

May 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**

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

*All or part of the May 2, 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 and 551.127 of the Texas Government Code. The Board intends to have a quorum and the presiding officer of the meeting physically present at the following location, which will be open to the public during the open portions of the meeting: **1000 Red River, Austin, Texas 78701 in the TRS East Building, 5th Floor, Boardroom.***

The open portions of the May 2, 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

May 2, 2024 – 2:00 p.m.

1. Call roll of Committee members.
2. Consider the approval of the proposed minutes of the December 2023 committee meeting – Committee Chair.
3. Receive an overview of the Budget Committee’s Calendar Year 2024 Work Plan – Don Green.
4. Receive a Mid-Year Analysis of the fiscal year (FY) 2024 Administrative Operating Budget – Don Green.
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.
6. Receive a preview of the FY 2025 administrative operations budget – Don Green.
7. Receive a preview of the FY 2026-27 Legislative Appropriations Request – Don Green.

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

Minutes of the Budget Committee December 7, 2023

The Budget Committee of the Board of Trustees of the Teacher Retirement System of Texas met on December 7, 2023, 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:

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

Other TRS Board Members Present:

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

Others who participated:

Brian Guthrie, TRS
Andrew Roth, TRS
Don Green, TRS
Jase Auby, TRS
Heather Traeger, TRS

Jessica Brown, TRS
Patti Roano, TRS
Eddie Chan, TRS
Katherine Farrell, TRS
Suzanne Dugan, Cohen Milstein

Budget Committee Chair, Ms. Nanette Sissney, called the meeting to order at 12:02 p.m.

1. Call roll of Committee members.

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

2. Consider the approval of the proposed minutes of the July 2023 committee meeting – Chair Michael Ball.

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

3. Review the Annual Comprehensive Financial Report for fiscal year 2023 – Don Green, Janie Duarte, Pattie Roano and Eddie Chan.

Mr. Don Green provided an overview of the Annual Comprehensive Financial Report (ACFR) for fiscal year 2023. He noted the theme was TRS employees working to provide quality service to teachers at TRS. He reported there were over 450 deliverables involved in producing the ACFR and that 50 plus staff around the Agency that works on the ACFR. He announced TRS now has two million members.

Ms. Patti Roano reviewed the financial section of the ACFR. She highlighted the pension fund ended the year with a net position of \$187.2 billion, an increase of \$3 billion mainly due to investment positive performance. She reported the TRS-Care Fund ended at \$3.9 billion, an increase in net position of around \$771 million due to an increase in member contributions, some rebates, increase in federal funds and investment income. She reported the TRS-ActiveCare Fund had a net decrease ending the fiscal year with a net position of \$238.8 million.

Mr. Chan reviewed the investment asset allocation as reported in the 2023 ACFR.

4. Review fiscal year 2023 administrative operations budget year end and an update on the administrative budget for fiscal year 2024 including FTE update – Don Green.

Mr. Green provided the FY 23 end of year budget analysis. He reported the majority of lapse came from salaries and benefits, professional services and the delay in the investment data modernization project that will now incur expenditures in FY 24. He reported the year ended with 947.3 FTEs, 100 positions below the FTE cap. Mr. Green concluded by reviewing FY 24 expenditures to date which only incorporated data from the first two months. He said the performance pay plan, previously reported on in July, was now expected to pay out around \$55 million. He said the reason for increase was due to actual performance, the Investment Management Division delivered nearly \$8 billion in excess value over benchmark.

With no further business before the Committee, the meeting adjourned at 12:05 p.m.

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

Katherine H. Farrell
Secretary of the TRS Board of Trustees

Date

TAB 3



2024 Budget Committee Workplan

May 2, 2024

Presented By:
Don Green, Chief Financial Officer





Budget Committee – CY 2024



Committee Workplan

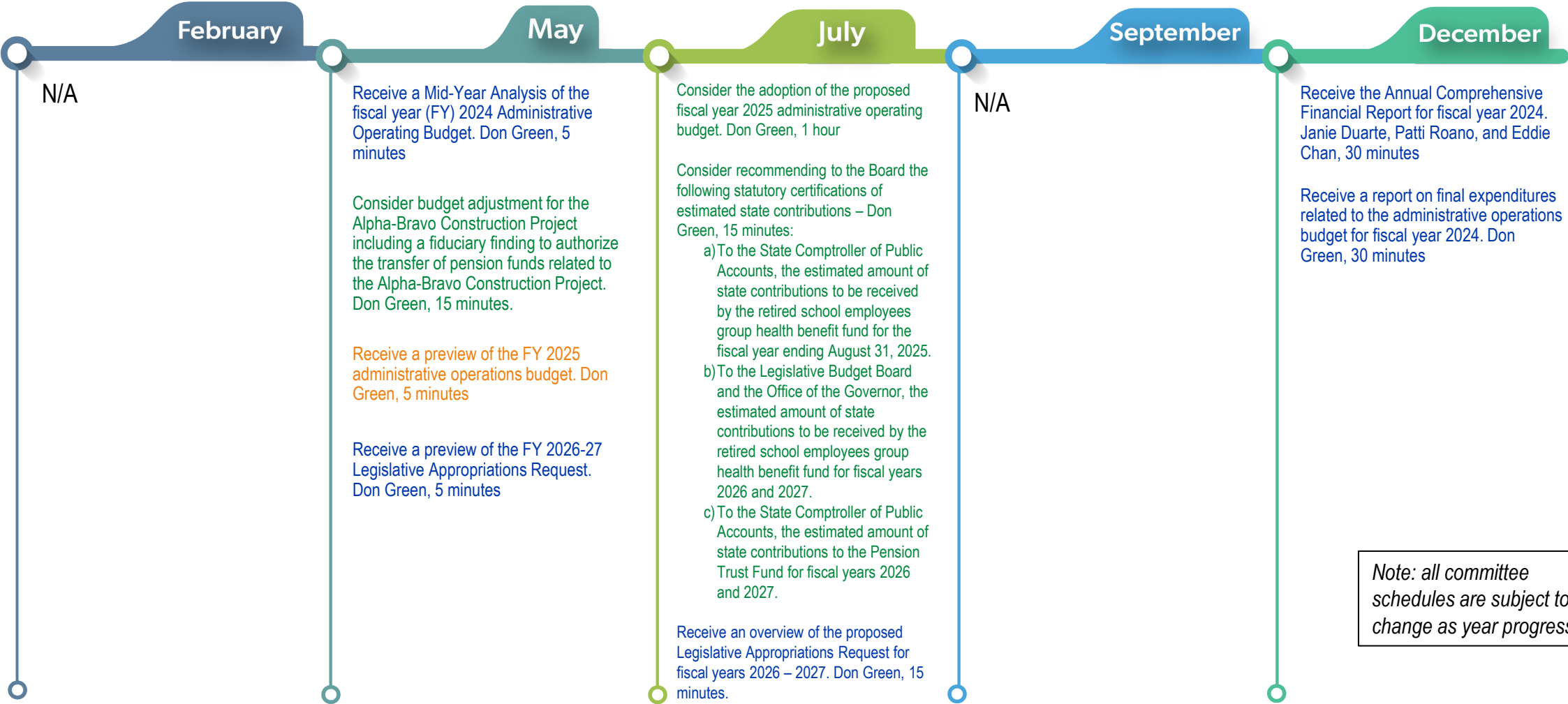
Schedule as of April 2024

Informative (Receive)

Pre-Action (Review)

Action (Consider)

*Approved by committee only



Note: all committee schedules are subject to change as year progresses.

Fiscal Year 2024

Fiscal Year 2025

TAB 4

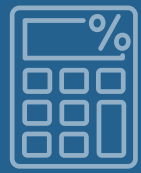


FY 2024 Midyear Budget and FTE Review

May 2, 2024

Presented By:
Don Green, Chief Financial Officer



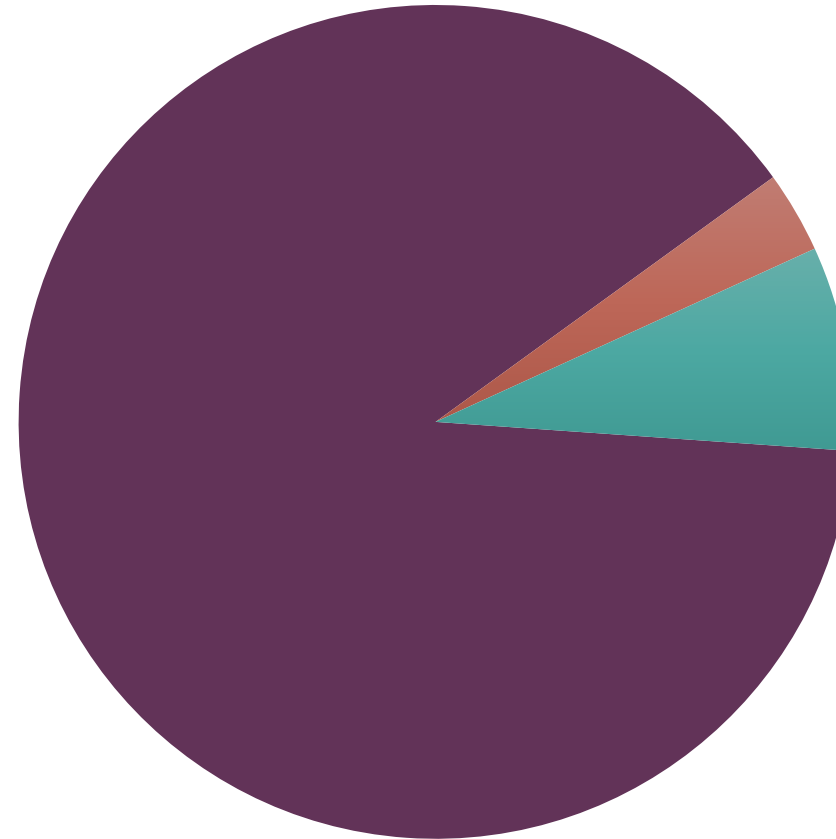


FY 2024 Administrative Operating Budget by Fund



FY 2024
Administrative
Operating Budget
\$348,009,651

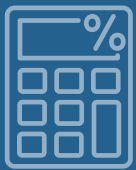
Pension,
\$309.4 , 89%



Commission Credits,
\$11.0 , 3%

Healthcare,
\$27.6 , 8%

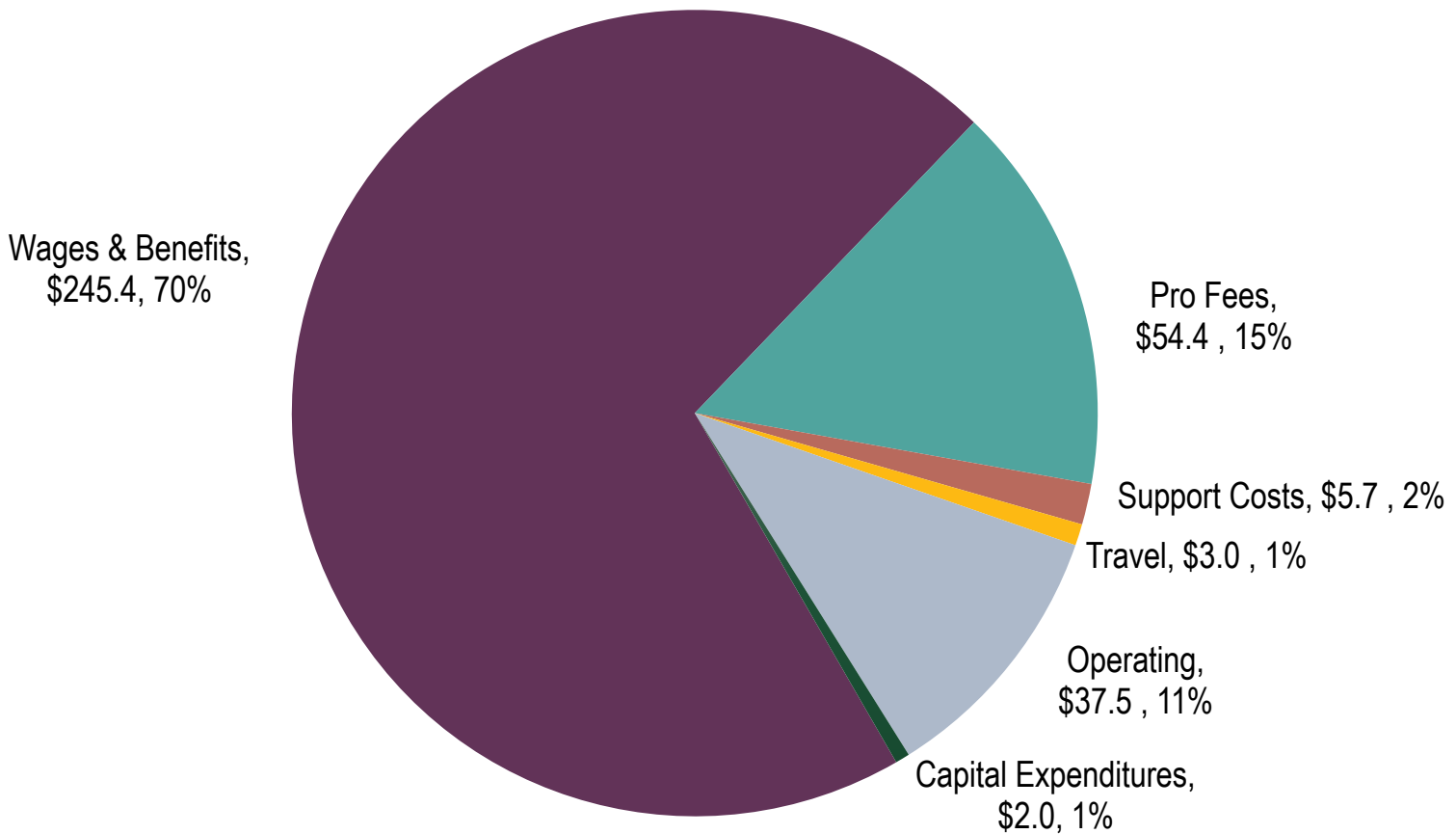
Amount in millions



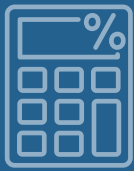
FY 2024 Administrative Operating Budget by Budget Category



FY 2024
Administrative
Operating Budget
\$348,009,651



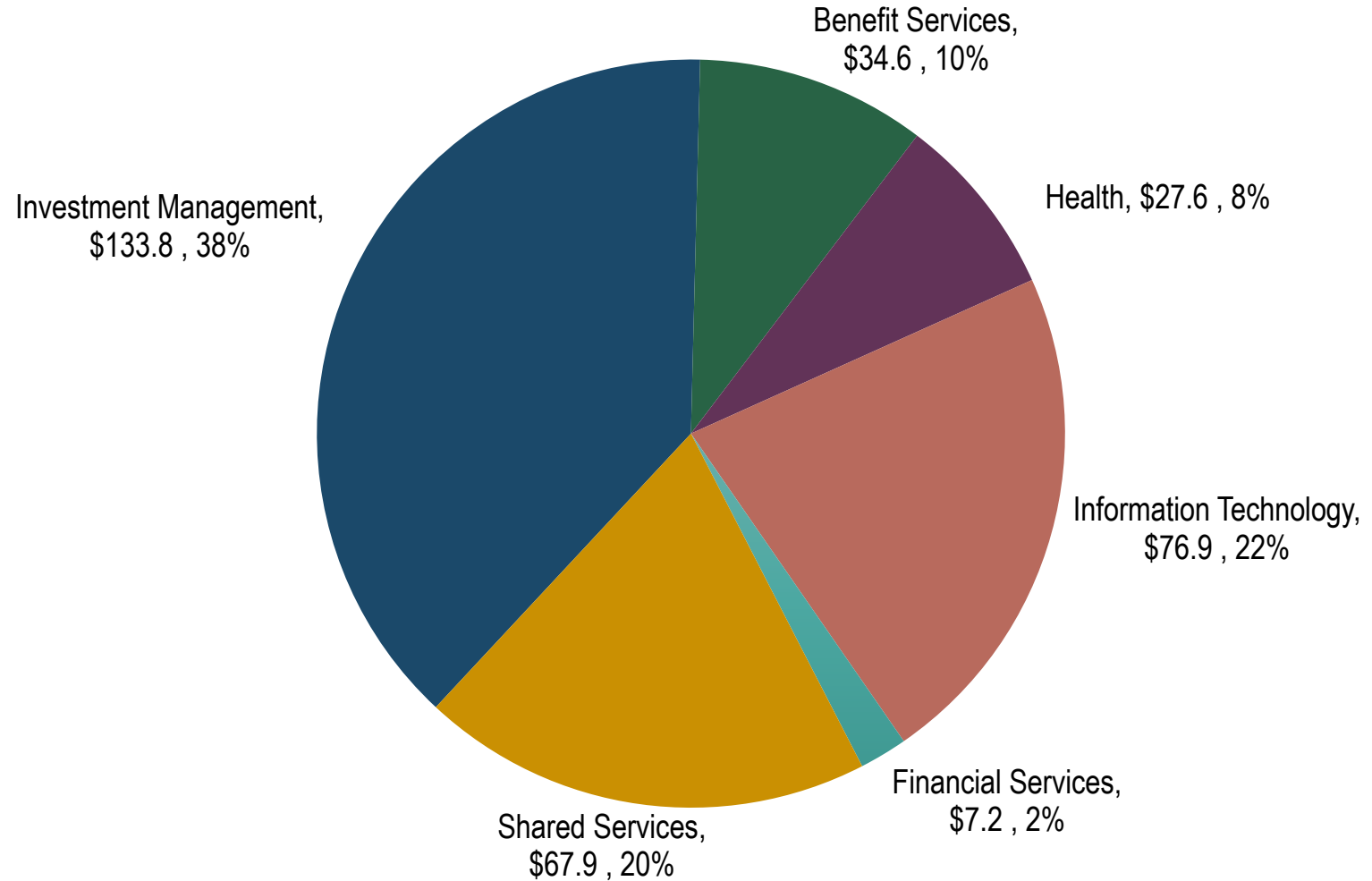
Amount in millions
Operating: software, hardware, postage, printing, equipment, reference materials
Support costs: Rent, building/equipment maintenance, utilities, supplies



FY 2024 Administrative Operating Budget by Division



FY 2024
Administrative
Operating Budget
\$ 348,009,651



Amount in millions

Shared Services: Executive Administration, Information Security, Internal Audit, Legal & Compliance, Government Affairs, Organizational Excellence, Communications, Enterprise Program Management, Business Administration



FY 2024 Administrative Operating Budget

Mid-Year Review



Fund Type	Budget Category	Current Budget	Expended / Encumbered	Projected Spend	Available Budget	% Lapsed
Pension Trust Fund	Wages & Benefits	171,369,000	75,141,630	85,625,623	10,601,747	6%
	Pro Fees	42,150,900	29,550,926	11,296,697	1,303,277	3%
	Support Costs	5,695,798	4,008,797	1,604,893	82,108	1%
	Travel	2,728,040	592,145	1,284,140	851,755	31%
	Operating	30,047,912	19,755,400	9,492,470	800,042	3%
	Capital	2,030,850	382,802	1,647,844	204	0%
Pension Trust Fund Total		254,022,500	129,431,700	110,951,667	13,639,133	5%
Commission Credits	Pro Fees	3,851,500	2,760,301	500,000	591,199	15%
	Operating	7,133,000	1,137,474	20,000	5,975,526	84%
Commission Credits Total		10,984,500	3,897,775	520,000	6,566,725	60%
TRS-Care	Wages & Benefits	16,350,204	7,048,883	8,501,481	799,840	5%
	Pro Fees	5,388,296	5,038,566	250,000	99,730	2%
	Support Costs	13,800	-	1,300	12,500	91%
	Travel	205,000	30,962	59,000	115,038	56%
	Operating	207,200	61,498	59,900	85,802	41%
TRS-Care Total		22,164,500	12,179,909	8,871,681	1,112,910	5%
TRS-ActiveCare	Wages & Benefits	2,251,460	988,574	1,165,500	97,386	4%
	Pro Fees	3,035,040	2,156,156	200,000	678,884	22%
	Support Costs	5,100	565	2,000	2,535	50%
	Travel	60,000	18,420	13,600	27,980	47%
	Operating	58,900	7,581	23,400	27,919	47%
TRS-ActiveCare Total		5,410,500	3,171,296	1,404,500	834,704	15%
All Funds Total		\$ 292,582,000	\$ 148,680,680	\$ 121,747,848	\$ 22,153,472	8%
Performance Pay Plan	Performance Pay Plan	55,427,651	55,427,651	-	-	0%
Grand Total		\$ 348,009,651	\$ 204,108,331	\$ 121,747,848	\$ 22,153,472	6%

*Actual Exp/Enc as of March 2024



FY 2024 Midyear Review



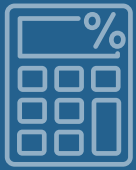
	Current Budget	Expended/ Encumbered	Projected Spend	Available Balance	% Lapsed
Division					
Investment Management	133,794,857	89,646,661	32,525,060	11,623,136	9%
Benefit Services	34,643,342	16,125,677	17,998,561	519,104	1%
Health	27,575,000	15,351,205	10,276,181	1,947,614	7%
Shared Services	63,816,611	33,513,685	23,635,194	6,667,733	10%
Information Technology	62,311,061	40,053,908	21,182,424	1,074,729	2%
Financial Services	7,157,980	3,399,289	3,437,534	321,157	4%
Division Total	\$ 329,298,851	\$ 198,090,425	\$ 109,054,954	\$ 22,153,472	7%
Capital Projects					
Building Renovations	2,000,000	1,080,964	919,036	-	0%
Security Renovations	200,000	-	200,000	-	0%
IT Infrastructure Upgrades	5,300,000	1,341,138	3,958,862	-	0%
Investment Data Modernization	10,100,000	2,485,004	7,614,996	-	0%
DCS Technology Services	1,110,800	1,110,800	-	-	0%
Capital Projects Total	\$ 18,710,800	\$ 6,017,906	\$ 12,692,894	\$ -	0%
Grand Total	\$ 348,009,651	\$ 204,108,331	\$ 121,747,848	\$ 22,153,472	6%

*Actual Exp/Enc as of March 2024



FY24 FTE Review

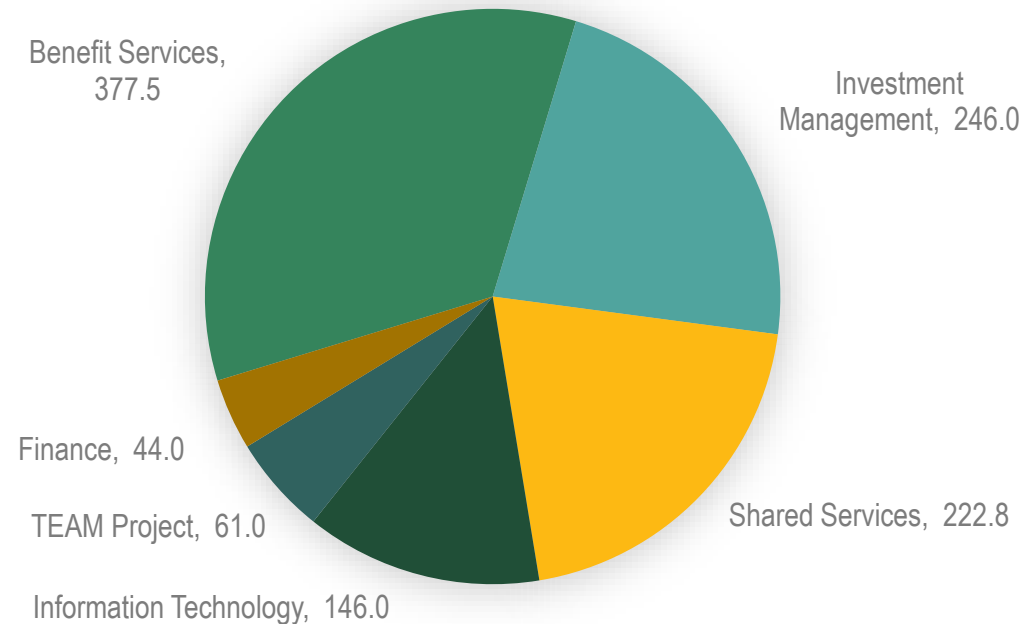
As of 04/03/2024



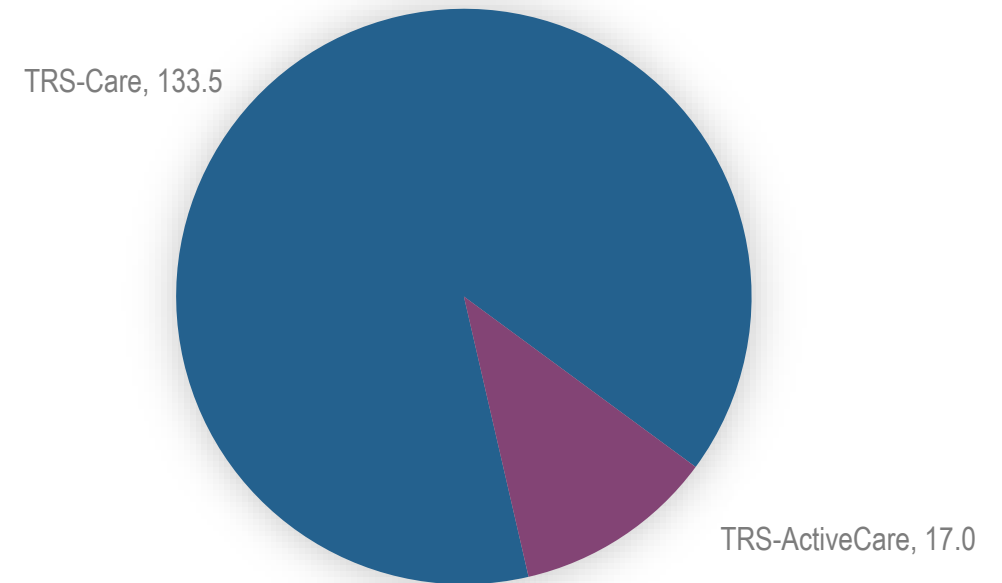
FY 2024 Budgeted FTE Summary



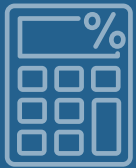
Pension Funded FTEs
1097.3



Health Care Funded FTEs
150.5



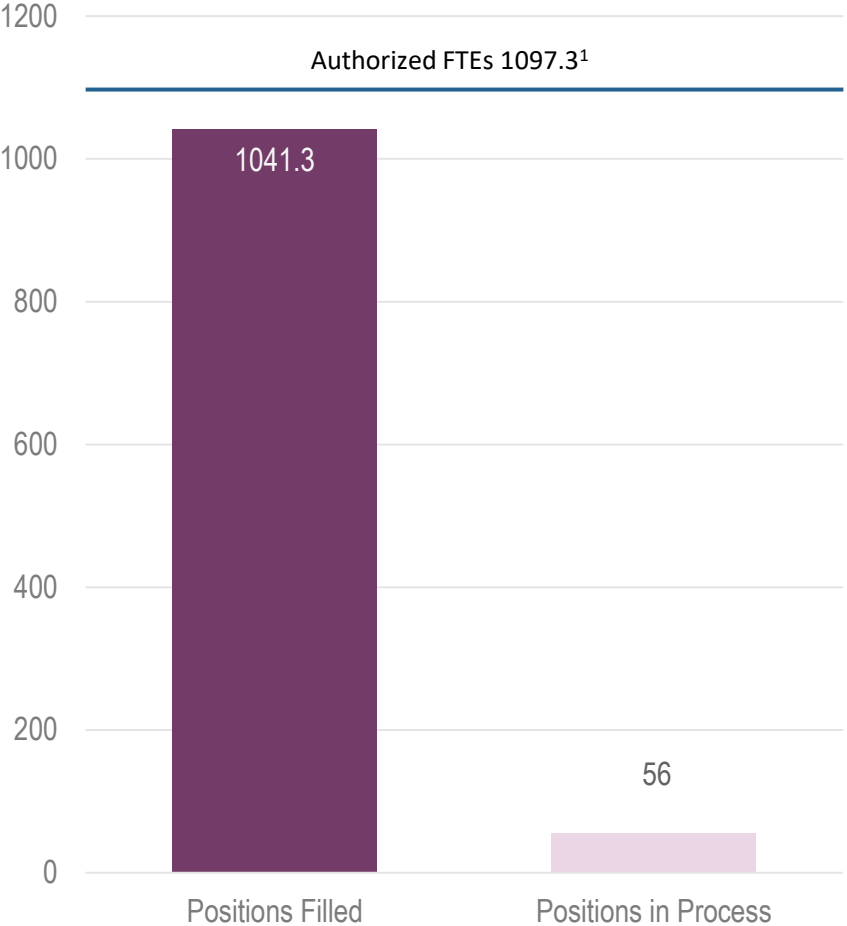
Shared Services: Business Administration, Executive Administration, Government Affairs, Information Security, Internal Audit, Legal & Compliance, Organizational Excellence, Communications



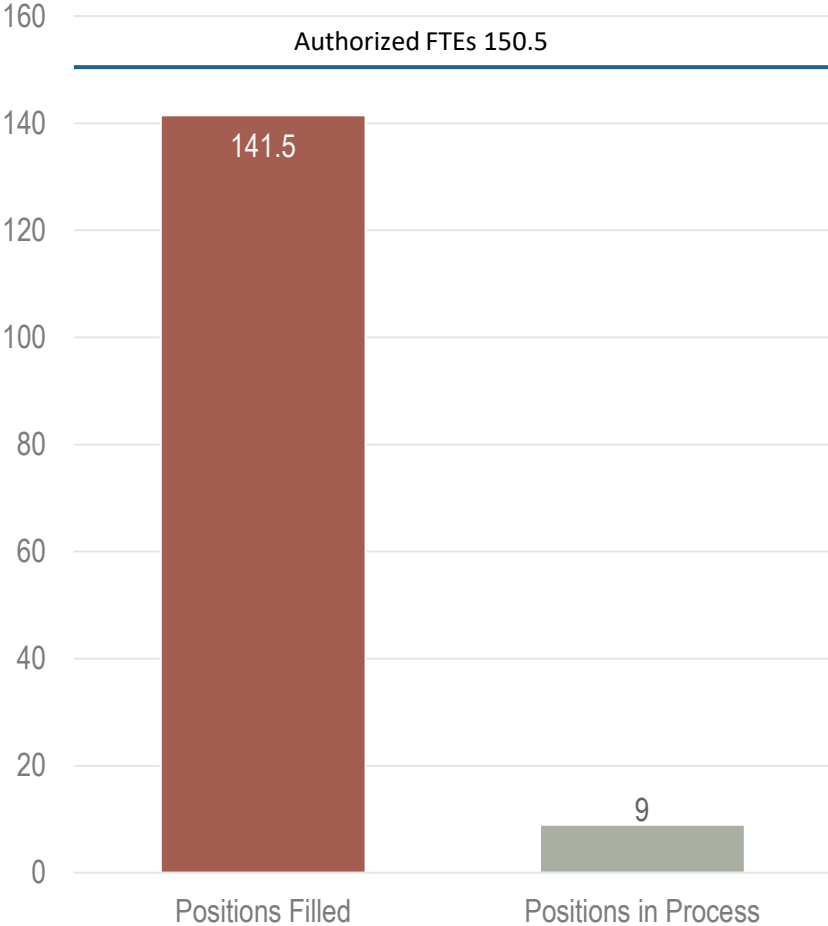
FY 2024 FTE Status



Pension Funded FTEs



Health Care Funded FTEs



Note 1: Includes additional 50 FTEs as authorized by Article IX in the General Appropriations Act.

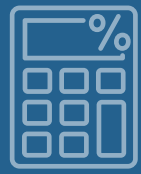
TAB 5



Alpha-Bravo Construction Project Budget Adjustment

May 2, 2024
Presented By:
Don Green, Chief Financial Officer

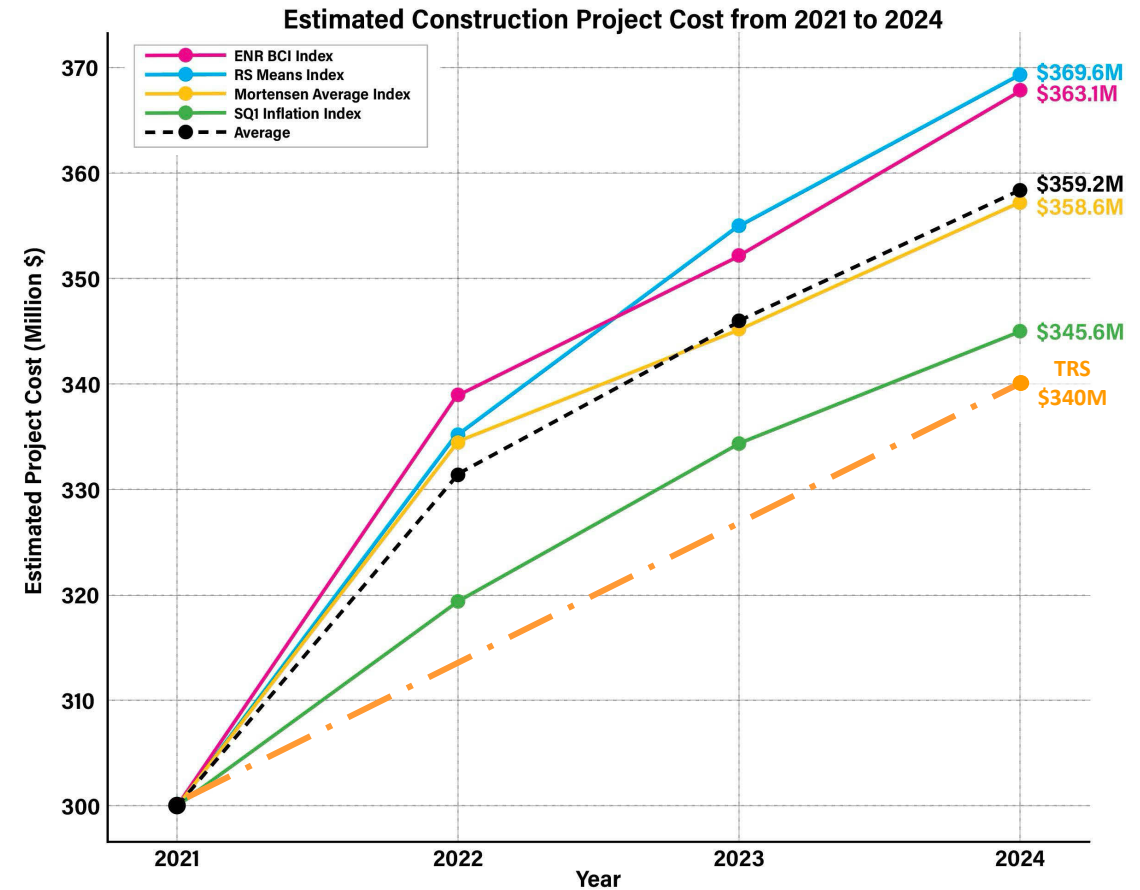


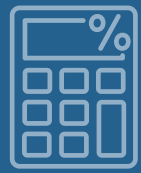


Alpha/Bravo Cost Savings and Drivers



- Savings generated by design decisions:
 - Furniture selection
 - Orientation of core hallways and decks
 - External glazing modification
 - Stairwell modifications
 - Maximized Information Technology footprint
- Unanticipated cost factors include:
 - Historic inflation
 - Supply chain disruptions
 - Infrastructure and data security enhancements
 - Internal scope changes to accommodate business needs
- TRS anticipates a 13% increase in total cost, **below** the industry average of 20%.





Alpha/Bravo Cost Update



- **Staff Recommendation:** a budget adjustment of \$40M is required to cover the projected cost for the completion of Alpha and Bravo (this figure includes 2% contingency).

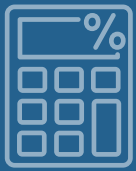
<i>(\$ in millions)</i>	Alpha	Bravo
<i>Purchase Price</i>	\$ 103.1	\$ 129.7
<i>Tenant Improvement & Build-out</i>	\$ 49.5	\$ 50.0
<i>Projected Actual Spend</i>	\$ 152.6	\$ 179.7
<i>2% Contingency</i>	\$ 7.7	
<i>Proposed NTE Amount</i>	\$ 340.0	

Alpha 210,428 sq ft



Bravo 247,951 sq ft





Generational Solution: Value Proposition



Mueller Development

Not to Exceed Amount

2021	2024
\$300M	\$340M

Cost Savings and Avoidance Over 20 Years

Red River sale price

(under current Capitol view corridor restrictions)

\$80M	\$108M
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TRS Lease and Real Estate Tax avoidance

(using current square footage)

\$120M-\$140M

Aging Infrastructure maintenance

\$50M-\$75M

**TRS built a
generational
solution to
serve our
members and
gained a
valuable asset
for the System**

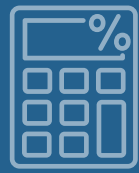
TAB 6



**FY 2025
Administrative Operating Budget
Preview**

May 2, 2024
Presented By:
Don Green, Chief Financial Officer



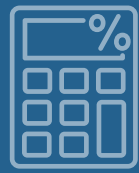


FY25 Administrative Operating Budget Preliminary Review



- The total FY25 Administrative Operating Budget presents a **5%** increase over the previous fiscal year's budget
- Consistent with the Pension Trust Fund FY25 funding level **approved by the Texas Legislature**
- Includes 5% State Salary Adjustment, **FY24 appropriation reductions reinstated**, and Capital Budget
- **Upcoming considerations:** Adoption of the FY25 Administrative Operating Budget and FTE limitations

<i>\$ in millions</i>	FY24 Budget	FY25 Base	Variance	
Pension Trust Fund	254.0	289.4	35.4	14%
<i>Appropriated</i>	198.5	229.1	30.6	15%
<i>Fringe Benefits</i>	36.8	40.7	3.9	11%
<i>Capital Budget</i>	18.7	19.6	0.9	5%
Commission Credits	11.0	7.5	(3.5)	-32%
TRS-Care	22.2	25.0	2.8	13%
TRS-ActiveCare	5.4	5.8	0.4	7%
Grand Total	\$ 292.6	\$ 327.7	\$ 35.1	12%
Performance Pay Plan	55.4	38.2	(17.2)	-31%
Grand total	\$ 348.0	\$ 365.9	\$ 17.9	5%



FY25 Resource Request

Preliminary Review



Type of Resource	FY24	FY24 Approved			FY25 Request (Pending Approval)		
	Original Resource Request	Pension	Health	FY24 Total	Pension	Health	FY25 Total
Core Support							
Investment Management	14	1	-	1	13	-	13
Benefit Services	58	25	-	25	54	-	54
Health	8	-	4	4	-	5	5
Shared Support							
Business Administration	8	5	-	5	10	-	10
Executive		-	-	0	1	-	1
Government Affairs		-	-	0	1	-	1
Information Security	6	2	-	2	4	-	4
Financial Services	8	2	-	2	6	-	6
Information Technology	31	11	5	16	41	3	44
Legal & Compliance*	2	-	1	1	4	-	4
Organizational Excellence	11	4	-	4	8	-	8
Internal Audit	2	-	-	0	1	-	1
Communications	2	-	-	0	2	-	2
Enterprise Program Management	3	-	-	0	3	-	3
Total	153	50	10	60	148	8	156

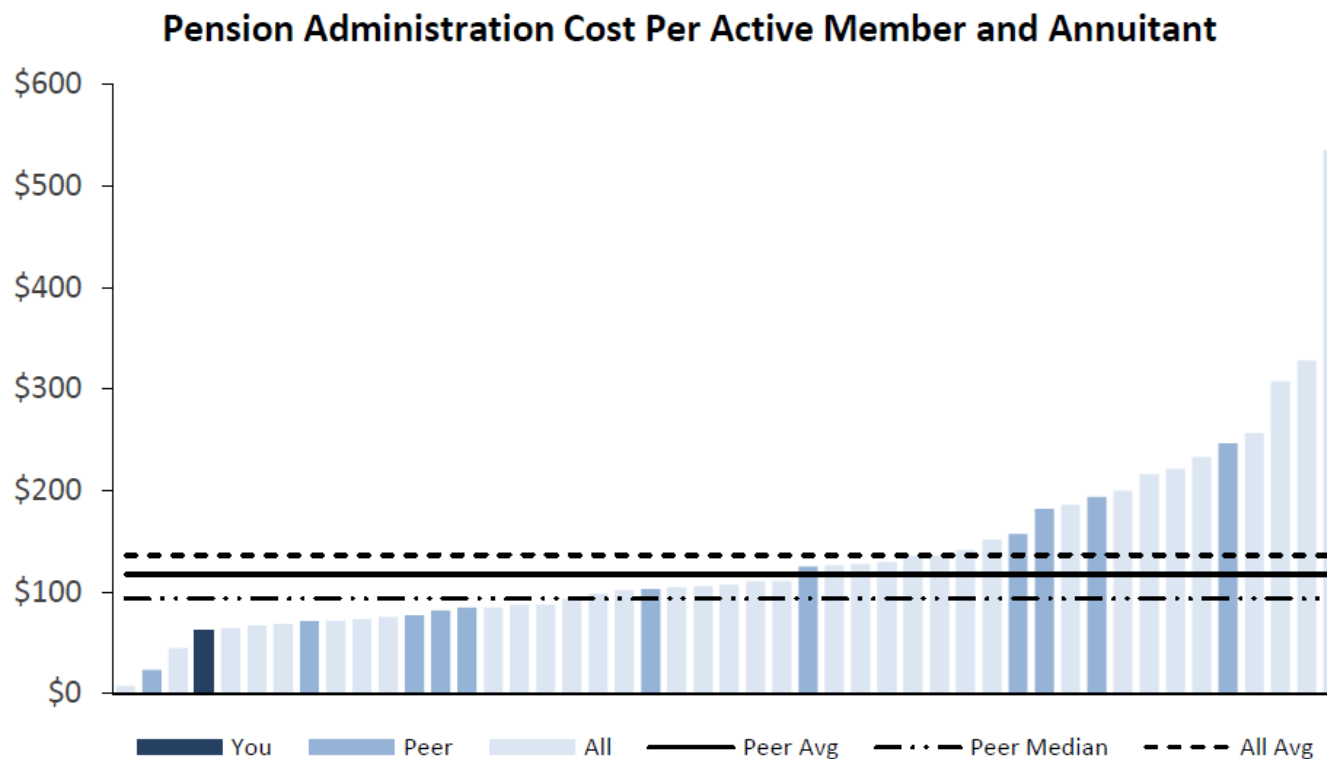
- Current authorized FTE limitation is 1,047.3
 - As authorized by Article IX in the General Appropriations Act, all agencies may exceed the FTE cap up to 50 FTEs
- An FTE cap adjustment may be required to onboard additional FTEs for FY25
- Major areas to consider:
 - Customer Service to keep pace with membership growth
 - Investment Data Modernization
 - TEAM (Payroll, Benefit Adjustment, & Tax)
 - Contractor/Fellow Conversion
 - Alpha/Bravo Headquarters
- Staff will provide final recommendation in July 2024



Pension Administration Cost per Active Member and Annuitant



TRS total pension administration cost of \$62 per active member and annuitant remains below the peer average of \$117.



Source: 2023 CEM Survey

TAB 7

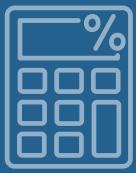


FY2026-27 Legislative Appropriations Request Preview

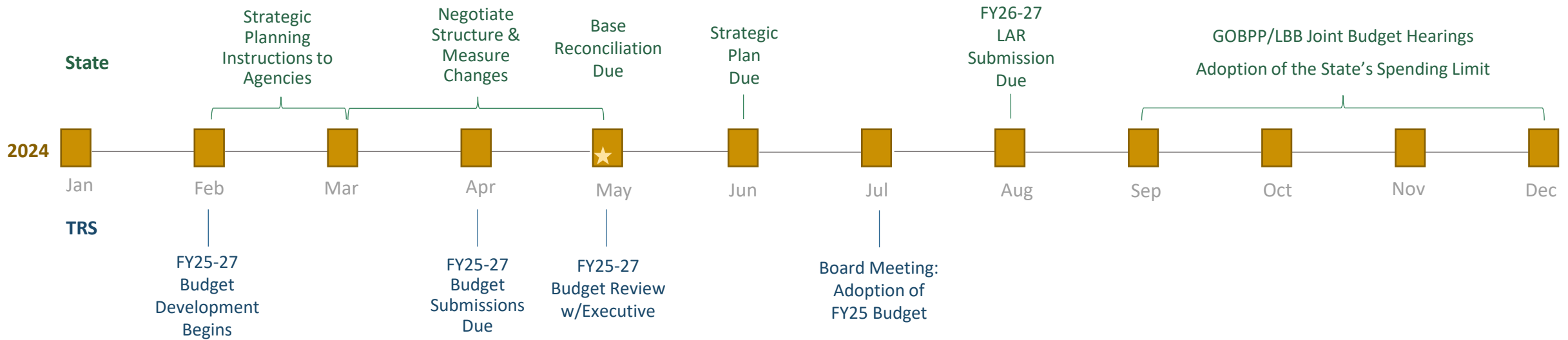
May 2, 2024

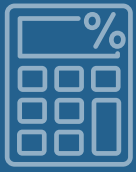
Presented By:
Don Green, Chief Financial Officer





2024 STATE & TRS BUDGET DEVELOPMENT TIMELINE



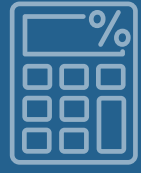


TRS LAR Components



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: State Match Contributions Assumptions



Covered payroll growth

- Using historical trends for future growth, appropriations for 2024-25 were based on 3.6% growth in covered payroll for public education and 6% growth in covered payroll for higher education. Those assumptions will most likely change for 2026-27.

State contribution rate

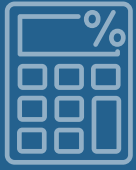
- 2026-27 request includes contributions from the state, public education employers, and active employees to make the pension fund actuarially sound.

	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

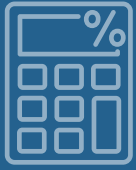


LAR Components: Administrative Operations



Administrative Operations

- 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 Equivalents (FTEs) appropriation
- Appropriation of capital projects

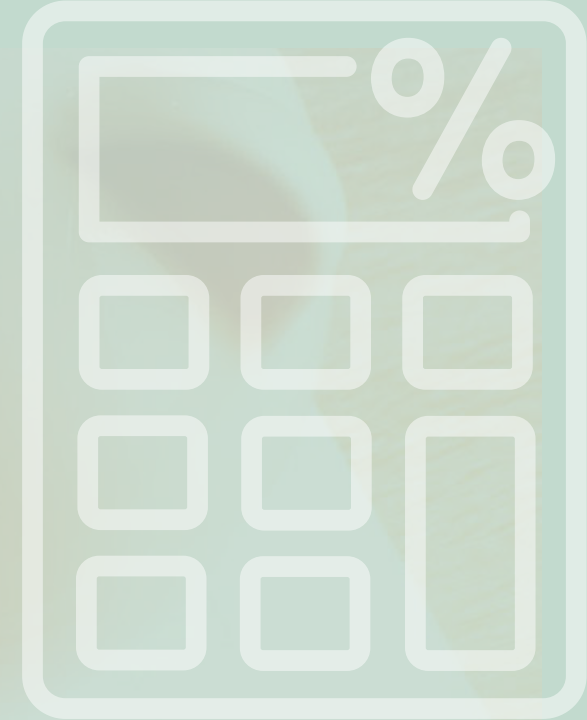


Upcoming LAR Considerations

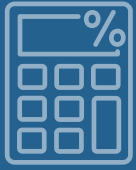


Administrator's Statement

- Pension Trust Fund status
- TRS-ActiveCare funding 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



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)

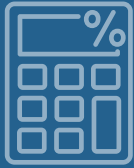
- Submits the Biennial Revenue Estimate (BRE)
- Certifies the appropriations bill by determining whether appropriations are within available revenue
- Collects state taxes, tracks revenue and spending funds

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