

**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 24, 2015 – 9:45 a.m.
TRS East Building, 5th Floor, Boardroom**

1. Consider the approval of the June 11, 2015 committee meeting minutes – Nanette Sissney.
2. Receive a presentation on Commission Sharing Arrangement (CSA) Commissions & Expenses – Sylvia Bell and Don Green.
3. Discuss and consider recommending to the Board the adoption of the following – Don Green:
 - A. The proposed fiscal year 2016 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 2016 budget.
 - B. The proposed fiscal year 2016 administrative operations budgets and general provisions for the TRS health benefits funds (TRS-Care and TRS-ActiveCare) and optional long-term care insurance program.
 - C. The proposed fiscal year 2016 administrative operations budget and general provisions for the 403(b) company certification and investment product registration program.

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 11, 2015

The Budget Committee of the Board of Trustees of the Teacher Retirement System of Texas (TRS) met on Thursday, June 11, 2015 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
Dolores Ramirez

Others present:

David Kelly, TRS Trustee	Dan Junell, TRS
David Corpus, TRS Trustee	Jay LeBlanc, TRS
Anita Palmer, TRS Trustee	Lynn Lau, TRS
Brian Guthrie, TRS	Stan Korn, TRS
Ken Welch, TRS	Scot Leith, TRS
Don Green, TRS	Jamie Pierce, TRS
Carolina de Onís, TRS	Jim Pinkard, TRS
Amy Barrett, TRS	Roberto Ruiz, TRS
Janet Bray, TRS	Beckie Smith, TRS
Barbie Pearson, TRS	Heather Traeger, TRS
Sylvia Bell, TRS	Steve Huff, Reinhart Boerner Van Deuren s.c
Janie Duarte, TRS	Philip Mullins, Texas Retired Teachers Association
	Ted Melina Raab, Texas American Federation of Teachers

With a quorum of the committee present, the meeting convened at 3:55 p.m.

1. Consider the approval of the proposed minutes of the July 11, 2014 committee meeting – Nanette Sissney.

On a motion by Mr. Barth, seconded by Ms. Ramirez, the committee unanimously approved the proposed minutes of the July 11, 2014 committee meeting.

2. Receive an update on the administrative operations budget for fiscal year 2015, review the Budget History Document as background, and receive an overview of proposed administrative operations budgets and general provisions for fiscal year 2016 – Don Green.

Mr. Green presented an overview of the proposed administrative operations budget for fiscal year 2016. He also discussed the portion of TRS' biennial legislative appropriations request (LAR) for FY 2016. He highlighted notable items in the LAR, which the legislature had approved, including: the addition of 11 new full-time equivalents (FTE) for the TEAM program; funding to maintain TRS facilities, services, and workforce; and funding of GASB-related costs. He said that there would be no across-the-board pay increase for TRS staff because the legislature did not approve a pay increase for all state employees. Rather, he explained, the legislature increased salaries for those state employees who paid into the Employees Retirement System to offset their rising

contributions. He pointed out that, while the dollar amount allocated to the TRS merit pool would increase under the proposed budget, the total amount allocated for employee wages and benefits would decrease as a percentage of the total budget.

Mr. Green laid out the administrative budgets by division and operating expense category. Per Ms. Sissney's request, Mr. Green provided an update on the building renovation project. He stated that renovations of the fourth floor of the East building and some parts of the fourth floor of the West building had been finished and that contractors were currently renovating portions of the fifth floor of the East building. He stated that renovations were planned for the Telephone Counseling Center in FY 2016 and the Benefit Processing area in FY 2017. He reviewed the growth of operating expenses due to increases in postage, travel, software licenses, hardware maintenance, and using hard dollars to pay certain expenses that had previously been paid with soft dollars. Mr. Green also noted that staff proposed no substantive changes in the fund-transfer authority contained in the general provisions that accompany the budget and give direction and delegate authority regarding certain funding matters. Per Ms. Sissney's request, Mr. Green would provide details on the planned external audit for TRS-Care and TRS-ActiveCare. He confirmed that the audit is scheduled every other year for TRS-Care and TRS-ActiveCare, respectively.

The meeting adjourned at 4:15 p.m.

MINUTES APPROVED BY THE **BUDGET COMMITTEE** OF THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 24th DAY OF JULY, 2015.

ATTESTED BY:

Dan Junell
Secretary to the TRS Board of Trustees

Date



Commission Sharing Arrangement (CSA) Commissions & Expenses

Don Green, Chief Financial Officer

Sylvia Bell, Managing Director, IMD Operations

July 2015

Summary of Issue

Current Issue

- CSA 2015 commission targets have not been achieved
 - FY 2015 Budget is \$26.6 million and projected to be earned is \$20.8 million
 - CSA commissions are expected to decrease as TRS continues to expand allocation to non-CSA eligible investment strategies such as Risk Parity and External Private Markets

Impact

- Shortfall in CSA commissions will be detrimental to quality and availability of Research
- Constrains the ability to procure the necessary Research used to generate alpha

Proposed Solution

- Pay Research expenditures directly from Investment Trust Accounts
 - Continue to pay non-research related expenditures from CSA program
 - Proposed solution does not change FY 2015 or FY 2016 planned expenditures
 - Payment process similar to payment of external legal counsel expenses

Sources and Uses of Funds

Commission Sharing Arrangement (CSA)

- CSA commission credits are generated via a surcharge on eligible internally traded equities and futures
- CSA commission credits are remitted to State Street by TRS execution brokers and made available to spend
- CSA commission credit surcharge is netted against portfolio performance

Commission Recapture (CR)

- CR commission credits are generated via surcharge on eligible externally traded equities
- CR commission credits are remitted to State Street by TRS investment managers and made available to spend
- CR commission credit surcharge is netted against portfolio performance

State Street

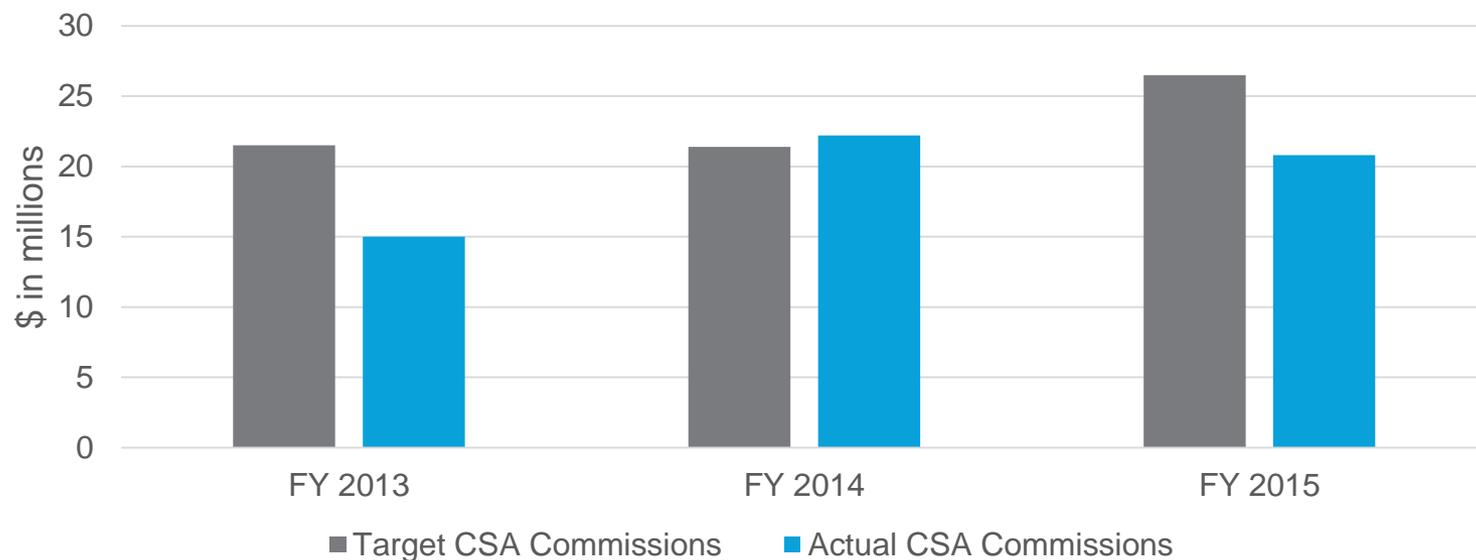
- Set amount deducted from Securities Lending program revenue

Expenditures	Budget FY 2015			Budget FY 2016		
	CSA ¹	Commission Recapture	State Street	CSA ²	Commission Recapture	State Street
Research	11,361,520			13,714,115		
Data Subscriptions & Software	11,889,109	200,000	50,000	11,189,337	390,000	758,000
Contract Services			2,040,100			2,744,200
Professional Services	2,525,000		3,585,000	3,745,000		1,702,600
Other Operating Expenses	809,865	300,000	324,900	403,125	410,000	795,200
Total	\$26,585,500	\$500,000	\$6,000,000	\$29,051,577	\$800,000	\$6,000,000

¹ The proposed process for research payments would reduce the FY2015 Soft Dollar Budget by \$2.7 million

² The proposed process for research payments would reduce the FY2016 Soft Dollar Budget by \$13.7 million

Volatility in Forecasting CSA Commissions Generated



Historical Experience

- FY 2013 – Shortfall covered by existing commission credit balances; added futures as a new commission credit source at \$2/contract
- FY 2014 – Raised commission rates (i.e. surcharge) from 6.5 bps to 8 bps on equities
- FY 2015 – Actual CSA commissions generated below Target due to portfolio turnover being down by 20% from prior year

Summary Of Options Considered To Resolve Shortfall

Option One – Pay CSA expenditures from Operating Budget

Pro:

- Resolves CSA commission shortfall

Con:

- Operating Budget cannot absorb the impact in the FY 2016 - FY2017 biennium without a fiduciary finding
- Significant impact to procurement process; would be detrimental to availability/quality of research

Option Two – Increase CSA Commission Rates

Pro:

- Provides for ability to raise more commissions per trade and meet budget target

Con:

- Will increase trade execution costs
- Disproportionate performance impact for those portfolios that generate CSA eligible trades

Option Three – Pay certain CSA expenditures from Investment Trust Accounts (preferred option)

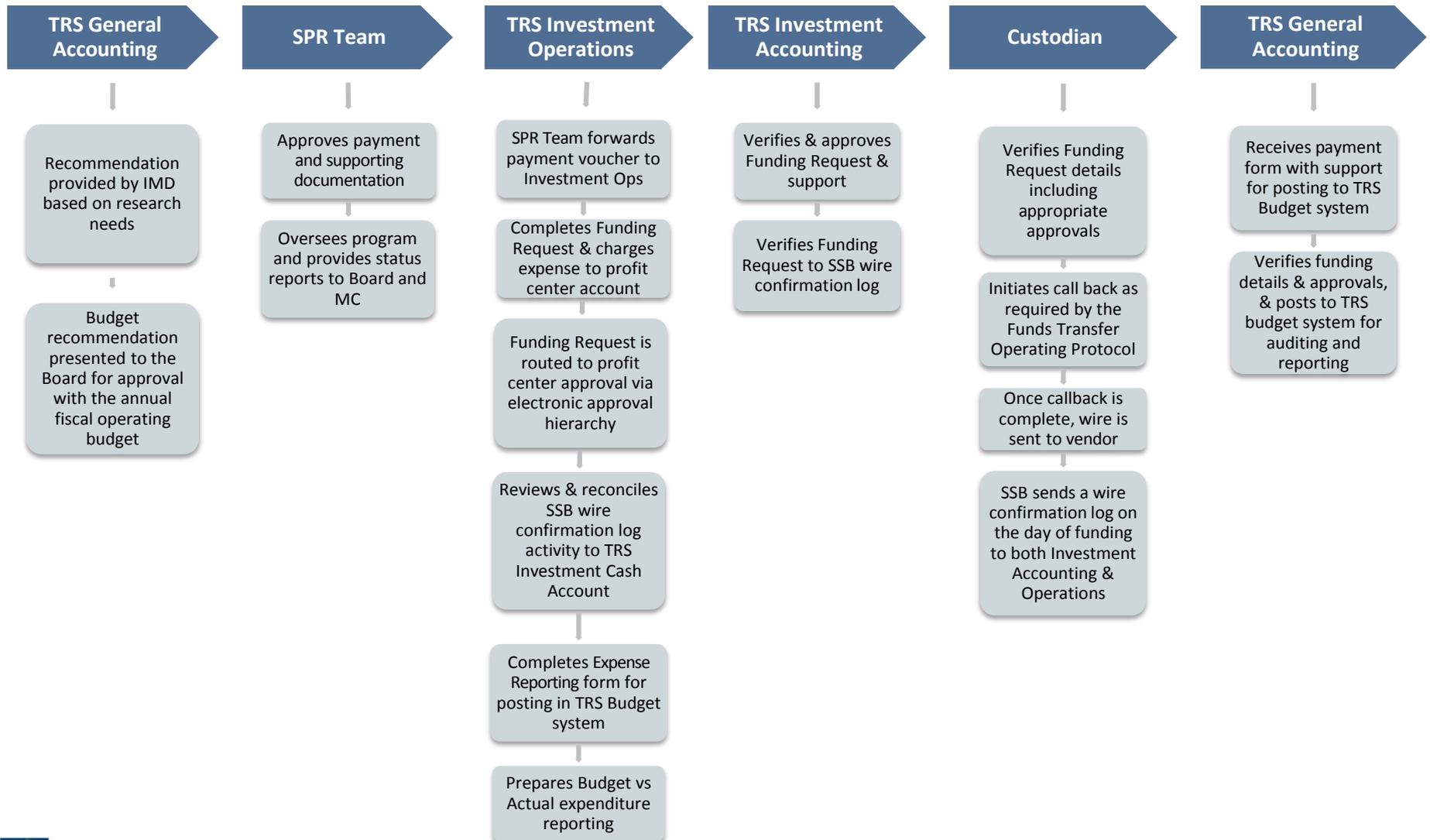
Pro:

- Mitigates reliance on volatile and uncertain source for paying fixed costs
- More aligned allocation of research expenses to investment portfolio performance; same impact to Total Trust performance
- Process, systems, controls exist; no additional changes required to budget, procurement or payment process

Con:

- More TRS resources required in management and oversight of research expenditures

Using Existing Budget, Approval and Payment Process



Budget Program Descriptions

	Operating Budget	State Street	TRS Commission Arrangements	
			CSA	Commission Recapture
Budget Process	Budget Committee, Board and Legislative Budget Board	Budget Committee and Board	Budget Committee and Board	Budget Committee and Board
Primary Uses	Travel and Salaries	Contract workers	Third party research, Software, Data Subscriptions	Systems and Software
Limitations	State budget constraints and state contracting requirements	Contractual limit of \$6 million; eligible expenses defined in SSB/TRS custody agreement	Generated by internal manager trading commissions; subject to Soft Dollar Policy	Generated by external manager trading commissions; subject to Soft Dollar Policy
Credit Rates	N/A	N/A	Dollar for dollar credit (i.e. no mark-up)	Standard rate sheet; dollar for dollar credit (i.e. no mark-up)
Other Factors	State Budget constraints	Expenses require SSB approval	Administered by State Street; additional SEC Rule 28(e) expense eligibility limitations	Administered by State Street; not subject to SEC Rule 28(e) expense eligibility limitations

Teacher Retirement System of Texas



Budget Committee **FY 2016 Operating Budget**

Don Green, Chief Financial Officer

Board of Trustees Meeting
July 24, 2015





Key Points

The total operating budget requested for FY 2016 across all funds is within existing legislative authority. The total request is \$172.9 million, an increase of \$12 million (or 7.5%) over FY 2015. Based on strategic planning, the following represent the agency's funding priorities:

- The total TEAM request will consist of \$24.6 million, representing the next increment needed to implement the program. Included are 11 new FTEs approved by the Board during the LAR process.
- An agency merit pool of 3% for Red River and 5% for the Investment Management Division.
- Funding for increases in operating expenses for leased space, postage, software licenses, and the shift of expenses from soft dollars to hard dollars.
- No funding is requested at this time for GASB implementation; only approval upon a finding of fact by the TRS board.



General Provisions

TEACHER RETIREMENT SYSTEM OF TEXAS

GENERAL PROVISIONS

The Teacher Retirement System (TRS) uses as guidelines the provisions of Article IX (General Provisions) of the General Appropriations Act adopted by the 84th Texas Legislature (GAA) in administering the system to the extent that the Executive Director or a designee acting in the absence of the Executive Director determines that individual provisions of Article IX are in the best interests of TRS and are not in conflict with applicable TRS laws, fiduciary duties, or policies. The following provisions are subject to this paragraph.

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 pay for TRS' administrative operating expenses for the fiscal year because such operating expenses are required to perform the fiduciary duties of the board. Further, 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 DOLLAR CREDITS, COMMISSION RECAPTURE BALANCES, AND COMMISSION SHARING ARRANGEMENTS (CSAs) – The board finds that the expenditure of funds provided by soft dollar credits, commission recapture balances, and CSA balances to obtain research, 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. Uses of soft dollar credits, commission recapture balances, and CSA balances 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, credits deducted from payables, temporarily-assigned, non-TRS workers, 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 are funded from the Retired Employees Group Health Insurance Fund (the TRS-Care Fund). Operations of the Texas School Employees Uniform Group Health Coverage Program are funded from the Texas School Employees Uniform Group Coverage Trust Fund (the TRS ActiveCare Fund).

SECTION 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 base salaries, salary changes, and other personnel actions including but not limited to promotions, demotions, merits, and recruitment and retention bonuses. TRS will generally 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 base salaries 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



General Provisions

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 the extent feasible, to make individual retirement benefits counseling sessions available to members in conjunction with informational or educational programs presentations that TRS provides for groups throughout the state, in order to promote efficiency and minimize 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 operation of TRS programs, 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 TRS-Care Fund, the TRS-ActiveCare Fund, and the 403(b) Administrative Trust Fund.

CONTINGENCY FOR CATASTROPHIC OCCURRENCES – In the event of a catastrophic occurrence which destroys or incapacitates 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.

Summary of FY 2016 Budget

	PENSION TRUST FUND		Investment Soft Dollar	HEALTH BENEFITS FUNDS		403(b) Certification Program	TOTAL
	Administrative Operations	TEAM		TRS-Care (Retired Plan)	TRS-ActiveCare (Active Plan)		
REVENUES AND OTHER SOURCES							
Legislative Appropriations - Administrative Operations	\$ 78,839,990						\$ 78,839,990
Appropriation Balance Available for FY 2016 - TEAM*		\$ 24,636,163					24,636,163
Fringe Benefits Paid by the Pension Fund**	13,557,323						13,557,323
Performance Incentive Compensation Rider	11,200,000						11,200,000
Investment Soft Dollar			\$ 35,851,577				35,851,577
Reserved for Administrative Expenses				\$ 5,325,902	\$ 3,387,496	\$ 85,397	8,798,795
TOTAL REVENUES AND OTHER SOURCES	\$ 103,597,313	\$ 24,636,163	\$ 35,851,577	\$ 5,325,902	\$ 3,387,496	\$ 85,397	\$ 172,883,848
OPERATING AND CAPITAL EXPENSES							
Wages and Benefits	\$ 62,043,717	\$ 5,722,935	\$ -	\$ 3,259,660	\$ 1,648,172	\$ 85,397	\$ 72,759,881
Professional Fees and Services	3,384,230	15,424,526	5,447,600	1,578,000	1,615,750	-	27,450,106
Support Costs	5,396,123	20,000	315,200	139,972	91,724	-	5,963,019
Travel	1,544,598	30,000	-	20,500	8,950	-	1,604,048
Research	-	-	13,714,115	-	-	-	13,714,115
Capital Projects	5,410,000	-	-	-	-	-	5,410,000
Operating Costs	14,618,645	3,438,702	16,374,662	327,770	22,900	-	34,782,679
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 92,397,313	\$ 24,636,163	\$ 35,851,577	\$ 5,325,902	\$ 3,387,496	\$ 85,397	\$ 161,683,848
Performance Incentive Compensation	\$ 11,200,000						\$ 11,200,000
TOTAL OPERATING AND CAPITAL EXPENSES INCLUDING PERFORMANCE INCENTIVE COMPENSATION	\$ 103,597,313	\$ 24,636,163	\$ 35,851,577	\$ 5,325,902	\$ 3,387,496	\$ 85,397	\$ 172,883,848
Percentage Increase/(Decrease) from FY 2015 Budget	7.45%	6.28%	8.36%	16.40%	1.11%	-58.85%	7.50%

* Legislative appropriations for the biennium are \$40.3 million.

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



Comparison by Department

	FY 2015 BUDGET	FY 2016 REQUEST	VARIANCE
Agency Support			
Board -----	\$ 106,000	\$ 186,000	\$ 80,000
Executive -----	992,860	1,035,883	43,023
Internal Audit -----	1,555,943	1,966,609	410,666
Legal -----	4,767,701	4,865,255	97,554
Governmental Relations -----	329,735	334,230	4,495
Communications -----	1,333,604	1,395,873	62,269
Human Resources -----	1,530,126	1,549,664	19,538
Program Management Office -----	40,000	40,000	-
Strategic Initiatives -----	499,562	623,262	123,700
Risk Management -----	1,232,899	1,253,832	20,933
Agency Interns -----	204,000	200,000	(4,000)
Agency Wide Costs* -----	4,349,225	5,966,721	1,617,496
TOTAL AGENCY SUPPORT DIVISION	\$ 16,941,655	\$ 19,417,329	\$ 2,475,674
Investment Management Division			
Soft Dollars	\$ 36,845,958	\$ 40,287,384	\$ 3,441,426
	\$ 33,085,494	\$ 35,851,577	\$ 2,766,083
TOTAL INVESTMENT MANAGEMENT DIVISION	\$ 69,931,452	\$ 76,138,961	\$ 6,207,509
Benefit Services Division			
Benefit Services Administration -----	\$ 273,866	\$ 416,182	\$ 142,316
Benefit Processing -----	4,743,348	5,400,389	657,041
Benefit Counseling -----	4,229,208	4,099,246	(129,962)
Member Data Services -----	1,366,921	-	(1,366,921)
Benefit Payments -----	-	636,806	636,806
Benefit Reporting -----	-	626,383	626,383
TOTAL BENEFIT SERVICES DIVISION	\$ 10,613,343	\$ 11,179,006	\$ 565,663
Financial Services Division			
Financial Services Administration -----	\$ 271,391	\$ 272,291	\$ 900
General Accounting -----	2,349,701	2,333,132	(16,569)
Benefit Accounting -----	1,403,401	-	(1,403,401)
Investment Accounting -----	534,324	490,871	(43,453)
Records Management -----	-	767,568	767,568
Staff Services -----	2,171,276	2,105,240	(66,036)
Facilities Services -----	5,312,350	4,923,205	(389,145)
Printing, Mailing and Supply -----	2,808,000	3,554,701	746,701
TOTAL FINANCE DIVISION	\$ 14,850,443	\$ 14,447,008	\$ (403,435)

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





Comparison by Department

Information Technology Division

Information Technology -----
 Network Infrastructure and Support -----
 Information Systems Support, Green Team -----
 Technical Support -----
 Information Systems Support, Gold Team -----
 System Architecture -----

TOTAL INFORMATION TECHNOLOGY DIVISION

TEAM PROGRAM

Healthcare Policy and Administration

TRS Care -----
 TRS ActiveCare -----
 Optional Insurance -----
 403(b) Certification -----

TOTAL HEALTHCARE POLICY AND ADMINISTRATION

TOTAL AGENCY, ALL FUNDS

	FY 2015 BUDGET	FY 2016 REQUEST	VARIANCE
Information Technology Division			
Information Technology -----	\$ 1,727,350	\$ 1,792,022	\$ 64,672
Network Infrastructure and Support -----	6,142,671	6,680,677	538,006
Information Systems Support, Green Team -----	1,755,304	1,674,681	(80,623)
Technical Support -----	5,605,392	6,168,609	563,217
Information Systems Support, Gold Team -----	1,361,376	1,365,074	3,698
System Architecture -----	574,190	585,523	11,333
TOTAL INFORMATION TECHNOLOGY DIVISION	\$ 17,166,283	\$ 18,266,586	\$ 1,100,303
TEAM PROGRAM	\$ 23,180,175	\$ 24,636,163	\$ 1,455,988
Healthcare Policy and Administration			
TRS Care -----	\$ 4,575,407	\$ 5,325,902	\$ 750,495
TRS ActiveCare -----	3,249,460	3,282,870	33,410
Optional Insurance -----	100,738	104,626	3,888
403(b) Certification -----	207,528	85,397	(122,131)
TOTAL HEALTHCARE POLICY AND ADMINISTRATION	\$ 8,133,133	\$ 8,798,795	\$ 665,662
TOTAL AGENCY, ALL FUNDS	\$ 160,816,484	\$ 172,883,848	\$ 12,067,364

Comparison by Expense Category

	FY 2015 BUDGET	FY 2016 REQUEST	VARIANCE
SALARIES AND OTHER PERSONNEL COSTS			
Salaries and Wages	\$ 52,571,562	\$ 55,561,898	\$ 2,990,336
Longevity Pay	770,600	800,180	29,580
Employer Retirement Contributions	3,587,431	3,676,338	88,907
Employer FICA Contributions	3,900,908	3,868,403	(32,505)
Employer Health Insurance Contributions/Enrollment Fees	7,129,573	8,091,087	961,514
Benefit Replacement Pay	150,302	127,475	(22,827)
Other Employee Benefits	657,800	634,500	(23,300)
Performance Incentive Compensation	11,200,000	11,200,000	-
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 79,968,176	\$ 83,959,881	\$ 3,991,705
PROFESSIONAL FEES AND SERVICES			
	\$ 27,219,100	\$ 27,450,106	\$ 231,006
OTHER OPERATING EXPENSES			
Consumable Supplies and Fuels	\$ 542,043	\$ 570,538	\$ 28,495
Utilities	1,142,764	1,143,251	487
Travel	1,338,578	1,604,048	265,470
Rentals	2,856,608	3,104,880	248,272
Dues, Fees and Staff Development	1,223,686	1,302,061	78,375
Subscriptions and Reference Information	12,515,039	14,180,890	1,665,851
Printing and Reproduction Services	433,825	500,087	66,262
Postage, Mailing and Delivery Services	2,368,860	3,130,326	761,466
Software Purchases and Maintenance	5,282,076	6,056,518	774,442
Computer Hardware Maintenance	825,352	899,425	74,073
Miscellaneous Expenses	1,547,292	2,072,932	525,640
Insurance Premiums	818,215	832,165	13,950
Furniture and Equipment - Expensed	862,600	1,228,200	365,600
Maintenance - Buildings and Equipment	1,185,855	1,144,350	(41,505)
Contracted Services	2,040,100	2,744,200	704,100
Research	11,361,520	13,714,115	2,352,595
TOTAL OTHER OPERATING EXPENSES	\$ 46,344,413	\$ 54,227,986	\$ 7,883,573
TOTAL OPERATING EXPENSES	\$ 153,531,689	\$ 165,637,973	\$ 12,106,284
CAPITAL EXPENSES			
Furniture and Equipment	\$ 1,879,504	\$ 1,835,875	\$ (43,629)
Capital Budget Items	5,405,291	5,410,000	4,709
TOTAL CAPITAL EXPENSES	\$ 7,284,795	\$ 7,245,875	\$ (38,920)
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 160,816,484	\$ 172,883,848	\$ 12,067,364

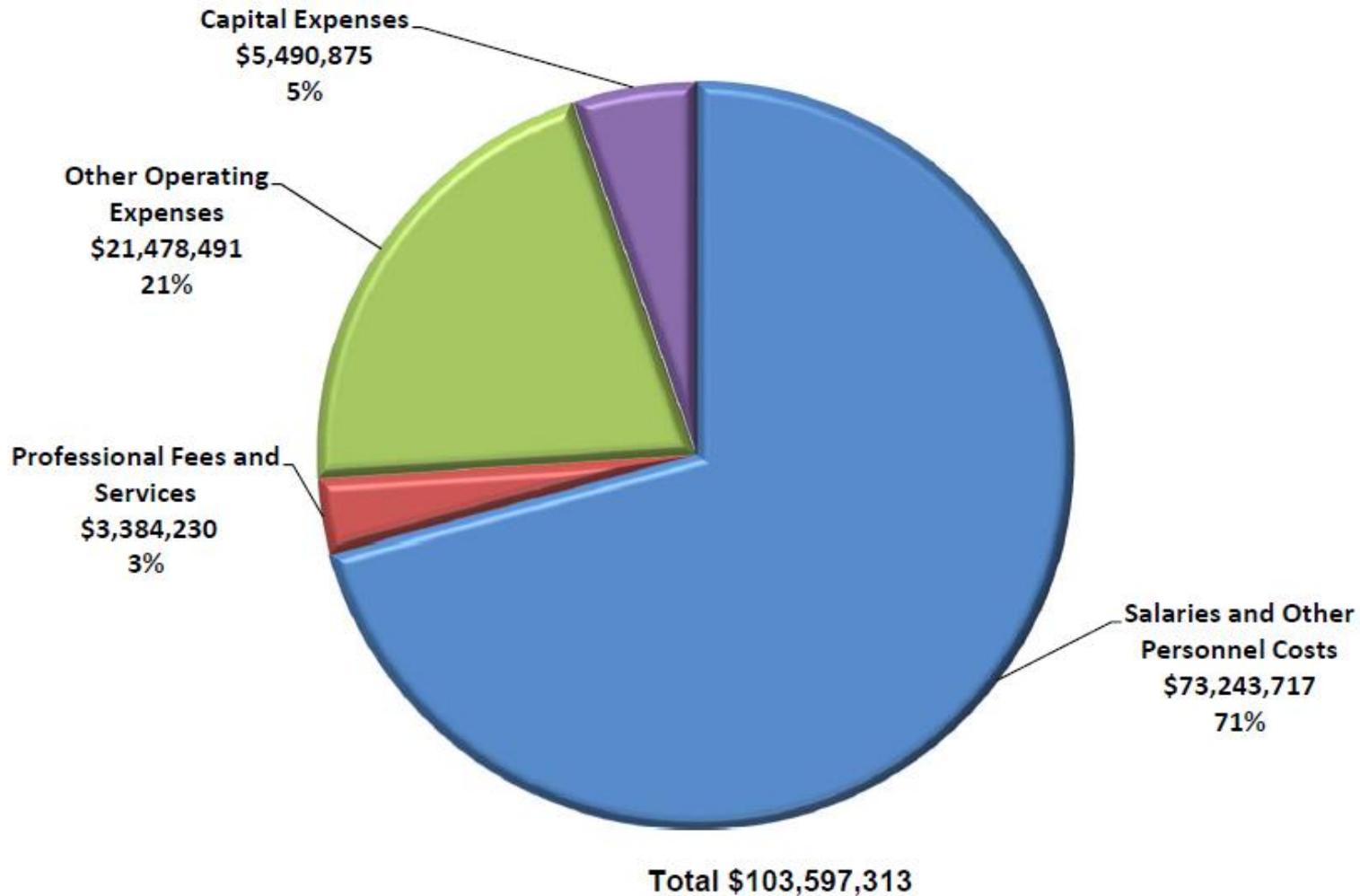
Pension Trust Fund Administrative Operations



	FY 2015 BUDGET	FY 2016 REQUEST	VARIANCE
SALARIES AND OTHER PERSONNEL COSTS			
Salaries and Wages -----	\$ 45,348,684	\$ 47,412,754	\$ 2,064,070
Longevity Pay -----	657,400	673,640	16,240
Employer Retirement Contributions -----	3,117,355	3,138,435	21,080
Employer FICA Contributions -----	3,378,813	3,270,149	(108,664)
Employer Health Insurance Contributions/Enrollment Fees -----	6,400,795	6,968,964	568,169
Benefit Replacement Pay -----	131,634	109,275	(22,359)
Other Employee Benefits -----	495,500	470,500	(25,000)
Performance Incentive Compensation -----	11,200,000	11,200,000	-
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 70,730,181	\$ 73,243,717	\$ 2,513,536
PROFESSIONAL FEES AND SERVICES	\$ 3,006,924	\$ 3,384,230	\$ 377,306
OTHER OPERATING EXPENSES			
Consumable Supplies and Fuels -----	\$ 518,043	\$ 546,538	\$ 28,495
Utilities -----	1,135,264	1,135,751	487
Travel -----	1,281,128	1,544,598	263,470
Rentals -----	2,405,893	2,591,484	185,591
Dues, Fees and Staff Development -----	519,386	707,761	188,375
Subscriptions and Reference Information -----	374,460	1,842,083	1,467,623
Printing and Reproduction Services -----	374,900	388,162	13,262
Postage, Mailing and Delivery Services -----	2,228,285	2,939,751	711,466
Software Purchases and Maintenance -----	3,493,124	4,131,291	638,167
Computer Hardware Maintenance -----	825,352	899,425	74,073
Miscellaneous Expenses -----	1,258,777	1,677,432	418,655
Insurance Premiums -----	818,215	832,165	13,950
Furniture and Equipment - Expensed -----	754,100	1,119,700	365,600
Maintenance - Buildings and Equipment -----	1,163,855	1,122,350	(41,505)
TOTAL OTHER OPERATING EXPENSES	\$ 17,150,782	\$ 21,478,491	\$ 4,327,709
TOTAL OPERATING EXPENSES	\$ 90,887,887	\$ 98,106,438	\$ 7,218,551
CAPITAL EXPENSES			
Furniture and Equipment -----	\$ 124,504	\$ 80,875	\$ (43,629)
Capital Budget Items -----	5,405,291	5,410,000	4,709
TOTAL CAPITAL EXPENSES	\$ 5,529,795	\$ 5,490,875	\$ (38,920)
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 96,417,682	\$ 103,597,313	\$ 7,179,631



Pension Trust Fund Administrative Operations



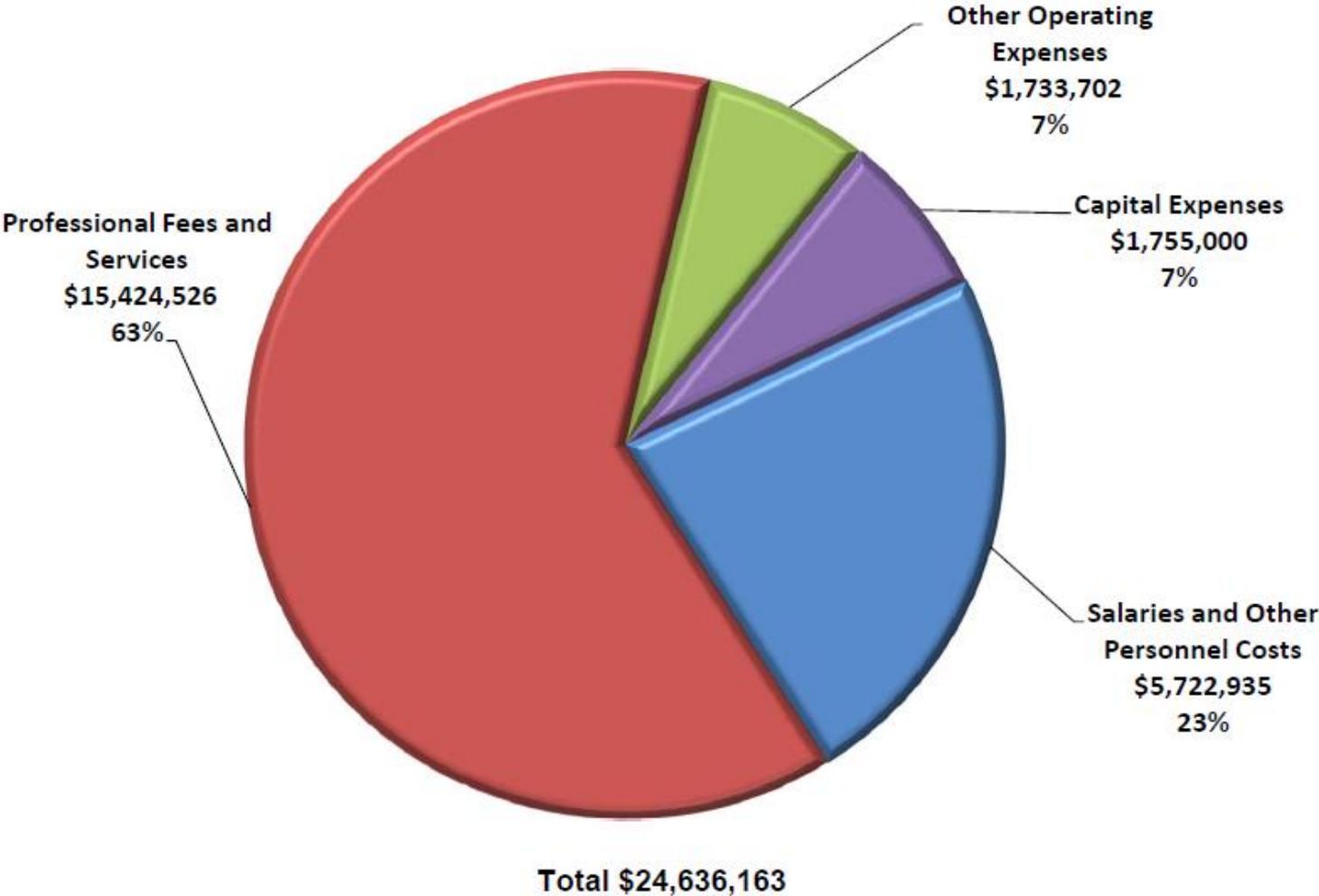
Pension Trust Fund TEAM Program



	FY 2015 BUDGET	FY 2016 REQUEST	VARIANCE
SALARIES AND OTHER PERSONNEL COSTS			
Salaries and Wages -----	\$ 3,514,916	\$ 4,447,378	\$ 932,462
Longevity Pay -----	30,540	40,320	9,780
Employer Retirement Contributions -----	219,498	295,020	75,522
Employer FICA Contributions -----	246,540	331,126	84,586
Employer Health Insurance Contributions/Enrollment Fees -----	238,164	592,491	354,327
Benefit Replacement Pay -----	3,289	2,600	(689)
Other Employee Benefits -----	14,000	14,000	-
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 4,266,947	\$ 5,722,935	\$ 1,455,988
PROFESSIONAL FEES AND SERVICES			
	\$ 15,424,526	\$ 15,424,526	\$ -
OTHER OPERATING EXPENSES			
Consumable Supplies and Fuels -----	\$ 15,000	\$ 15,000	\$ -
Utilities -----	-	-	-
Travel -----	30,000	30,000	-
Rentals -----	-	-	-
Dues, Fees and Staff Development -----	150,000	150,000	-
Subscriptions and Reference Information -----	-	-	-
Printing and Reproduction Services -----	-	-	-
Postage, Mailing and Delivery Services -----	-	-	-
Software Purchases and Maintenance -----	1,433,702	1,433,702	-
Computer Hardware Maintenance -----	-	-	-
Miscellaneous Expenses -----	-	-	-
Insurance Premiums -----	-	-	-
Furniture and Equipment - Expensed -----	100,000	100,000	-
Maintenance - Buildings and Equipment -----	5,000	5,000	-
TOTAL OTHER OPERATING EXPENSES	\$ 1,733,702	\$ 1,733,702	\$ -
TOTAL OPERATING EXPENSES	\$ 21,425,175	\$ 22,881,163	\$ 1,455,988
CAPITAL EXPENSES			
Furniture and Equipment -----	\$ 1,755,000	\$ 1,755,000	\$ -
Capital Budget Items -----	-	-	-
TOTAL CAPITAL EXPENSES	\$ 1,755,000	\$ 1,755,000	\$ -
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 23,180,175	\$ 24,636,163	\$ 1,455,988



Pension Trust Fund TEAM Program



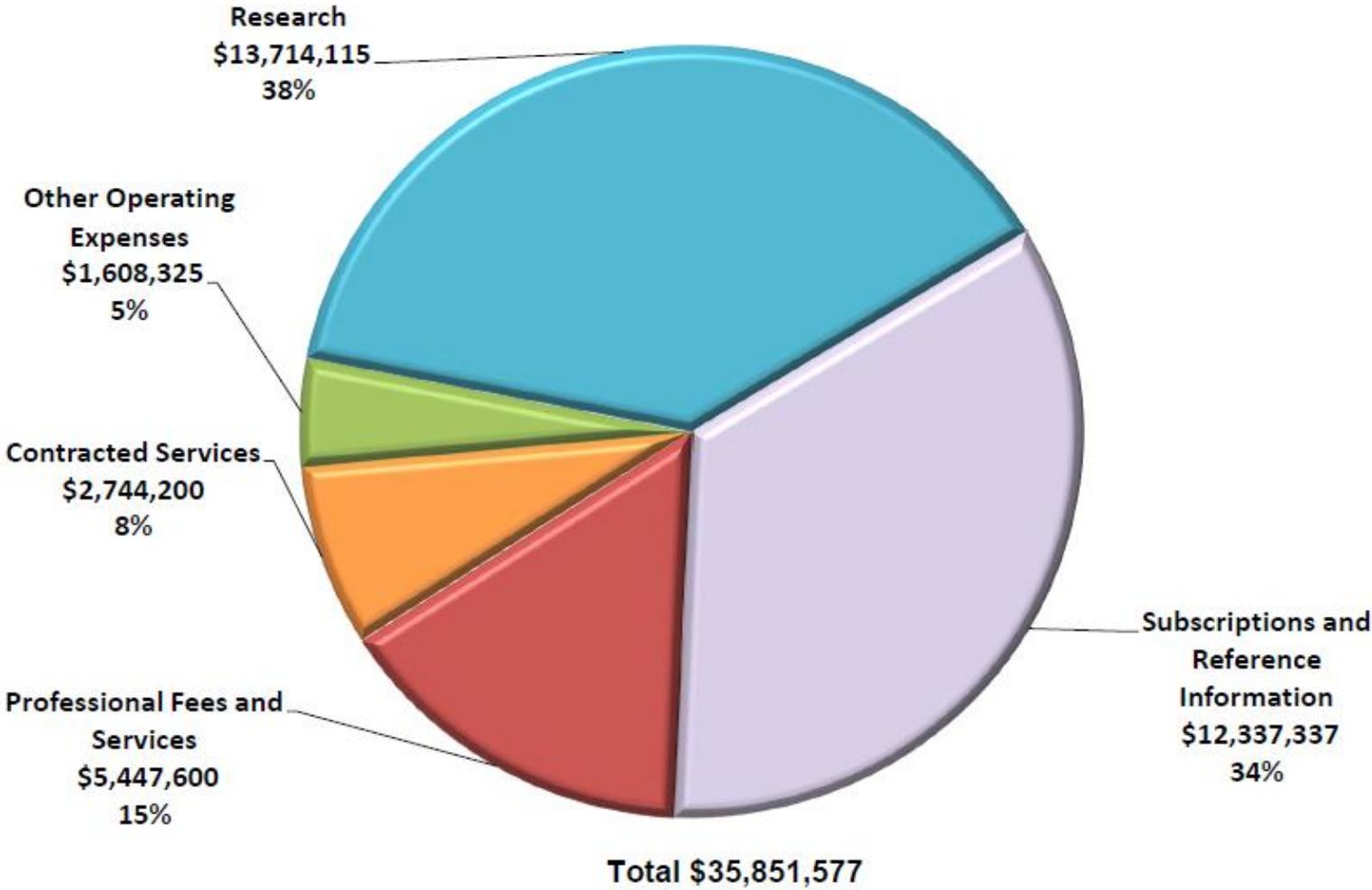
Investment Soft Dollar



	FY 2015 BUDGET	FY 2016 REQUEST	VARIANCE
PROFESSIONAL FEES AND SERVICES	\$ 6,109,900	\$ 5,447,600	\$ (662,300)
OTHER OPERATING EXPENSES			\$ -
Rentals -----	\$ 275,000	\$ 315,200	\$ 40,200
Dues, Fees and Staff Development -----	540,000	430,000	(110,000)
Subscriptions and Reference Information -----	12,139,109	12,337,337	198,228
Software Purchases and Maintenance -----	355,250	491,525	136,275
Miscellaneous Expenses -----	264,615	371,600	106,985
Contracted Services -----	2,040,100	2,744,200	704,100
Research-----	11,361,520	13,714,115	2,352,595
TOTAL OTHER OPERATING EXPENSES	\$ 26,975,594	\$ 30,403,977	\$ 3,428,383
TOTAL OPERATING EXPENSES	\$ 33,085,494	\$ 35,851,577	\$ 2,766,083
INVESTMENT SOFT DOLLAR RESOURCES			\$ -
State Street Bank Partnership Account -----	\$ 6,000,000	\$ 6,000,000	\$ -
Commission Sharing Arrangements-----	26,585,494	29,051,577	2,466,083
Commission Recapture Revenue-----	500,000	800,000	300,000
TOTAL	\$ 33,085,494	\$ 35,851,577	\$ 2,766,083

The proposed process for research payments would reduce the FY2015 Soft Dollar Budget by \$2.7 million and would reduce the FY2016 Soft Dollar Budget by \$13.7 million.

Investment Soft Dollar





Outside Legal Counsel for Investments

- In summer 2014, TRS adopted a new payment process for outside legal expenses related to investment transactions. Those costs are now directly charged to the Investment Division profit centers and paid from TRS's custodial accounts. This results in the legal expenditures being netted against investment returns for each area.
- Quarterly Board transparency reporting includes these expenses by profit center and by investment transaction.
- To provide an aggregated comparison for the same calendar periods:
 - For FY 2014 through June 30, 2014, the total spent was \$2,622,275. Of this sum, Project Champ reimbursed TRS \$1.1 million, which defrayed a portion of these expenditures.
 - For FY 2015 through June 30, 2015, the total incurred is \$2,507,468.
- Outside legal counsel costs for the investment function are transaction-driven and vary from year to year, averaging \$3.2 million per fiscal year since FY2008.
- As before, Legal Services and the OAG review and approve all invoices prior to payment.

TRS Care

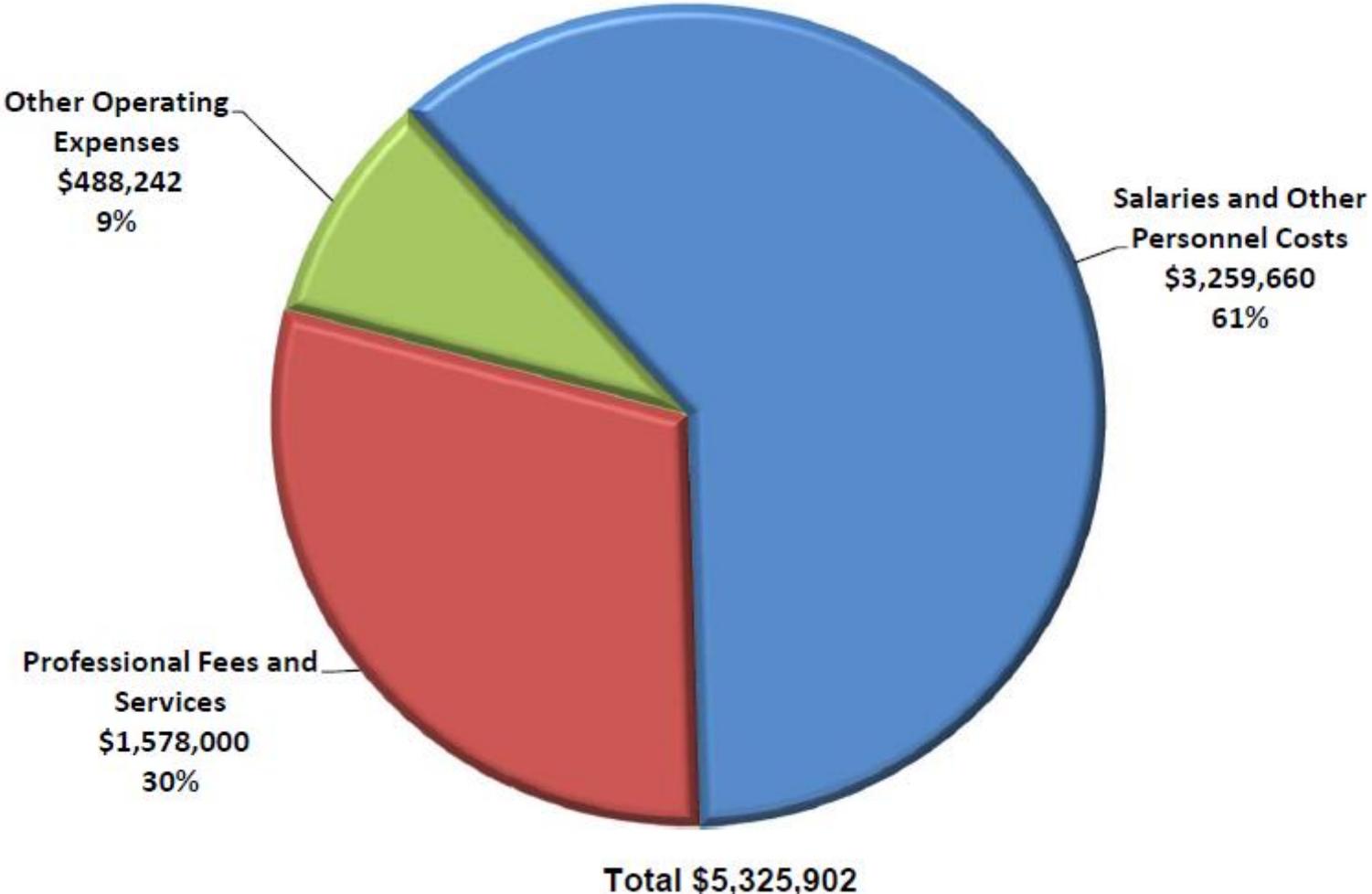


	FY 2015 BUDGET	FY 2016 REQUEST	VARIANCE
SALARIES AND OTHER PERSONNEL COSTS			
Salaries and Wages -----	\$ 2,330,517	\$ 2,416,820	\$ 86,303
Longevity Pay -----	58,720	62,400	3,680
Employer Retirement Contributions -----	157,115	158,250	1,135
Employer FICA Contributions -----	176,306	176,812	506
Employer Health Insurance Contributions/Enrollment Fees -----	332,220	357,178	24,958
Benefit Replacement Pay -----	11,601	11,700	99
Other Employee Benefits -----	76,500	76,500	-
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 3,142,979	\$ 3,259,660	\$ 116,681
PROFESSIONAL FEES AND SERVICES	\$ 1,062,000	\$ 1,578,000	\$ 516,000
OTHER OPERATING EXPENSES			
Consumable Supplies and Fuels -----	\$ 6,000	\$ 6,000	\$ -
Utilities -----	6,000	6,000	-
Travel -----	18,500	20,500	2,000
Rentals -----	100,158	112,972	12,814
Dues, Fees and Staff Development -----	5,300	5,300	-
Subscriptions and Reference Information -----	570	570	-
Printing and Reproduction Services -----	57,500	110,500	53,000
Postage, Mailing and Delivery Services -----	135,800	185,800	50,000
Software Purchases and Maintenance -----	-	-	-
Computer Hardware Maintenance -----	-	-	-
Miscellaneous Expenses -----	20,600	20,600	-
Insurance Premiums -----	-	-	-
Furniture and Equipment - Expensed -----	5,000	5,000	-
Maintenance - Buildings and Equipment -----	15,000	15,000	-
TOTAL OTHER OPERATING EXPENSES	\$ 370,428	\$ 488,242	\$ 117,814
TOTAL OPERATING EXPENSES	\$ 4,575,407	\$ 5,325,902	\$ 750,495
CAPITAL EXPENSES			
Furniture and Equipment -----	\$ -	\$ -	\$ -
Capital Budget Items -----	-	-	-
TOTAL CAPITAL EXPENSES	\$ -	\$ -	\$ -
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 4,575,407	\$ 5,325,902	\$ 750,495





TRS Care

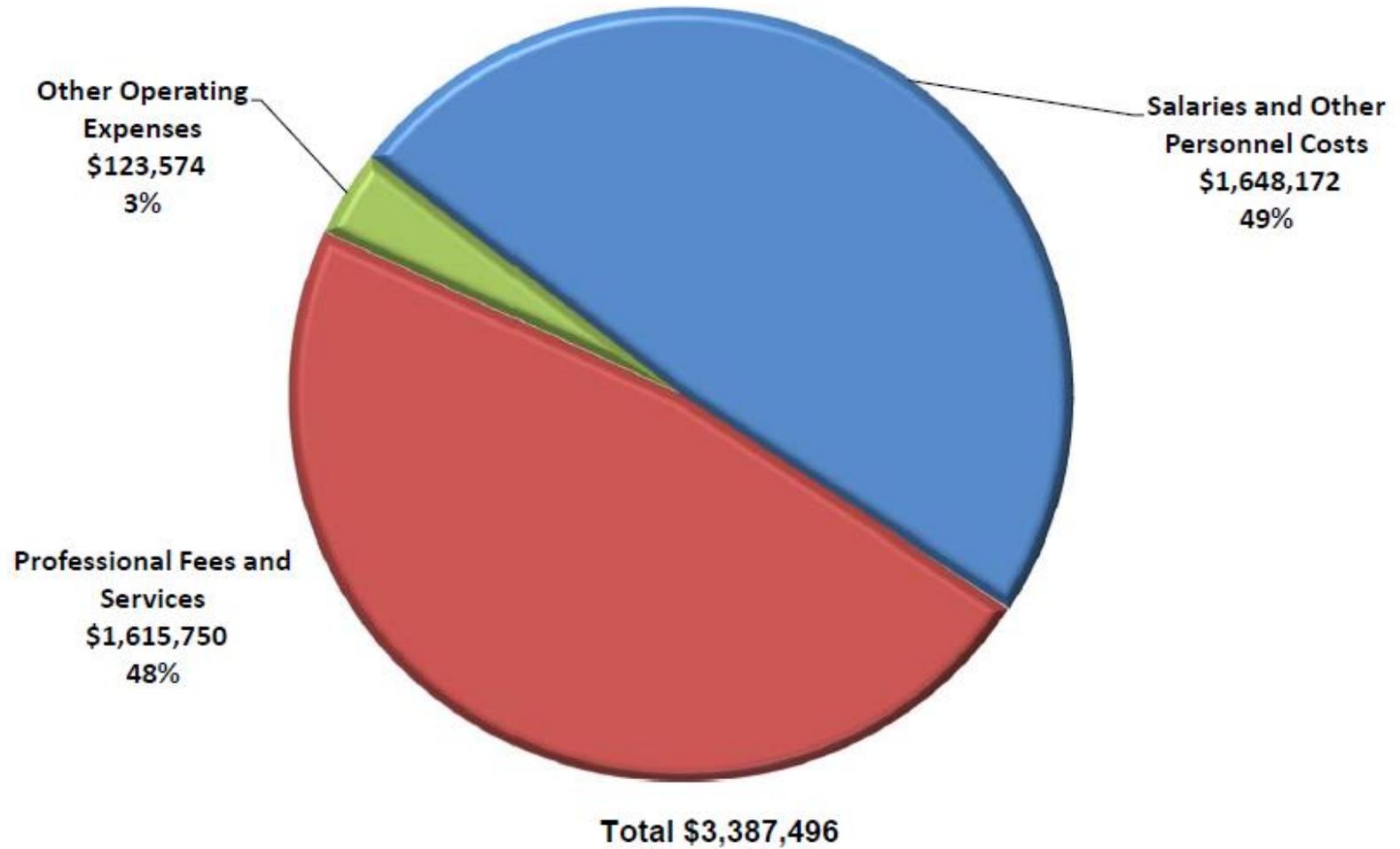


TRS ActiveCare

	FY 2015 BUDGET	FY 2016 REQUEST	VARIANCE
SALARIES AND OTHER PERSONNEL COSTS			
Salaries and Wages -----	\$ 1,204,942	\$ 1,219,965	\$ 15,023
Longevity Pay -----	23,940	23,820	(120)
Employer Retirement Contributions -----	81,733	80,343	(1,390)
Employer FICA Contributions -----	86,053	85,490	(563)
Employer Health Insurance Contributions/Enrollment Fees -----	150,584	163,454	12,870
Benefit Replacement Pay -----	2,489	2,600	111
Other Employee Benefits -----	70,800	72,500	1,700
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 1,620,541	\$ 1,648,172	\$ 27,631
PROFESSIONAL FEES AND SERVICES			
	\$ 1,615,750	\$ 1,615,750	\$ -
OTHER OPERATING EXPENSES			
Consumable Supplies and Fuels -----	\$ 3,000	\$ 3,000	\$ -
Utilities -----	1,500	1,500	-
Travel -----	8,950	8,950	-
Rentals -----	75,557	85,224	9,667
Dues, Fees and Staff Development -----	9,000	9,000	-
Subscriptions and Reference Information -----	900	900	-
Printing and Reproduction Services -----	1,425	1,425	-
Postage, Mailing and Delivery Services -----	4,775	4,775	-
Software Purchases and Maintenance -----	-	-	-
Computer Hardware Maintenance -----	-	-	-
Miscellaneous Expenses -----	3,300	3,300	-
Insurance Premiums -----	-	-	-
Furniture and Equipment - Expensed -----	3,500	3,500	-
Maintenance - Buildings and Equipment -----	2,000	2,000	-
TOTAL OTHER OPERATING EXPENSES	\$ 113,907	\$ 123,574	\$ 9,667
TOTAL OPERATING EXPENSES	\$ 3,350,198	\$ 3,387,496	\$ 37,298
CAPITAL EXPENSES			
Furniture and Equipment -----	\$ -	\$ -	\$ -
Capital Budget Items -----	-	-	-
TOTAL CAPITAL EXPENSES	\$ -	\$ -	\$ -
TOTAL OPERATING AND CAPITAL EXPENSES	\$ 3,350,198	\$ 3,387,496	\$ 37,298



TRS ActiveCare





403 (b) Certification Program

SALARIES AND OTHER PERSONNEL COSTS

Salaries and Wages -----
 Longevity Pay -----
 Employer Retirement Contributions -----
 Employer FICA Contributions -----
 Employer Health Insurance Contributions/Enrollment Fees -----
 Benefit Replacement Pay -----
 Other Employee Benefits -----

TOTAL SALARIES AND OTHER PERSONNEL COSTS

PROFESSIONAL FEES AND SERVICES

OTHER OPERATING EXPENSES

TOTAL OPERATING EXPENSES

	FY 2015 BUDGET	FY 2016 REQUEST	VARIANCE
Salaries and Wages	\$ 172,503	\$ 64,981	\$ (107,522)
Longevity Pay	-	-	-
Employer Retirement Contributions	11,730	4,290	(7,440)
Employer FICA Contributions	13,196	4,826	(8,370)
Employer Health Insurance Contributions/Enrollment Fees	7,810	9,000	1,190
Benefit Replacement Pay	1,289	1,300	11
Other Employee Benefits	1,000	1,000	-
TOTAL SALARIES AND OTHER PERSONNEL COSTS	\$ 207,528	\$ 85,397	\$ (122,131)
PROFESSIONAL FEES AND SERVICES	\$ -	\$ -	\$ -
OTHER OPERATING EXPENSES	\$ -	\$ -	\$ -
TOTAL OPERATING EXPENSES	\$ 207,528	\$ 85,397	\$ (122,131)

Expenses by Division, FY 2011 – 2015

Division	FY2011 Expended	FY2012 Expended	FY2013 Expended	FY2014 Expended	FY2015 Projected
Agency Support	11,379,220	14,142,472	14,432,807	15,763,272	14,913,797
IMD	58,711,925	53,777,299	55,393,466	56,413,210	62,828,518
Benefit Services	8,945,746	9,136,234	9,525,752	9,855,092	10,174,715
Finance	14,383,976	11,252,259	11,726,455	10,075,678	13,778,181
Info Tech	15,245,867	12,508,872	12,822,400	14,807,085	14,875,816
TEAM	-	2,091,179	14,625,644	12,781,057	23,058,107
Healthcare	5,629,633	5,800,077	5,926,825	6,402,775	7,274,838
TOTAL	114,296,367	108,708,392	124,453,349	126,098,169	146,903,972

Pension Trust Fund, FY 2011 – 2015

Category	FY2011 Expended	FY2012 Expended	FY2013 Expended	FY2014 Expended	FY2015 Projected
Wages and Benefits	55,957,235	52,431,485	54,403,506	57,582,047	63,823,375
Professional Fees and Services	4,777,632	4,812,861	7,765,423	5,520,706	2,195,754
Support Costs	4,052,401	3,688,595	4,302,793	4,644,999	4,910,176
Travel	715,481	804,691	841,022	1,079,774	1,000,625
Capital Projects	5,636,896	242,360	860,410	1,585,964	4,904,389
Operating Costs	8,532,748	8,083,195	7,893,466	9,274,609	8,330,488
TOTAL	79,672,393	70,063,187	76,066,620	79,688,099	85,164,808



TEAM Program, FY 2011 – 2015

Category	FY2012 Expended	FY2013 Expended	FY2014 Expended	FY2015 Projected
Wages and Benefits	233,159	1,549,137	3,008,600	4,294,879
Professional Fees and Services	1,046,592	9,734,745	7,927,768	15,424,526
Support Costs	-	75,965	1,250	20,000
Travel	1,116	3,928	8,676	30,000
Operating Costs	810,312	3,261,869	1,834,764	3,288,702
TOTAL	2,091,179	14,625,644	12,781,058	23,085,107

Investment Soft Dollar, FY 2011 – 2015

Category	FY2011 Expended	FY2012 Expended	FY2013 Expended	FY2014 Expended	FY2015 Projected
Professional Fees and Services	4,329,894	8,656,984	6,332,951	5,348,196	7,742,500
Rent, Bldg and Parking	33,055	27,755	40,650	233,113	261,250
Staff Development	424,013	216,897	310,746	240,157	498,000
Reference Materials	8,054,666	5,988,711	9,928,614	9,634,937	11,773,538
Software	99,532	-	231,563	223,181	337,488
Research	14,751,546	12,265,430	10,550,295	11,546,925	10,793,443
TOTAL	27,692,706	27,155,777	27,394,819	27,226,509	31,406,219

TRS Care, FY 2011 – 2015

Category	FY2011 Expended	FY2012 Expended	FY2013 Expended	FY2014 Expended	FY2015 Projected
Wages and Benefits	2,074,566	2,219,245	2,444,709	2,640,647	3,072,153
Professional Fees and Services	799,865	1,286,128	792,894	736,969	1,062,000
Support Costs	120,779	98,084	91,923	33,952	120,465
Travel	4,486	6,022	6,406	10,939	13,875
Operating Costs	140,173	104,539	138,903	195,711	168,578
TOTAL	3,139,869	3,714,018	3,474,835	3,618,218	4,437,070



TRS ActiveCare, FY 2011 – 2015

Category	FY2011 Expended	FY2012 Expended	FY2013 Expended	FY2014 Expended	FY2015 Projected
Wages and Benefits	1,390,678	1,543,548	1,515,928	1,493,721	1,501,582
Professional Fees and Services	866,115	546,681	806,137	1,158,812	1,164,560
Support Costs	67,175	63,536	63,600	63,633	78,932
Travel	2,221	5,959	2,782	8,230	6,713
Operating Costs	11,095	16,886	11,274	7,457	17,925
TOTAL	2,337,284	2,176,610	2,399,721	2,731,853	2,769,711

403 (b) Program, FY 2011 – 2015

Category	FY2011 Expended	FY2012 Expended	FY2013 Expended	FY2014 Expended	FY2015 Projected
Wages	116,830	43,867	44,846	44,761	58,338
Longevity	2,220	-	-	-	-
Retirement	7,898	2,771	2,890	3,131	3,967
Social Security	8,434	3,534	3,499	3,523	4,463
Healthcare	17,099	-	-	-	-
BRP	-	1,031	859	1,289	1,289
TOTAL	152,481	51,203	52,094	52,704	68,057

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

July 24, 2015

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, Rider 18, "Contingent Appropriation of Pension Trust Funds for GASB Statement Implementation," of the TRS bill pattern in the State General Appropriations Act, 84th Legislature provides that upon a finding of fact by the TRS board that additional resources are necessary to implement accounting guidelines related to Governmental Accounting Standards Board statements and pronouncements, the TRS is appropriated additional funds from the Pension Trust Fund (960) for fiscal year 2016; now, therefore be it;

Resolved, That the board finds the expenditure of pension trust funds for operating expenses in Fiscal Year 2016 is required to perform the fiduciary duties of the board in administering the retirement system in the amount of \$117,033,476, as approved today in the Fiscal Year 2016 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 2016, if any; 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 to implement GASB statements; 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 2016, but not to exceed the amount of \$117,033,476 plus, any additional amounts necessary to pay performance incentive compensation payable in Fiscal Year 2016 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.