

July 2024

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**

*All or part of the July 18, 2024, 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, 5th Floor, Boardroom.***

The open portions of the July 18, 2024, 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
July 18, 2024 – 12:30 p.m.
TRS East Building, 5th Floor, Boardroom**

1. Call roll of Committee members.
2. Consider the approval of the proposed minutes of the May 2024 committee meeting – Committee Chair.
3. Consider recommending to the Board adoption of the following – Don Green
 - a. Consider the adoption of the proposed fiscal year 2025 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 2025 budget.
 - b. Consider the adoption of the proposed fiscal year 2025 administrative operations budgets and general provisions for the TRS health benefits funds (retired and active plans).
4. Consider recommending to the Board the following statutory certification 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, 2025.
 - 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 the fiscal years 2026 and 2027.
 - c. To the State Comptroller of Public Accounts, the estimated amount of state contributions to the Pension Trust Fund for fiscal years 2026 and 2027.

5. Receive an overview of the proposed Legislative Appropriations Request for fiscal years 2026 and 2027 – Don Green

NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or act upon any item before the Budget Committee (Committee) at this meeting of the Committee. This meeting is not a regular meeting of the Board. However, because 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
May 2, 2024**

The Budget Committee of the Board of Trustees of the Teacher Retirement System of Texas met on May 2, 2024, 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 present:

Mr. Michael Ball, Chair
Mr. David Corpus
Mr. Jarvis Hollingsworth
Ms. Nanette Sissney
Mr. Elvis Williams

Other TRS Board Members present:

Ms. Brittny Allred
Mr. Robert H. Walls, Jr.
Mr. James Dick Nance

Others who participated:

Brian Guthrie, TRS
Andrew Roth, TRS
Don Green, TRS
Heather Traeger, TRS
Amanda Jenami, TRS
Katherine Farrell, TRS
Suzanne Dugan, Cohen Milstein

Budget Committee Chair, Mr. Michael Ball, called the meeting to order at 3:20 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 December 2023 committee meeting – Committee Chair.

On a motion by Mr. Hollingsworth, seconded by Mr. Corpus, the committee unanimously voted to approve the proposed minutes for the December 2023 Budget Committee meeting as presented.

3. Receive an overview of the Budget Committee's Calendar Year 2024 Work Plan – Don Green.

Mr. Don Green provided an overview of the Budget Committee's Calendar Year 2024 Work Plan, noting July is the Committee's most important meeting where the FY 2025 operating budget is considered and LAR request for 2026 – 27 is reviewed.

4. Receive a Mid-Year Analysis of the fiscal year (FY) 2024 Administrative Operating Budget – Don Green.

Mr. Green began by noting the operating budget for the current fiscal year was \$348 million. He projected the year will finish with an estimated 6 percent lapse. As to FTEs he reported there were 50 vacancies in the Pension Trust Fund of the 1,097 budgeted FTEs. For the health care side he said there were about nine vacancies of the 150 budgeted FTEs.

5. Consider budget adjustment for the Alpha-Bravo Construction Project including recommending to the Board adoption of a resolution making a fiduciary finding to authorize the transfer of pension funds related to the Alpha-Bravo Construction Project - Don Green.

Mr. Green reported the Board originally authorized \$300 million for the Alpha-Bravo construction project. He noted there were areas where savings were realized related to original estimates such as furniture selection, orientation related to core halls and decks and some stairway modifications. Unfortunately, he said, there were other items driving cost such as historic inflation, supply chain issues and additional infrastructure and data security needed. He said reviewing econometric models related to construction costs estimates to finish the project range from \$340 to \$369 million. He said staff estimates it would be less than an additional \$40 million to complete the project but assume some contingencies.

On a motion by Mr. Hollingsworth, seconded by Mr. Williams the committee voted to recommend to the Board the budget adjustment for Alpha/Bravo, including the adoption of the following resolution making a fiduciary finding to authorize the transfer of pension funds related to the Alpha/Bravo construction, as presented by staff:

**Authorizing Expenditure and Transfer of Funds for
Administrative Headquarters for TRS**

WHEREAS, Texas Government Code §821.007 provides that the buildings comprising the home office of the Teacher Retirement System (“TRS”) are under the control and custodianship of the retirement system; and

WHEREAS, Section 825.313(d) of the Government Code provides that the TRS Board of Trustees (the “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, in September 2021, the Board approved the selection of Shorenstein Realty Investors 11 LP to develop the new administrative headquarters for TRS and authorized the Executive Director to finalize contracts for the two properties known as “Alpha” and “Bravo” for a total cost of up to \$300,000,000;

WHEREAS, in the nearly three years since that approval, due to strong inflationary pressures, supply chain disruptions, infrastructure and data security enhancements, as well as scope changes such as design and layout adjustments necessary to accommodate business needs, costs to complete Alpha and Bravo

have exceeded the original budgeted operating expenses thereby making it necessary to adjust the budget to complete the administrative headquarters; Now, therefore, be it

RESOLVED, That the Board finds that an additional expenditure of pension trust funds for operating expenses is required to perform the fiduciary duties of the Board in administering the retirement system in an amount not to exceed \$40,000,000 for a total of \$340,000,000, to pay all expenses related to the design and build of the new administrative headquarters for TRS.

RESOLVED, That staff is authorized to transfer from the interest account to the expense account an amount necessary to cover the additional expenses of the new administrative headquarters under the approved budget, subject to a not to exceed in the amount of \$40,000,000.

RESOLVED, That staff is authorized to amend the fiscal year 2024 budget as approved under the Resolution Authorizing Expenditure and Transfer of Trust Funds for Pension Trust Fund Administrative Operations, dated July 14, 2023, to reflect this action.

6. Receive a preview of FY 2025 administrative operations budget – Don Green.

Mr. Green reviewed the preliminary budget for fiscal year 2025. He said the proposal incorporates the numbers that were appropriated by the Legislature. He noted the change from 2024 to 2025 is the mandated 5 percent salary increase for all State employees and a 70 percent threshold for the performance pay plan. He reported the FTE request for the year was still at the beginning of the process. He said it was critical to Benefit Services to keep pace with membership growth which may result in a 20 to 30 FTE increase. He also stated the key project for FY 2025 will be the Investment Data Modernization project resulting in a 10 to 15 FTE increase.

7. Receive a preview of the FY 2026 – 27 Legislative Appropriation Request – Don Green.

Mr. Green stated it was time again to put together appropriation request for the biennium 2026 – 27. He noted the instructions for the legislative appropriations request (LAR) from the Legislative Budget Board or the Governor’s Office are not expected to be released yet but likely the LAR will be due in August.

With no further business before the Committee, the meeting adjourned at 3:54 p.m.

Approved by the Budget Committee of the Board of Trustees of the Teacher Retirement System of Texas on July _____, 2024.

Katherine H. Farrell
Secretary of the TRS Board of Trustees

Date

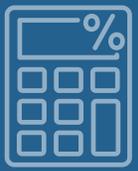
TAB 3



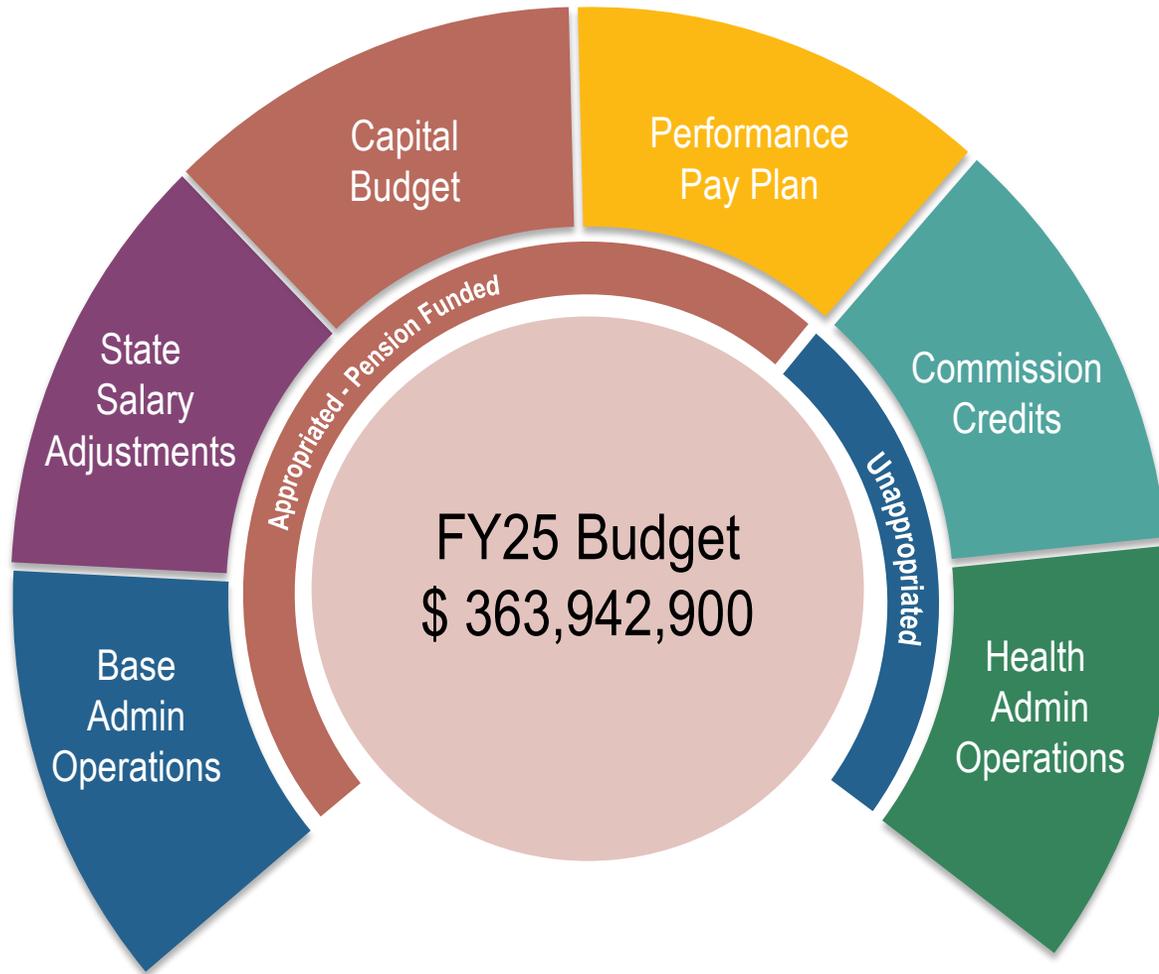
FY 2025 Administrative Operating Budget

July 2024
Presented By:
Don Green, Chief Financial Officer

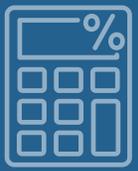




FY25 Administrative Operating Budget Components & Stakeholders

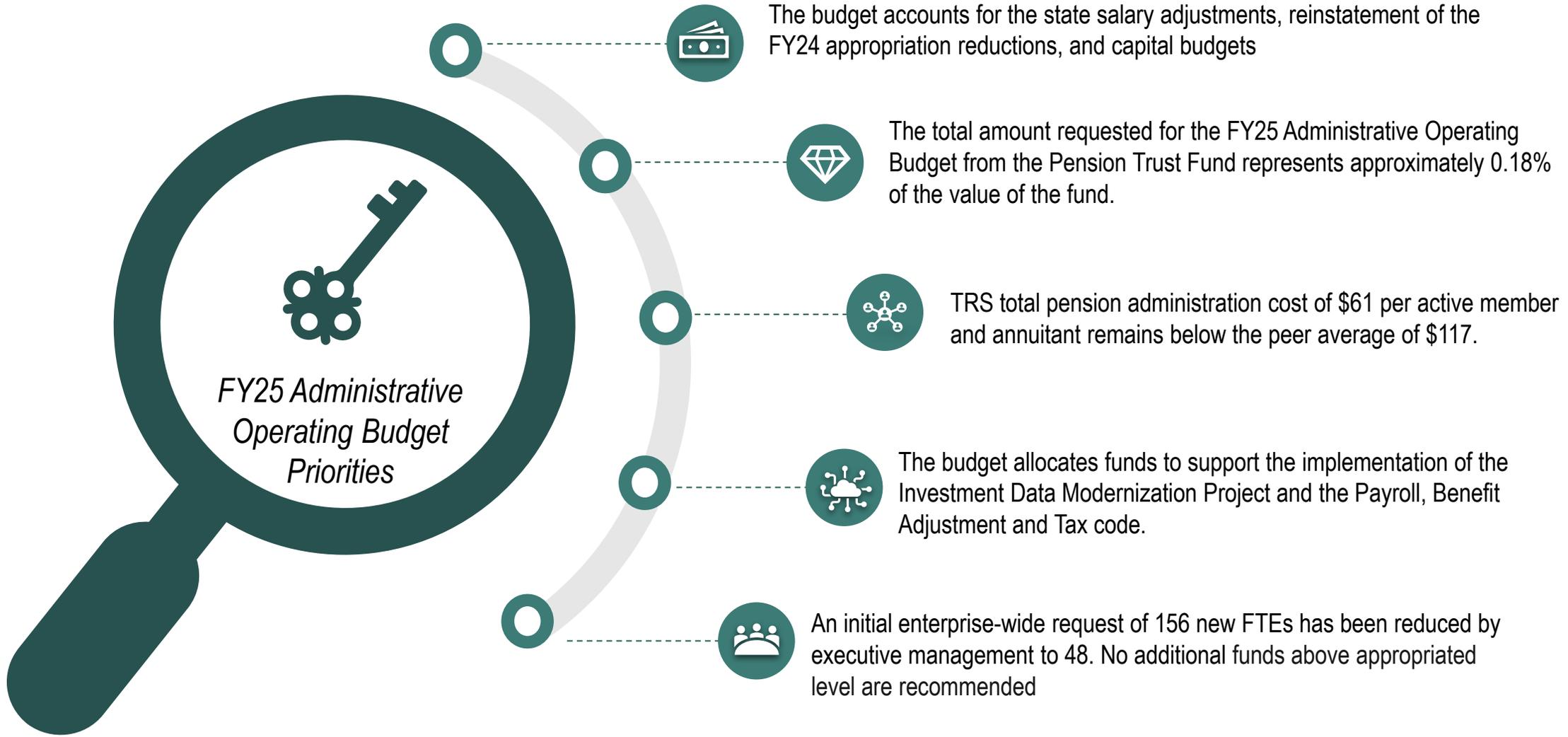


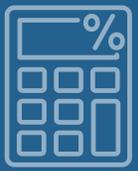
- Pension Membership**
 - Serving 2 million educators
 - 35% of members call in, 43% submit a requests, and 20,000 visit us in-person
 - 3% average annual membership growth
- Pension Trust Fund**
 - Managing approximately \$200 billion in assets
 - Sixth largest Pension Fund in the nation
 - Providing \$1 billion monthly annuity payments
- Health Membership**
 - Serving 1,000 public education employers, and more than 650K education employees, retirees, and their families
 - Managing competitive health plans
 - 14% lower rates than comparable plans
- Agency Operations**
 - Supporting 1,248 employees
 - Current YTD Turnover Rate is 5.9%
 - Partner with over 300 vendors



FY25 Administrative Operating Budget

Key Priorities





FY25 Administrative Operating Budget Overview

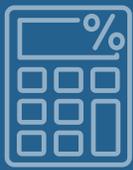


Administrative Operating Budget	\$ FY 2024	\$ FY 2025	\$ Difference	%
Pension Administrative Operations	254,022,500	287,285,200	33,262,700	13.1%
Performance Pay Plan	55,427,651	38,152,500	(17,275,151)	-31.2%
Commission Credits	10,984,500	7,510,000	(3,474,500)	-31.6%
Health Administrative Operations	27,575,000	30,995,200	3,420,200	12.4%
Grand Total	\$ 348,009,651	\$ 363,942,900	\$ 15,933,249	4.6%

The total FY25 Administrative Operating Budget presents a 4.6% increase over the previous fiscal year's budget

The FY25 administrative budget is within the parameters of the FY24-25 General Appropriations Act (GAA)

The total amount requested for the FY25 Administrative Operating Budget from the Pension Trust Fund represents approximately 0.18% of the value of the fund



FY25 FTE Recommendations



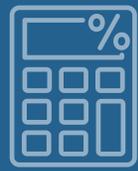
Alpha / Bravo Headquarters	Investment Data Modernization (IDM)	Member Services (Payroll, Benefit Adjustment, and Tax)	Regional Office
8 FTEs	9 FTEs	11 FTEs	2 FTEs
<ul style="list-style-type: none"> As a generational solution in response to growth in TRS' membership, the new headquarters space (458,379 square feet) is a 110% increase in size compared to the Red River campus (217,976 square feet). TRS has transitioned from leasing one building and owning another to owning and managing two properties, including space available for lease to outside entities for additional revenue. To maintain compliance with safety regulations, manage logistics and the equipment related to the flow of goods and materials for the leasable space as well as for TRS business operations at multiple locations (currently Red River, Alpha and upcoming Bravo), the expansion requires additional management services. Staffing vs. contracting for these services is a cost savings of approximately \$558,000 annually. 	<ul style="list-style-type: none"> The Investment Data Modernization Project will enhance the fiduciary oversight of the Trust asset valuation and performance and the associated increase in data volumes and complexity of assets, which is becoming increasingly more difficult due to the strain on current technology and investment operations staff as well as legacy data architectures and systems. Expected improvements include securing data at granular levels, implementing Master Data Management, an Investment Book of Record, a Parallel Accounting Book, and a Data Hub for centralized investment data access. Cost savings through value-add activities are estimated at \$50M on \$200B (.03% cost savings), with reductions in manual data processing and the ability to leverage modern technology. Estimating an alpha impact across asset classes of a conservative 2bps (.02%) of increased annual return on a \$200B portfolio would realize approximately \$185M additional growth in assets over a 4-year period. 	<ul style="list-style-type: none"> TRS is scheduled to implement the final and largest deliverable of the TEAM Program in summer 2025 with the launch of the Payroll, Benefit Adjustment, and Tax (PBT) programming code. PBT is expected to impact approximately 200 business processes such as monthly annuity payroll processing and reconciliation, annuity changes due to salary, service credit changes, option changes for beneficiary updates, disability recoveries, tax filing and reporting, and more. Required user testing for successful implementation includes verifying over 23,000 transactions related to General Ledger Testing, and data conditioning and reconciliation (defining data, mapping data from legacy source to new TRUST database, reviewing reconciliation reports, making decisions on quality, and updating or deleting data to aid in the clean up and migration). TRS membership has increased 2.4% since 2023 and is expected to continue to grow as the state grows. Following full completion of the TEAM Project, these requested positions will be redirected to increased activities that will develop from having a more robust collections system for annuities or funds owed to TRS due to overpayments resulting from delayed death reports or forfeitures due to employment after retirement. 	<ul style="list-style-type: none"> As the El Paso Office settles in and more members become aware of our presence, we have seen an overall 16% increase year over year of total members served. Walk-in traffic also continues to increase (though we strongly encourage our members to schedule appointments ahead of time). <ul style="list-style-type: none"> Nov – April 2023: 587 Walk-Ins Nov – April 2024: 1,268 Walk-Ins (+54%) In addition, we expect our employer outreach program to increase demand for presentations and we continue to develop partnerships with school districts in the area.



FY25 FTE Recommendations



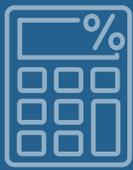
Artificial Intelligence (AI)	Data Security & Compliance	Dental & Vision Health Plans, Health Analytics
3 FTEs	9 FTEs	6 FTEs
<ul style="list-style-type: none"> Artificial Intelligence tools and technologies can enhance productivity, decision-making, and member services while prioritizing data security. Strategic planning efforts and an in-depth initial assessment identified 10 high-value TRS AI initiatives and 107 backlog requests to improve operational capabilities and performance. Support for data preparation, compliance reviews, technology installation, and training will enable, maintain, and support both short- and long-term benefits from these initiatives. Key initiatives include leveraging, building and supporting AI to enhance member services and create efficiencies with tools for contract reviews (to quickly identify and assess potential risks); investment document preparation to perform trend analysis, data quality and automation; easy extraction of key data from PDFs and handwritten documents to check for completeness; searchable chat-like features to assist benefit counselors with finding information quickly to answer member questions; auto summarization of calls for efficient and helpful notes in member records; and researching and identifying relevant information about district board decisions related to health benefits decisions to quickly inform TRS' programs. 	<ul style="list-style-type: none"> TRS technology portfolio has experienced rapid growth of 173% since 2019 resulting in critical IT compliance initiatives to maintain critical business systems and management databases used to store and analyze large volumes of data that are primary drivers for performance. To support rapid technology growth, critical skilled resources are required to gather compliance evidence, perform gap analysis, and drive remediation in a proactive manner to reduce enterprise risks and waste in technology utilization, and maintain security and compliance around software inventories. Additional resources are required to address the significant backlog of 193 development tickets to improve capabilities by testing and developing automated test scripts for patch management. Lack of support increases the likelihood of undetected issues making it to production resulting in frequent system disruptions, security vulnerabilities, and a growing backlog of unresolved issues. Utilizing consulting services for this effort could average \$400 per hour. Critical resources include technological engineers and security analysts to develop and maintain the data systems and capabilities that protect all categories of TRS data, including highly sensitive and confidential information, and avoid potential compliance issues due to inadequate data protection. Reducing our vulnerability to cyber attacks and data breaches, which are increasing 35% each year, by keeping systems updated with the latest security updates to protect sensitive information and prevent unauthorized access. TRS experiences on average 25,000 attacks a day, of which 50 require deeper investigations. An average of 10-20 investigations per day can be supported with current FTE levels Developers are required to optimize operational stability and compatibility between existing critical lines of business applications developed to enhance member services. Currently, TRS has over 80 process automation requests to improve staff efficiency, productivity, and accuracy by implementing enhancements like Microsoft power platform to configure custom applications and automate workflows. Improving system performance reduces potential system downtime due to outdated technologies. Each hour business operations are down approximately 985 members are impacted throughout member services. 	<ul style="list-style-type: none"> Senate Bill 1854 of the 88th Legislature requires TRS to establish or contract for and make available under the TRS-Care program an optional plan that provides coverage for dental and vision care for retirees, dependents, surviving spouses, and surviving dependent children. Additional FTEs are required to successfully implement and administer new dental and vision plans by January 2025. Resources are needed to ensure access to precise, up-to-date, and practical health data enhances the value and affordability of health benefits for Texas public educators, retirees, and their families. The Health database serves multiple purposes, including contract monitoring, invoice reconciliation, setting premium rates for actuaries, and conducting analysis for the Texas Legislature, TRS board of trustees, and Health management. Resources are critical to ensure claims-related data infrastructure supports business objectives to communicate health claims data to analyze market trends, behavioral patterns, and competitor pricing to optimize pricing strategies for Healthcare.



FY25 FTE Request Overview



	Original FTE Request	Pension Funded FTEs						Pension Funded FTE Request	Health Funded	
		Alpha Bravo Headquarters	Investment Data Modernization	Member Services (Payroll, Benefit Adjustment, and Tax)	El Paso Regional Office	Artificial Intelligence	Data Security & Compliance		Health	FY25 Total FTE Request
Core Support										
Investment Management	13	-	7	-	-	-	-	7	-	7
Benefit Services	54	-	-	11	2	-	-	13	-	13
Health	5	-	-	-	-	-	-	-	5	5
Shared Support										
Business Administration	13	7	-	-	-	-	-	7	-	7
Communications	2	-	-	-	-	-	-	-	-	-
Executive	1	-	-	-	-	-	-	-	-	-
Financial Services	6	-	2	-	-	-	-	2	-	2
Government Affairs	1	-	-	-	-	-	-	-	-	-
Information Security	4	-	-	-	-	-	3	3	-	3
Information Technology	44	1	-	-	-	3	6	10	1	11
Internal Audit	1	-	-	-	-	-	-	-	-	-
Legal & Compliance	4	-	-	-	-	-	-	-	-	-
Organizational Excellence	8	-	-	-	-	-	-	-	-	-
Total	156	8	9	11	2	3	9	42	6	48



Performance Pay Plan



- Realized potential awards are calculated in October, which is after the close of plan year in September. Assuming the fund is positive as of the end of plan year 2024, the estimated incentive compensation payout is \$38.2 million
 - Over the last 3 years, Investment Management Division (IMD) has delivered \$7.7 billion in excess value over the trust benchmarks
- Provisional language allows TRS to increase the FY25 budget up to the maximum award allowed

Summary of Performance Pay Plan Potential Awards and Payout Schedule from Plan Years 2018 to 2024

Amount in millions

Award Plan Year	Realized Award	Actual Award Payout					FY25 Estimated Payout (70%)
		FY20	FY21	FY22	FY23 ¹	FY24	
2018 Plan Year	\$ 8.7	\$ 4.2					
2019 Plan Year	\$ 13.3	\$ 6.5	\$ 6.0				
2020 Plan Year	\$ 7.1		\$ 3.6	\$ 3.3			
2021 Plan Year	\$ 17.1			\$ 8.8		\$ 7.7	
2022 Plan Year	\$ 16.7					\$ 16.7	
2023 Plan Year ²	\$ 22.4					\$ 31.0	
2024 Plan Year							\$ 38.2
		\$ 10.7	\$ 9.6	\$ 12.1	-	\$ 55.4	\$ 38.2

Note 1: No payout in Fiscal Year 2023 because the Trust Fund return for Plan Year 2022 is negative.

Note 2: Performance Pay policy was revised in FY23 to make one single award payment if the fund is positive as of the end of the plan year.

Note 3: Maximum award allowed for the 2024 plan year is estimated \$54.5 million.

Actual Award Payout may be less than realized potential award due to attrition.



FY25 Administrative Operating Budget



	PENSION TRUST FUND			HEALTH BENEFITS FUNDS		FY 2025 Administrative Operating Budget
	Administrative Operations	Performance Pay Plan	Commission Credits	TRS-Care (Retired Plan)	TRS-ActiveCare (Active Plan)	
Revenues and Other Sources						
Legislative Appropriations - Administrative Operations	219,096,454	-	-	-	-	\$ 219,096,454
Legislative Appropriations - Salary Adjustments	10,899,746	-	-	-	-	\$ 10,899,746
Legislative Appropriations - Capital UB	18,673,000	-	-	-	-	\$ 18,673,000
Fringe Benefits Paid by the Pension Fund	38,616,000	-	-	-	-	\$ 38,616,000
Performance Pay Plan	-	38,152,500	-	-	-	\$ 38,152,500
Commission Credits	-	-	7,510,000	-	-	\$ 7,510,000
Health Administrative Operations	-	-	-	25,210,100	5,785,100	\$ 30,995,200
Total Revenues and Other Sources	\$ 287,285,200	\$ 38,152,500	\$ 7,510,000	\$25,210,100	\$ 5,785,100	\$ 363,942,900
Operating and Capital Expenses						
Wages and Benefits	193,304,700	-	-	19,367,300	2,542,100	\$ 215,214,100
Professional Fees and Services	49,488,000	-	7,400,000	5,424,000	3,119,000	\$ 65,431,000
Support	7,344,900	-	-	13,800	4,500	\$ 7,363,200
Travel	3,094,000	-	-	205,000	60,000	\$ 3,359,000
Operating	31,169,600	-	110,000	200,000	59,500	\$ 31,539,100
Capital Expenditures	2,884,000	-	-	-	-	\$ 2,884,000
Performance Pay Plan	-	38,152,500	-	-	-	\$ 38,152,500
Total Operating and Capital Expenses	\$ 287,285,200	\$ 38,152,500	\$ 7,510,000	\$25,210,100	\$ 5,785,100	\$ 363,942,900
FY 2024 Operating Budget	\$ 254,022,500	\$ 55,427,651	\$10,984,500	\$22,164,500	\$ 5,410,500	\$ 348,009,651
% Change from FY 2024 Budget	13.1%	-31.2%	-31.6%	13.7%	6.9%	4.6%

Includes estimated Employer Retirement Contributions, Employer FICA Contributions, Employer Health Insurance Contributions, and Benefit Replacement Pay.
The total amount requested for the FY 2025 Administrative Operating Budget from the Pension Trust Fund represents approximately 0.18% of the value of the fund



FY25 Administrative Operations 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 88th 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, and the TRS-ActiveCare 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).

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 to the extent funds have been included in the approved board resolution for that purpose or are otherwise made available through the Budget Execution Authority in these General Provisions; in an amount not to exceed \$ ~~54.5~~ ~~69.3~~ million.
- **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.



FY25 Administrative Operations General Provisions



TEACHER RETIREMENT SYSTEM OF TEXAS

GENERAL PROVISIONS

(continued)

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.

TRAVEL – In accordance with TRS policy, the Executive Director, or Deputy Director in the absence of the Executive Director, is authorized to reimburse employee and trustee travel expenses at amounts that are reasonable and necessary to conduct official TRS business, including transportation and other expenditures necessary for employees to attend orientation, training and staff development activities conducted at TRS headquarters. The board finds that such reasonable and necessary expenses are necessary for the performance of fiduciary duties. These expenses may include additional allowances above standard or state law rates for transportation and meals. Travel expense reports requesting reimbursement must be submitted timely, and with proper documentation as set forth in the TRS Travel Guide.

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 25% of an expense category 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, and the TRS-ActiveCare 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.



FY25 Administrative Operations Resolution



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

July 18, 2024

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 15, "Contingent Appropriation of Pension Trust Funds for GASB Statement Implementation," of the TRS bill pattern in the State General Appropriations Act, 88th 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;

Whereas, Rider 19, "Exception to FTE Limitation for Board Fiduciary Finding," of the TRS bill pattern in the State General Appropriations Act, 88th Legislature provides that in addition to the funding and "Number of Full-Time Equivalents (FTE)" appropriated above, TRS is authorized to employ additional FTEs and contract workers under a Fiduciary Finding of the TRS board; now, therefore be it;

Resolved, That the board approves the amendments to the General Provisions for the Pension Trust Fund Administrative Operations, including a change to the performance pay plans maximum award of \$54.5 million.



FY25 Administrative Operations Resolution



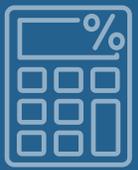
Resolved, That the board finds the expenditure of pension trust funds for operating expenses in Fiscal Year 2025 including the changes listed below are required to perform the fiduciary duties of the board in administering the retirement system in the amount of \$287,285,200, as approved today in the Fiscal Year 2025 Budget and General Provisions for the Pension Trust Fund Administrative Operations, as amended, plus such additional amounts as may be necessary for the following expenditures and changes to the General Provisions:

- To pay the actual amount of performance incentive compensation payable up to \$54.5 million in Fiscal Year 2025, if any; and
- To reimburse reasonable and necessary employee transportation and other expenditures necessary for employees to attend orientation, training and staff development activities conducted at TRS headquarters; 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 2025, but not to exceed the amount of \$287,285,200 plus, any additional amounts necessary to pay performance incentive compensation payable in Fiscal Year 2025 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

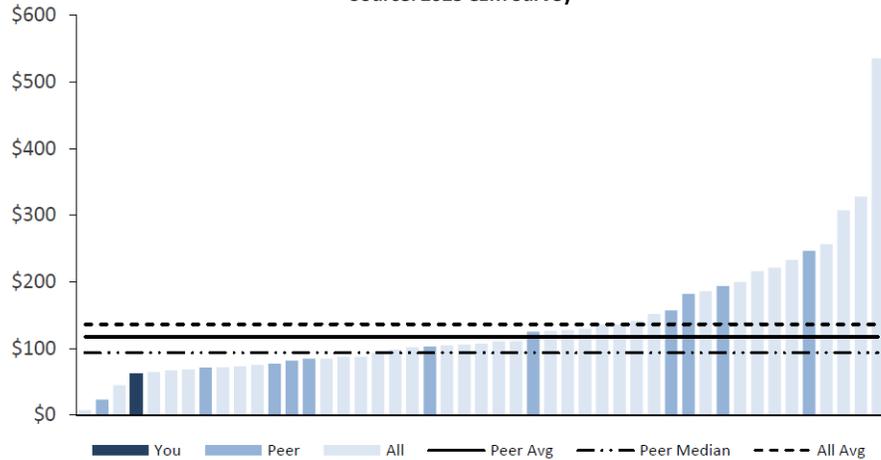


FY25 Administrative Operating Budget Market Insights



Pension Administration Cost Per Active Member and Annuitant

Source: 2023 CEM Survey



TRS total pension administration cost of \$61 per active member and annuitant remains below the peer average of \$117.

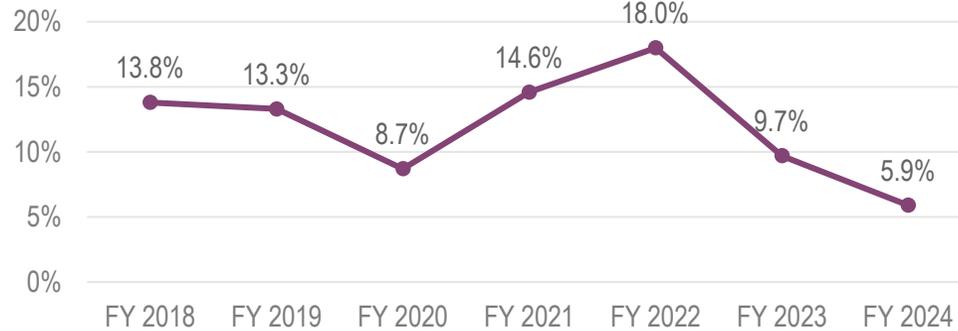
U.S. Annual Inflation Rate

Source: US Bureau of Labor Statistics, All items less food and energy



The annual inflation rate continues to trend well above historical levels

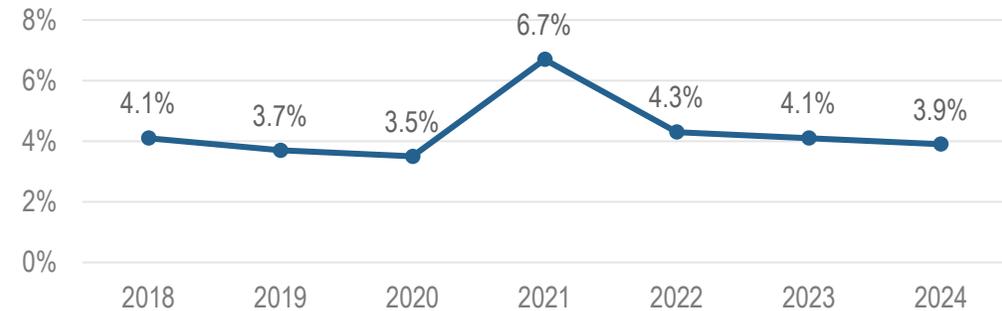
TRS Turnover Rate



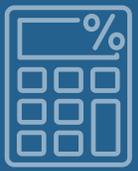
TRS turnover rate continues to trend down since FY22

Texas Unemployment Rate

Source: US Bureau of Labor Statistics



Unemployment has been trending down since 2021

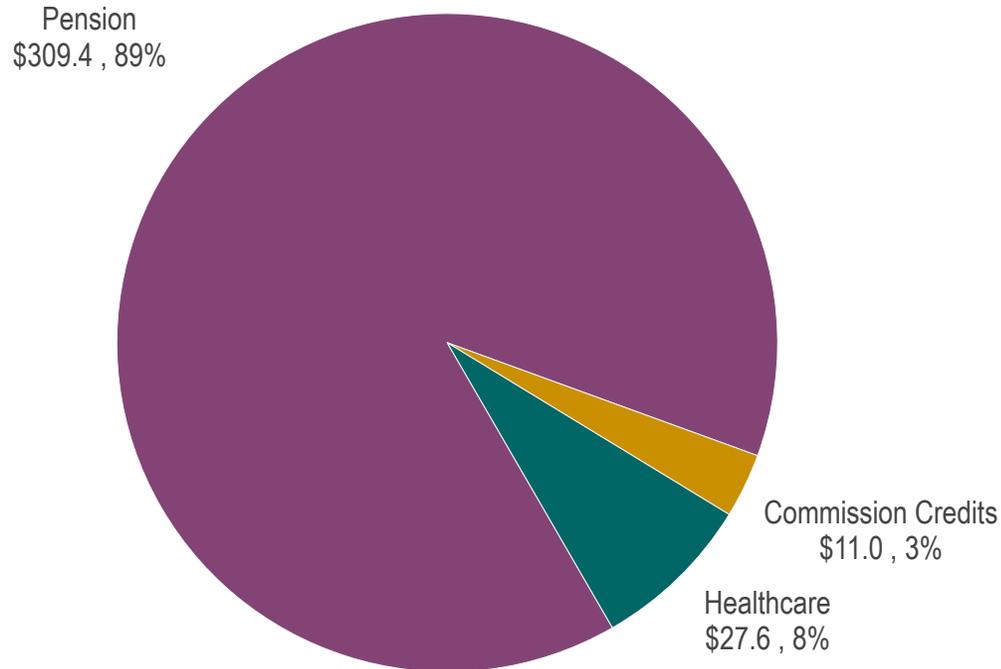


FY24 vs FY25 Budget by Fund

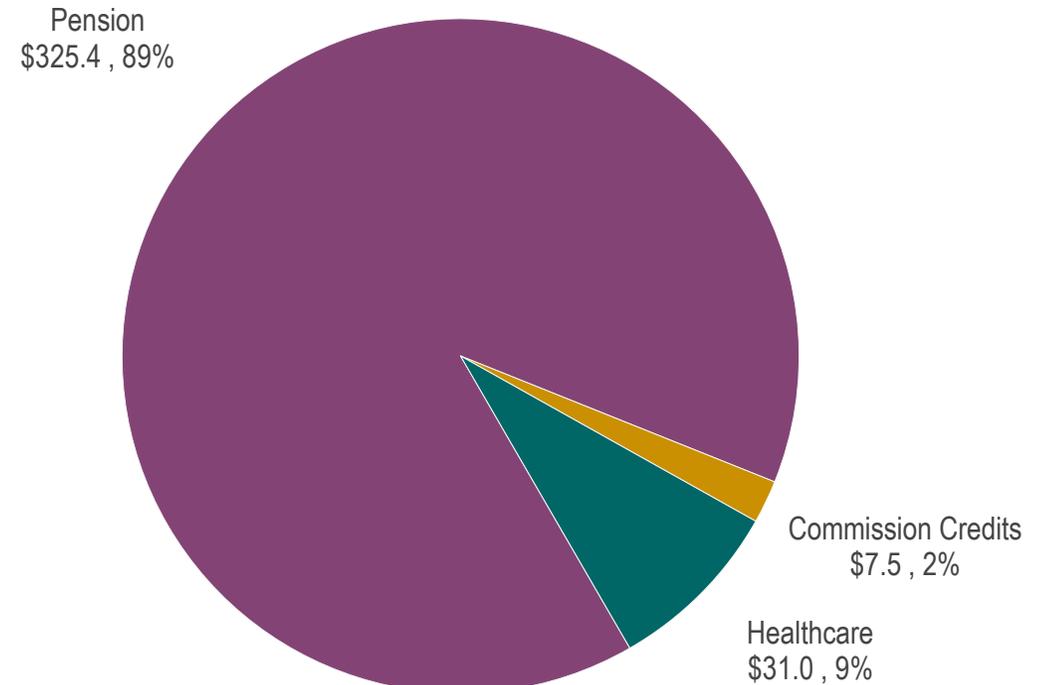
(\$ millions)

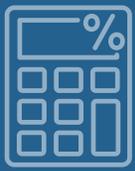


FY 2024 Operating Budget
\$348,009,651



FY 2025 Operating Budget
\$363,942,900



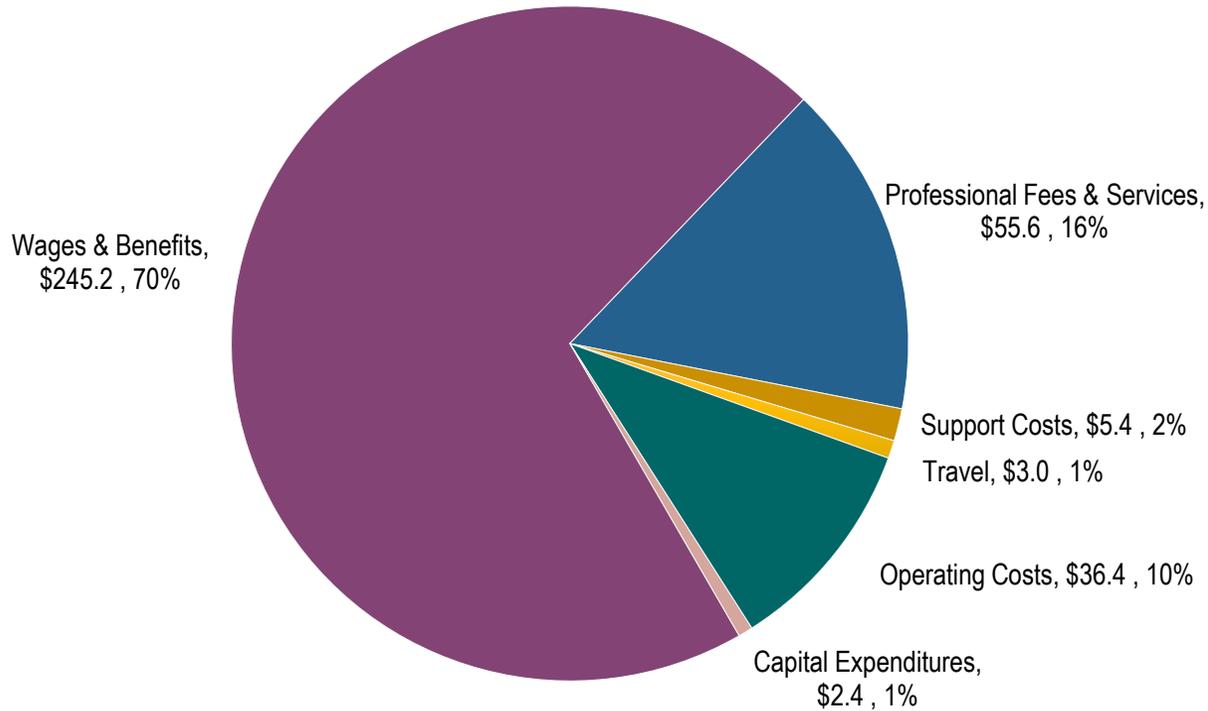


FY24 vs FY25 Budget by Budget Category

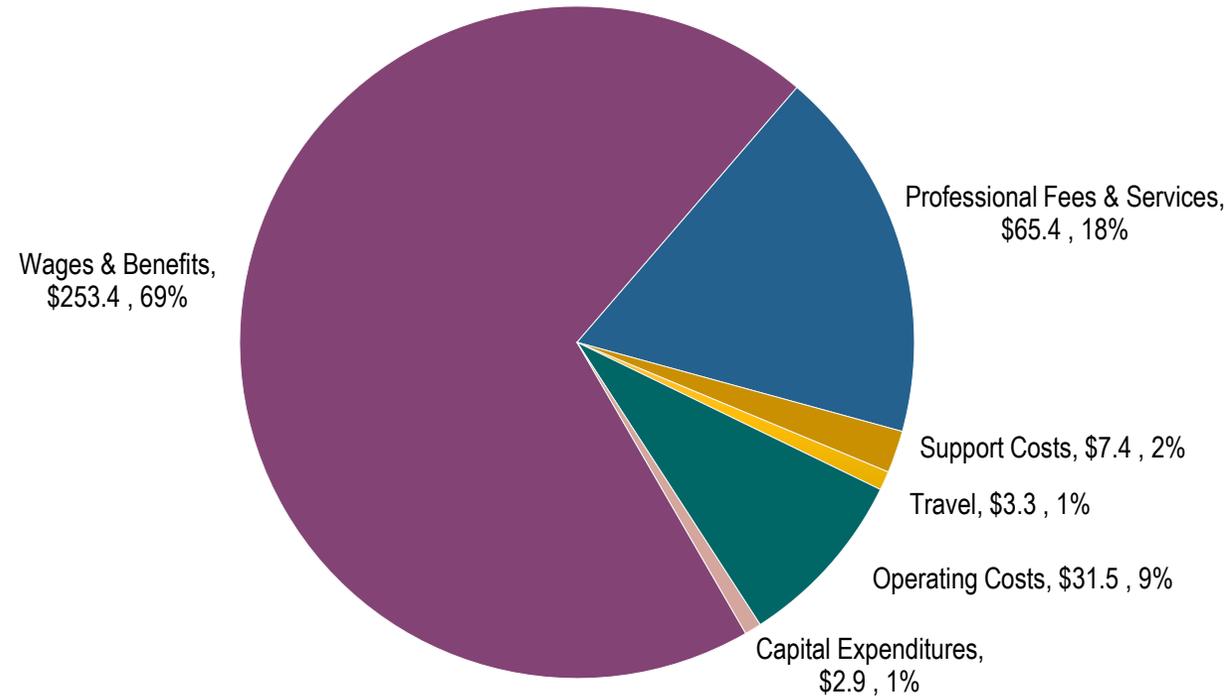
(\$ millions)



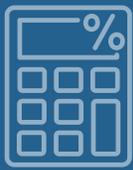
FY 2024 Operating Budget
\$348,009,651



FY 2025 Operating Budget
\$363,942,900



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



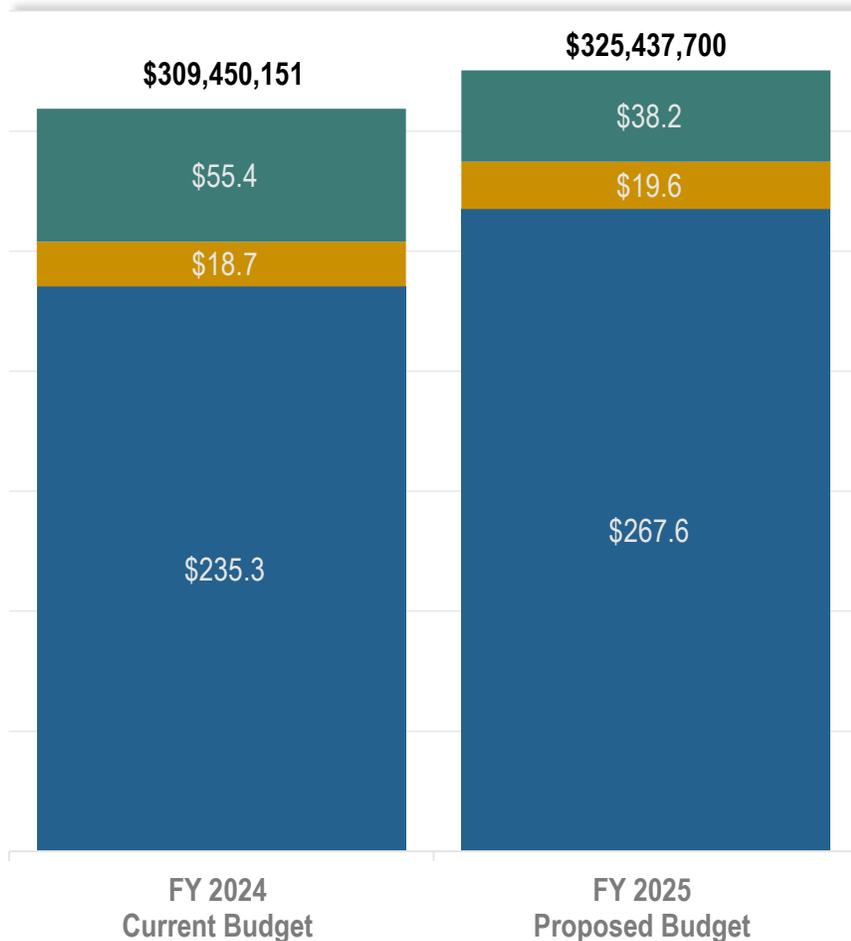
FY25 Administrative Operations Pension Trust Fund



Administrative Operating Budget

\$ in millions

■ Performance Pay Plan ■ Capital Budget ■ Base Admin Operations



Explanation of Differences from Prior Year

Performance Pay Plan

Should the Pension fund obtain a positive return, the one plan year estimated award for FY25 would be (\$17.2M) lower than the FY24 award.

Capital Budget

Capital budget authority increased \$0.9M related to the Data Center Services (DCS) capital project.

Cost Savings

Reduced reliance on external contract support (\$2.3).

Operating Costs

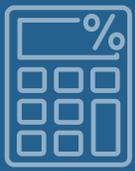
A total of \$1.4M was reallocated within the FY25 budget for operating costs related to Alpha.

Reinstatement of Appropriation Reductions

Reinstate \$14.4 million reduced from the FY24 Administrative Operating Budget.

Wages & Benefits

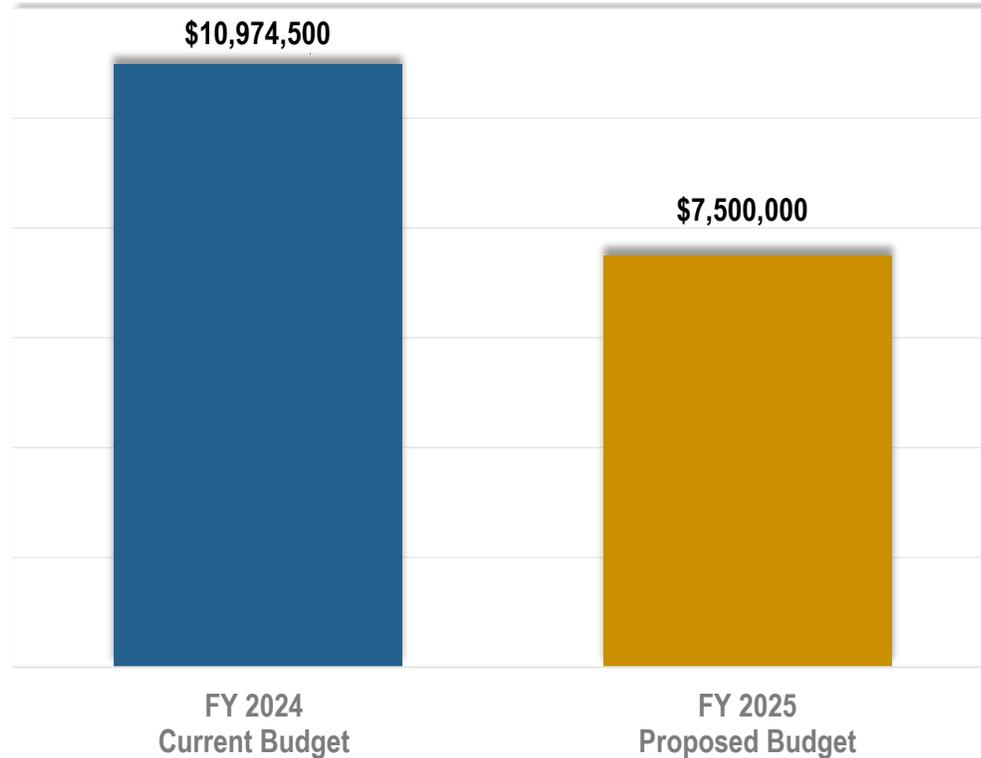
Includes \$18.8 million for the annualization of costs related to new FTEs added in FY24, the FY24-FY25 state salary adjustments, related fringe benefits, and the FY25 merit program to award eligible staff.



FY25 Administrative Operations Commission Credits

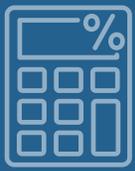


Commission Sharing Agreements (CSA)



Explanation of Differences from Prior Year

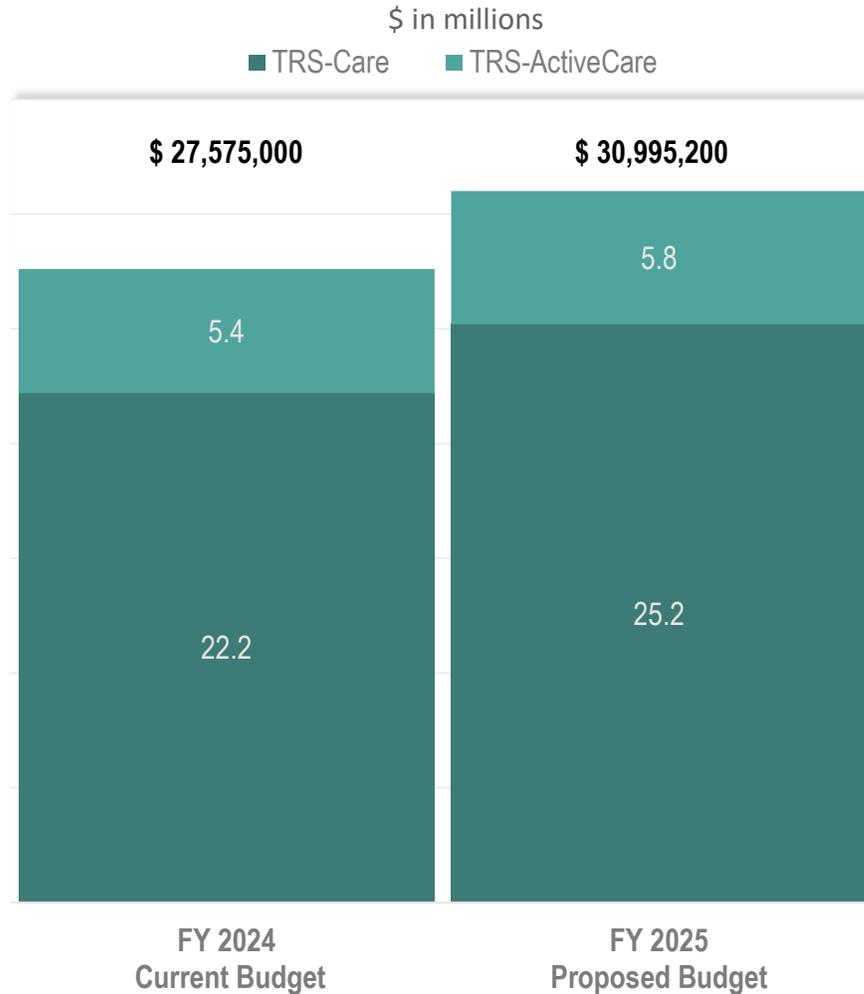
- Commission Sharing Agreements reduced to scale down programs based on current commission credit estimates.



FY25 Administrative Operations Health Trust Funds



Administrative Operating Budget



Explanation of Differences from Prior Year

- Wages & Benefits** → Includes \$1.8 million for the annualization of costs related to new FTEs added in FY24, the FY24-FY25 state salary adjustments, related fringe benefits, and the FY25 merit program to award eligible staff.
- FY25 New FTEs** → There is a request for 5 FTEs for FY25, \$0.8M was added to the budget to accommodate the costs related to these positions.
- FY24 Annualization** → In FY24, 9 FTEs were added, \$0.7M was added to the budget in FY25 to annualize the costs related to these positions.
- Operating Costs** → A total of \$0.1M was added to the budget related to increases in operating costs.



FY25 Pension Trust Fund



	FY23 Expended	FY24 Budgeted	FY25 Proposed	FY24-25 Change	% Change
Salaries and other personnel expenses					
Salaries and wages	106,118,136	132,182,806	152,060,500	19,877,694	15%
Longevity pay	768,540	938,820	1,070,700	131,880	14%
Benefit replacement pay	19,163	35,700	20,000	(15,700)	-44%
Other employee benefits	1,018,791	1,370,000	1,617,500	247,500	18%
Employer FICA contributions	7,089,762	10,022,600	10,501,600	479,000	5%
Employer health insurance contributions	9,997,089	15,958,300	16,792,700	834,400	5%
Employer retirement contributions	8,159,178	10,700,300	11,241,700	541,400	5%
Salaries and other personnel expenses Total	133,170,659	171,208,526	193,304,700	22,096,174	13%
Professional fees and services	23,374,535	43,325,235	49,488,000	6,162,765	14%
Other operating expenses					
Consumable supplies and fuels	472,618	641,372	733,900	92,528	14%
Utilities	1,173,354	1,537,589	2,637,200	1,099,611	72%
Travel	1,289,147	2,725,740	3,094,000	368,260	14%
Rentals	4,848,935	1,100,688	1,364,500	263,812	24%
Dues, fees, and staff development	578,525	1,060,963	1,077,400	16,437	2%
Hardware maintenance	1,058,524	550,000	1,402,000	852,000	155%
Insurance premiums	917,395	1,050,850	1,142,100	91,250	9%
Other operating	5,087,071	5,178,049	4,502,500	(675,549)	-13%
Subscriptions & reference information	48,511	149,743	171,500	21,757	15%
Printing and reproduction services	179,230	400,000	400,000	-	0%
Building and equipment maintenance	1,140,706	2,086,755	2,609,300	522,545	25%
Furniture and equipment	1,665,487	1,943,672	3,296,500	1,352,828	70%
Postage, mailing, and delivery	4,763,062	3,253,021	3,684,000	430,979	13%
Software purchases and maintenance	10,034,982	15,432,971	15,493,600	60,629	0%
Other operating expenses Total	33,257,547	37,111,413	41,608,500	4,497,087	12%
Capitalized expenses	710,265	2,377,326	2,884,000	506,674	21%
Pension Trust Fund Sub Total	190,513,006	254,022,500	287,285,200	33,262,700	13%
Performance Pay Plan	-	55,427,651	38,152,500	(17,275,151)	-31%
Pension Trust Fund Grand Total	190,513,006	309,450,151	325,437,700	15,987,549	5%



FY25 Capital Projects



Capital Projects	FY24 Budget	FY25 Budget	Year to Year Budget Change
Building Renovations <i>Funds facility needs to create a secure, productive, and space-efficient workplace.</i>	2,000,000	1,000,000	(1,000,000)
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, implement the fraud prevention tool and security needs.</i>	5,300,000	2,000,000	(3,300,000)
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>	10,100,000	15,673,000	5,573,000
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>	1,110,800	953,100	(157,700)
Total Capital Projects	\$ 18,710,800	\$ 19,626,100	\$ 915,300



FY25 Commission Credits Program



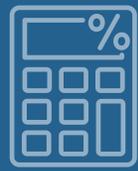
	FY23 Expended	FY24 Budgeted	FY25 Proposed	FY24-25 Change	% Change
Professional fees and services	3,109,263	3,851,500	7,400,000	3,548,500	92%
Other operating expenses					
Dues, fees, and staff development	-	7,000	7,000	-	0%
Other operating	15,606,327	6,777,000	103,000	(6,674,000)	-98%
Subscriptions & reference information	-	91,500	-	(91,500)	-100%
Furniture and equipment	325	-	-	-	0%
Software purchases and maintenance	774,263	257,500	-	(257,500)	-100%
Other Operating Expenses Total	16,380,915	7,133,000	110,000	(7,023,000)	-98%
Grand Total	\$ 19,490,177	\$ 10,984,500	\$ 7,510,000	\$ (3,474,500)	-32%
Funding Source					
Investment Commission Recapture	325	10,000	10,000	-	0%
Investment Commission Sharing	19,489,852	10,974,500	7,500,000	(3,474,500)	-32%
Grand Total	\$ 19,490,177	\$ 10,984,500	\$ 7,510,000	\$ (3,474,500)	-32%



FY25 TRS-Care



	FY23 Expended	FY24 Budgeted	FY25 Proposed	FY24-25 Change	% Change
Salaries and other personnel expenses					
Salaries and wages	10,471,671	12,907,344	15,349,200	2,441,856	19%
Longevity pay	88,100	96,400	88,000	(8,400)	-9%
Benefit replacement pay	2,063	2,200	-	(2,200)	-100%
Other employee benefits	109,290	140,200	161,400	21,200	15%
Employer FICA contributions	774,853	964,100	1,114,200	150,100	16%
Employer health insurance contributions	915,425	1,211,000	1,453,500	242,500	20%
Employer retirement contributions	685,660	1,028,960	1,201,000	172,040	17%
Salaries and other personnel expenses Total	13,047,062	16,350,204	19,367,300	3,017,096	18%
Professional fees and services	4,098,493	5,388,296	5,424,000	35,704	1%
Other operating expenses					
Consumable supplies and fuels	1,563	6,300	6,300	-	0%
Utilities	-	7,500	7,500	-	0%
Travel	62,839	205,000	205,000	-	0%
Dues, fees, and staff development	9,147	32,000	32,500	500	2%
Other operating	17,928	160,000	154,800	(5,200)	-3%
Subscriptions & reference information	628	6,500	6,500	-	0%
Printing and reproduction services	-	1,000	1,000	-	0%
Furniture and equipment	1,305	7,500	5,000	(2,500)	-33%
Postage, mailing, and delivery	-	200	200	-	0%
Other operating expenses Total	93,410	426,000	418,800	(7,200)	-2%
Grand Total	\$ 17,238,965	\$ 22,164,500	\$ 25,210,100	\$ 3,045,600	14%



FY25 TRS-ActiveCare



	FY23 Expended	FY24 Budgeted	FY25 Proposed	FY24-25 Change	% Change
Salaries and other personnel expenses					
Salaries and wages	1,538,664	1,775,400	2,056,300	280,900	16%
Longevity pay	17,420	16,400	15,600	(800)	-5%
Benefit replacement pay	-	-	-	-	0%
Other employee benefits	14,657	22,700	24,500	1,800	8%
Employer FICA contributions	107,211	131,800	142,900	11,100	8%
Employer health insurance contributions	138,305	169,700	151,700	(18,000)	-11%
Employer retirement contributions	103,093	135,460	151,100	15,640	12%
Salaries and other personnel expenses Total	1,919,350	2,251,460	2,542,100	290,640	13%
Professional fees and services	1,903,125	3,035,040	3,119,000	83,960	3%
Other operating expenses					
Consumable supplies and fuels	1,168	3,000	3,000	-	0%
Utilities	-	1,500	1,500	-	0%
Travel	27,333	60,000	60,000	-	0%
Rentals	-	1,200	-	(1,200)	-100%
Dues, fees, and staff development	11,544	30,000	30,000	-	0%
Other operating	7,404	23,800	25,000	1,200	5%
Subscriptions & reference information	277	1,000	1,000	-	0%
Furniture and equipment	1,007	3,500	3,500	-	0%
Other operating expenses Total	48,733	124,000	124,000	-	0%
Grand Total	\$ 3,871,208	\$ 5,410,500	\$ 5,785,100	\$ 374,600	7%



FY25 Budget by Division



	FY23 Expended	FY24 Budgeted	FY25 Proposed	FY24-25 Change	% Change
Core Services					
Investment Management	73,620,113	81,282,340	84,303,270	3,020,930	4%
Benefit Services	27,775,932	34,553,342	35,611,100	1,057,758	3%
Health	21,110,172	27,575,000	30,019,200	2,444,200	9%
Shared Services					
Business Administration	15,773,333	20,605,487	21,217,980	612,493	3%
Communications	1,346,606	2,094,480	2,239,200	144,720	7%
Executive	4,049,657	2,764,400	2,952,770	188,370	7%
Financial Services	4,789,606	7,324,354	7,890,470	566,116	8%
Government Affairs	405,140	507,340	536,520	29,180	6%
Information Security	1,990,087	3,820,400	4,168,420	348,020	9%
Information Technology	36,610,749	50,445,916	54,540,610	4,094,694	8%
Internal Audit	2,897,409	4,833,160	5,248,240	415,080	9%
Legal & Compliance	9,207,256	13,170,400	13,759,640	589,240	4%
Organizational Excellence	6,260,623	9,799,255	10,607,680	808,425	8%
Agencywide	11,706,307	7,340,981	18,529,400	11,188,419	152%
TEAM	12,213,437	15,580,745	17,015,900	1,435,155	9%
Investment Data Modernization	1,356,929	10,884,400	17,150,000	6,265,600	58%
Performance Pay Plan	-	55,427,651	38,152,500	(17,275,151)	-31%
Grand Total	\$ 231,113,356	\$ 348,009,651	\$ 363,942,900	\$ 15,933,249	4.6%



FY25 Budgeted FTEs by Funding Source



	FY23 Actual	FY24 Budgeted	FY25 Proposed	FY24-25 Change	% Change
Pension Funded					
Benefit Services	325.5	377.5	390.5	13.0	3%
Business Administration	71.0	82.8	89.8	7.0	8%
Communications	8.3	9.5	9.5	-	0%
Executive	6.3	9.5	9.5	-	0%
Financial Services	38.6	44.0	46.0	2.0	5%
Government Affairs	2.0	2.0	2.0	-	0%
Information Security	10.7	16.0	19.0	3.0	19%
Information Technology	101.7	136.0	146.0	10.0	7%
Internal Audit	10.7	16.0	16.0	-	0%
Investment Management	206.6	246.0	253.0	7.0	3%
Legal & Compliance	42.3	45.0	45.0	-	0%
Organizational Excellence	31.7	42.0	42.0	-	0%
TEAM	47.2	61.0	61.0	-	0%
Investment Data Modernization	0.3	10.0	10.0	-	0%
Pension Funded Total	902.9	1,097.3	1,139.3	42.0	4%
Healthcare Funded					
TRS-Care	41.7	54.0	59.0	5.0	9%
TRS-Care Support	43.3	48.0	49.0	1.0	2%
HILOB M&E	26.4	32.5	32.5	-	0%
TRS-Active Care	8.3	9.0	9.0	-	0%
TRS-Active Care Support	7.5	8.0	8.0	-	0%
Healthcare Funded Total	127.2	151.5	157.5	6.0	4%
Agency Total	1,030.1	1,248.8	1,296.8	48.0	4%



9-Year Historical Trend

Administrative Operating Budget *(\$ in millions)*



	FY16 Budget	FY17 Budget	FY18 Budget	FY19 Budget	FY20 Budget	FY21 Budget	FY22 Budget	FY23 Budget	FY24 Budget
Pension Trust Fund	128.2	135.0	139.9	159.6	177.4	170.1	189.7	235.9	309.4
Commission Credit	22.1	24.4	24.7	28.7	30.1	25.5	27.1	20.6	11.0
Healthcare	8.8	11.0	12.7	14.3	16.3	17.6	20.6	22.3	27.6
Contingency¹						21.7			
Total	\$ 159.1	\$ 170.4	\$ 177.3	\$ 202.6	\$ 223.8	\$ 234.8	\$ 237.3	\$ 278.8	\$ 348.0
% Year to Year Change		7%	4%	14%	10%	5%	1%	17%	25%
Budgeted FTEs	480.7	491.3	734.9	816.5	847.3	863.8	932.8	1,188.8	1,248.8

¹Contingency Account in FY21 reflects TRS' efforts to reduce costs across all funds in response to the sharp economic downturn associated with COVID-19





8-Year Lapse History FY 2016-2023

(\$ in millions)

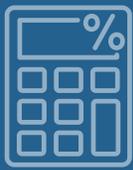


Program/Category	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
TEAM/CAPPS/HILOB	\$8.8	\$0.7	\$2.4	\$3.9	\$3.0	\$2.6	\$1.7	\$2.3
Commission Credits	\$3.4	\$5.5	\$3.2	\$8.2	\$9.7	\$6.0	\$4.3	\$1.3
Salaries/Benefits	\$6.2	\$8.0	\$7.9	\$9.5	\$12.6	\$18.5	\$7.5	\$18.9
Professional Fees & Services	\$1.1	\$1.5	\$3.3	\$2.7	\$3.7	\$5.9	\$1.8	\$9.2
Travel	\$0.5	\$0.1	\$0.4	\$0.6	\$1.6	\$2.0	\$1.6	\$1.6
Support Costs	\$1.0	\$0.6	\$0.7	\$0.6	\$0.8	\$0.3	\$0.4	\$0.9
Operating Costs	\$8.1	\$2.7	\$5.1	\$3.0	\$4.4	\$2.3	\$1.5	\$6.6
Total Lapse	\$29.1	\$19.6	\$23.0	\$28.5	\$35.8	\$37.6	\$18.8	\$40.8
% of Budget Lapsed	18%	11%	13%	14%	16%	16%	8%	15%

8-year average
Lapsed budget is 14%

Salaries/Benefits generates the
most lapse from vacant positions

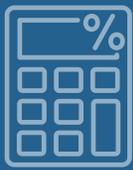
TEAM has lapsed on average \$3
million over the last 8 years



6 – Year FTE Historical Trend



Work Division	FY19 Actuals	FY20 Actuals	FY21 Actuals	FY22 Actuals	FY23 Actuals	FY24 Actuals (YTD – 07.01.24)	Vacant Positions				Interns (2024 Summer Cohort) & Fellows
							FY24 Budgeted FTEs	FTEs in the Hiring Process	FTEs Reserved for Contract Conversions	Open FTEs	
Benefit Services Division	199.0	211.3	239.0	262.0	345.0	398.5	398.5				1.0
Investment Management	154.0	168.0	177.0	187.0	207.0	241.8	251.0	5.0	3.0	1.2	6.0
Health Division	41.0	55.5	52.0	52.5	57.0	67.0	71.0	3.0		1.0	2.0
Business Administration	54.0	60.5	69.7	67.5	77.1	87.5	92.8	4.0		1.3	13.0
Communications	8.1	9.0	10.0	10.0	11.0	12.5	12.5				3.0
Executive	4.0	4.0	5.0	5.0	5.0	7.0	7.5			0.5	2.0
Financial Services	36.0	37.0	41.0	43.0	46.0	50.0	52.0	2.0			1.0
Government Affairs	2.0	2.0	2.0	2.0	2.0	2.0	2.0				2.0
Information Security	6.0	8.0	9.0	10.0	13.0	16.0	18.0	1.0		1.0	2.0
Information Technology	123.0	134.0	151.0	152.5	170.0	208.5	227.5	12.0	3.0	4.0	9.0
Internal Audit	12.0	13.0	16.0	14.0	13.0	16.0	19.0	2.0		1.0	
Legal & Compliance	29.0	34.0	37.0	41.0	47.0	50.0	51.0	1.0			8.0
Organizational Excellence	30.0	29.0	31.0	33.0	37.0	45.0	46.0	1.0			9.0
Agency Total	698.1	765.3	839.7	879.5	1,030.1	1,201.8	1,248.8	31.0	6.0	10.0	58.0



Key Initiatives

Increasing Business Value



Health Competitive Advantage

TRS-Care Dental and TRS-Care Vision:
Enhancing our retirees' everyday health

Infrastructure Value

Providing a generational solution that will allow for efficiencies in how we serve our members and provide an enhanced member experience.

Innovative Technological Enhancements

Leveraging technology solutions such as Artificial Intelligence, automation, and data analytics to increase productivity and enhance the member experience.



Investment Competitive Advantage

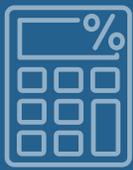
Investment Data Modernization: Enhancing the ability to reliably perform fiduciary oversight of the Trust asset valuation and performance.

Operational Efficiencies

Enhancing data governance, process improvements, compliance and risk management, reducing reliance on external services, and support increased workloads related to agency growth.

Scalability

Keeping pace with growth and expansion without compromising performance and efficiency



FY25 FTE Request

Alpha - Bravo Headquarters



Key Initiative Alpha / Bravo Headquarters

Needs Assessment

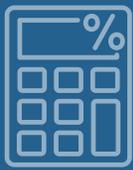
The new headquarters, spanning 458,379 square feet, represents a significant increase of **110%** in space compared to the previous Red River locations of 217,976 square feet. TRS has transitioned from leasing one building and owning another to owning and managing both properties including space available for lease. This expansion requires full time management and operation of additional services to provide a physical work environment that is safe and enhances productivity and to achieve more effective utilization of space.

Business Value

- Operational Efficiencies
- Infrastructure Value
- Scalability

FTE Justification

		Business Need	Cost / Service Optimization	Expected Impact
Business Administration	3 – Security Positions 2 – Custodian Positions 2 – Property Coordinator	24-hour security is required at both Red River and Alpha-Bravo locations. Security and custodian services are currently outsourced at Alpha.	In-housing security and custodian services results in \$558,000 in savings .	Improve responsiveness and communications, reduce threats to TRS staff and assets by tailoring security measures specific to TRS business needs and preferences.
		TRS is required to manage logistics, maintain compliance, and manage the equipment related to the flow of goods and materials for the Retail space as well as TRS business operations at multiple locations. (Red River, Alpha, and upcoming Bravo)	Avoid violations by ensuring we maintain compliance with Fire safety regulations and Occupational Safety and Health Administration regulations.	Maintain a safe and compliant working environment for the members, TRS staff, and the retail space.
Information Technology	1 – Audio Visual technician	Additional FTE is required to support a team of 3 Audio Visual (AV) techs currently managing the digital environment which has expanded from operating 29 conference rooms at Red River to 137 conference rooms between Alpha & Bravo (currently building out)	Maintain service levels , manage equipment maintenance to ensure optimal performance and reliability reducing downtime with business operations and meetings.	Support the buildout of Bravo without diminishing support for business operations by increasing audio visual tech support across Red River and Alpha locations.
		New additions to enhance member engagement include a welcome area with a customer facing Video Wall, Board Room, Training Rooms, and Counselor Rooms at Bravo.	Avoid dropped calls with members.	
Total FTEs	8	The AV team also support IMD Town Hall, IMD Summit, Legal Summit, and TRS Board Meetings.		

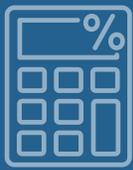


FY25 FTE Request

Investment Data Modernization



Key Initiative		Investment Data Modernization (IDM)		
Needs Assessment	To provide fiduciary oversight of the Trust asset valuation and performance and with the growth of the fund already exceeding \$200 billion and the associated increase in data volumes and complexity of our assets, performing this duty is increasingly difficult due to the strain on current technology and investment operations staff and legacy data architectures and systems.			
Business Value	<ul style="list-style-type: none"> Innovative Technological Enhancements Investment Competitive Advantage 			
FTE Justification				
		Business Need	Cost / Service Optimization	Expected Impact
Investment Management	7 – Investment Analysts	<p>Rapidly increasing data volumes and growth in both size and complexity of trust assets have resulted in...</p> <ul style="list-style-type: none"> Unsustainable level of manual data processing using custody bank data as the source for Excel spreadsheets Strain on the 10-year-old data technology and architecture platform Legacy portfolio management processes built on custom code that are growing more difficult to maintain Manual reconciliation and control processes that involve multiple teams and are both labor intensive and very inefficient 	<p>Value-add activities vs cobbling data together, \$50M on \$200 B = .03%, cost savings</p> <p>Generate alpha cross asset classes, an impact of a conservative 2bps (.02%) of increased annual return on a \$200B portfolio would realize approximately \$185M additional growth in assets over a 4-year period</p> <p>Reduce the risk of inaccurate reporting, potential and audit findings</p>	<p>By leveraging modern technology, we will be able to secure data at a granular level. New systems and capabilities include:</p> <ul style="list-style-type: none"> Master Data Management –technology to ensure we have a “gold” copy of critical master data that we can rely on for accurate reporting Investment Book of Record would serve as a source for real-time intra-day portfolio views A Parallel Accounting Book provides independent verification of Custodian and counterparty accounting records and valuation, savings to future custodian bank contract Data Hub - provides a tightly integrated centralized infrastructure that is reliable and accessible of aggregated investment data for enterprise consumption
Financial Services	2 – Investment Accountants			
Total FTEs	9			

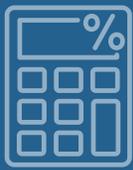


FY25 FTE Request

Member Services (Payroll, Benefit Adjustment, and Tax)



Key Initiative		Member Services (Payroll, Benefit Adjustment, and Tax)		
Needs Assessment	In the summer of 2025, TRS will be implementing the Payroll, Benefit Adjustment, and Tax (PBT) code, the final and largest deliverable of the TEAM Program. PBT is expected to impact approximately 200 business processes such as, monthly annuity payroll processing and reconciliation, annuity changes due to salary, service credit changes, option changes beneficiary changes, disability recoveries, tax filing and reporting, etc.			
Business Value	<ul style="list-style-type: none"> Innovative Technological Enhancements 	<ul style="list-style-type: none"> Scalability 		
FTE Justification				
		Business Need	Cost / Service Optimization	Expected Impact
Benefit Services	7 – Benefit Processors 4 – Benefit Accounting	<p>Data Conditioning and reconciliation – defining data, mapping data from legacy source to new TRUST database, reviewing reconciliation reports, making decisions on quality, and updating or deleting data to aid in the clean up and migration</p> <p>User Acceptance Testing – To support over 23,000 transactions related to General Ledger Testing for the implementation of the new Annuity Payroll & Tax Reporting System with minimal disruption to member services.</p> <p>Currently, processing over a billion dollars in monthly annuity payments.</p>	<p>Avoid creating processing backlog and a dip in service levels</p> <p>Avoid delays with implementation</p> <p>Save approximately \$100K per FTE by insourcing support for user end testing</p>	<p>To improve TRS’ ability to serve members by allowing TRS to be more responsive to member needs, mitigating risks associated with aging legacy systems, and providing greater flexibility to meet future technology and regulatory changes.</p> <p>There is a stabilization period after implementation that requires business staff to work through production defects and enhancements. The requested FTEs will help ensure success of this critical release of functionality.</p> <p>TRS membership has increased 2.4% since 2023 and is expected to continue to grow as the state grows. Following full completion of the TEAM Project, these requested positions will be redirected to increased activities that will develop from having a more robust collections system for annuities or funds owed to TRS due to overpayments resulting from delayed death reports or forfeitures due to employment after retirement.</p>
Total FTEs	11			



FY25 FTE Request

Regional Office



Key Initiative		Regional Office		
Needs Assessment	As the El Paso Office settles in and more members become aware of our presence, we have seen an overall 16% increase year over year of total members served. Walk in traffic specifically continue to increase despite our efforts to encourage our members to schedule appointments ahead of time. In addition to this we expect our employer outreach program to increase demand for presentations and we continue to develop partnerships with school districts in the area.			
Business Value	• Operational Efficiencies	• Scalability		
FTE Justification				
Benefit Services	2 – El Paso	Business Need	Cost / Service Optimization	Expected Impact
		Walk in traffic continue to increase despite our efforts to encourage our members to schedule appointments ahead of time. <ul style="list-style-type: none"> • Nov – April 2023: 587 Walk-Ins • Nov – April 2024: 1,268 Walk-Ins (+54%) 	Reduce wait times for walk ins Avoid a decline in service levels	Current year over year trends show a 16% increase of total members served since opening the El Paso Office in November 2022 . 1 FTE would account for 10% of this increase. 2 additional FTEs would allow us the ability to keep up with current and planned demand for appointments and office visit presentations.
Total FTEs	2			

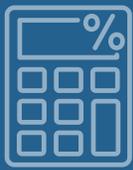


FY25 FTE Request

Artificial Intelligence (AI)



Key Initiative Artificial Intelligence (AI)				
Needs Assessment		The demand for access to AI tools and technologies used to enhance operational capabilities and performance has increased significantly resulting in the creation of the AI Transformation Program. Currently, there are 10 initiatives identified with the highest potential value and feasibility to execute and 107 requests in the program backlog. The need to support expectations around data capabilities and security requires support to prepare the data, secure the environments, implement the technologies, and provide support to the end users. AI tools and technologies offer long-term benefits such as improved efficiency, better decision making, and innovative ways to best serve our members while protecting the safety of TRS and member data.		
Business Value		<ul style="list-style-type: none"> Innovative Technological Enhancements 	<ul style="list-style-type: none"> Operational Efficiencies 	
FTE Justification				
Information Technology		Business Need	Cost / Service Optimization	Expected Impact
	2 – AI Transformation Program	<p>To ensure continued success as AI becomes integrated with TRS functions and capabilities, additional resources are required to support and govern the implementation and execution of the AI transformation program.</p> <p>The AI Risk Review team will need to conduct risk assessments on requests for AI technology to ensure compliance with policies and regulations. Procurement of AI requires specific data analytic expertise to be able to effectively deliver assessments in a timely manner.</p> <p>AI's use is going to take significant effort to meet business expectations. Specific technologies are required to support AI initiatives by preparing the data, securing the environments, implementing the technologies (For example, data bricks that help store large amounts of data in a way that is easy to access and analyze and Azure, a cloud service used to store, manage, and access data and to operate applications from anywhere)</p> <p>Currently, there are no dedicated FTEs to support this program 100%.</p>	<p>Accelerate & Automate business functions, provide greater business insights, and improve member experiences through the technical implementation of AI</p> <p>Support rapid growth in technology, gather compliance evidence, perform gap analysis, and drive remediation in a proactive manner to reduce enterprise risks and ensure all use of AI technology complies with all applicable information privacy and security laws and regulations and all TRS policies and procedures.</p>	<p>Key initiatives include using AI for:</p> <ul style="list-style-type: none"> contract reviews to highlight key areas and assess potential risks based on set parameters, generate investment documents in a specific format required to perform trend analysis, data quality and automation, extract data from PDFs, handwritten documents, and check for completeness, searchable, chat like features to assist benefit counselors with finding information quickly to answer member questions, auto summarize calls for consistent notes in the member records, research and identify relevant information about district board decisions related to health benefits decisions.
Total FTEs		2		



FY25 FTE Request

Data Security & Compliance



Key Initiative Data Security & Compliance

Needs Assessment

Critical IT compliance initiatives include expanding ServiceNow to include configuration management database (CMDB) changes and implementation/support of the Application Portfolio Management (APM) module to comply with Enterprise Data Governance council and Audit directives. The CMDB and APM modules will be key in maintaining security and compliance around software and AI inventories. It is critical to safeguard and optimize our data infrastructure to reduce operational risk through timely technology updates, enhanced data security and compliance, improved system performance and scalability, decreased long-term maintenance costs, faster adaptation to new business requirements, and improved integration of emerging technologies.

Business Value

- Innovative Technological Enhancements
- Operational Efficiencies

FTE Justification

Information Technology	Business Need	Cost / Service Optimization	Expected Impact
1 – ServiceNow Admin 1 – Quality Assurance Analyst 3 – IT Engineers 1 – Systems Developer	<p>Technology portfolio has grown 173% since 2019. Support is needed to develop, configure and maintain the newly added ServiceNow Agile module used to manage the entire portfolio of TRS systems allowing for enhanced resource capacity planning and real time project reporting. Introducing best practices in quality assurance and testing will strengthen our security posture and ensure our workstations meet rigorous standards. There is a current backlog of 193 development tickets to improve capabilities. FTEs are needed to support the Client Services and Information Security teams, performing manual testing and developing automated test scripts for patch management.</p>	<p>Reduce the risk of data exposure, loss of intellectual property, and bias</p> <p>Reduce waste by streamlining and automating of manual, time consuming business processes, consolidating technical project management tools and implementing the resource management module to track actual utilization. If not received, implementation of CMDB, APM, and Agile modules either delayed or TRS will have to utilize costly consulting services. (average consulting resource cost for engagements is \$400/hour.)</p>	<p>Protect TRS, its members, employees, and information. With cyberthreats and attacks increasing 35% each year, we anticipate attacks will continue to increase, and more investigations will be required as well as additional FTEs.</p> <p>Support rapid growth in technology, gather compliance evidence, perform gap analysis, and drive remediation in a proactive manner to reduce enterprise risks and ensure applications and services are secured</p>
3 – Cybersecurity Analyst	<p>IT Engineer is needed to support remediating technical debt required to stay in compliance with TX-RAMP and support end of life systems. New mandate effective 9/1/22.</p> <p>Data Engineer roles are critical for safeguarding and optimizing the data infrastructure. Currently, TRS has over 80 process automation requests to improve staff efficiency, productivity, and accuracy by implementing enhancements like Microsoft power platform to configure custom applications and automate workflows. FTEs are needed to enhance data security infrastructure to mitigate rising cyber threats and enables more efficient data management and utilization across the organization. Key projects include the implementation of DataBricks, Azure, and Purview, as well as the crucial task of document and data sensitivity labeling.</p> <p>TRS experiences on average 25,000 attacks a day, of which 50 require deeper investigations. An average of 10-20 investigations per day can be supported with current FTE levels.</p>	<p>The absence of dedicated IT expertise could lead to more frequent system disruptions, security vulnerabilities, and a growing backlog of unresolved issues. Each hour business operations are down approximately 985 members are impacted throughout member services.</p>	<p>Improve staff efficiency, productivity, and accuracy by streamlining and automating manual, and time-consuming business processes. Enhance investment compliance by optimizing MNPI data management workflows, and development efforts happening to support the records management (includes member records) governance project.</p>

Total FTEs 9

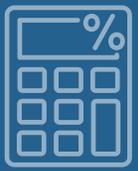


FY25 FTE Request

Health Key Initiatives



Key Initiative		Dental & Vision Health Plans, Health Analytics		
Needs Assessment	<p>Section 1575.1601 added to Chapter 1575 of the Insurance Code by Senate Bill (S.B.) 1854 of the 88th Legislature, Regular Session, 2023 Requires TRS to establish or contract for and make available under the TRS-Care program an optional plan that provides coverage for dental and vision care for retirees, dependents, surviving spouses, and surviving dependent children.</p> <p>To improve the value and affordability of health benefits for Texas public educators and their families by promoting access to accurate, timely and actionable data. The Health database is now used for both contract monitoring and invoice reconciliation, actuaries to set premium rates, analysis requested by the Texas Legislature, TRS board of trustees, and Health management.</p>			
	Business Value	<ul style="list-style-type: none"> Health Competitive Advantage 	<ul style="list-style-type: none"> Scalability 	
FTE Justification				
		Business Need	Cost / Service Optimization	Expected Impact
Health	3 – Dental/Vision Health FTEs	<p>3 additional FTEs are required to successfully implement and administer new dental and vision plans by 1/1/2025.</p>	<p>Strike a balance between premium affordability and benefits for dental and vision coverage.</p>	<p>Procure affordable, high-quality preferred provider organization (PPO) dental and vision insurance options for TRS members.</p>
	2 – Data Operations Specialist	<p>Data operations specialist will support employer reporting needs related to health claims data. There are 974 participating employers.</p>	<p>Ensure claims-related data infrastructure supports business functions and objectives to communicating health claims data to executives, board, legislature and school districts. Analyze market trends, behavioral patterns, and competitor pricing to optimize pricing strategies for Healthcare</p>	<p>Respond to stakeholder requests for health claims data within 10-business days.</p>
Information Technology	1 – IT Developer	<ul style="list-style-type: none"> Peak Activity in 2023 - employers requested 28 reports in one month. 	<p>Optimize member interactions and third-party vendor management and reporting capabilities</p>	<p>Enhance capabilities delivered to health through optimizing service delivery to members and vendor partners. If not received, delivery of Health projects will rely on fully allocated resources extending completion out to mid 2026 instead of 2025.</p>
Total FTEs	6			



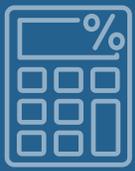
Keeping Pace Membership Growth



Pension Membership Trend



*2024 total membership as of May 2024

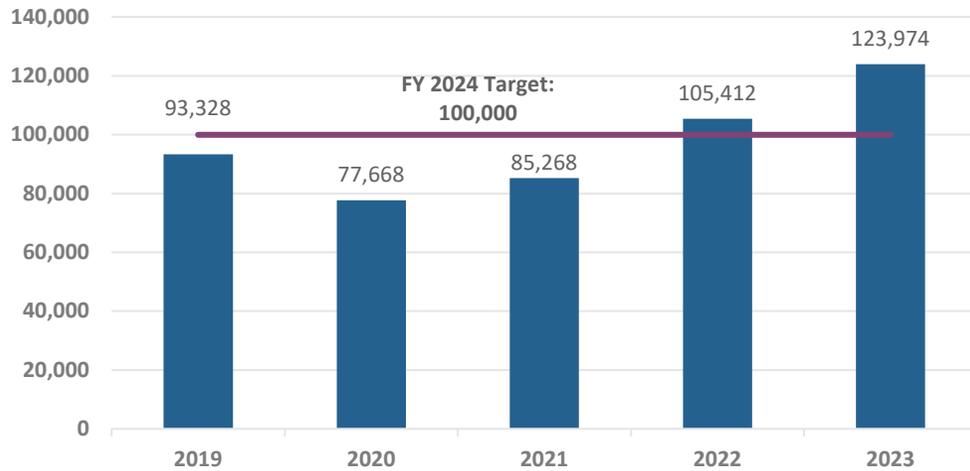


Keeping Pace

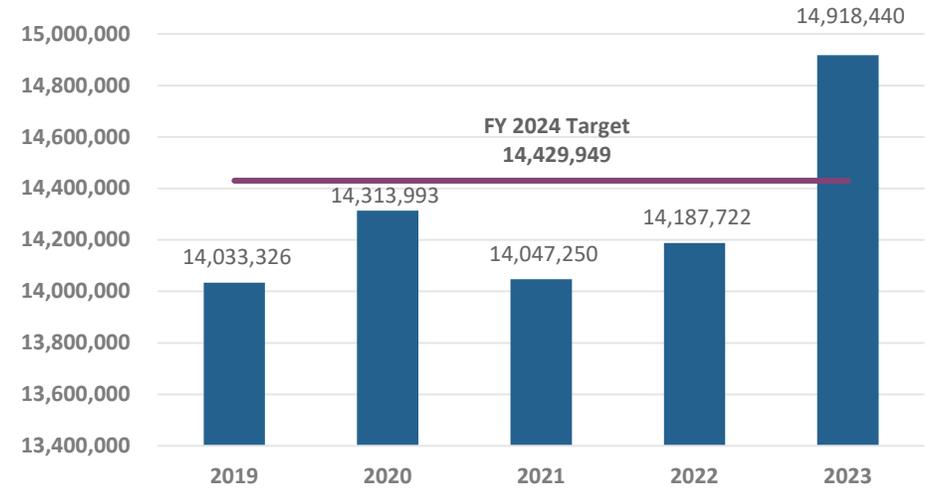
Benefits Performance Measures



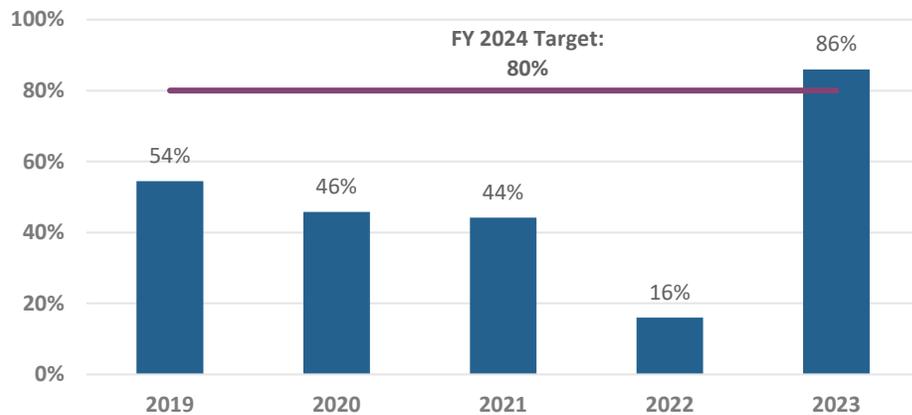
Number of Applications Processed



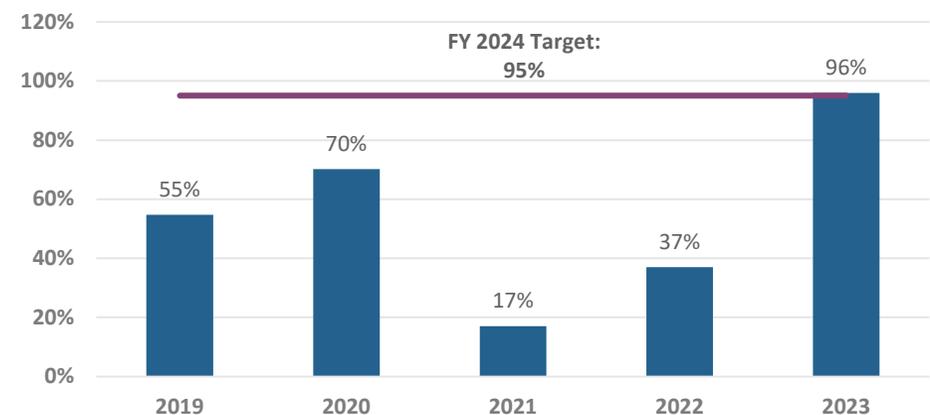
Number of Retirement Accounts Serviced

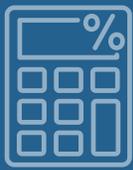


Calls Answered in 3 Minutes



Claims Payments Issued within 31 Days of Receipt





Commission Credits Policy



COMMISSION CREDITS POLICY

(rev. effective January 1, 2023)

1. Introduction

The Board hereby approves the expenditure of commissions and credits (including soft dollars, commission sharing agreements, and cash recapture agreements (together “Commission Credits”) based on this Policy.

For purposes of this Policy, (a) “soft dollars” refers to the use of a credited portion of brokerage commissions incurred for securities or futures trade execution to obtain goods, services, or research through a securities or futures broker or futures commission merchant (each, a “broker”), (b) commission recapture arrangements (“CRAs”) refer to an institutional brokerage discount resulting from a negotiated rebate of commissions and (c) “commission sharing arrangements” (“CSAs”) are a category of soft dollars that refers to the use of a cash account administered by a TRS custodian or broker which is funded from a portion of its brokerage commissions so that such custodian or broker may obtain, at TRS’ instruction, investment research services from such broker or custodian, an executing broker or other third parties.

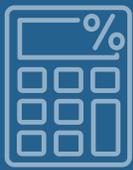
Fiduciary prudence requires that TRS employees, when deciding whether to use Commission Credits, must determine in good faith that the commissions that will be incurred are reasonable in light of the value of the goods, services, and research (as applicable) that will be received under the arrangement and that TRS will realize their benefits. The generation of any Commission Credits shall be incidental to the brokerage transactions originating such credits.

2. General Principles

2.1. Background. Section 28(e) of the Securities Exchange Act of 1934 (“Section 28(e)”) provides a “safe harbor” for investment advisers who incur higher commissions for discretionary client accounts they manage in order to receive brokerage and research services that may or may not benefit those clients. Since Section 28(e) is a safe harbor, it cannot be violated. Although TRS invests only for its own account and does not manage accounts for others, it must still take care to receive best value and execution when trading securities and futures. Thus, Section 28(e) and SEC releases and publications under Section 28(e) provide useful guidance (see also Section 3.1(b)).

2.2. General Principles. Purchases using Commission Credits must support the investment decision-making function of TRS. Section 28(e) guidance provides examples of “brokerage and research services” that may qualify for the safe harbor. Under Section 28(e)(3), brokerage and research services generally include (see also Section 3.2):

- a. Analysis and advice, either directly or through publications or writings, as to the value of securities, the advisability of investing in or purchasing or selling securities, or the availability of securities or purchasers or sellers of securities;
- b. Analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts; or
- c. Services affecting securities transactions and performing functions pertaining to securities transactions (such as clearance, settlement and custody) or required in connection with securities transactions by rules of the SEC or a self-regulatory organization such as a stock exchange.



Commission Credits Policy



3. COMMISSION CREDITS GUIDELINES

3.1. Requirements

- a. Commission Credits acquisitions must be budgeted in separate items in an addendum to the TRS annual budget or in a budget amendment adopted by the Board of Trustees, unless the Board provides otherwise by resolution.
- b. In determining what purchases may be made using Commission Credits, the investment staff shall be mindful of SEC guidance under Section 28(e). Legal Services will assist in analyzing specific questions regarding eligibility under SEC guidance. Departures from the SEC guidance with respect to Commission Credits from securities transactions are permitted only when they are consistent with fiduciary requirements and the best interests of TRS, applicable law, and TRS policies and procedures. In addition, TRS will apply Section 28(e) guidance to futures transactions, with any appropriate adjustments.
- c. Trades may not be created solely to generate Commission Credits and best trade execution must not be sacrificed with respect to Commission Credits. Employees must use their best efforts to ensure that all TRS transactions are executed in such a manner that the total cost or proceeds (including market impact costs and the value of any research to be acquired) in each transaction is the most favorable under the circumstances and benefits TRS. When selecting brokers, employees must take into account trade characteristics, the full range and quality of the broker's services, including but not limited to the broker's execution capabilities, the value of the research, services, or goods to be acquired (if any), commission rates, financial responsibility, and the broker's responsiveness to TRS.
- e. Commission Credit arrangements will be documented and approved in accordance with policies, guidelines and procedures approved by the Executive Director or his designee. Commission Credits allocations and disbursements shall be made in accordance with internal guidelines and procedures approved by the Chief Financial Officer (or, in the absence of the CFO, the Executive Director or his designee). The Investment Division shall provide copies of the internal guidelines and procedures for Commission Credits to the Board as part of TRS's annual budget process.
- f. Whenever possible, any acquisition using Commission Credits for which TRS normally employs competitive procedures will be handled using the procedures that will ensure that TRS will obtain the best value, taking all factors into account, including trade execution.
- g. All Commission Credits expenditures shall be documented in written agreements consistent with contracting guidelines.

3.2. Examples of Eligible Research, Goods and Services

Notwithstanding any other provision of this Policy, Commission Credits may be expended for any eligible research, goods, or services under this Policy, including the following:

- a. **Investment Research:** furnished either directly by a broker's investment research department, through subscription-based publications, or by an independent research or advisory firm. Investment research includes advice as to the value of securities or futures; the advisability of investing in, purchasing or selling securities or futures; the availability of securities or futures or purchasers or sellers of securities or futures; and analyses and reports concerning issuers, industries, securities, futures, economic factors and trends, portfolio strategy, and portfolio performance.
- b. **Data Services, Magazines, Journals, Reference Materials:** subscriptions to electronic data feeds, exchanges, data services, databases, magazines (including popular magazines relevant to securities analysis), professional journals and reference materials.
- c. **Seminars/Conferences:** fee-paid attendance at investment seminars or conferences and other fees or study materials for investment staff, provided, that soft dollars may not be used for travel and lodging.
- d. **Portfolio Management Assistance, Professional Services, and Institutional Memberships:** third-party services or institutional memberships that support TRS investment processes and portfolio management by providing TRS with direct advice, assistance, or support, including without limitation pricing or valuation services and performance measurement services.
- e. **Information Systems:** communications equipment or access (including high bandwidth services) that supports the investment decision-making process or portfolio management, including trading and investment accounting systems.
- f. Any other items useful in aiding in the investment decision-making process.

3.3. Annual Commission Credits Budget

- a. **Annual Budget:** An annual Commission Credits budget will be developed and presented to the Board for approval with the TRS annual budget. Soft dollar, CRA and CSA uses shall each be stated separately in the annual budget. The CSA and CRA budget line items may aggregate the total estimated amount to be expended for research during the applicable fiscal year.
- b. **Commission Credits Balances:** Credit balances may be used as needed in accordance with the annual Commission Credits budget. Only one CSA and one CRA account may be established to hold Commission Credits and to expend funds for eligible research, goods, or services authorized in accordance with this Policy. No other funds may be commingled with the CSA or CRA funds in the CSA or CRA account, nor may such funds be used for any other purpose.
- c. **Expenditure Internal Accounting & Control:** Commission Credit expenditures will be made under the same general internal controls as operating budget expenditures. The broker or account administrator must forward copies of invoices for the goods and services acquired and a monthly statement of account including commissions received, expenditures made, and the commission allocations balance to the Investment Division.
- d. **Reporting and Disclosure:** The custodian or administrator of the CSA or CRA account or an authorized TRS broker shall deliver monthly and annual statements to the Investment Division and the Investment Accounting group indicating the account balance, deposits and disbursements since the last statement, and an aging report of past-due deposits. A report of expenditures will be included with all financial and budget information presented to the Board. The Comprehensive Annual Financial Report will disclose fiscal year Commission Credits expenditures.



Commission Credits Guidelines



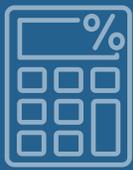
Definitions of Commission Credits Types

Commission Sharing Arrangements and Commission Recapture Arrangements

Commission Sharing Arrangements (CSAs) are a category of soft dollars that refers to the use of a cash account administered by a TRS custodian or broker which is funded from a portion of its brokerage commissions so that such custodian or broker may obtain, at TRS' instruction, investment research services from such broker or custodian, an executing broker or other third parties. Commission Credits from CSAs are generated through internal trading.

Commission Recapture Arrangements (CRAs) refer to an institutional brokerage discount resulting from a negotiated rebate of commissions, which are negotiated with external managers who agree to participate in the program. Commission Credits from CRAs are generated by broker payments on eligible externally traded equities and futures.

Collectively, all expenditures using Commission Credits must support the investment decision-making function of TRS to be eligible under the Policy. Legal & Compliance should be consulted whenever it is unclear that an expenditure is permissible under the Policy.

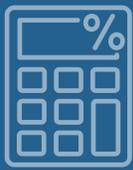


Commission Credits Guidelines



Overview of Commission Credits Sources and Uses

	Commission Sharing	Commission Recapture
FY 2025 Annual Budget	\$7.5 million	\$10 thousand
Budget Development Process	TRS Budget Process, including submission of annual Procurement Plan	TRS Budget Process, including submission of annual Procurement Plan
Primary Designated Uses	Investment Research, Software, Data Services, Portfolio Management Assistance, Professional Services, Information Systems	Software, Data Services, Reference Materials, Seminars / Conferences, Institutional Memberships
Limitations and Controls	Generated by internal trading; subject to Commission Credits Policy	Generated by external manager trading on behalf of TRS; subject to Commission Credits Policy
Other Factors	Administered by bank custodian; eligible expenditures require multi-level approvals; monthly reconciliations between custodian, IMD, and TRS	



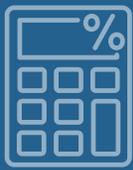
Commission Credits Guidelines



Preliminary Designations of Uses of Each Budget

Note: these listings are preliminary and aspirational. Confirmation that the expenditures are eligible under the Commission Credits Policy, other policies, and state law is required. These listings do not affect otherwise applicable purchasing and procurement requirements. Items marked “Not Eligible” cannot be paid by the indicated budget under current law or policy. Items left blank are generally not paid through that budget. Consult Legal & Compliance to determine whether specific uses within these categories could be permissible.

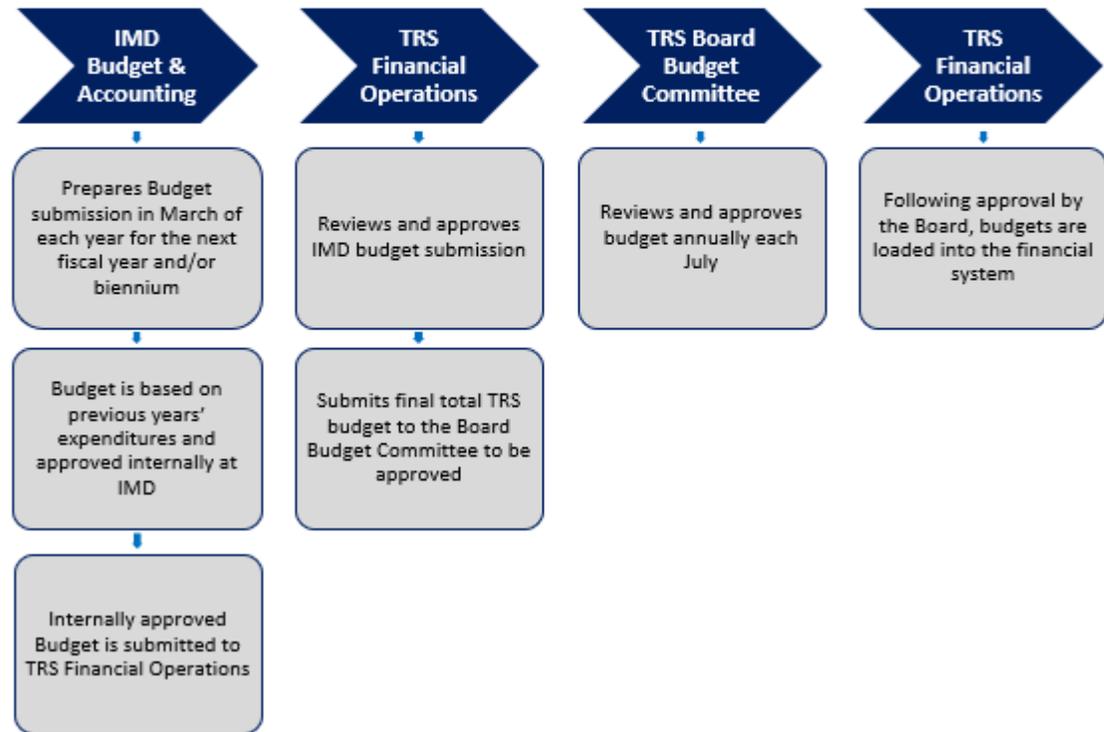
	Commission Sharing	Commission Recapture
Consumable Office Supplies	Not eligible	Not eligible
Contract Worker Services	Not eligible	Not eligible
Dues, Fees, & Staff Development		
Conference Fees	Not eligible	X
License Fees, Membership Dues	Not eligible	X
Professional Development	Not eligible	X
Training Courses	Not eligible	X
Furniture & Equipment	Not eligible	Not eligible
Maintenance-Building & Equipment	Not eligible	Not eligible
Other Operating Expenses (e.g., Bloomberg Equipment & Connectivity)	Not eligible	Not eligible
Professional Fees		
Investment Consultants	X	X
Outside Counsel Legal Fees	Not eligible	Not eligible
Tax Advisor Services	Not eligible	Not eligible
Professional Fees-Other	X	X
Rent – authorized office lease	Not eligible	Not eligible
Rent - Machine & Other	Not eligible	Not eligible
Research consistent with 28(e) guidance	X	X
Salaries and Wages (other than contract workers paid by custodian and its vendor)	Not eligible	Not eligible
Software and Maintenance	X	X
Subscriptions & Reference Information		
Data & Systems eligible under 28(e) guidance	X	X
Publications & Periodicals	Not eligible	X
Reference Materials	Not eligible	X
Travel	Not eligible	Not eligible
Utilities	Not eligible	Not eligible



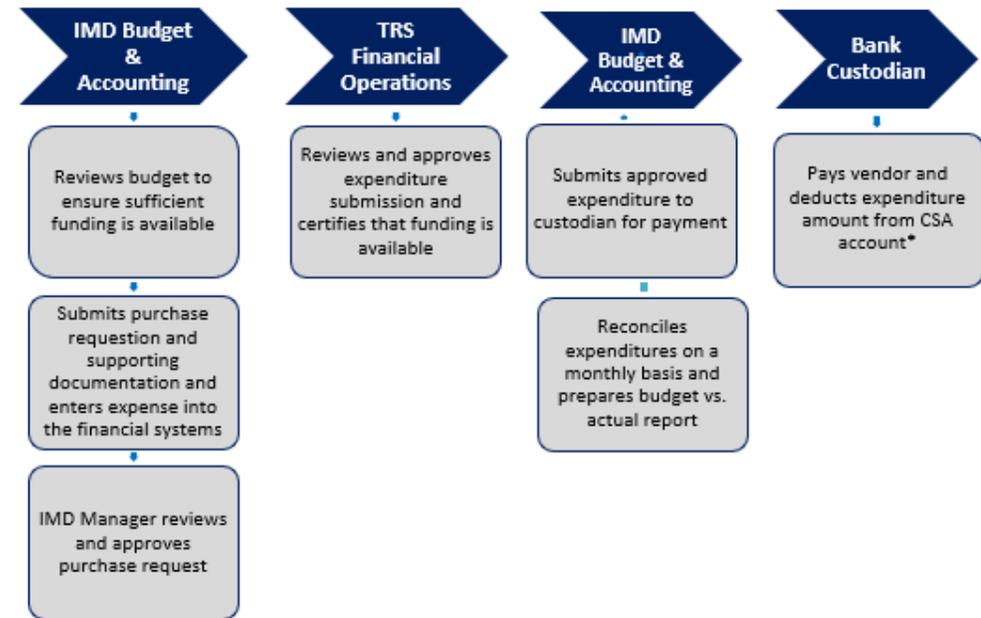
Commission Credits Guidelines



Commission Credits Budget Process



Commission Credits Expenditure Process*



*All requests to expend Commission Credits are subject to confirmation of eligibility under TRS policies and applicable law. In addition, all requests for expenditures from the CSA budget are reviewed for eligibility by the custodian. In the event the custodian rejects an expenditure request, the IMD may request guidance from TRS Legal & Compliance. If TRS concludes that the expenditure should be eligible, Compliance provides a written justification in support of the expenditure for submission to the custodian. If the custodian finally declines the expenditure, it is directed to another funding source for payment.

TAB 4

TO: TRS Board of Trustees
Brian Guthrie, Executive Director
Caasi Lamb, Deputy Director

FROM: Don Green, Chief Financial Officer

DATE: July 19, 2024

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 2026-2027

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 2026-2027

Before the 2nd 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 8.25% for FY 2026 and 8.25% for FY 2027 with assumed payroll growth of 4% 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

§
§
§

COUNTY OF TRAVIS

At its meeting on July 19, 2024, the Board of Trustees of the Teacher Retirement System, voted to certify \$486,045,210 as the estimated amount of state contributions to be received by the retired school employees group insurance fund (TRS-Care) for the 2025 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 (House Bill 1, 88th 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: _____
Robert H. Walls, Jr.
Chairman, Board of Trustees
July 19, 2024

SIGNED: _____
Brian Guthrie
Executive Director
July 19, 2024

STATE OF TEXAS

§

COUNTY OF TRAVIS

§

§

At its meeting on July 19, 2024, the Board of Trustees of the Teacher Retirement System, voted to certify the following estimated amounts as necessary to pay the state's contributions to the retired school employees' group insurance fund for the 2026–2027 biennium:

Fiscal Year 2026	\$ 531,597,805
Fiscal Year 2027	\$ 542,229,761

These estimates are required by Section 1575.208 of the Insurance Code and are based upon the assumption that covered payroll will grow 2 percent per year and that the minimum statutory contribution rate of 1.25 percent will apply to both fiscal year 2026 and fiscal year 2027.

SIGNED: _____

Robert H. Walls, Jr.
Chairman, Board of Trustees
July 19, 2024

SIGNED: _____

Brian Guthrie
Executive Director
July 19, 2024

STATE OF TEXAS

§

COUNTY OF TRAVIS

§

§

At its meeting on July 19, 2024, the Board of Trustees of the Teacher Retirement System, in compliance with Texas Government Code, Section 825.404 (b), voted to certify the following estimated amounts as necessary to pay the state's contributions from General Revenue to the retirement system for the 2026–2027 biennium based on the appropriated contribution rate of 8.25 percent for FY26 and 8.25 percent for FY27 of the aggregate annual compensation of all members of the Teacher Retirement System to be:

Fiscal Year 2026	\$ 3,158,504,827
------------------	------------------

Fiscal Year 2027	\$ 3,283,842,068
------------------	------------------

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 4 percent for Public Education and Higher Education.

SIGNED: _____
Robert H. Walls, Jr.
Chairman, Board of Trustees
July 19, 2024

SIGNED: _____
Brian Guthrie
Executive Director
July 19, 2024

TAB 5



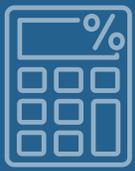
Legislative Appropriations Request Fiscal Years 2026-2027

July 2024

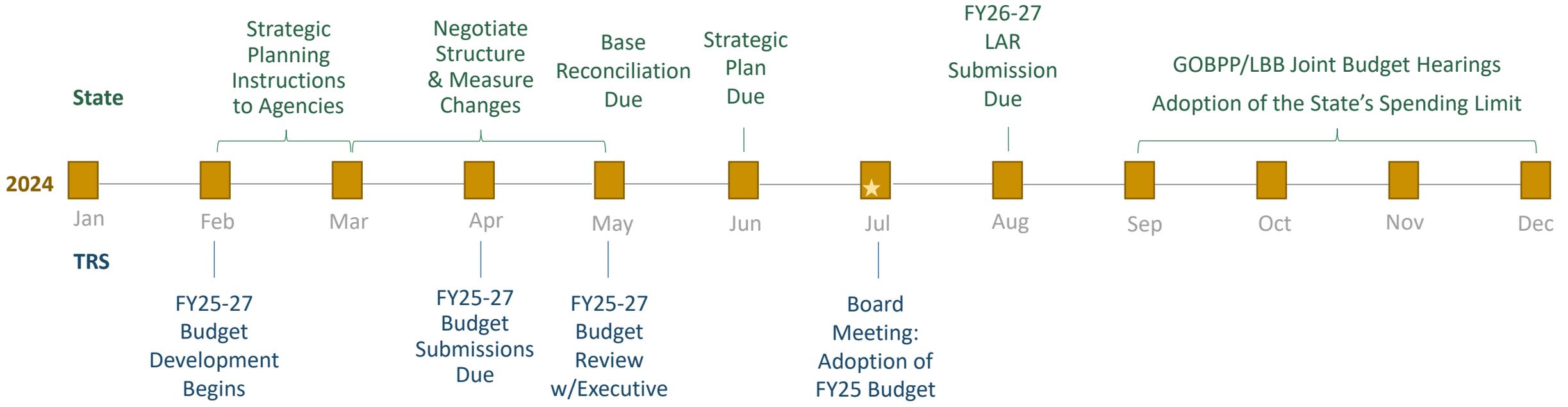
Presented By:

Don Green, Chief Financial Officer





2024 STATE & TRS BUDGET DEVELOPMENT TIMELINE



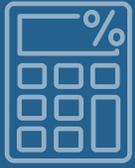


TRS LAR Components



Legislative Appropriations Request

- Administrator's Statement
- State Match Contributions
(General Revenue)
- Administrative Operations
(Pension Trust Fund)
- Rider Additions and/or Deletions
- Performance Measure Changes
- Exceptional Items Request
- Estimated Total of All Agency Funds Outside of the
GAA Bill Pattern (Health Funds)
- Historically Underutilized Business (HUB)



LAR Components: Administrator's Statement



- Pension Trust Fund status
- TRS-ActiveCare funding (\$386M - \$450M) and legislative intent to maintain below 10% on average increase in premiums through FY 26/27
- TRS-Care Medicare Advantage premiums and TRS-Care funding



State Match Contributions Assumptions



Covered payroll growth

- Using historical trends for future growth, appropriation requests for 2026-27 are based on 4% growth in covered payroll for public education and higher education, and 2% growth in covered payroll for TRS Care

State contribution rate

- 2026-27 request includes contributions from the state, public education employers, and active employees to make the pension fund actuarially sound.

	Previous	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
STATE	6.80%	7.50%	7.50%	7.75%	8.00%	8.25%	8.25%	8.25%	8.25%
MEMBERS	7.70%	7.70%	7.70%	8.00%	8.00%	8.25%	8.25%	8.25%	8.25%
PUBLIC ED EMPLOYER	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.00%	2.00%

- TRS-Care currently at 1.25%
- TRS-ActiveCare funding to keep average annual premiums below ~10%

Benefit Enhancement

- A COLA requires Legislative approval
- A 13th Check requires Legislative approval



Statutory Certification of State Match Contributions

The Board is required to certify the following estimated state contributions:

- 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 FY 2025.
- 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 FY 2026 and FY 2027.
- To the State Comptroller of Public Accounts, the estimated amount of state contributions to the Pension Trust Fund for FY 2026 and FY 2027.

	FY25 General Appropriations Act	FY26 Legislative Appropriations Request	FY27 Legislative Appropriations Request
Public Education	2,668,969,876	2,789,266,927	2,900,837,604
Higher Education			
GR, Fund 0001	293,444,424	322,576,745	334,400,618
GR-D, Fund 0770	37,535,281	39,036,692	40,598,160
Pension, Fund 0960	7,261,393	7,624,463	8,005,686
Higher Education Subtotal	338,241,098	369,237,900	383,004,464
TRS-Care	486,045,210	531,597,805	542,229,761
Grand Total	\$ 3,493,256,184	\$ 3,690,102,632	\$ 3,826,071,829



Administrative Operations



Administrative Operations
FY 2026 – 2027
\$279M – \$282M

Estimated Administrative operating budget for each fiscal year of the biennium. Excludes fringe benefits paid by the Pension Trust Fund and Performance Pay Plan.

- Appropriated by the legislature and funded by the pension trust fund
- Less than 0.2% of the total pension trust fund balance
- TRS remains in the bottom percent quartile compared to peer systems
- Strategically align budget allocations to achieve set goals and objectives
- Full Time Equivalent (FTEs) appropriation
- Appropriation of capital projects



Appendix



Key Budget Players



Legislative Budget Board (LBB)

- Adopts a constitutional spending limit
- Prepares a general appropriations bill
- Prepares agency performance reports
- Prepares, fiscal notes identifying the probable costs of proposed legislation and impact statements

Comptroller of Public Accounts (CPA)

- Submits the Biennial Revenue Estimate (BRE)
- Certifies the appropriations bill by determining whether appropriations are within available revenue
- Collects state taxes, tracks revenue and spending funds

Office of the Governor

- Involved in the budget process beginning with strategic planning and ending with budget execution
- Provides overall vision, mission, and philosophy, as well as statewide goals and benchmarks
- Has line-item veto power

State Auditor's Office (SAO)

- Serves as independent auditor of state agencies, including institutions of higher education
- Audits the accuracy of reported performance measures and assesses the related internal controls



Constitutional Spending Limits



- **Pay-As-You-Go Limit**: Requires bills making appropriations be sent to the Comptroller of Public Accounts (CPA) for certification
- **Limitation on the Growth of Certain Appropriations**: Limits the biennial growth of appropriations from state tax revenue not dedicated by the Constitution to the estimated rate of growth of the state's economy (8%)
- **Welfare Spending Limit**: Provides the amount that may be paid out of state funds for assistance grants not exceed 1 percent of the state budget in any biennium
- **Debt Limit**: Limits the authorization of additional state debt, if in any fiscal year, the resulting annual debt service payable from unrestricted GR exceeds 5 percent of the average annual unrestricted GR funds for the previous three years