

April 2023

ACCOUNTABILITY

BUDGET Committee Meeting



**Teacher Retirement System of
Texas**

1000 Red River Street
Austin, Texas
78701-2698

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

*(Committee Chair and Members: Michael Ball, Chair; David Corpus,
Jarvis V. Hollingsworth, Nanette Sissney, Elvis Williams)*

*All or part of the April 27, 2023, meeting of the TRS Benefits Committee and Board of Trustees may be held by telephone or video conference call as authorized under Sections 551.130 and 551.127 of the Texas Government Code. The Board intends 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, 5th Floor, Boardroom.***

The open portions of the April 27, 2023, meeting are being broadcast over the Internet. Access to the Internet broadcast and agenda materials of the meeting is provided at www.trs.texas.gov. A recording of the meeting will be available at www.trs.texas.gov.

AGENDA

April 27, 2023 – 2:00 p.m.

1. Call roll of Committee members.
2. Consider the approval of the proposed minutes of the December 2022 committee meeting – Committee Chair.
3. Receive an overview of the Budget Committee’s Calendar Year 2023 Work Plan – Don Green.
4. Receive an update on the administrative operations budget for fiscal year 2023 including FTE update – Don Green.
5. Receive a preview of fiscal year 2024 administrative operations budget – Don Green.

NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or at 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.

TAB 2

Minutes of the Budget Committee December 8, 2022

The Budget Committee of the Board of Trustees of the Teacher Retirement System of Texas met on December 8, 2022, in the boardroom located on the Fifth Floor in the East Building of TRS' offices located at 1000 Red River Street, Austin, Texas, 78701.

Committee members:

Ms. Nanette Sissney, Chair
Mr. David Corpus
Mr. John Elliott
Mr. James D. Nance

The following Board member attended virtually:

Mr. Michael Ball

Other TRS Board Members Present:

Mr. Jarvis V. Hollingsworth
Mr. Chris Moss
Mr. Robert H. Walls, Jr.

Others who participated:

Brian Guthrie, TRS
Andrew Roth, TRS
Don Green, TRS
Jase Auby, TRS
Heather Traeger, TRS
Janie Duarte, TRS
Jessica Brown, TRS
Ann Zigmond, TRS
Eddie Chan, TRS
Katherine Farrell, TRS
Suzanne Dugan, Cohen Milstein

Budget Committee Chair, Ms. Nanette Sissney, called the meeting to order at 12:02 p.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 July 2022 committee meeting – Chair Nanette Sissney.

On a motion by Mr. Nance, seconded by Mr. Elliott, the committee unanimously voted to approve the proposed minutes for the July 2022 Budget Committee meeting as presented.

3. Review the Annual Comprehensive Financial Report for fiscal year 2022 – Janie Duarte, Ann Zigmond and Eddie Chan.

Ms. Janie Duarte began by thanking everyone in the agency that was involved in the production of the Annual Comprehensive Financial Report (ACFR). She noted that out of 4,400 applications the GFOA received TRS was one out of 317 winners of the Triple Crown Award. Mr. Don Green said that there were no other Texas state agencies in that group.

Ms. Duarte provided an overview of the ACRF, specifically noting the State Auditor’s Office clean opinion letter with no significant findings. She reported the total Pension Trust Fund membership increased 4 percent from last year to about 1.9 million. She said TRS-Care membership increased a little over one percent, with ActiveCare decreasing almost six percent.

Ms. Ann Zigmond provided an overview of the financial highlights. She announced the Pension Trust Fund ended with a net position of \$201 billion this year. She reported that TRS-Care ended the year with \$2.5 billion and TRS-ActiveCare ended the year with \$5.6 million.

Mr. Chan reviewed the investment asset allocation as reported in the 2022 ACRF.

4. Review fiscal year 2022 Year End – Don Green.

Mr. Green provided the FY22 end of year budget analysis. He noted the overall budget for FY 22 was far less than 1 percent of the value of the Pension Trust Fund. He reported that the percent expended was in the high 80s to 90 percent of the value of the original budget of the pension and health care funds. He said an outlier was travel for not much travel took place in this year.

Mr. Green stated the FTE count saw a significant increase in the fourth quarter. He said management planned this in order to use existing resources as efficiently as possible in order not to seek additional money for the customer service initiative. He noted the FTE was 768.3 and the end of the year count was 816.7 FTEs, within the 50 FTE flexibility that the legislature provides.

With no further business before the Committee, the meeting adjourned at 12:30 a.m.

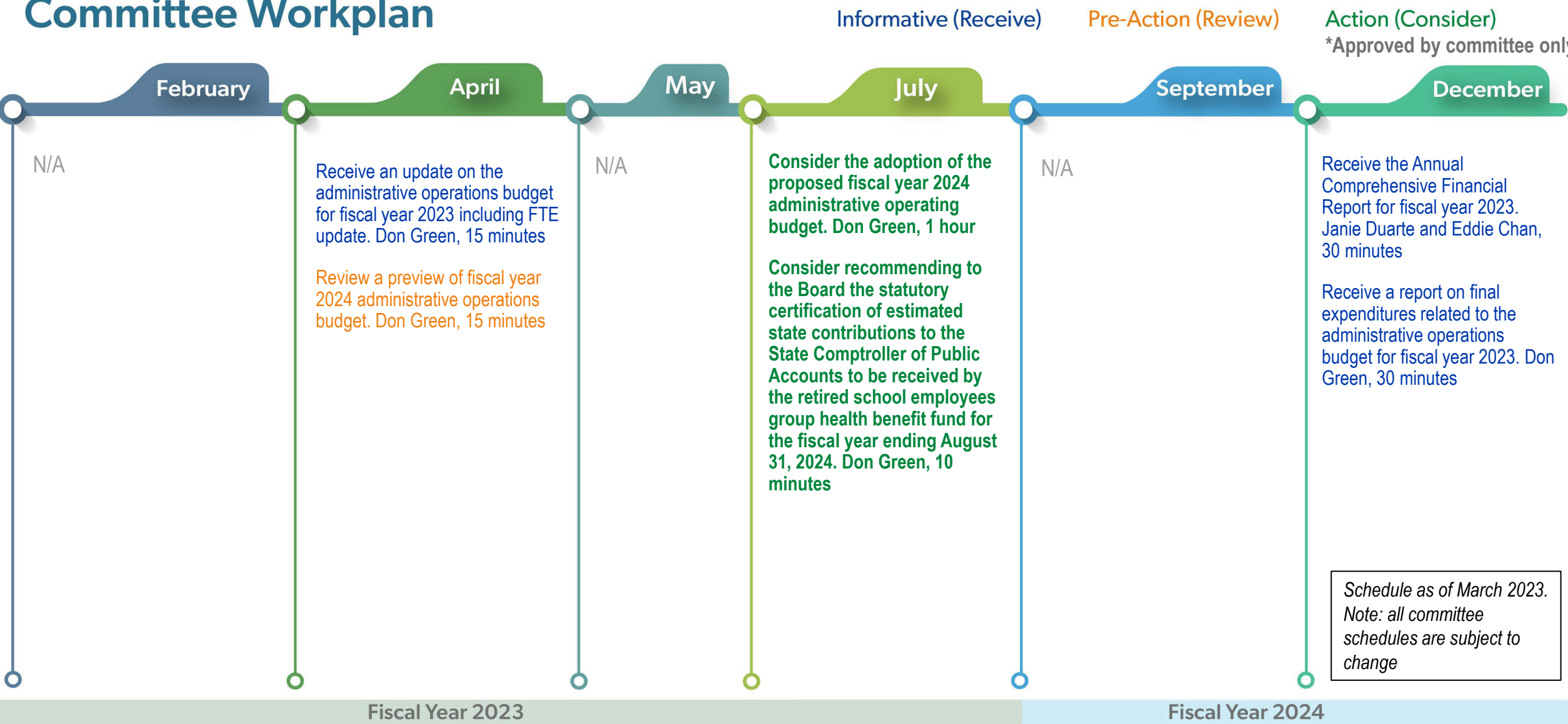
Approved by the Budget Committee of the Board of Trustees of the Teacher Retirement System of Texas on April _____, 2023.

Katherine H. Farrell
Secretary of the TRS Board of Trustees

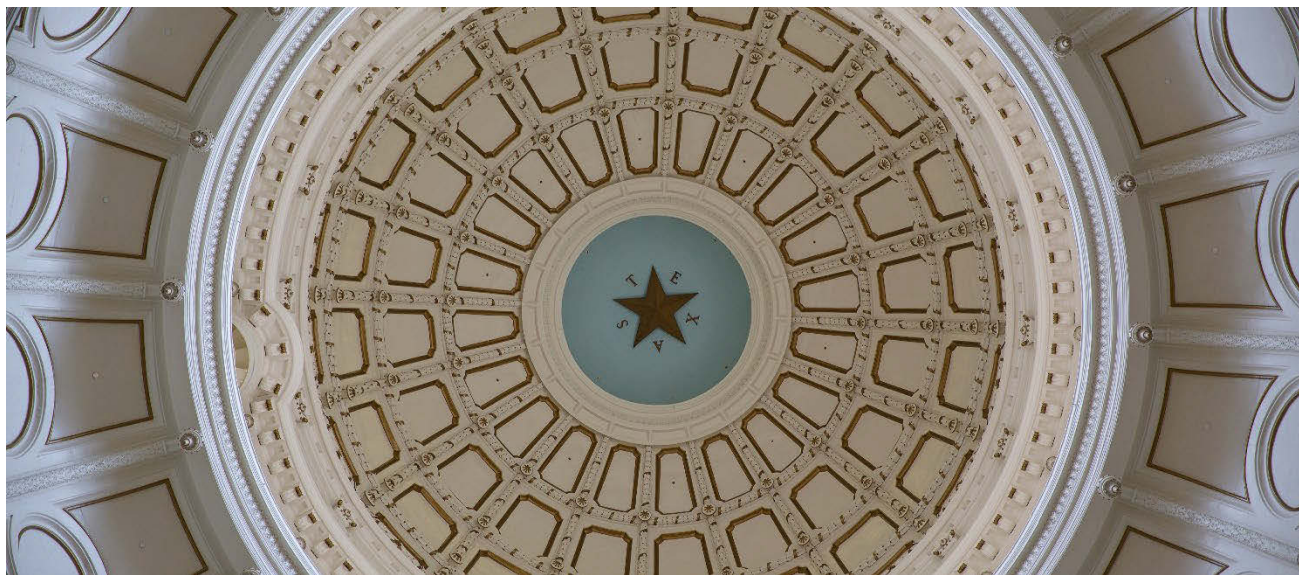
Date

TAB 3

Committee Workplan



TAB 4



FY 2023 Midyear Budget & FTE Review

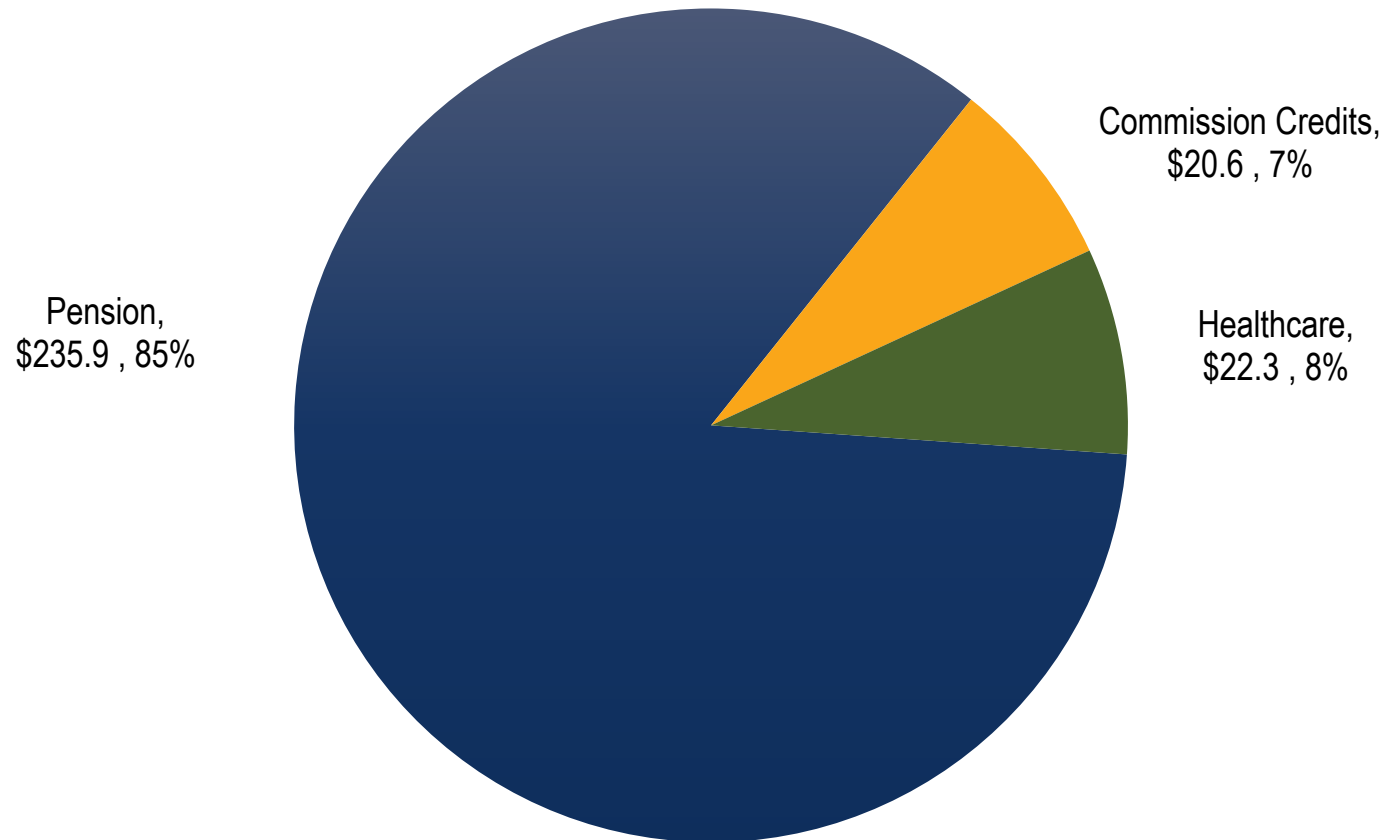
Don Green, Chief Financial Officer

April 2023



FY 2023 Administrative Operating Budget by Fund

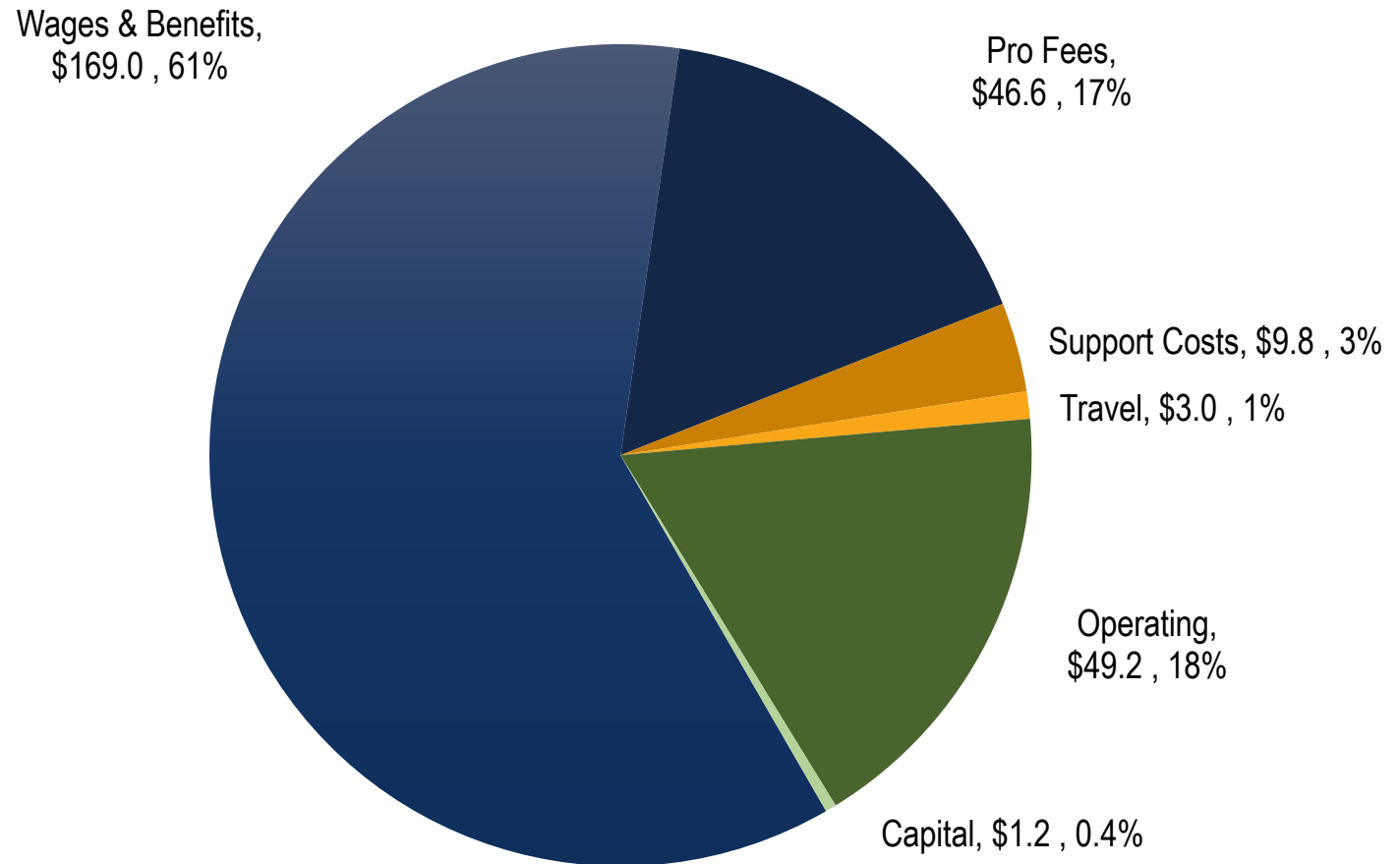
FY 2023
Administrative
Operating Budget
\$278,808,609



Amount in millions

FY 2023 Administrative Operating Budget by Expense Category

FY 2023
Administrative
Operating Budget
\$278,808,609



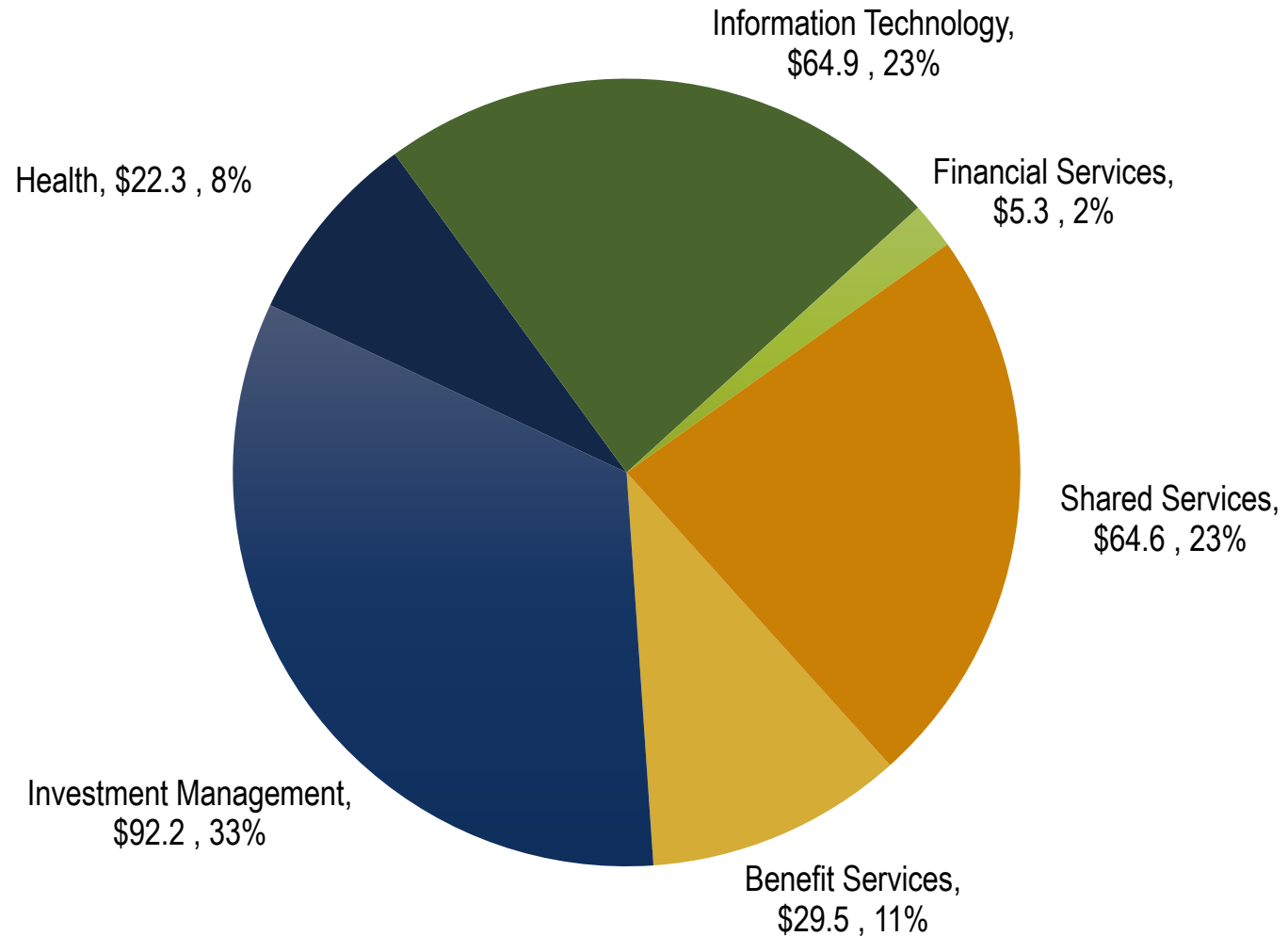
Amount in millions

Operating costs: software, hardware, postage, printing, equipment, reference materials

Support costs: Rent, building/equipment maintenance, utilities, supplies

FY 2023 Administrative Operating Budget by Division

FY 2023
Administrative
Operating Budget
\$278,808,609



Amount in millions

Shared Services: Executive Administration, Information Security, Internal Audit, Legal & Compliance, Governmental Relations, Organizational Excellence, Strategy Office, Business Administration

FY 2023 Midyear Review

	Current Budget	Actual Exp/Enc	Projected Total Spend	Projected Lapse	% Lapsed
Fund					
Pension – Appropriated	203,289,609	107,261,654	72,602,194	23,425,761	12%
Pension – Non-Appropriated	32,598,000	8,157,141	19,415,538	5,025,321	15%
Commission Credits	20,625,000	9,687,712	8,500,000	2,437,288	12%
TRS – Care	17,927,000	10,105,812	7,207,735	613,453	3%
TRS – ActiveCare	4,369,000	2,458,726	1,152,493	757,781	17%
Fund Total	\$ 278,808,609	\$ 137,671,045	\$ 108,877,960	\$ 32,259,604	12%
Budget Category					
Wages & Benefits	168,950,666	65,741,896	86,697,293	16,511,477	10%
Pro Fees & Services	46,669,309	32,834,191	5,743,858	8,091,260	17%
Support Costs	9,779,018	8,141,177	1,344,033	293,808	3%
Travel	2,993,109	596,872	638,146	1,758,091	59%
Operating Costs	49,184,963	30,238,028	13,361,967	5,584,968	11%
Capital Expenditures	1,231,544	118,881	1,092,663	20,000	2%
Budget Category Total	\$ 278,808,609	\$ 137,671,045	\$ 108,877,960	\$ 32,259,604	12%

*Actual Exp/Enc as of March 2023

FY 2023 Midyear Review

	Current Budget	Actual Exp/Enc	Projected Total Spend	Projected Lapse	% Lapsed
Division					
Investment Management	92,159,449	42,828,532	38,694,256	10,636,661	12%
Benefit Services	29,501,100	13,555,901	15,634,013	311,186	1%
Health	22,296,000	12,564,538	8,360,228	1,371,234	6%
Shared Services	62,900,496	29,384,572	22,443,917	11,072,007	18%
Information Technology	62,720,755	36,050,174	18,009,962	8,660,619	14%
Financial Services	5,347,200	2,590,981	2,548,322	207,897	4%
Division Total	\$ 274,925,000	\$ 136,974,698	\$ 105,690,698	\$ 32,259,604	12%
Capital Projects					
Building Renovations	1,500,000	430,043	1,069,957	-	0%
Security Renovations	200,000	-	200,000	-	0%
Data Center Upgrade	399,107	-	399,107	-	0%
Investment Sys Modernization	595,839	27,500	568,339	-	0%
Network Infrastructure Upgrade	500,070	238,804	261,266	-	0%
PC Workstation Refresh	688,593	-	688,593	-	0%
Capital Projects Total	3,883,609	696,347	3,187,262	-	0%
Grand Total	\$ 278,808,609	\$ 137,671,045	\$ 108,877,960	\$ 32,259,604	12%

*Actual Exp/Enc as of March 2023

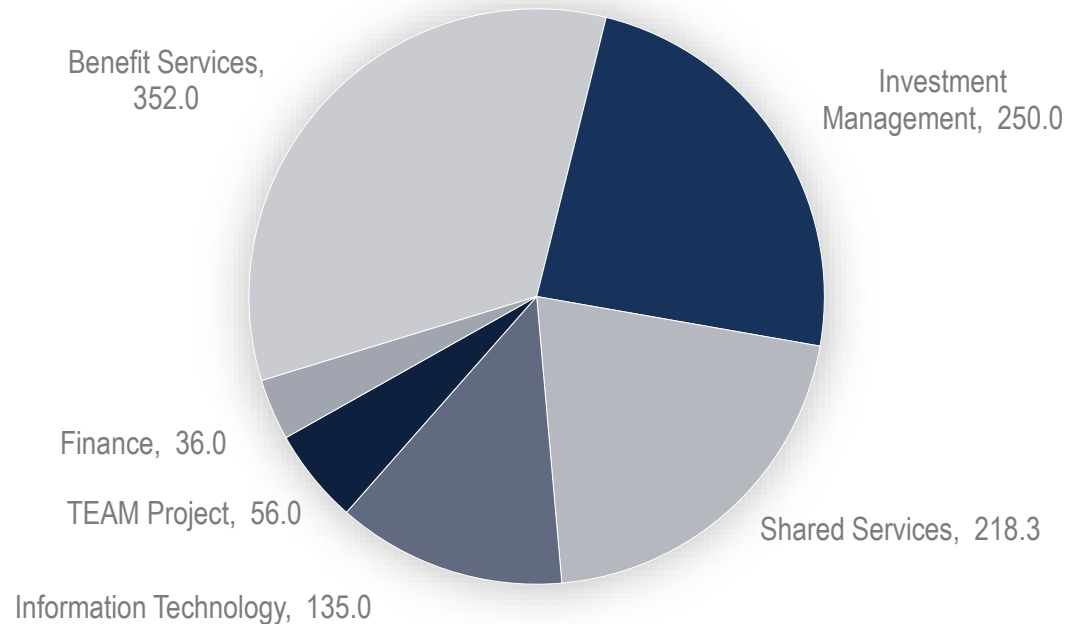


FY 2023 FTE Update

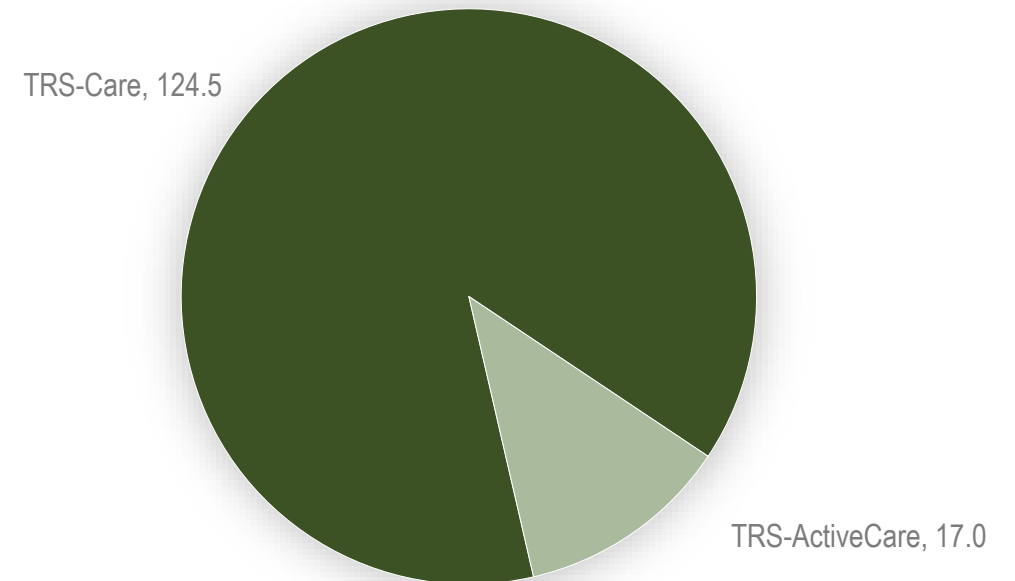
As of April 2023

FY23 Budgeted FTE Summary

Pension Funded FTEs
1047.3



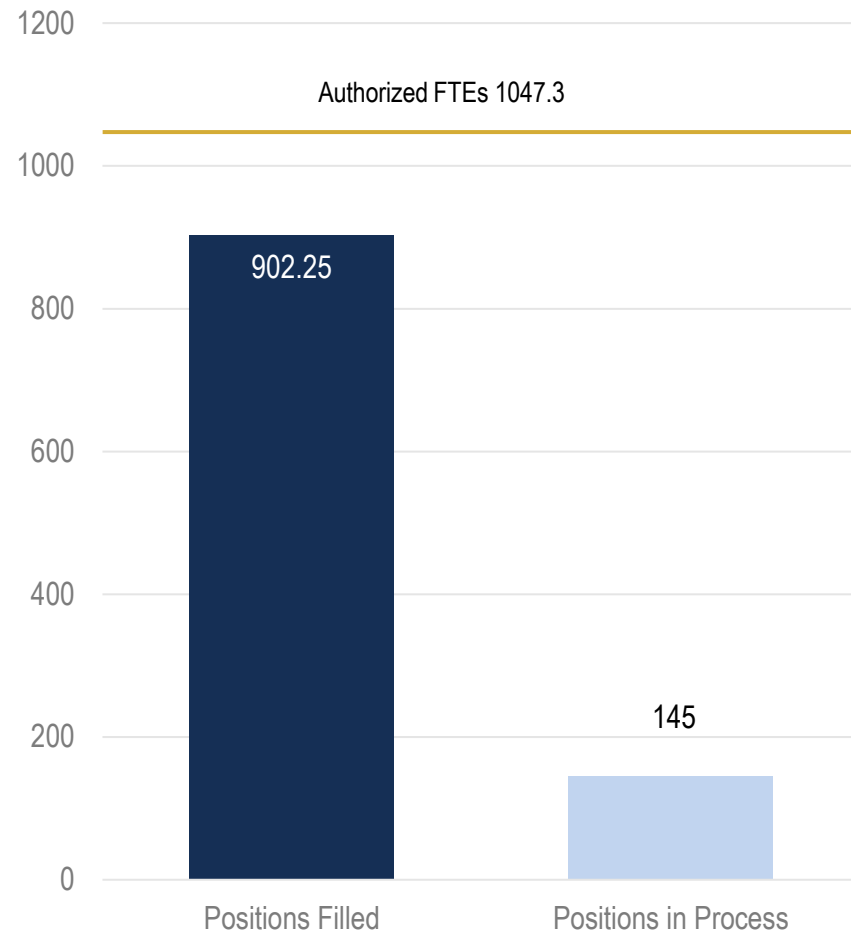
Health Care Funded FTEs
141.5



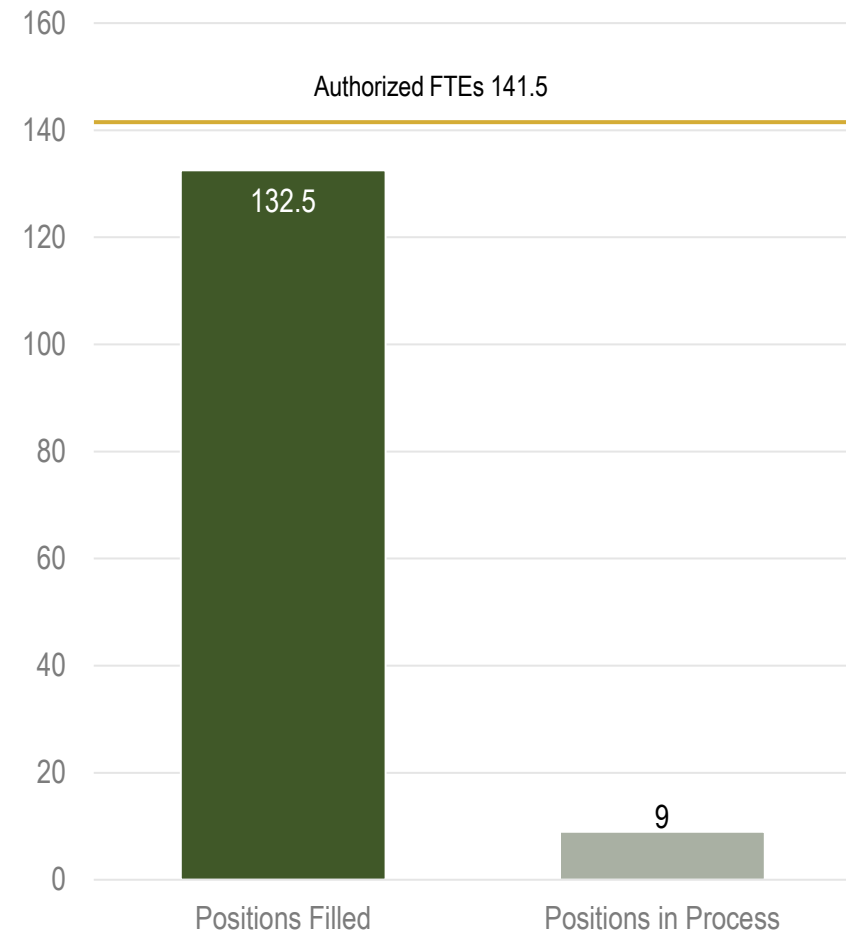
Shared Services: Business Administration, Executive Administration, Governmental Relations, Information Security, Internal Audit, Legal & Compliance, Organizational Excellence, Strategy Office

FY 2023 FTE Status

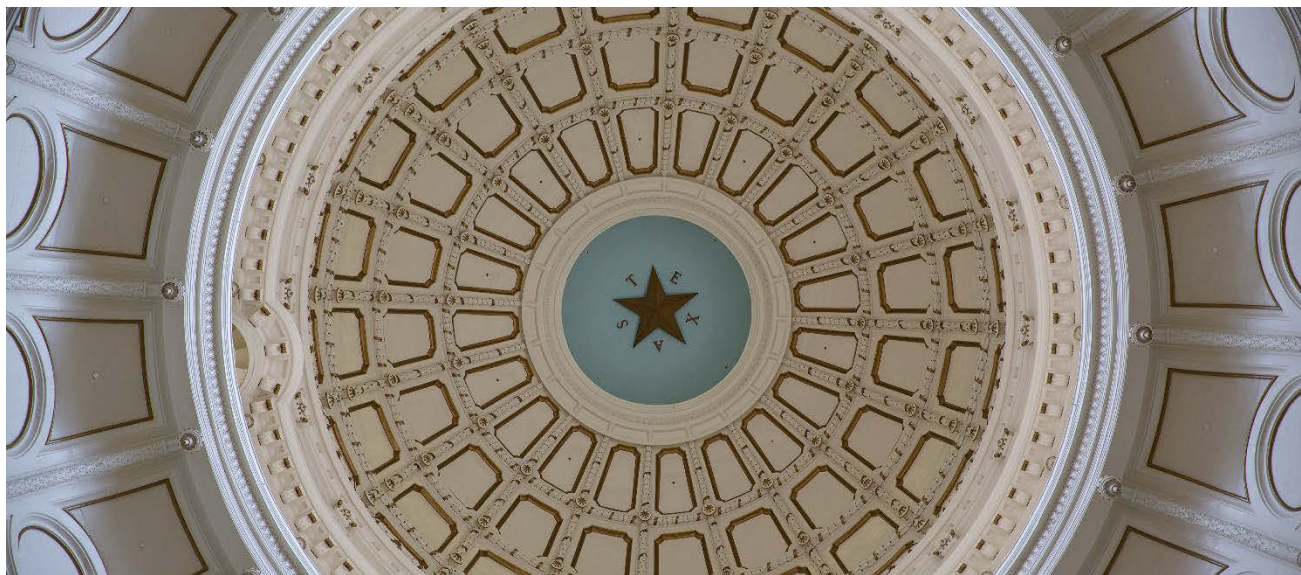
Pension Funded FTEs



Health Care Funded FTEs



TAB 5



FY 2024 Administrative Operating Budget Preview

Don Green, Chief Financial Officer
April 2023



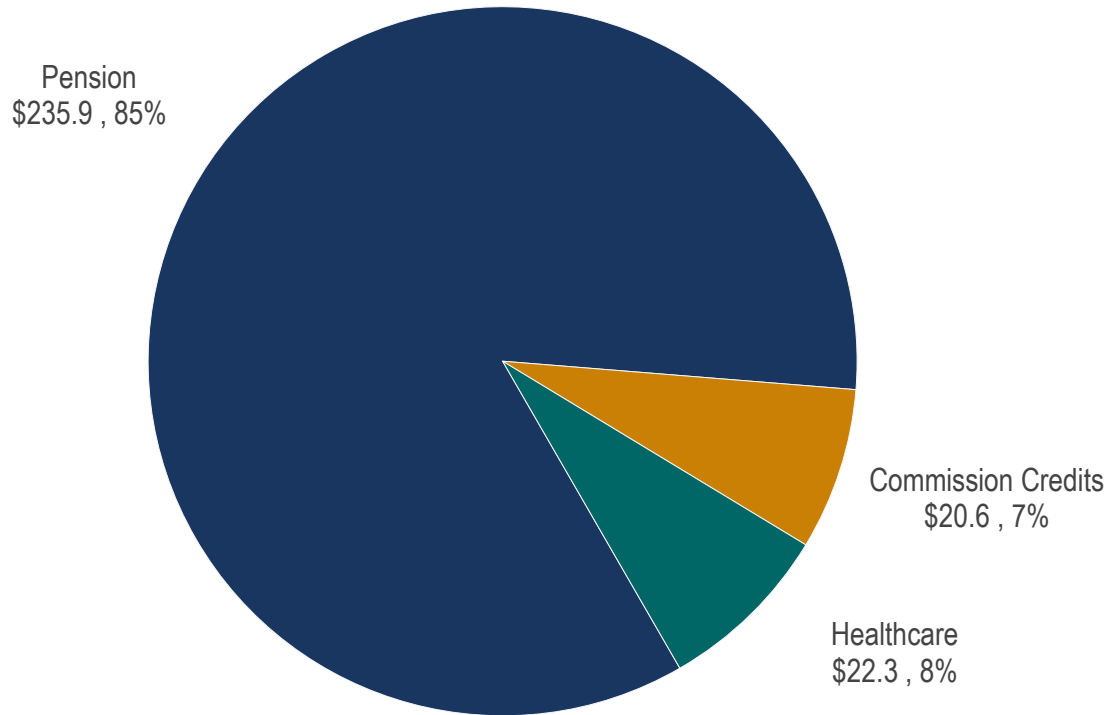
Review of current Legislative recommendations

Budget Item	TRS LAR		SB1 & HB1		Variance	
	FY24	FY25	FY24	FY25	FY24	FY25
Administrative Operations	244,982,400	219,096,500	230,582,400	219,096,500	(14,400,000)	-
Salary Adjustments	-	-	5,336,391	10,899,746	5,336,391	10,899,746
Total	\$ 244,982,400	\$ 219,096,500	\$ 235,918,791	\$ 229,996,246	\$ (9,063,609)	\$ 10,899,746
Authorized FTEs	1,047.3		1,047.3		-	

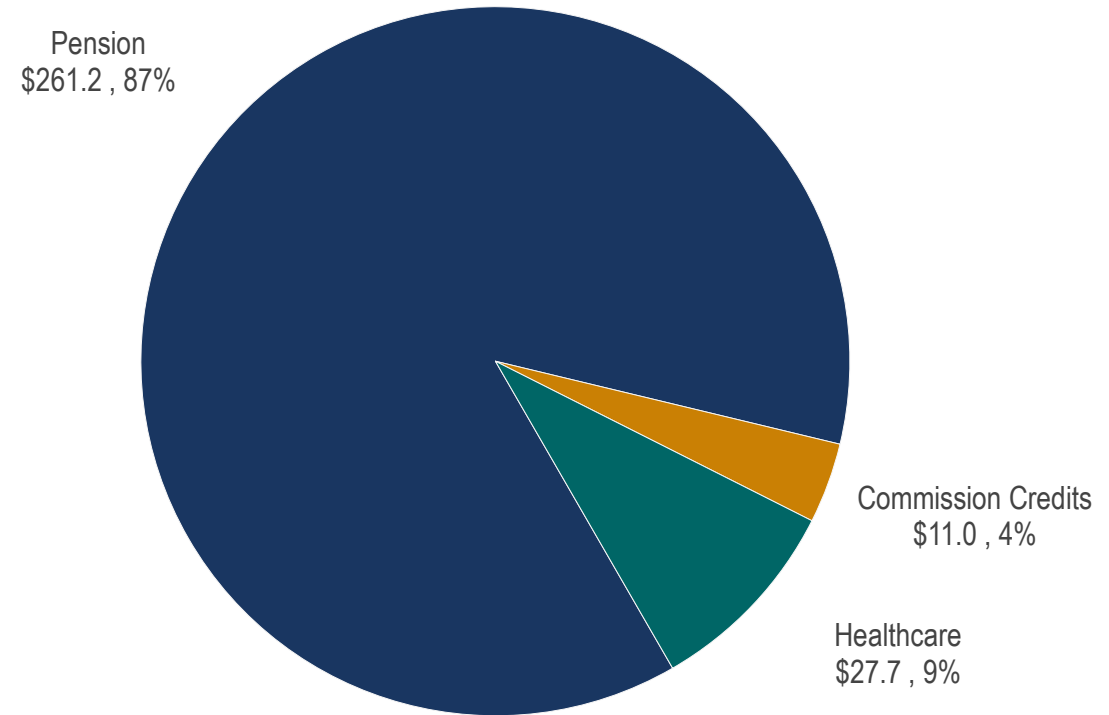
- Includes full funding for the FY23 Fiduciary Finding as requested in the August 2022 letter for the Customer Service Improvement Initiative, which prioritizes the customer service needs of our growing membership, continues to enhance competitive advantages and improves operational efficiencies.
- SB1 & HB1 funded our full request as submitted with the exception of \$14.4 million
- SB1 & HB1 added a new line item providing a 5% increase for all state employee salaries, with a minimum of \$3,000 per year in FY24 followed by a 5% increase with a minimum of \$3,000 per year in FY25
- SB1 & HB1 fully funded our capital budget request, including Investment Data Modernization and Fraud Prevention Tool and created a new capital project for Data Center Services, which results in a shift of funding from operating to capital.

FY23 vs FY24 Budget by Fund (\$ millions)

FY 2023 Operating Budget
\$278,808,609

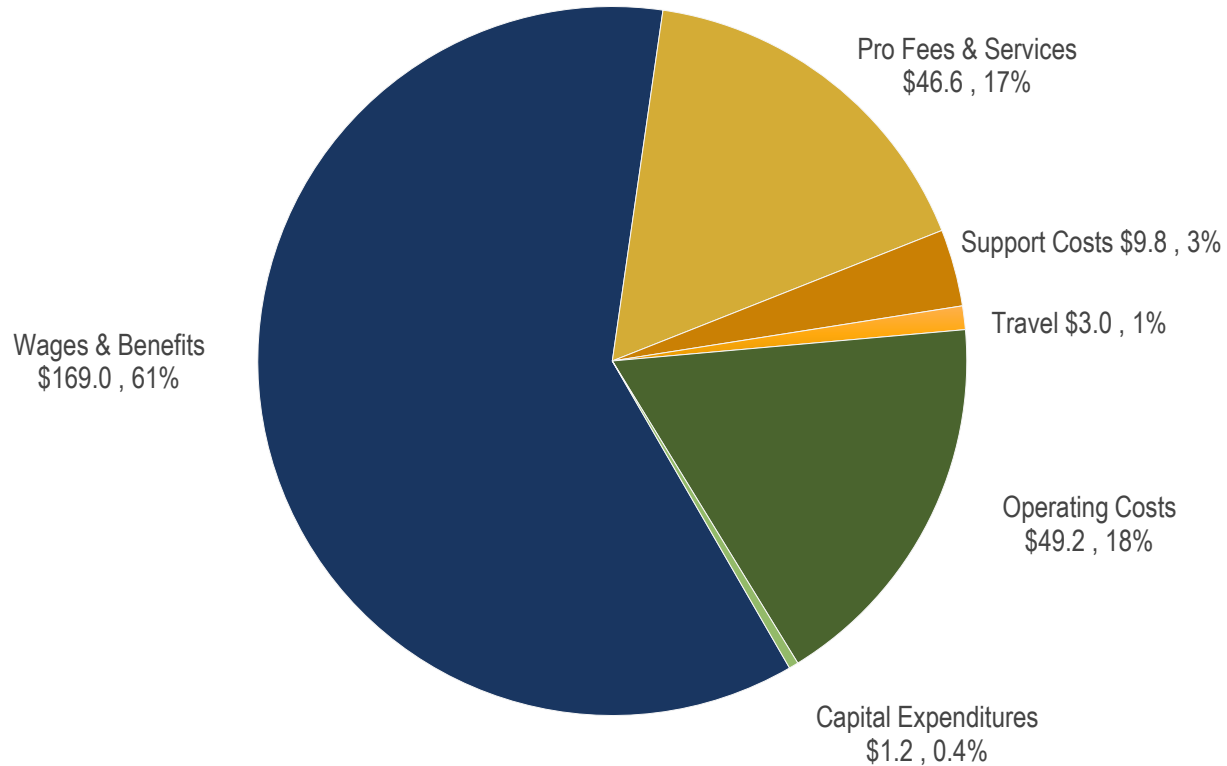


FY 2024 Operating Budget
\$299,841,000

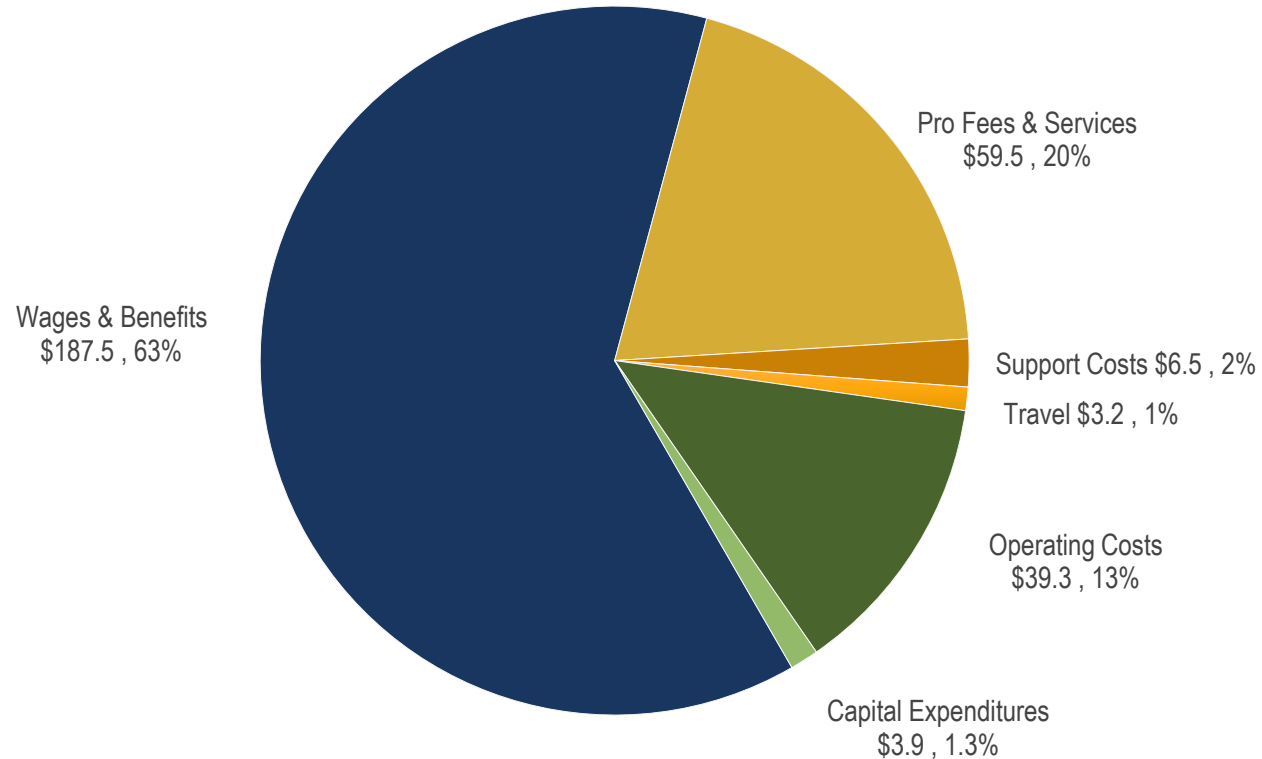


FY23 vs FY24 Budget by Category (\$ millions)

FY 2023 Operating Budget
\$278,808,609



FY 2024 Operating Budget
\$299,841,000



Operating costs: software, hardware, postage, printing, equipment, reference materials
Support costs: Rent, building/equipment maintenance, utilities, supplies

FY24 Administrative Operations

Pension Trust Fund

Pension Trust Fund	FY23 Budget	FY24 Budget	Requested Budget Changes	FY24 FTEs
Administrative Operations	232,004,000	235,309,495	3,305,495	1,047.3
Capital Projects				
Building Renovations <i>Funds facility needs to create a secure, productive, and space-efficient workplace.</i>	1,500,000	3,000,000	1,500,000	
Security Renovations <i>Maintains TRS Security Division's technology infrastructure to assure safety and security.</i>	200,000	200,000	-	
IT Infrastructure Upgrades <i>Funds to develop and maintain premise-based and cloud-based IT infrastructure applications, equipment, technologies, and security needs.</i>	2,183,609	7,300,000	5,116,391	
Investment Data Modernization <i>Improves fiduciary oversight of Trust asset valuation and performance by filling functional and technological gaps within current data structures and systems.</i>	-	14,282,000	14,282,000	
Data Center Services <i>Funds the consumption of print/mail services and continued managed security vulnerability services through the Texas Department of Information Resources (DIR) Shared Technology Services (STS) program.</i>	-	1,110,805	1,110,805	
Total Pension Trust Fund	\$ 235,887,609	\$ 261,202,300	\$ 25,314,691	1,047.3

- FY24 Administrative Operations from the Pension Trust Fund exclusive of Capital Projects is a 1.4% increase


FY24 Administrative Operations

Commission Credits & Healthcare

	FY23 Budget	FY24 Budget	Requested Budget Changes	FY24 FTEs
Commission Credits	20,625,000	10,984,500	(9,640,500)	-
Healthcare	22,296,000	27,654,200	5,358,200	141.5
Grand Total	\$ 42,921,000	\$ 38,638,700	\$ (4,282,300)	141.5

- FY24 Commission Credits Administrative Operations decreased to scale down program based on current revenue estimates*
- FY24 Administrative Operations from Healthcare includes \$1 million for the state mandated salary increases and \$4.3 for consulting services to assist with the implementation of a new pharmacy benefits manager in 2024.*

FY24 Budget Considerations



FY24 budget and resource requests submitted by divisions are currently under review



Staff intends to recommend a budget within appropriated levels and FTE limitations



Incentive compensation could include a multi-year payout consistent with the Board Performance Incentive Pay policy pending realization of target returns