL EXPENSES</b>						
Furniture and Equipment -----	\$ -	\$ -	\$ -	\$ -	\$ -	
Capital Budget Items -----	-	-	-	-	-	
<b>TOTAL CAPITAL EXPENSES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>TOTAL OPERATING AND CAPITAL EXPENSES</b>	<b>\$ 3,083,308</b>	<b>\$ 38,764</b>	<b>\$ 3,044,544</b>	<b>\$ 266,890</b>	<b>\$ 3,350,198</b>	<b>8.66%</b>

## **FY 2015 Operating Budget 403(b) Program**

The total operating budget for FY 2015 is \$140,780 compared to \$66,748 for FY 2014, or an increase of 210.9%. Both certification and registration renewals are on five-year cycles. Two-thirds of the certifications and renewals occurred in fiscal years 2012 and 2013.

- **Salaries and Other Personnel Costs** for one full-time and one half-time budgeted position is \$207,528. The additional full-time position is needed to cross train and eventually replace the retiring half-time FTE. Included is a 2% legislative pay increase, a 10% increase in employer health insurance contributions, and a 6.8% employer retirement contribution rate.

**Comparison by Expense Category  
403(b) Certification Program**

	FY 2014 BUDGET	FY 2014 PROJ. (OVER)/UNDER BUDGET	FY 2014 PROJECTED EXPENSES	FY 2015 REQ. \$ INCR / (DECR) FY 2014 BUDGET	FY 2015 REQUESTED BUDGET	FY 2015 REQ. % INCR / (DECR) FY 2014 BUDGET
<b>SALARIES AND OTHER PERSONNEL COSTS</b>						
Salaries and Wages -----	\$ 49,059	\$ 5,835	\$ 43,224	\$ 123,444	\$ 172,503	251.62%
Longevity Pay -----	-	-	-	-	-	
Employer Retirement Contributions -----	3,400	325	3,075	8,330	11,730	245.00%
Employer FICA Contributions -----	4,500	794	3,706	8,696	13,196	193.24%
Employer Health Insurance Contributions/Enrollment Fees -----	7,500	7,500	-	310	7,810	4.13%
Benefit Replacement Pay -----	1,289	257	1,032	-	1,289	
Other Employee Benefits -----	1,000	1,000	-	-	1,000	
<b>TOTAL SALARIES AND OTHER PERSONNEL COSTS</b>	<b>\$ 66,748</b>	<b>\$ 15,711</b>	<b>\$ 51,037</b>	<b>\$ 140,780</b>	<b>\$ 207,528</b>	<b>210.91%</b>
<b>PROFESSIONAL FEES AND SERVICES</b>	\$ -	\$ -	\$ -	\$ -		
<b>OTHER OPERATING EXPENSES</b>	\$ -	\$ -	\$ -	\$ -		
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 66,748</b>	<b>\$ 15,711</b>	<b>\$ 51,037</b>	<b>\$ 140,780</b>	<b>\$ 207,528</b>	<b>210.91%</b>

# **TEACHER RETIREMENT SYSTEM OF TEXAS**

## **GENERAL PROVISIONS**

The Teacher Retirement System (TRS) uses the provisions of Article IX of the General Appropriations Act (GAA) adopted by the 83<sup>rd</sup> Texas Legislature (Article IX) as guidelines in administering the system to the extent that the Executive Director or a designee acting in the absence of the Executive Director determines a particular provision of Article IX is in the best interests of the system and not in conflict with applicable law, fiduciary duty, or TRS policy.

**PENSION TRUST FUND ADMINISTRATIVE OPERATIONS** – In adopting the related Budget Resolution, the TRS Board of Trustees (board) has made a fiduciary finding authorizing expenditures from the Pension Trust Fund to cover all of TRS' administrative operating expenses for the fiscal year because such operating expenses are required to perform the fiduciary duties of the board and the legislature has not appropriated money from the State's general revenue fund for TRS to use in paying operating expenses for the fiscal year.

**USE OF SOFT DOLLARS, COMMISSION RECAPTURE, AND COMMISSION SHARING ARRANGEMENTS (CSAs), INCLUDING SECTION 28(e) EXPENDITURES** – The board finds that the expenditure of funds provided by CSAs, commission recapture, and soft dollars commission credits to obtain goods and services supporting the investment function are necessary for the efficient and effective administration of pension trust fund assets and performance of the board's fiduciary duties. CSAs, commission recapture, and soft dollars shall be administered in accordance with the board's Soft Dollar Policy and applicable law.

**CONTRACTOR PROVIDED RESOURCES** – As part of the contracting process for goods and services (including investment management services), TRS has access to additional resources for operations, including services, temporarily-assigned staff, or allowances, as part of the total contract consideration provided by the vendors or investment managers. Such resources may only be used or expended to the same extent, and for the same purposes, and are subject to the same duty of care and general requirements and policies, as other pension trust fund assets.

**HEALTH BENEFITS FUNDS** – Operations of the Texas Public School Retired Employees Group Benefits Program (TRS-Care - Retired Plan) are funded from the Texas Public School Employees Group Insurance Fund. Operations of the Texas School Employees Uniform Group Health Coverage Program (TRS-ActiveCare - Active Plan) are funded from the Texas School Employees Uniform Group Health Coverage Fund.

**403(b) CERTIFICATION PROGRAM** – Operations of the 403(b) Certification Program are funded from the 403(b) Administrative Trust Fund.

### **PERSONNEL SERVICES:**

- **Hiring and Personnel Actions** – The Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to hire personnel, to transfer personnel within the agency, and to approve hiring salaries, salary changes, and other personnel actions including but not limited to, promotions, demotions, merits, and recruitment and retention bonuses. TRS will base its salary schedules, position classifications, and salary administration practices on the provisions of Article IX, Chapter 659 of the Government Code, and other relevant legislation to the extent the Executive Director determines a particular provision is in the best interest of the system and not in conflict with applicable law, fiduciary duty or TRS policy. The board will set the salary rate for the Executive Director. The Executive Director is authorized to set the annual base salary rate for all other exempt positions within the not-to-exceed amounts listed in the GAA or any amended limits adopted by the board from time to time.
- **Performance Incentive Compensation** – The Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to implement the performance incentive compensation plan(s) as approved from time to time by the board including authorizing payment of the performance incentive

# TEACHER RETIREMENT SYSTEM OF TEXAS

## GENERAL PROVISIONS

(continued)

compensation to the extent funds have been included in the approved budget for that purpose or are otherwise made available through the Budget Execution Authority in these General Provisions.

- **Longevity Pay and Benefit Replacement Pay** – The board authorizes the payment of Longevity Pay and Benefit Replacement Pay in addition to base pay. The payment of Longevity Pay and Benefit Replacement Pay to eligible TRS employees shall be administered in a manner consistent with the provisions of Chapter 659 of the Government Code and other relevant legislation.

**OTHER PERSONNEL COSTS** – As required for the efficient operations of the TRS, Other Personnel Costs, including Employer Retirement Contributions, Employer FICA Contributions, Employer Health Insurance Contributions, and Benefit Replacement Pay, are provided as estimated amounts as authorized in the GAA and may be revised by the Executive Director, or Deputy Director in the absence of the Executive Director, if needed to pay operating expenses for the fiscal year.

**PROFESSIONAL SERVICES** – The Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to contract for professional services and approve and disburse professional fees to persons or firms who render such professional services to TRS. The board finds that the budget for Professional Services authorized in this document is necessary to the performance of its fiduciary duties.

**COUNSELING SERVICES** – In accordance with Texas Government Code, Chapter 825, Subchapter G, the board authorizes the Executive Director or his designees to make individual retirement benefits counseling sessions available to members normally in

conjunction with group retirement benefits presentations, thereby creating efficiencies and minimizing the cost of such services. TRS will determine the geographic regions most in need of retirement benefits counseling and will provide retirement benefits counseling services in these regions throughout Texas.

**BUDGET EXECUTION AUTHORITY** – As required for the efficient operations of the TRS, the Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to transfer budgeted funds up to \$100,000 or 12 1/2% of an expense category, whichever is greater, between different expense accounts and major expense categories, so long as the total approved budget for operating expenses and capital outlay is not exceeded. This provision applies separately to the Pension Trust Fund, the Retired Health Benefits Fund, the Active Health Benefits Fund, and the 403(b) Administrative Trust Fund.

**CONTINGENCY FOR CATASTROPHIC OCCURRENCES** – In the event of a catastrophic occurrence which destroys or incapacitates the TRS' physical plant and/or primary operating resources, the Executive Director, Deputy Director, or Chief Financial Officer may exceed the total approved budget to the extent necessary to achieve recovery of operational capabilities. The Executive Director, Deputy Director, or Chief Financial Officer will notify the Budget Committee of the board, as soon as possible, of the extent of the situation and the budgetary impact.