

# Budget Committee Meeting

July 26, 2018

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

*(Committee Chair and Members: Dr. Gibson, Chair; Mr. Elliott, Mr. Nance, Ms. Ramirez,  
and Ms. Sissney)*

*All or part of the July 26, 2018, meeting of the TRS Budget Committee and Board of Trustees may be held by telephone or video conference call as authorized under Sections 551.130 or 551.127 of the Texas Government Code. The Committee and Board intend to have a quorum and the presiding officer of the meeting physically present at the following location, which will be open to the public during the open portions of the meeting: **1000 Red River, Austin, Texas 78701 in the TRS East Building, 5<sup>th</sup> Floor, Boardroom.***

**AGENDA**

**July 26, 2018 – 10:30 a.m.  
TRS East Building, 5<sup>th</sup> Floor, Boardroom**

1. Call roll of Committee members.
2. Consider the approval of the proposed minutes of the April 19, 2018 committee meeting – Chair Greg Gibson.
3. Consider recommending to the Board adoption of the following – Don Green
  - A. Consider the adoption of the proposed fiscal year 2019 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 2019 budget.
  - B. Consider the adoption of the proposed fiscal year 2019 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. Consider the adoption of the proposed fiscal year 2019 administrative operations budget and general provisions for the 403(b) company certification and investment product registration program.
  - D. Consider adoption of Historically Underutilized Businesses program (HUB) goals for fiscal year 2019.
4. Receive an overview of the proposed Legislative Appropriations Request for fiscal years 2020 – 2021 – Don Green.

5. Consider recommending to the Board the following statutory certifications of estimated state contributions – Don Green:
  - A. To the State Comptroller of Public Accounts, the estimated amount of state contributions to be received by the retired school employees group health benefit fund for the fiscal year ending August 31, 2019.
  - B. To the Legislative Budget Board and the Office of the Governor, the estimated amount of state contributions to be received by the retired school employees group health benefit fund for fiscal years 2020 and 2021.
  - C. To the State Comptroller of Public Accounts, the estimated amount of state contributions to the Pension Trust Fund for fiscal years 2020 and 2021.

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 the full Committee constitutes a quorum of the Board, 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**

**April 19, 2018**

The Budget Committee of the Board of Trustees of the Teacher Retirement System of Texas met on April 19, 2018, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas.

### **Committee Members present:**

Dr. Greg Gibson, Chair  
Mr. John Elliott  
Mr. James D. Nance  
Ms. Dolores Ramirez  
Ms. Nanette Sissney

### **Other Board Members present:**

Mr. David Corpus  
Mr. Jarvis Hollingsworth

### **Others present:**

Brian Guthrie, TRS	Dr. Keith Brown, Investment Advisor
Ken Welch, TRS	Steve Huff, Fiduciary Counsel, Reinhart Boerner Van Deuren s.c.
Carolina de Onis, TRS	Ann Fickel, TCTA
Don Green, TRS	Ben Barnes, TRTA
Barbie Pearson, TRS	Leroy DeHaven, TRTA
Katrina Daniel, TRS	Brock Gregg, TRTA
Jerry Albright, TRS	Ted Raab, TX AFT
Jase Auby, TRS	Jim Baker
Janie Duarte, TRS	
Richard Scheel, TRS	
Heather Traeger, TRS	
Katherine Farrell, TRS	

Budget Committee Chair Dr. Gibson called the meeting to order at 10:27 a.m.

#### **1. Call roll of Committee members.**

Ms. Farrell called the roll. A quorum was present.

#### **2. Consider the approval of the proposed minutes of the June 1, 2017 committee meeting – Committee Chair Greg Gibson.**

On a motion by Ms. Ramirez, seconded by Mr. Elliott, the committee approved the proposed minutes for the June 1, 2017 Budget Committee meeting with Ms. Sissney abstaining.

**3. Receive an update on the administrative operations budget for fiscal year 2018 and consider amendment to FY 2018 Budget for Commission Credit and TRS-Care funding – Don Green.**

Mr. Don Green reviewed the fiscal year 2018 (FY18) operating budget. He noted the administrative operating budget is \$178 million, with 78 percent of that being funded out of the Pension Trust Fund; 14 percent out of commission credit and 8 percent out of healthcare funds. Mr. Green discussed expenditures and encumbrances as of February 28, 2018, which he noted is exactly halfway through the fiscal year. He said there were no areas of particular concern. He did point to unexpected customer service expenses incurred on the pension trust fund and healthcare side.

Mr. Green stated on the pension trust fund side the customer service expenses are manageable within the available budget. However, he said on the healthcare side, Staff is recommending a budget adjustment of \$500,000 to cover the overtime outsourcing and the long-distance calls incurred from the unexpected customer service expenses.

Mr. Green said each year about \$6 million is budgeted related to the State Street account under commission credits. Typically, at the end of the calendar year, if the credits are not spent, they lapse to the State Street Bank. Mr. Green said in this instance, State Street Bank has agreed to allow TRS to retain \$5.8 million credits that would have otherwise lapsed over previous years to State Street Bank. He said there is new revenue that was not anticipated at the beginning of the budget. Mr. Green said staff proposes to stretch the amounts over a three-year period of time for the revenue source within IMD's budget to be shown as \$1.9 million in FY18, \$1.9 million in FY19, and \$1.9 million FY20. Mr. Jerry Albright noted that this additional revenue being identified was a result of an internal audit performed by Amy Barrett's group.

On a motion by Ms. Sissney, seconded by Mr. Nance, the committee unanimously voted to recommend to the Board the proposed resolution amending the fiscal year 2018 TRS-Care administrative operating budget and commission credits program budget as recommended by staff.

Dr. Gibson, with no objection, proposed taking up agenda items 5 and 6.

**5. Review and discuss the Legislative Appropriations Request (LAR) for FY 2020-2021 - Don Green and Janie Duarte.**

Mr. Green provided an overview of the elements and the process of TRS' legislative appropriations request (LAR). He said the biggest component is the assumptions on payroll growth because that drives the matching cost for the pension fund and the healthcare programs. He said another assumption is the contribution rate, currently the state contributions are 6.8 percent for the pension and 1.25 percent of payroll for TRS-Care. Mr. Green noted only the administrative cost and FTE count from the pension trust fund goes through the appropriations process. The administrative cost related to TRS-Care and ActiveCare Fund is not included in the appropriations request.

**6. Receive an update on Centralized Accounting and Payroll / Personnel System (CAPPS)  
– Don Green and Richard Scheel.**

Mr. Richard Scheel provided an update on the Centralized Accounting and Payroll / Personnel System (CAPPS), the new financial and HR system. He said CAPPS Financials will go live September 1, 2018. He said the HR payroll component of CAPPS will go through planning in September and December going live in July 2019. Mr. Scheel noted most of the cost is covered by the Comptroller's Office, TRS paying for only the staff required to implement any functionality that is not part of the module package. In response to Mr. Hollingsworth's inquiry, Mr. Scheel stated only closing FY18 entries will be made in the legacy systems as of September 1, 2018.

**4. Receive an overview of FY 2018-21 resource planning and performance metrics – Don Green and Janie Duarte.**

Mr. Brian Guthrie stated the presentation in February regarding resource planning focused on a five-year plan and a five-year need for FTEs. He said this presentation is focused on resource needs for the rest of the current biennium and the next, a three-year period. Mr. Green said the request for the first three years includes a request for 121 for FY18 and 19, and 51 for FY20 and 21. Mr. Green reviewed the current legislative flexibility with regard to FTEs that is allotted to all state agencies. He said the cap of FTEs is 524.4 with the ability to add up to 50 FTEs without needing to notify the LBB and Governor's Office to receive formal approval.

For Benefit Services, Ms. Barbie Pearson stated the request was not based on current call volumes but based on what call handle time should be as identified by the customer service survey done through International Customer Management Institute. She said the goal is to reach 80 percent of calls answered within three minutes and to have the handle time, time spent talking to a member, to get back to an average of 10 minutes. Mr. Green discussed space issues. He said the remodel of the first, second and third floor of the building, already approved by the Board and Legislature, will provide approximately 75 new workstations. Mr. Albright discussed opportunities for space as well.

For the health and insurance benefits area, Ms. Katrina Daniel stated customer service is a big component but also running a number of actuarial analysis for plan projections for TRS-Care and ActiveCare. She said the health insurance benefits area request includes a business analyst and another data analytic position.

For investment management, Mr. Jerry Albright reviewed the growth experienced by the pension trust fund. He said additional people are needed to handle the continued growth and to bring assets in-house to lower the costs as well. He stated they have contracted with McKinsey to study and make recommendations.

Mr. Green stated in July the administrative operating budget for FY19 will be before the committee to recommend to the Board. Mr. Guthrie stated this presentation provided very detailed

information and the operating budget will operationalize this proposal for FY19 and the LAR for FY20 and 21.

Without further discussion, the chair adjourned the committee meeting at 11:52 a.m.

APPROVED BY THE **BUDGET COMMITTEE** OF THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 26TH DAY OF JULY 2018.

\_\_\_\_\_  
Katherine H. Farrell  
Secretary of the TRS Board of Trustees

\_\_\_\_\_  
Date

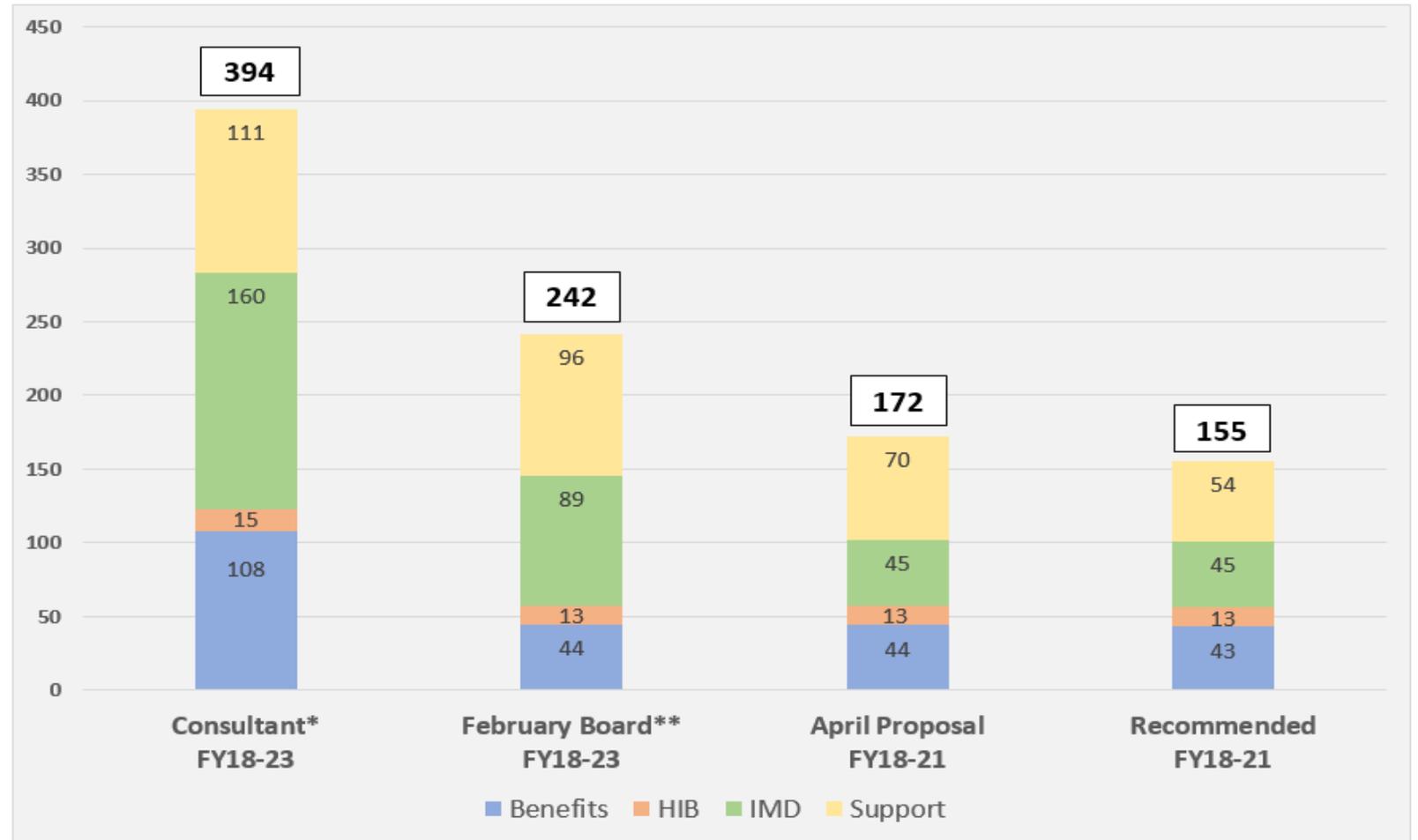


Agency Resource Request  
Brian Guthrie  
JULY 2018



# Creating the Recommendation

- Focused on prioritizing both customer service and the IMD initiative.
- The support recommendation was focused on efficiency as measured by the core/support ratio without compromising core function operations.



\*Consultant recommendations from McKinsey (IMD), ICMI (Benefits) and EY (HIB). Support estimates based on half of current 1/0.785 staffing ratio.

\*\*Original IMD request was 120 which included 89 direct IMD staff and 31 in support services.

# Implementing the Three Initiatives

Pursuing these three initiatives in FY19 would require the additional FTEs as outlined below which includes salaries, benefits and operating costs in the pension and healthcare funds.

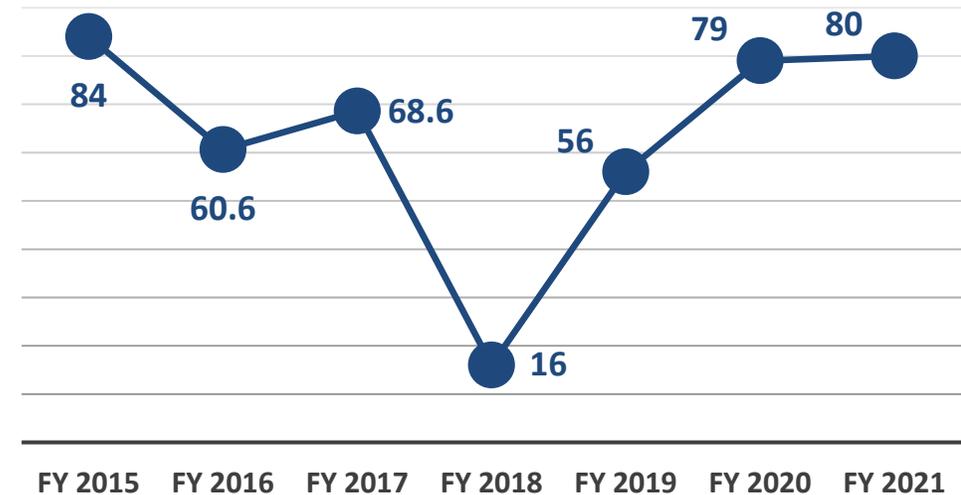
Initiative	FY19 FTE Request*	Cost
Benefit Services: Customer Service	43	\$2.6M
HIB: Customer Service	10	\$0.8M
IMD: Building the Fleet	22	\$3.8M
Support for Benefits and IMD	29	\$3.5M
<b>TOTAL</b>	<b>104</b>	<b>\$10.7M</b>

\*Includes 43 positions authorized in FY18 for a net increase of 61 positions in FY19.

# Benefit Services: Addressing Immediate Member Service Needs

- Call volume is up 37%; e-mail volume up over 72%.
- Average hold time over 23 minutes.
- Average handle time now 30 minutes.
- Core processing volume up 15% annually.

Service Level % of calls answered in 3 minutes



**Each additional full-time equivalent position provides an estimated one percent increase in service level.**

Staffing Request	Current	FY 18-19 Addition	FY 20-21 Addition
Benefit Counseling	78	31	-
Benefit Processing	93	6	-
Benefit Reporting	17	4	-
Disbursements	9	2	-
<b>Total</b>	<b>197</b>	<b>43</b>	<b>0</b>

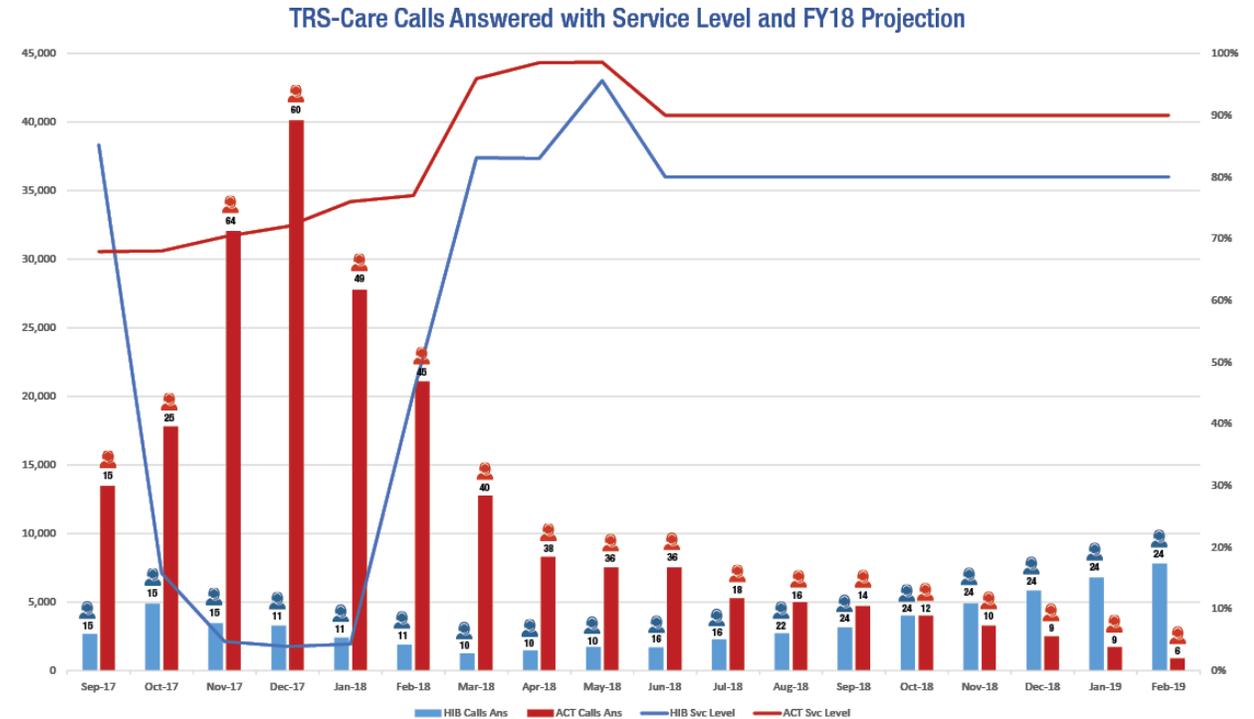
# Proposed Performance Metrics - Benefit Services

Metric	Objective	Annual Target	Q1	Q2	Q3	Q4
<b>Refunds</b>	Refunds validated within 5 business days of receiving final deposit and all paperwork	95%				
<b>Benefit Estimates</b>	Benefit estimates mailed within 31 days	90%				
<b>Retirements</b>	Retirees receiving first annuity payment on time	98%				
<b>Death Claims</b>	Claims acknowledged within 14 days of receipt of death notification	90%				
	Claims payments issued within 31 days of receipt of all required paperwork	95%				
<b>Benefit Counseling Phone Calls</b>	% of Calls answered within 3 minutes	80%				
<b>Benefit Counseling Office Visits</b>	Number of Office Visits Available	20,000				
	Cancellations	N/A				
	No Shows	N/A				
	Walk Ins	N/A				
<b>Benefit Reporting</b>	Regular payroll reports completed by due date	90%				

# Health Insurance Benefits: Addressing Immediate Member Service Needs

- Call volume and customer service increases expected to normalize
- Healthcare plan enrollment up 471% since 2000
- Member engagement higher than industry average

Staffing Request	Current	FY 18-19 Addition	FY 20-21 Addition
Operations	24	10	-
HIB Finance	7	-	1
Communications and Data Informatics	5	-	2
<b>Total</b>	<b>36</b>	<b>10</b>	<b>3</b>



**TRS's average medical trend is lower than the Texas non-Medicare S&P index trend; 1% of trend reduction generates \$27 million in savings.**



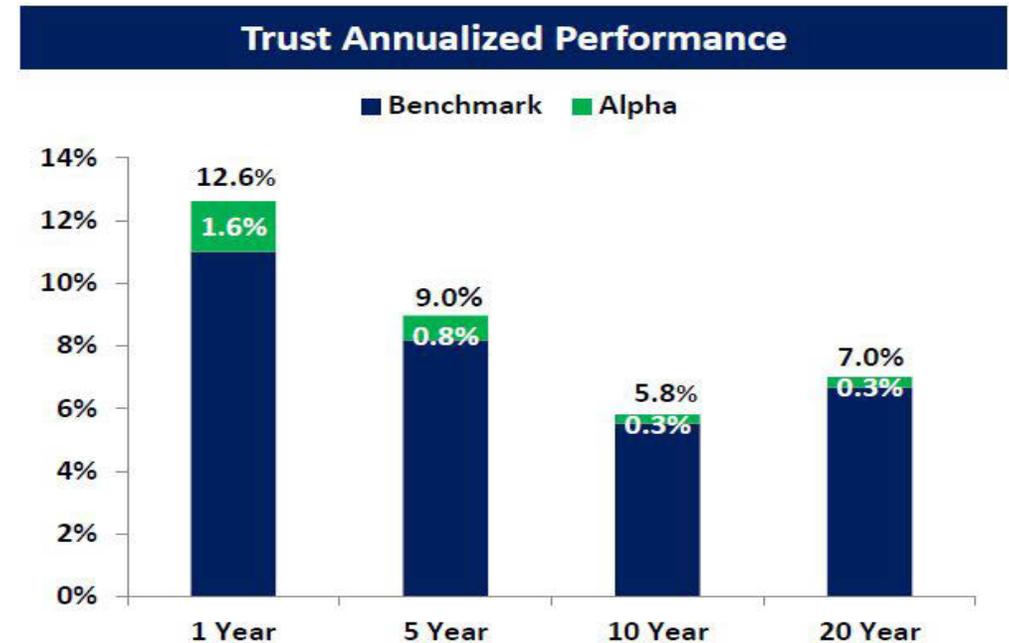
# Proposed Performance Metrics – Health Insurance

Metric	Objective	Annual Target	Q1	Q2	Q3	Q4
<b>HIB Call Center Service Level</b>	% of Calls answered within 3 minutes	80%				
<b>Calls Answered Externally</b>	Percentage of calls answered internally versus externally.	50%				
<b>External Cost Avoidance for Consulting</b>	Cost savings associated with relying less on GRS for actuarial services	\$150,000				
<b>Medical Trend over Texas S&amp;P</b>	Average annual increase in cost of claims experienced by TRS-Care and ActiveCare compared to S&P trend	>2%				
<b>Member Engagement</b>	Member engagement metrics as measured by % of members who either open or click on newsletter content	23% / 3%				

# Investment Management Division: Building the Fleet

- 13<sup>th</sup> largest pension fund in the world
- Over 80 audits and reports in the past 6 years: no significant findings
- Added \$21 billion in returns compared to a passive approach

Staffing Request	Current	FY 18-19 Addition	FY 20-21 Addition
Management and Oversight	35	6	5
Operations	20	4	4
Public Markets	56	-	2
Private Markets	36	12	12
<b>Total</b>	<b>147</b>	<b>22</b>	<b>23</b>



**Deploying additional capital will take additional resources. The potential five year savings could be over \$1.4 billion.**

# Proposed Performance Metrics - IMD

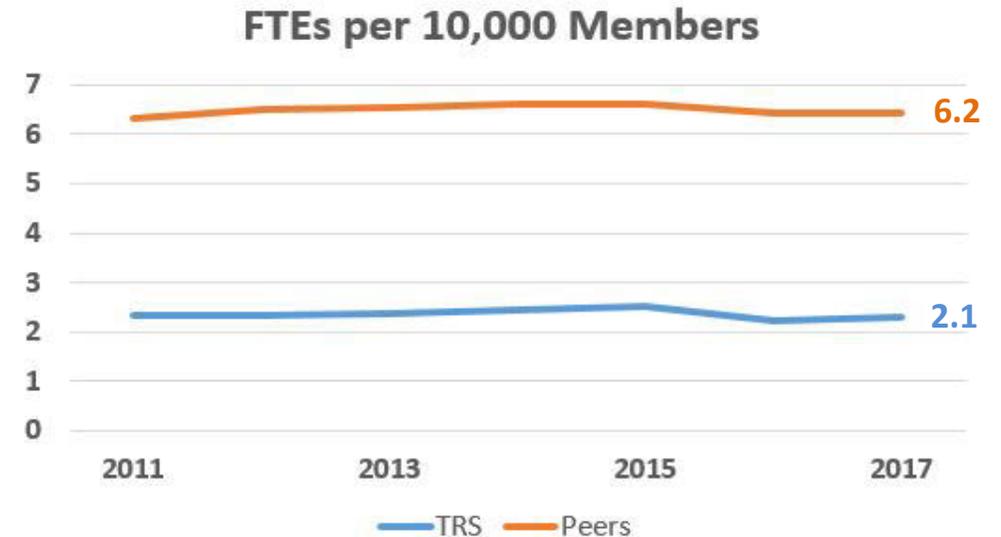
Metric	Objective	Annual Target	Q1	Q2	Q3	Q4
<b>Total Trust Excess Return</b>	Return in excess of the benchmark return for the Total Trust	100 bp				
<b>Private Markets Excess Return</b>	Return in excess of the benchmark return for Private Markets investments	155 bp				
<b>Active Public Markets Excess Return</b>	Return in excess of the benchmark return for Active Public Markets investments	100 bp				
<b>Principal Investments</b>	Percent of commitments going to principal investments	33%				
<b>Public Equity Allocation</b>	Percent of internal public equity allocation	55%				
<b>Net Fee Savings</b>	External manager fee savings	\$53M				

# Agency Support: Keeping Pace with Complex Operations

- Five tiers of membership added during the past decade
- Biggest changes to employer reporting in 20+ years; additional auditing required
- More data = more data security
- Membership up 60% since 2000

Staffing Request	Current	FY 18-19 Addition	FY 20-21 Addition
Healthcare Services	45	-	3
Benefits Support	-	3	-
Financial Services	73	3	1
IT Services	107	15	15
Other Support Services*	61	8	6
<b>Total</b>	<b>286</b>	<b>29</b>	<b>25</b>

\*Includes Organizational Excellence, Strategic Initiatives, Communications and Legal.



**Of the total FTEs being requested over the next four years, 16% are dedicated for support services.**

# Proposed Performance Metrics – Agency Support

Business Area	Objective	Annual Target	Q1	Q2	Q3	Q4
IMD	Staffing - Authorized	22				
	Staffing - Filled	0				
	Staffing - Vacancies	0				
	Staffing turnover rate	%				
Benefit Services	Staffing - Authorized	43				
	Staffing - Filled	0				
	Staffing - Vacancies	0				
	Staffing turnover rate	%				
HIB	Staffing - Authorized	10				
	Staffing - Filled	0				
	Staffing - Vacancies	0				
	Staffing turnover rate	%				
Support	Staffing - Authorized	29				
	Staffing - Filled	0				
	Staffing - Vacancies	0				
	Staffing turnover rate	%				



FY 2019 OPERATING BUDGET  
DON GREEN  
JULY 2018



# Overview

- This request represents the FY 2019 portion of the FY18-19 biennial legislative appropriations request for TRS which was approved by the board in July 2016 and received final approval by the Texas Legislature in May 2017.
- Highlights of the approved request include a continuation of funding needed to implement TEAM, capital items designed to maintain our investment in TRS facilities, and certain inflationary-related increases necessary to attract and maintain a competitive workforce, as well as enhance investment services and benefit services for our members.
- The total amount requested for the FY 2019 operating budget from the Pension Trust Fund represents one-tenth of a percent of the value of the fund as of April 30, 2018.

# Summary of FY 2019 Budget

	PENSION TRUST FUND		Commission Credits	HEALTH BENEFITS FUNDS		403(b) Certification Program	TOTAL
	Administrative Operations	TEAM		TRS-Care (Retired Plan)	TRS-ActiveCare (Active Plan)		
<b>REVENUES AND OTHER SOURCES</b>							
Administrative Operations*	\$ 108,116,649	\$ 19,888,766					\$ 128,005,415
Fringe Benefits Paid by the Pension Fund**	18,716,354	1,442,067					20,158,421
Performance Incentive Compensation Rider	11,360,000						11,360,000
Commission Credits			\$ 28,699,996				28,699,996
Reserved for Administrative Expenses				\$ 9,481,956	\$ 4,517,985	\$ 390,533	14,390,474
<b>TOTAL REVENUES AND OTHER SOURCES</b>	<b>\$ 138,193,003</b>	<b>\$ 21,330,833</b>	<b>\$ 28,699,996</b>	<b>\$ 9,481,956</b>	<b>\$ 4,517,985</b>	<b>\$ 390,533</b>	<b>\$ 202,614,306</b>
<b>OPERATING AND CAPITAL EXPENSES</b>							
Wages and Benefits	\$ 85,029,227	\$ 6,993,833	\$ -	\$ 4,764,956	\$ 2,691,645	\$ 129,932	\$ 99,609,593
Professional Fees and Services	6,170,205	14,190,000	6,440,000	3,963,000	1,763,500	246,501	32,773,206
Support Costs	7,525,169	15,000	495,720	58,000	28,300	-	8,122,189
Travel	1,815,860	30,000	-	212,000	10,200	3,000	2,071,060
Capital Projects	7,904,438	-	-	-	-	-	7,904,438
Operating Costs	18,388,104	102,000	21,764,276	484,000	24,340	11,100	40,773,820
<b>TOTAL OPERATING AND CAPITAL EXPENSES</b>	<b>\$ 126,833,003</b>	<b>\$ 21,330,833</b>	<b>\$ 28,699,996</b>	<b>\$ 9,481,956</b>	<b>\$ 4,517,985</b>	<b>\$ 390,533</b>	<b>\$ 191,254,306</b>
Performance Incentive Compensation	\$ 11,360,000	-	-	-	-	-	\$ 11,360,000
<b>TOTAL OPERATING AND CAPITAL EXPENSES INCLUDING PERFORMANCE INCENTIVE COMPENSATION</b>	<b>\$ 138,193,003</b>	<b>\$ 21,330,833</b>	<b>\$ 28,699,996</b>	<b>\$ 9,481,956</b>	<b>\$ 4,517,985</b>	<b>\$ 390,533</b>	<b>\$ 202,614,306</b>
Percentage Increase/(Decrease) from FY 2018 Budget	13.93%	14.61%	7.87%	-0.83%	8.65%	-0.43%	12.18%

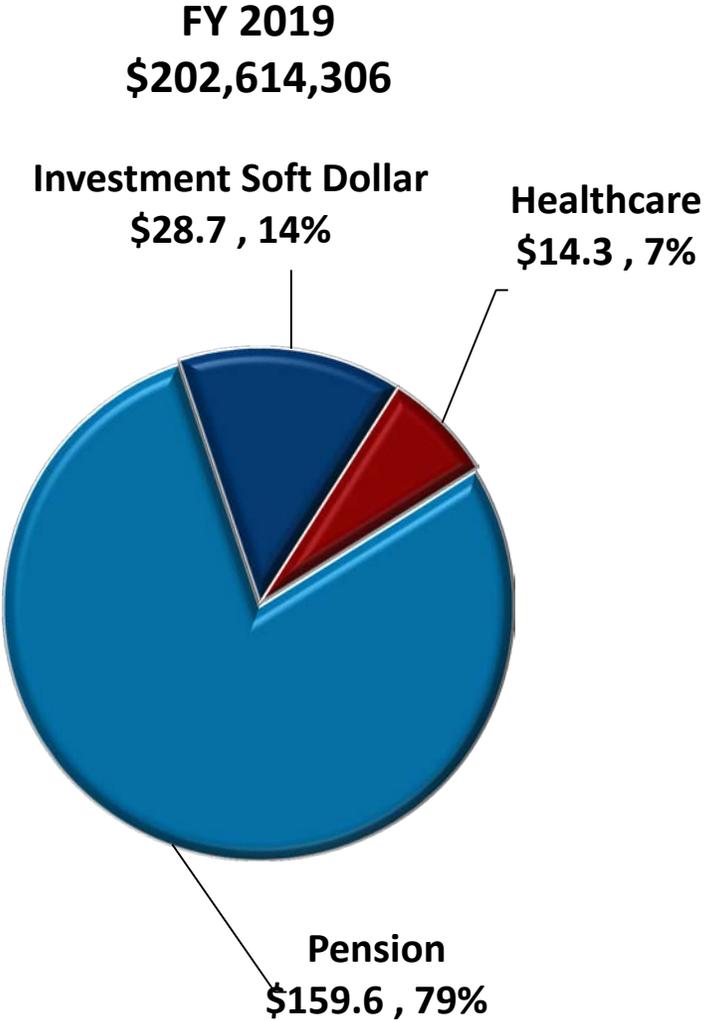
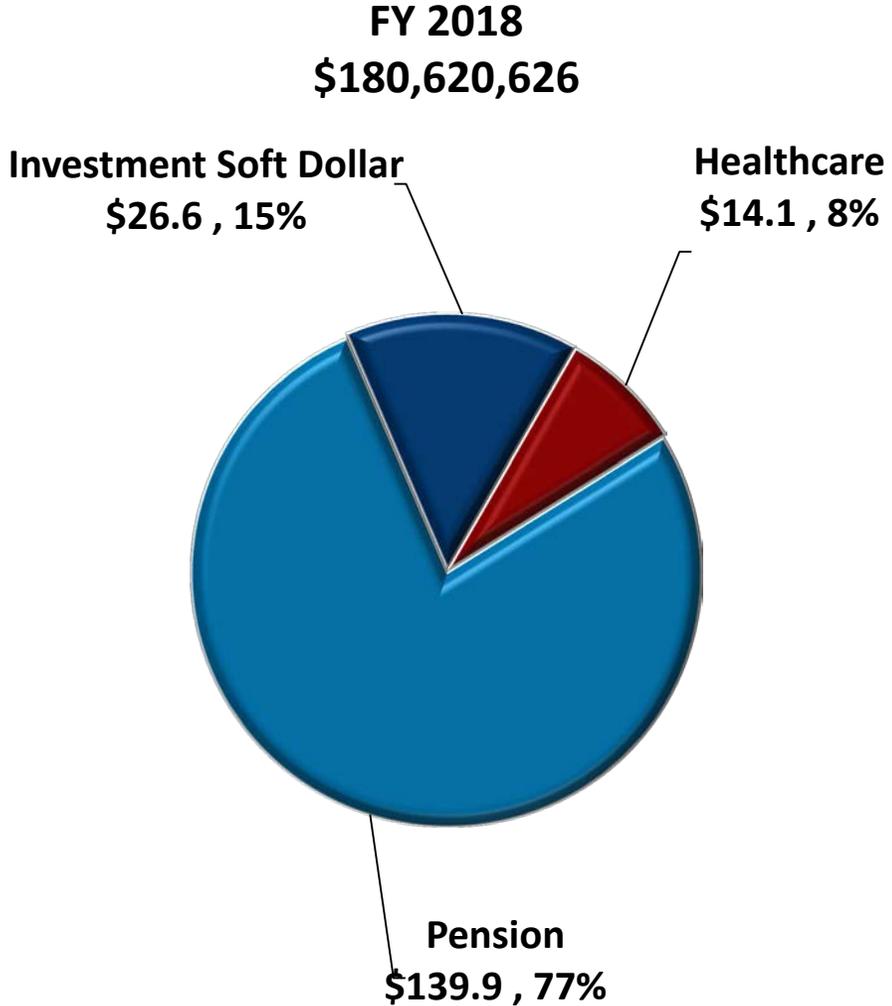
\* Exceeds legislative appropriation by \$11.3 million for customer service and investment management enhancements and authorized, unexpended balances from FY2018 of \$3.4 million for TEAM, \$3.6 million for other capital.

\*\* Includes estimated employer-paid retirement, FICA and health insurance contributions along with benefit replacement pay.

# Administrative Operations FY 2019 Compared to FY 2018

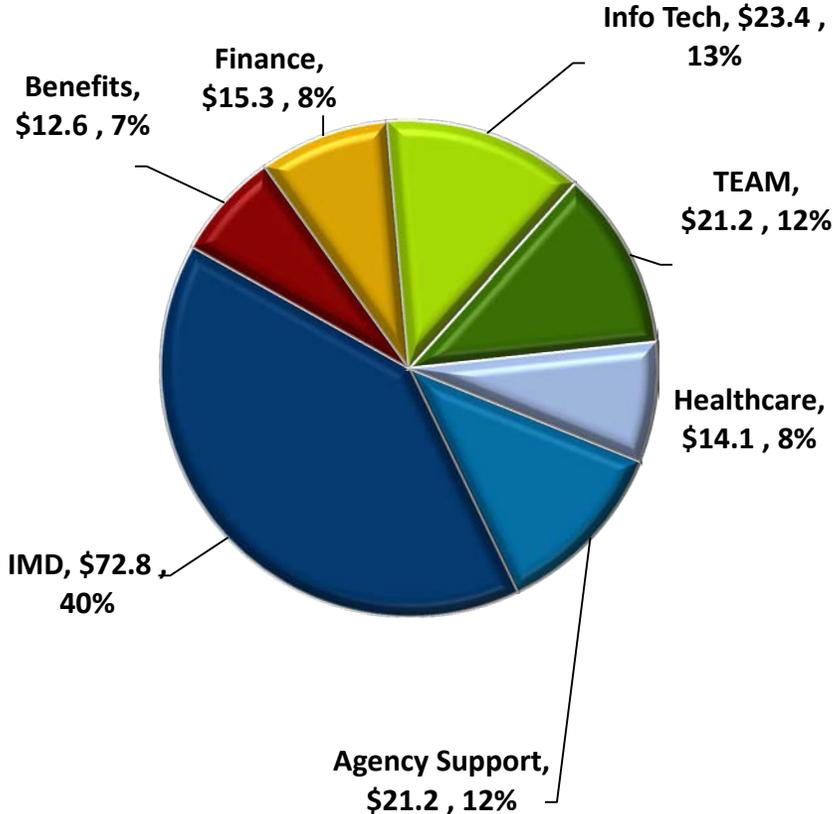
Expense / Fund	FY 2018 Budget	FY 2019 Request	Variance \$	Variance %
Wages & Benefits	97,167,754	110,969,593	13,801,839	14.2%
Professional Fees & Services	33,479,212	32,773,206	(706,006)	(2.1%)
Operating Costs	44,863,660	50,967,069	6,103,409	13.6%
Capital Projects	5,110,000	7,904,438	2,794,438	54.7%
<b>Total</b>	<b>180,620,626</b>	<b>202,614,306</b>	<b>21,993,680</b>	<b>12.2%</b>
Pension Trust Fund	121,291,256	138,193,003	16,901,747	13.9%
TEAM	18,611,930	21,330,833	2,718,903	14.6%
Commission Credits	26,605,698	28,699,996	2,094,298	7.9%
TRS Care	9,561,207	9,481,956	(79,251)	(0.8%)
Active Care	4,158,335	4,517,985	359,650	8.6%
403 (b)	392,200	390,533	(1,667)	(0.4%)
<b>Total</b>	<b>180,620,626</b>	<b>202,614,306</b>	<b>21,993,680</b>	<b>12.2%</b>

# Comparison by Fund

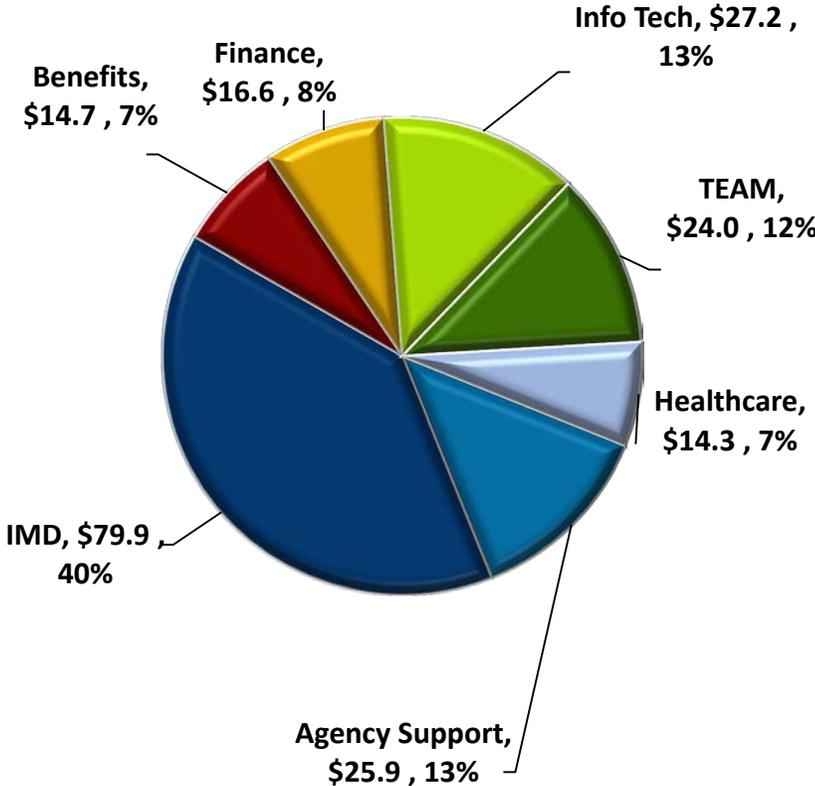


# Comparison by Division

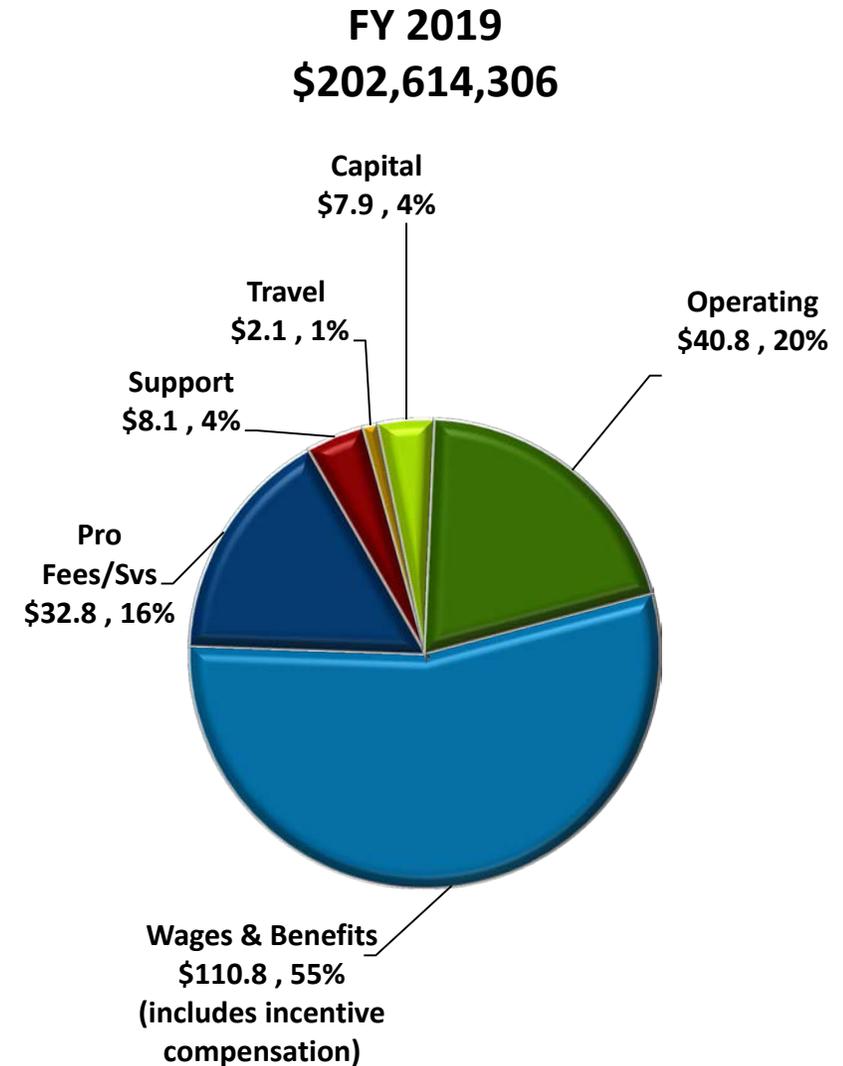
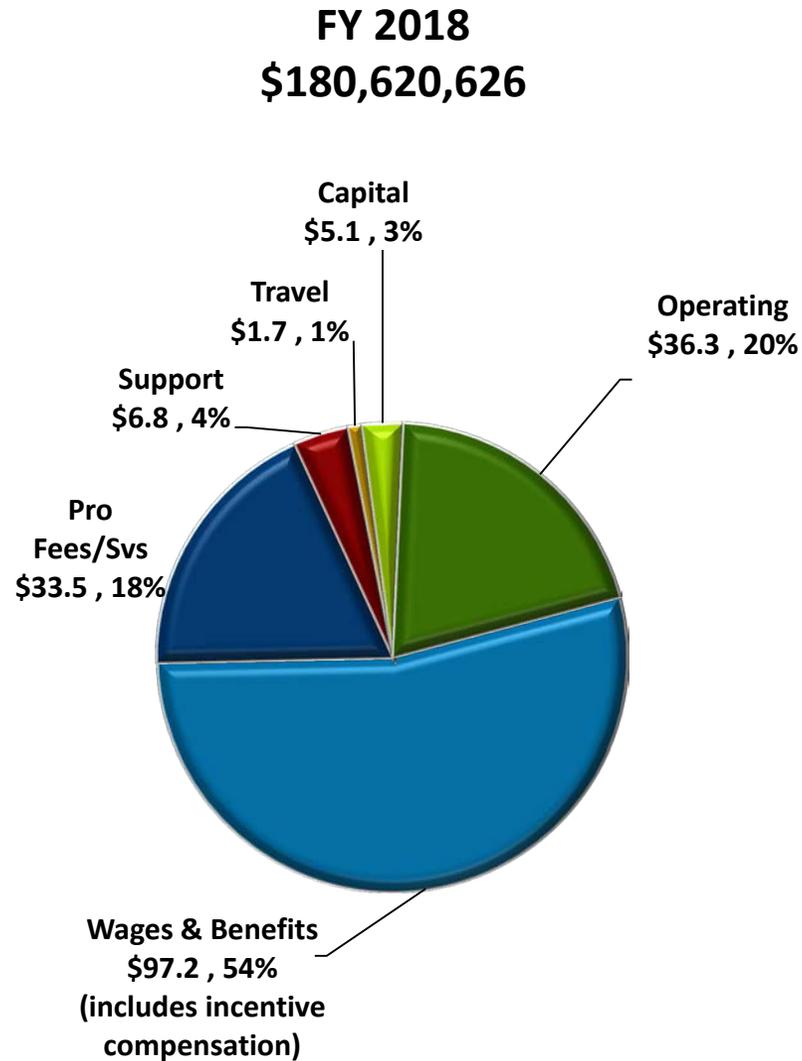
**FY 2018**  
**\$180,620,626**



**FY 2019**  
**\$202,614,306**



# Comparison by Expense Category



# Pension Trust Fund (Excluding TEAM)

- The FY 2019 requested budget is 14% over the Fiscal Year 2018 budget due to the cost of additional staff.
- Regarding Salaries and Benefits, the increase over Fiscal Year 2018 includes:
  - The annualization of 33 positions added in FY 2018 (29 benefits, 1 IMD and 3 Support) to address customer service and workload issues
  - Funding for 61 new positions (21 IMD, 14 Benefits, 26 Support) as recommended by staff and reduced from 75 as presented in April to address building the fleet initiative and to keep pace with operational complexity
  - Incentive compensation is estimated at the actual plan year 2017 remaining balance (\$5.0 million) plus an estimated payout for the first half of the plan year 2018 under current provisions (\$6.3 million).
- The non-personnel, non-capital portion of the request includes funding for member outreach, actuarial forecasting, and IT systems security among other priorities.

# Pension Trust Fund – TEAM

- This request represents the final year of TEAM funding and is part of the \$25.2 million appropriated in the FY 2018-19 biennium.
- This funding request exceeds existing authority by an estimated \$2.0 million due to schedule delays and software reprogramming as a result of legislatively-mandated reporting changes.
- The requested amount for FY2019 is \$21.3 million which includes:
  - \$ 8.0 million for Pension Line of Business (LOB)
  - \$ 7.0 million for staff and related benefits costs
  - \$ 1.7 million for Program Management
  - \$ 4.6 million for Program Wide Costs including support and contractors

# Non-TEAM Capital Projects

Project	FY 2019 Appropriated	FY 2018 Carry-forward	Total Funding
Network Infrastructure Upgrade	450,000	318,096	768,096
Telephone Counseling Center Upgrade	500,000	861,351	1,361,351
Investment Systems Modernization	370,000	339,023	709,023
Pension Legislation	200,000	0	200,000
PC Workstations Refresh	370,000	107,097	477,097
Data Center Upgrade	420,000	168,871	588,871
CAPPS (Accounting System)	2,400,000	0	2,400,000
Building Renovations	2,000,000	1,800,000	3,800,000
<b>TOTALS*</b>	<b>6,710,000</b>	<b>3,594,438</b>	<b>10,304,438</b>

\*The total funding above represents 72% of the \$14.22 million appropriated during FY 2018-19 for non-TEAM capital projects.

# Commission Credits Program

- All sources of commission credit revenues are estimated at \$28.7 million. These include commission recapture, commission sharing and the SSB/TRS Partnership Arrangement. Planned expenditures include information resources, investment consultants and software.
- SSB/TRS Partnership Account to remain at \$6 million with expenses for contract staff, advisors, and staff support plus an additional \$1.93 million continued funding from prior years.

# Health Insurance Benefits and 403 (b) Program

## TRS-Care and TRS-ActiveCare:

- Compared to the current budget, the total request across both funds for FY 2019 is a 1.4% increase due to additional staff.
- The cost of additional staff is offset by a reduction in professional fees and services costs.
- Progress made during the current year will reduce the reliance on outside customer service assistance. Additional member engagement will be a focus of agency staff.

## 403 (b) Certification Program:

- Request includes salary and related benefits funding for staff to support program operations along with funding to redevelop the product registration system.

# General Provisions – No Changes

# 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 85<sup>th</sup> 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. In addition, it is the intent of the TRS Board of Trustees (board) that the General Provisions also apply to the TRS-Care Fund, the TRS-ActiveCare Fund, and the 403(b) Administrative Trust Fund. The following provisions are also subject to this paragraph.

**PENSION TRUST FUND ADMINISTRATIVE OPERATIONS** – In adopting the related Budget Resolution, the board finds that authorizing expenditures from the Pension Trust Fund to pay for TRS' administrative operating expenses for the fiscal year is necessary 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 COMMISSION CREDITS** – The board finds that the expenditure of commissions and credits, including soft dollars, commission sharing agreements, and cash recapture agreements (together, "Commission Credits") 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 Commission Credits shall be administered in accordance with the board's Commission Credits 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, re-assignment, 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 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 Pay Plans**– The Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to implement performance pay plan(s) as approved from time to time by the board, including authorizing payment of the performance pay

# General Provisions (cont)

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** – Other Personnel Costs, including Employer Retirement Contributions, Employer FICA Contributions, Employer Health Insurance Contributions, and Benefit Replacement Pay, as estimated in the GAA, are necessary for efficient TRS operations, 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 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.

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

**July 27, 2018**

**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 17, "Contingent Appropriation of Pension Trust Funds for GASB Statement Implementation," of the TRS bill pattern in the State General Appropriations Act, 85<sup>th</sup> 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 2019; now, therefore be it;

**Resolved**, That the board finds the expenditure of pension trust funds for operating expenses in Fiscal Year 2019 is required to perform the fiduciary duties of the board in administering the retirement system in the amount of \$148,163,836, as approved today in the Fiscal Year 2019 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 2019, if any; and
- To pay expenses incurred for the TEAM Program in Fiscal Year 2019 with any unexpended TEAM Program capital budget funds reappropriated in accordance with Section 14.03 of Article IX of the General Appropriations Act for the 2018-2019; 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 2019, but not to exceed the amount of \$148,163,836 plus, any additional amounts necessary to pay performance incentive compensation payable in Fiscal Year 2019 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.

**Appendix**  
**Operating Budget Detail**  
**FY 2019**

# FY 2019 Budget by Department

	Expended FY 2017	Budgeted FY 2018	Proposed FY 2019	Variance FY19 - FY18	
Board	\$ 152,636	\$ 200,697	\$ 319,000	\$ 118,303	59%
Executive	1,037,063	1,130,407	1,018,965	(111,442)	-10%
Internal Audit	2,487,906	2,341,856	2,391,117	49,261	2%
Legal	4,512,381	5,213,389	6,270,296	1,056,907	20%
Govt Relations	414,433	417,820	427,978	10,158	2%
Communications	1,467,901	1,475,875	1,430,444	(45,431)	-3%
Human Resources	2,357,183	2,378,354	3,592,595	1,214,241	51%
Program Mgt Office	8,450	50,000	50,000	-	0%
Strategic Initiatives	773,083	749,096	1,257,741	508,645	68%
Risk Management	1,078,636	1,339,879	1,364,229	24,350	2%
Administrative Costs*	3,711,258	5,653,598	7,792,953	2,139,355	38%
<b>Agency Support</b>	<b>\$ 18,000,930</b>	<b>\$ 20,950,971</b>	<b>\$ 25,915,318</b>	<b>\$ 4,964,347</b>	<b>24%</b>
Investment Operations	\$ 35,551,335	\$ 44,792,085	\$ 49,070,501	\$ 4,278,416	10%
London Office	1,893,601	2,435,672	3,047,114	611,442	25%
Commission Credits	18,355,301	25,865,698	27,809,996	1,944,298	8%
<b>Investment Management</b>	<b>\$ 55,800,237</b>	<b>\$ 73,093,455</b>	<b>\$ 79,927,611</b>	<b>\$ 6,834,156</b>	<b>9%</b>

\*Administrative costs include retiree health insurance, unemployment compensation, lump sum payments, space planning consultants, supplies, furniture and contingency amounts for health care, printing and mailing.

# FY 2019 Budget by Department

	Expended FY 2017	Budgeted FY 2018	Proposed FY 2019	Variance FY19 - FY18	
Benefit Services	\$ 412,815	\$ 677,562	\$ 595,876	\$ (81,686)	-12%
Benefit Processing	4,765,813	5,425,852	5,834,003	408,151	8%
Benefit Counseling	4,057,889	5,109,214	6,502,526	1,393,312	27%
Benefit Payments	546,904	620,837	663,125	42,288	7%
Benefit Reporting	489,792	749,800	1,021,265	271,465	36%
<b>Benefit Services</b>	<b>\$ 10,273,213</b>	<b>\$ 12,583,265</b>	<b>\$ 14,616,795</b>	<b>\$ 2,033,530</b>	<b>16%</b>
Financial	\$ 299,448	\$ 301,522	\$ 277,984	\$ (23,538)	-8%
Accounting Operations	2,470,872	2,115,559	2,323,094	207,535	10%
Administrative Operations	2,002,566	4,850,642	4,243,441	(607,201)	-13%
Staff Services	2,038,239	773,123	773,123	-	0%
Facilities Services	5,316,778	3,152,971	4,983,971	1,831,000	58%
Printing, Mail & Supply	3,019,510	4,037,723	3,846,473	(191,250)	-5%
Security	-	88,500	178,100	89,600	101%
<b>Financial Services</b>	<b>\$ 15,147,413</b>	<b>\$ 15,320,040</b>	<b>\$ 16,626,186</b>	<b>\$ 1,306,146</b>	<b>9%</b>

# FY 2019 Budget by Department

	Expended FY 2017	Budgeted FY 2018	Proposed FY 2019	Variance FY19 - FY18	
Information Tech	\$ 2,029,292	\$ 3,513,320	\$ 3,629,514	\$ 116,194	3%
Enterprise Infrastructure	8,930,703	14,916,029	17,649,152	2,733,123	18%
Systems - Green Team	1,858,488	1,993,563	2,236,578	243,015	12%
Client Services	579,967	638,724	606,095	(32,629)	-5%
Systems - Gold Team	1,724,162	1,813,102	2,255,654	442,552	24%
Delivery and Quality Mgt	586,450	598,885	803,184	204,299	34%
<b>Information Tech</b>	<b>\$ 15,709,062</b>	<b>\$ 23,473,623</b>	<b>\$ 27,180,177</b>	<b>\$ 3,706,554</b>	<b>16%</b>
<b>TEAM Program</b>	<b>\$ 25,842,911</b>	<b>\$ 18,611,930</b>	<b>\$ 21,330,833</b>	<b>\$ 2,718,903</b>	<b>15%</b>
<b>HILOB Project</b>	<b>500,882</b>	<b>1,093,630</b>	<b>1,308,395</b>	<b>214,765</b>	<b>20%</b>
<b>CAPPS Implementation</b>	<b>-</b>	<b>2,475,600</b>	<b>2,626,912</b>	<b>151,312</b>	<b>6%</b>
TRS Care	5,796,623	8,467,577	8,173,561	(294,016)	-3%
TRS ActiveCare	3,354,892	4,158,335	4,517,985	359,650	9%
403(b) Certification	187,133	392,200	390,533	(1,667)	0%
<b>Totals</b>	<b>\$ 150,613,296</b>	<b>\$ 180,620,626</b>	<b>\$ 202,614,306</b>	<b>\$ 21,993,680</b>	<b>12%</b>

# FY 2019 Pension Trust Fund

	Expended FY 2017	Budgeted FY 2018	Proposed FY 2019	Variance FY19 - FY18	
<b>SALARIES AND OTHER PERSONNEL COSTS</b>					
Salaries and Wages	\$ 47,924,818	\$ 54,219,420	\$ 65,256,853	\$ 11,037,433	20%
Longevity Pay	585,960	647,780	656,020	\$ 8,240	1%
Employer Retirement Contributions	3,218,192	3,689,171	4,403,922	\$ 714,751	19%
Employer FICA Contributions	3,336,469	3,840,644	4,546,655	\$ 706,011	18%
Employer Health Insurance Contributions	6,803,441	8,530,807	9,615,977	\$ 1,085,170	13%
Benefit Replacement Pay	66,201	77,800	72,600	\$ (5,200)	-7%
Other Employee Benefits	664,784	477,200	477,200	\$ -	0%
Performance Incentive Compensation	6,799,222	11,360,000	11,360,000	\$ -	0%
<b>TOTAL SALARIES AND OTHER PERSONNEL COSTS</b>	<b>\$ 69,399,087</b>	<b>\$ 82,842,822</b>	<b>\$ 96,389,227</b>	<b>\$ 13,546,405</b>	<b>16%</b>
<b>PROFESSIONAL FEES AND SERVICES</b>	<b>\$ 4,295,540</b>	<b>\$ 9,165,851</b>	<b>\$ 6,170,205</b>	<b>\$ (2,995,646)</b>	<b>-33%</b>
<b>OTHER OPERATING EXPENSES</b>					
Consumable Supplies and Fuels	\$ 447,242	\$ 590,677	\$ 584,267	\$ (6,410)	-1%
Utilities	650,347	1,220,423	1,219,685	(738)	0%
Travel	878,125	1,589,060	1,815,860	226,800	14%
Rentals	3,156,550	3,274,773	4,242,366	967,593	30%
Dues, Fees and Staff Development	534,498	786,061	890,516	104,455	13%
Subscriptions and Reference Information	676,090	928,505	1,020,005	91,500	10%
Printing and Reproduction Services	388,408	351,650	367,500	15,850	5%
Postage, Mailing and Delivery Services	2,408,269	2,940,261	2,980,261	40,000	1%
Software Purchases and Maintenance	2,456,951	5,198,440	5,790,840	592,400	11%
Computer Hardware Maintenance	568,156	1,163,525	1,137,525	(26,000)	-2%
Miscellaneous Expenses	1,427,949	1,939,557	3,193,257	1,253,700	65%
Insurance Premiums	654,826	855,800	883,800	28,000	3%
Furniture and Equipment - Expensed	849,474	2,001,150	1,962,400	(38,750)	-2%
Maintenance - Buildings and Equipment	867,005	1,220,701	1,478,851	258,150	21%
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>\$ 15,963,890</b>	<b>\$ 24,060,583</b>	<b>\$ 27,567,133</b>	<b>\$ 3,506,550</b>	<b>15%</b>
<b>TOTAL CAPITAL EXPENSES</b>	<b>\$ 6,410,394</b>	<b>\$ 5,222,000</b>	<b>\$ 8,066,438</b>	<b>\$ 2,844,438</b>	<b>54%</b>
<b>TOTAL OPERATING AND CAPITAL EXPENSES</b>	<b>\$ 96,068,911</b>	<b>\$ 121,291,256</b>	<b>\$ 138,193,003</b>	<b>\$ 16,901,747</b>	<b>14%</b>

# FY 2019 TEAM Program

	Expended FY 2017	Budgeted FY 2018	Proposed FY 2019	Variance FY19 - FY18	
<b>SALARIES AND OTHER PERSONNEL COSTS</b>					
Salaries and Wages	\$ 5,016,074	\$ 5,657,679	\$ 5,456,346	\$ (201,333)	-4%
Longevity Pay	70,120	81,200	70,420	(10,780)	-13%
Employer Retirement Contributions	338,874	357,062	353,624	(3,438)	-1%
Employer FICA Contributions	365,164	397,378	391,734	(5,644)	-1%
Employer Health Insurance Contributions	624,302	782,333	674,909	(107,424)	-14%
Benefit Replacement Pay	7,249	16,900	7,800	(9,100)	-54%
Other Employee Benefits	33,944	39,000	39,000	-	0%
<b>TOTAL SALARIES AND OTHER PERSONNEL COSTS</b>	<b>\$ 6,455,727</b>	<b>\$ 7,331,552</b>	<b>\$ 6,993,833</b>	<b>\$ (337,719)</b>	<b>-5%</b>
<b>PROFESSIONAL FEES AND SERVICES</b>	<b>\$ 18,800,871</b>	<b>\$ 11,034,378</b>	<b>\$ 14,190,000</b>	<b>\$ 3,155,622</b>	<b>29%</b>
<b>OTHER OPERATING EXPENSES</b>					
Consumable Supplies	\$ 205	\$ 10,000	\$ 15,000	\$ 5,000	50%
Travel	473	30,000	30,000	-	0%
Dues, Fees and Staff Development	63,685	149,000	100,000	(49,000)	-33%
Software Purchases and Maintenance	522,488	50,000	-	(50,000)	-100%
Miscellaneous Expenses	-	2,000	2,000	-	
Furniture and Equipment - Expensed	(538)	-	-	-	-
Maintenance - Buildings and Equipment	-	5,000	-	(5,000)	
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>\$ 586,313</b>	<b>\$ 246,000</b>	<b>\$ 147,000</b>	<b>\$ (99,000)</b>	<b>-40%</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 25,842,911</b>	<b>\$ 18,611,930</b>	<b>\$ 21,330,833</b>	<b>\$ 2,718,903</b>	<b>15%</b>

# FY 2019 Commission Credits Program

	Expended FY 2017	Budgeted FY 2018	Proposed FY 2019	Variance FY19 - FY18	
<b>PROFESSIONAL FEES AND SERVICES</b>	\$ 3,767,660	\$ 7,003,333	\$ 6,440,000	\$ (563,333)	-8%
<b>OTHER OPERATING EXPENSES</b>					
Rent, Building and Parking	332,168	377,000	495,720	\$ 118,720	31%
Dues, Fees and Staff Development	206,491	388,000	342,500	(45,500)	-12%
Subscriptions and Reference Materials	12,032,168	14,526,065	16,540,901	2,014,836	14%
Software Purchases and Maintenance	406,528	1,298,800	1,804,221	505,421	39%
Miscellaneous Expenses	60,480	77,500	226,154	148,654	192%
Contracted Services	2,056,449	2,935,000	2,850,500	(84,500)	-3%
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>\$ 15,094,284</b>	<b>\$ 19,602,365</b>	<b>\$ 22,259,996</b>	<b>\$ 2,657,631</b>	<b>14%</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 18,861,944</b>	<b>\$ 26,605,698</b>	<b>\$ 28,699,996</b>	<b>\$ 2,094,298</b>	<b>8%</b>
<b>COMMISSION CREDIT SOURCES</b>					
State Street Bank Partnership Agreement	4,481,618	7,933,333	7,933,334	1	0%
Commission Sharing Arrangements	13,966,261	17,872,365	19,966,662	2,094,297	12%
Commission Recapture Revenue	414,065	800,000	800,000	-	0%
<b>TOTAL RESOURCES</b>	<b>\$ 18,861,944</b>	<b>\$ 26,605,698</b>	<b>\$ 28,699,996</b>	<b>\$ 2,094,298</b>	<b>8%</b>

# FY 2019 TRS Care

	Expended FY 2017	Budgeted FY 2018	Proposed FY 2019	Variance FY19 - FY18	
<b>SALARIES AND OTHER PERSONNEL COSTS</b>					
Salaries and Wages	\$ 2,653,896	\$ 3,184,400	\$ 3,612,810	\$ 428,410	13%
Longevity Pay	61,260	77,480	62,180	(15,300)	-20%
Employer Retirement Contributions	184,631	209,900	233,840	23,940	11%
Employer FICA Contributions	201,376	235,800	261,221	25,421	11%
Employer Health Insurance Contributions	366,457	467,000	514,605	47,605	10%
Benefit Replacement Pay	8,250	10,400	7,800	(2,600)	-25%
Other Employee Benefits	53,644	72,500	72,500	-	0%
<b>TOTAL SALARIES AND OTHER PERSONNEL COSTS</b>	<b>\$ 3,529,514</b>	<b>\$ 4,257,480</b>	<b>\$ 4,764,956</b>	<b>\$ 507,476</b>	<b>12%</b>
<b>PROFESSIONAL FEES AND SERVICES</b>	<b>\$ 2,451,031</b>	<b>\$ 4,746,900</b>	<b>\$ 3,963,000</b>	<b>\$ (783,900)</b>	<b>-17%</b>
<b>OTHER OPERATING EXPENSES</b>					
Consumable Supplies	\$ 1,572	\$ 7,000	\$ 7,000	\$ -	0%
Utilities	1,568	7,000	7,000	-	0%
Travel	24,562	88,000	212,000	124,000	141%
Rentals	24,900	30,000	29,000	(1,000)	-3%
Dues, Fees and Staff Development	4,523	5,900	8,900	3,000	51%
Subscriptions and Reference Information	98	6,600	6,000	(600)	-9%
Printing and Reproduction Services	106,896	174,355	180,500	6,145	4%
Postage, Mailing and Delivery Services	116,945	98,377	129,000	30,623	31%
Miscellaneous Expenses	35,245	139,595	153,600	14,005	10%
Furniture and Equipment - Expensed	651	-	6,000	6,000	100%
Maintenance - Buildings and Equipment	-	-	15,000	15,000	100%
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>\$ 316,960</b>	<b>\$ 556,827</b>	<b>\$ 754,000</b>	<b>\$ 197,173</b>	<b>35%</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 6,297,505</b>	<b>\$ 9,561,207</b>	<b>\$ 9,481,956</b>	<b>\$ (79,251)</b>	<b>-1%</b>

# FY 2019 Active Care

	Expended FY 2017	Budgeted FY 2018	Proposed FY 2019	Variance FY19 - FY18	
<b>SALARIES AND OTHER PERSONNEL COSTS</b>					
Salaries and Wages	\$ 1,517,081	\$ 1,744,000	\$ 2,028,394	\$ 284,394	16%
Longevity Pay	21,920	30,200	24,380	(5,820)	-19%
Employer Retirement Contributions	104,652	116,500	129,974	13,474	12%
Employer FICA Contributions	112,427	130,400	142,019	11,619	9%
Employer Health Insurance Contributions	186,756	254,000	290,578	36,578	14%
Benefit Replacement Pay	1,031	2,600	1,300	(1,300)	-50%
Other Employee Benefits	3,630	75,000	75,000	-	0%
<b>TOTAL SALARIES AND OTHER PERSONNEL COSTS</b>	<b>\$ 1,947,497</b>	<b>\$ 2,352,700</b>	<b>\$ 2,691,645</b>	<b>\$ 338,945</b>	<b>14%</b>
<b>PROFESSIONAL FEES AND SERVICES</b>	<b>\$ 1,365,370</b>	<b>\$ 1,736,895</b>	<b>\$ 1,763,500</b>	<b>\$ 26,605</b>	<b>2%</b>
<b>OTHER OPERATING EXPENSES</b>					
Consumable Supplies	\$ 1,127	\$ 3,000	\$ 3,000	\$ -	0%
Utilities	79	1,500	1,500	-	0%
Travel	8,766	15,200	10,200	(5,000)	-33%
Rentals	22,982	22,700	21,800	(900)	-4%
Dues, Fees and Staff Development	3,797	9,000	9,000	-	0%
Subscriptions and Reference Information	290	1,000	1,000	-	0%
Printing and Reproduction Services	-	2,625	2,625	-	0%
Postage, Mailing and Delivery Services	1,809	4,915	4,915	-	0%
Miscellaneous Expenses	3,175	3,300	3,300	-	0%
Furniture and Equipment - Expensed	-	3,500	3,500	-	0%
Maintenance - Buildings and Equipment	-	2,000	2,000	-	0%
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>\$ 42,025</b>	<b>\$ 68,740</b>	<b>\$ 62,840</b>	<b>\$ (5,900)</b>	<b>-9%</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 3,354,892</b>	<b>\$ 4,158,335</b>	<b>\$ 4,517,985</b>	<b>\$ 359,650</b>	<b>9%</b>

# FY 2019 403 (b)

	Expended FY 2017	Budgeted FY 2018	Proposed FY 2019	Variance FY19 - FY18	
<b>SALARIES AND OTHER PERSONNEL COSTS</b>					
Salaries and Wages	\$ 54,504	\$ 262,800	\$ 96,020	\$ (166,780)	-63%
Longevity Pay	960	1,200	1,200	-	0%
Employer Retirement Contributions	3,772	7,600	6,189	(1,411)	-19%
Employer FICA Contributions	4,028	8,600	6,963	(1,637)	-19%
Employer Health Insurance Contributions	7,408	21,000	17,560	(3,440)	-16%
Other Employee Benefits	-	1,000	2,000	1,000	100%
<b>TOTAL SALARIES AND OTHER PERSONNEL COSTS</b>	<b>\$ 70,672</b>	<b>\$ 302,200</b>	<b>\$ 129,932</b>	<b>\$ (172,268)</b>	<b>-57%</b>
Professional Fees and Services	112,630	\$ 86,400	246,501	\$ 160,101	185%
Travel	-	-	3,000	3,000	100%
Dues, Fees and Staff Development	2,995	3,500	11,000	7,500	100%
Other Operating Expense	836	100	100	-	0%
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>\$ 116,461</b>	<b>\$ 90,000</b>	<b>\$ 260,601</b>	<b>\$ 170,601</b>	<b>190%</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 187,133</b>	<b>\$ 392,200</b>	<b>\$ 390,533</b>	<b>\$ (1,667)</b>	<b>0%</b>



ANNUAL HISTORICALLY UNDERUTILIZED BUSINESS (HUB) PROGRAM  
STATUS REPORT FOR FY18

PRESENTED BY DON GREEN, CHIEF FINANCIAL OFFICER AND  
LATRESA STROUD, DIRECTOR OF PROCUREMENT AND CONTRACTS

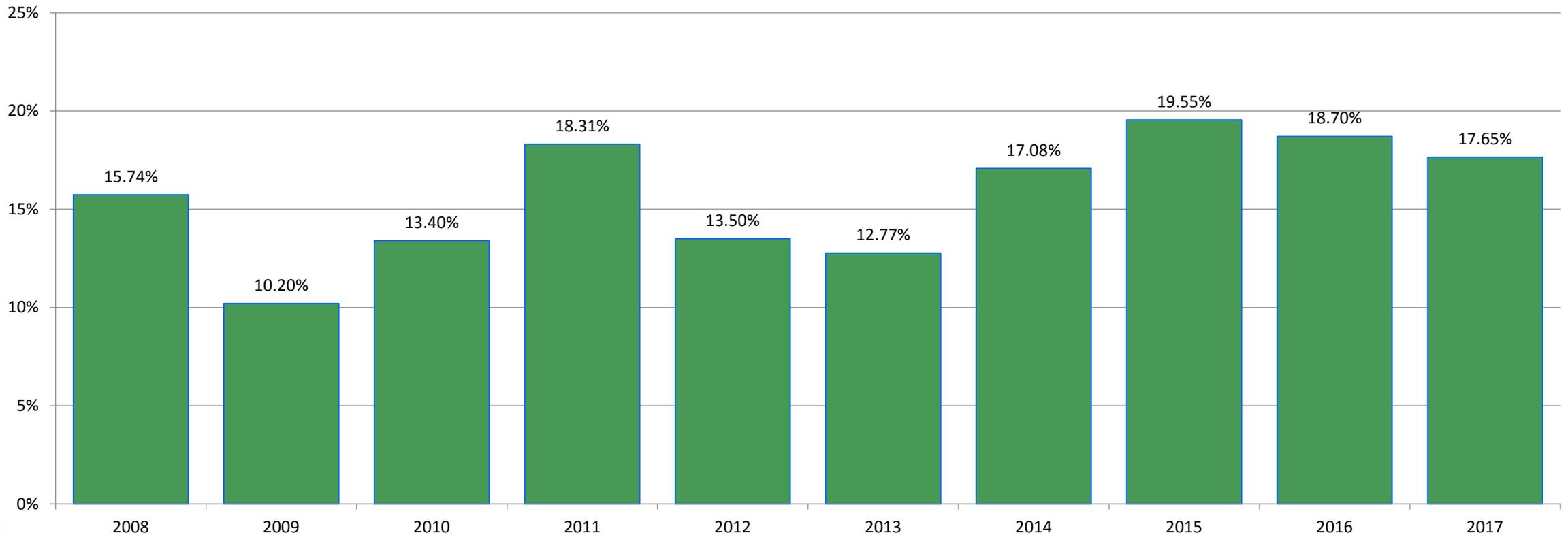
JULY 2018



# Historical Perspective

Over the last 10 years, TRS has averaged 15.69% HUB Utilization

**TRS HUB Utilization 2008-2017**



# HUB Forums TRS Hosted and Participated In FY17 and FY18

Date of HUB Forum	Hosted By	City
April 12, 2017	TRS	Austin
May 8-9, 2017	FY17 Senator Royce West Spot Bid Fair	Irving
May 7-8, 2018	FY18 Senator Royce West Spot Bid Fair	Irving

# TRS HUB Goal Comparison Since FY15

	FY15 Goals	FY15 Actuals	FY16 Goals	FY16 Actuals	FY17 Goals	FY17 Actuals	FY18 Goals	FY18 Actuals as of 2/28/18	Proposed Goals for FY19
<b>Commodities</b>	45%	38.08%	40%	27.30%	40%	37.71%	40%	36.22%	40%
<b>Other Services</b>	15%	14.82%	15%	11.34%	15%	15.44%	15%	23.56%	15%
<b>Professional Services</b>	5%	6.93%	5%	0.00%	5%	2.52%	5%	9.85%	5%
<b>Special Trade</b>	35%	24.18%	40%	13.64%	40%	48.76%	40%	38.19%	40%

# Proposed FY19 TRS HUB Goal Resolution

**Whereas**, TRS staff developed proposed HUB goals for fiscal year 2019 for the Board to consider; and

**Whereas**, The Board has received and discussed the proposed HUB goals, and the Board desires to adopt TRS' HUB goals for fiscal year 2019; now, therefore, be it

**Resolved**, That the Board hereby adopts the following HUB expenditure goals for fiscal year 2019:

- **Commodities - 40%**
- **Other Services – 15%**
- **Professional Services – 5%**
- **Special Trade – 40%**

# Future Initiatives

TRS will continue to:

- Support and implement responsibilities as determined by Texas Comptroller of Public Accounts (CPA)
- Host the annual TRS HUB Forum and participate in local and selected statewide HUB events including CPA Forums
- Conduct one-on-one meetings with HUB vendors and assist with identifying business opportunities with TRS and other State agencies and assist vendors in becoming certified or re-certified as a Texas HUB
- Encourage vendor participation in the Mentor-Protégé Program
- Support and enhance the Emerging Managers program initiated by the Investments Division
- While TRS' initiatives, including subcontracting and attendance of HUB Economic Opportunity Forums, have been successful, TRS is committed to improving its outreach to HUBs to increase their utilization and success.

# TRS Plan for HUB Participation and Support for FY19

**TRS' HUB Program supports TRS' Strategic Plan Goal #5 to promote purchasing selection practices that foster meaningful and substantive inclusion of Historically Underutilized Businesses (HUBs).**

**TRS plans to meet this goal by working toward the objective to increase the number of utilized Historically Underutilized Businesses (HUBs) used by TRS on an annual basis by implementing the following strategies:**

- Develop internal agency training on HUB regulations and competitive procurement practices to encourage directors, purchasers, project managers, and other personnel responsible for procurement of goods and services to maximize the use of HUBs.
- Meet with departments on regular basis to develop procurement plans to ensure TRS is using a competitive process as often as possible to provide opportunities for HUB utilization.
- Report HUB utilization data to the agency throughout the fiscal year so that each department can keep abreast of ongoing performance.
- Conduct outreach activities that foster and improve relationships among HUB vendors, prime contractors, and TRS purchasers.

# Conclusion

- Since the inception of the HUB Program, TRS' HUB utilization percentages have fluctuated from 1.25% in FY 1992 up to a high point of 25.83% in FY 2000.
- Over the last 10 years, the average overall HUB utilization for TRS has been 15.69%.
- TRS recognizes the importance of the HUB program and develops initiatives to promote and increase HUB opportunities. TRS is committed to achieving established goals and making a good faith effort in all areas.

# Appendix A – HUB Definition

A HUB is defined as a corporation, sole proprietorship, partnership or joint venture formed for the purpose of making a profit in which the principal place of business is in the State of Texas and at least 51% is owned, operated, and actively controlled and managed by one or more persons who are members of the following economically disadvantaged groups:

- Black Americans
- Hispanic Americans
- Asian Pacific Americans
- Native Americans
- American Women
- Veterans with at least a 20% service-connected disability



FY 2020-2021 LEGISLATIVE APPROPRIATIONS REQUEST  
DON GREEN  
JULY 2018



# LAR Logistics

- Policy letter released June 22, 2018 from Governor's Office and Legislative Budget Board – baseline request may not exceed the sum of FY 2018 expended + FY 2019 budgeted
- LAR due August 10, 2018 – no formal board action required before submission
- Submission is required to be signed by the Board Chair and the Executive Director; administrator's statement required from Executive Director explaining submission
- The TRS joint budget hearing with the LBB and Governor's Office staff should be scheduled for late September or early October

# State Matching

- Pension will be at expected 6.8% contribution with assumed payroll growth of 3.0%
- TRS Care will be at 1.25% contribution with assumed payroll growth of 3.0%

Strategy	FY2018-19	FY2020-21	Var \$	Var %
Public Education	3,544,224,289	3,691,506,665	147,282,376	4.2%
Higher Education (GR only)	324,139,802	399,806,256	75,666,454	23.3%
TRS Care*	814,997,636	835,961,672	20,964,036	2.6%
<b>TOTAL</b>	<b>4,683,361,727</b>	<b>4,927,274,594</b>	<b>243,912,867</b>	<b>5.2%</b>
*does not include supplemental funding of \$394.6M for FY2018-19				

# State Matching – Exceptional Item Request

- Dependent upon the Board approved rate of return, an exceptional item for Pension funding will be requested. The amount will be approximately \$1.3B - \$1.7B for the biennium.
- Dependent upon the latest information available at LAR submission, an exceptional item of approximately \$400M-\$600M for the biennium for TRS-Care solvency will be requested.

# Capital Projects

Project	FY 2020-21	Project Description
Network Infrastructure	1,000,000	Supports the development and maintenance of the client/server environment
Investment Systems Upgrade	900,000	Define, develop and implement a Business Intelligence strategy and program to support the ability to achieve the actuarial rate of return
PC Workstation Refresh	1,000,000	To fund the agency's desktop technology refresh policy
Data Center Upgrade	1,200,000	Supports the development and maintenance of the data center
Pension Legislation	200,000	Anticipates legislative changes and supports the agency's mission and strategic plans
Building Renovations	14,000,000	To support building renovation work related to East building remodel and design of West building remodel
Security Renovations	200,000	Supports the maintenance and updating of the security systems, including cameras, access scanners and monitoring equipment
<b>TOTALS</b>	<b>18,500,000</b>	

# LAR FTE Recommendation

FY 2020-2021 FTE recommendation reflects the incremental increase of the Agency Resource Request.

Function	FY 2020-2021
<b>Core</b>	
HIB	3
IMD	23
<b>Subtotal Core</b>	<b>26</b>
<b>Support</b>	
Finance	1
IT	15
Communications	1
Strategic Initiatives	1
Legal	4
Internal Audit	3
<b>Subtotal Support</b>	<b>25</b>
<b>Total</b>	<b>51</b>



# Summary of Request

	FY2018-19	FY2020-21	Var \$	Var %
Public Education Retirement	3,544,224,289	3,691,506,665	147,282,376	4.2%
Higher Education Retirement (GR only)	324,139,802	399,806,256	75,666,454	23.3%
Retiree Health - Statutory	814,997,636	835,961,672	20,964,036	2.6%
Administrative Operations	238,765,306	281,489,890	42,724,584	17.9%
<b>Total</b>	<b>4,922,127,033</b>	<b>5,208,764,483</b>	<b>286,637,450</b>	<b>5.8%</b>

Excludes exceptional items for pension and healthcare funding.

# New Rider Recommendation

**Enterprise Application Modernization FTE Inclusion in Limitation.** Full-Time Equivalents (FTEs) and contract workers previously assigned to the TRS Enterprise Application Modernization (TEAM) Initiative are hereby included in the limitations of Article IX, Sec 6.10 Limitation on State Employment Levels. It is the intent of the Legislature that the number of full-time equivalents listed above would be adjusted to include FTEs previously paid for by funding appropriated in the capital budget for TEAM.

**TO:** TRS Board of Trustees  
Brian Guthrie, Executive Director  
Ken Welch, Deputy Director

**FROM:** Don Green, Chief Financial Officer

**DATE:** July 27, 2018

**SUBJECT:** Required State Comptroller Certifications

**Annual Certification for Retiree Health Benefits Plan (TRS-Care)**

This annual certification provides that before August 31 of each year, the Board must certify to the Comptroller of Public Accounts the estimated amount of state contributions due the Texas Public School Retired Employees Group Insurance Program for the upcoming fiscal year under the appropriations authorized by law. The certification is required under Section 1575.209 of the Insurance Code.

**Certification of State Contributions to TRS-Care for FY 2020-2021**

Not later than October 31 preceding each regular session of the Legislature, the Board is required to certify to the Legislative Budget Board and the budget division of the Governor's Office the amounts necessary to pay the state contributions for the following biennium to the Texas Public School Retired Employees Group Insurance Trust Fund. The certification is required under Section 1575.208 of the Insurance Code.

**Certification of State Contributions to the Pension Fund for FY 2020-2021**

Before the 2<sup>nd</sup> day of November of each even-numbered year, the Board shall certify to the Comptroller of Public Accounts for review and adoption an estimate of the amount necessary to pay the state contributions to the retirement system for the following biennium. The certification is required under Section 825.404 of the Government Code.

These estimates are based on a state contribution rate of 6.8% with assumed payroll growth of 3% per year derived from long term trending. These estimates include an adjustment for community college enrollment in compliance with Government Code, Section 825.404 (b-1).

**STATE OF TEXAS**

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**COUNTY OF TRAVIS**

At its meeting on July 27, 2018, the Board of Trustees of the Teacher Retirement System, on a motion by \_\_\_\_\_, seconded by \_\_\_\_\_, voted to certify \$413,867,839 as the estimated amount of state contributions to be received by the retired school employees group insurance fund (TRS Care) for the 2019 fiscal year under the appropriations authorized by Chapter 1575 of the Insurance Code, the Texas Public School Retired Employees Group Benefits Program. This amount is authorized in the General Appropriations Act (Senate Bill 1, 85th Legislature, Regular Session) and is based on 1.25 percent of the salary of each active public school employee.

This estimate of state contributions is required by Section 1575.209 of the Insurance Code.

SIGNED: \_\_\_\_\_  
Jarvis V. Hollingsworth  
Chairman, Board of Trustees  
July 27, 2018

SIGNED: \_\_\_\_\_  
Brian Guthrie  
Executive Director  
July 27, 2018



**STATE OF TEXAS**

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**COUNTY OF TRAVIS**

At its meeting on July 27, 2018, the Board of Trustees of the Teacher Retirement System, in compliance with Texas Government Code, Section 825.404 (b), on a motion by \_\_\_\_\_, seconded by \_\_\_\_\_, voted to certify the following estimated amounts as necessary to pay the state's contributions from General Revenue to the retirement system for the 2020–2021 biennium based on the appropriated contribution rate of 6.8% of the aggregate annual compensation of all members of the Teacher Retirement System to be:

Fiscal Year 2020	\$ 2,015,900,970
Fiscal Year 2021	\$ 2,075,411,951

These amounts are net of estimated funds to be received by the System from employer reporting entities including contributions based on compensation above the statutory minimum, other educational and general income, federal/private funding sources, and new member contributions. These estimates assume a covered payroll growth rate of 3% per year.

TRS will be requesting additional appropriations for the Pension Trust Fund for the 2020–2021 biennium, over the amount being estimated under current law noted above, based on a change in the investment return assumption. The amount will be included in the TRS Legislative Appropriations Request (LAR) as an exceptional item and is currently estimated to be between \$1.3 billion to \$1.7 billion for the biennium.

SIGNED: \_\_\_\_\_  
Jarvis V. Hollingsworth  
Chairman, Board of Trustees  
July 27, 2018

SIGNED: \_\_\_\_\_  
Brian Guthrie  
Executive Director  
July 27, 2018