



October 19, 2021

To: Board of Trustees

From: Rhonda Covarrubias, Director of Finance *Rhonda H. Covarrubias*

Re: Agenda Item 9: Discuss 2022 Draft Operating, Capital and PASMod Program Budgets

Attached are the draft 2022 Operating and Capital Expenditures Budgets and the PASMod Program budget that were presented to the Budget and Compensation Committee on October 13. Both drafts are for discussion purposes only; the final 2022 budgets will be presented to the Board for adoption in December.

The 2022 Operating Budget reflects a 7% increase from 2021 due to the rental payments on The Grove lease. But for The Grove lease, the 2022 operating budget would be flat, which is, like the 2021 operating budget, 5% lower than the 2020 budget.

The Capital Expenditures budget for 2022 includes funds for the required replacement of the Storage Area Network and physical servers. No capital expenditures were budgeted in 2021.

In December 2019, the TMRS Board received a five-year budget for the PASMod Program totaling \$10.5 million. Changes to the budget have included transitioning consultant work to TMRS staff, reducing temporary staffing costs, eliminating unnecessary projects and completing the mobile app with internal staff. The 2022 budget totals \$2.8 million to complete the City Contribution System. Total PASMod Program budget savings are estimated at \$5.8 million.

ATTACHMENTS:

- 1 – Draft Operating and Capital Expenditures Budgets – Fiscal Year Ending December 31, 2022
- 2 – Draft 2022 Pension Administration System Modernization (PASMod) Program Budget



**Operating and Capital
Expenditures Budgets
For the Year Ending December 31, 2022**

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Executive Summary

This Executive Summary compares the 2022 TMRS Operating and Capital Expenditures budgets to the 2021 budgets.

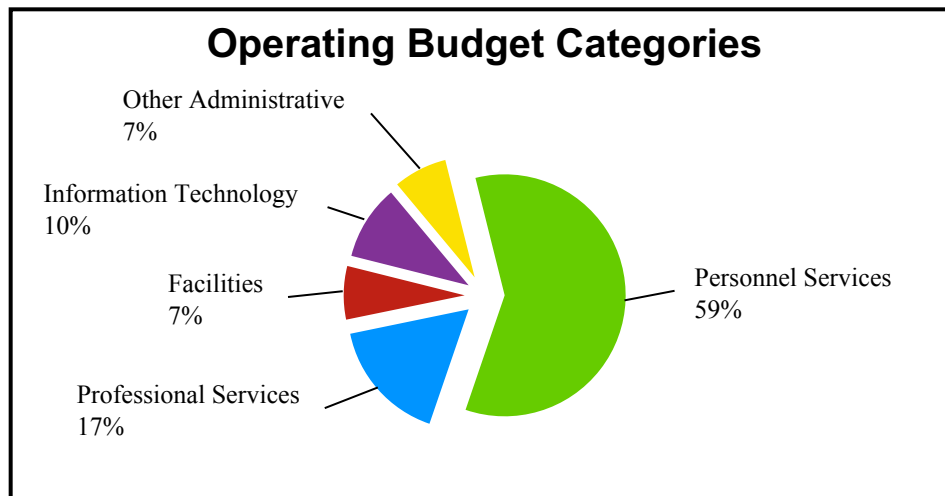
TMRS Summary Operating and Capital Expenditures Budgets For the Years Ending December 31					
	2022		2021	Increase/ (Decrease)	% Change
Personnel Services	\$ 20,584,080	\$	19,442,267	\$ 1,141,813	6 %
Professional Services	5,752,572		6,988,810	(1,236,238)	(18) %
Facilities	2,486,198		456,539	2,029,659	445 %
Information Technology	3,485,178		3,001,371	483,807	16 %
Other Administrative	2,497,128		2,598,003	(100,875)	(4) %
Total Operating Budget	\$ 34,805,156	\$	32,486,990	\$ 2,318,166	7 %
Capital Expenditures	\$ 1,375,392	\$	—	\$ 1,375,392	100 %
TOTAL BUDGET	\$ 36,180,548	\$	32,486,990	\$ 3,693,558	11 %

The 2022 operating budget reflects an increase of \$2,318,166, or 7%, from the 2021 operating budget. Budget items contributing to this increase are:

- \$2.3 million for rental payments on The Grove lease.
- \$835,000 for costs associated with the addition of eight new Member Services positions.

Without these two items, the 2022 operating budget would reflect a 2% decrease from 2021, which is in addition to the 5% budget reduction from 2020 to 2021. Furthermore, the expected proceeds from the sale of the TMRS building, reinvested at an estimated 6.75% return compounded, will offset a significant amount of The Grove lease cost.

The capital expenditures budget includes replacement of the existing Storage Area Network and physical servers. These items have useful lives of five years and require replacement in 2022.



TMRS Operating and Capital Expenditures Budgets
For the Years Ending December 31

	2022	2021	Increase/ (Decrease)	% Change
Personnel Services:				
Staff Salaries & Payroll Taxes	\$ 16,448,811	\$ 15,560,964	\$ 887,847	6 %
Employee Benefits	4,035,269	3,881,303	153,966	4 %
Contract Labor/Temporary Staffing	100,000	—	100,000	100 %
Total Personnel Services	20,584,080	19,442,267	1,141,813	6 %
Professional Services:				
Actuarial	689,300	655,500	33,800	5 %
Audit	185,125	256,750	(71,625)	(28) %
Banking & Custodial	1,553,000	2,400,000	(847,000)	(35) %
Information Services Consultants	313,100	524,677	(211,577)	(40) %
Investment Consultants	1,520,347	1,603,203	(82,856)	(5) %
Legal	1,166,500	1,120,000	46,500	4 %
Other Services	325,200	428,680	(103,480)	(24) %
Total Professional Services	5,752,572	6,988,810	(1,236,238)	(18) %
Facilities	2,486,198	456,539	2,029,659	445 %
Information Technology:				
Hardware/Software & Support	1,084,225	784,224	300,001	38 %
Cloud Hosted Services	2,400,953	2,217,147	183,806	8 %
Total Information Technology	3,485,178	3,001,371	483,807	16 %
Other Administrative:				
Travel	540,537	533,234	7,303	1 %
Professional Development	499,608	445,533	54,075	12 %
City & Member Outreach	760,735	740,531	20,204	3 %
Supplies/Document Storage/Misc.	565,748	747,405	(181,657)	(24) %
Board of Trustees/Advisory Committee	130,500	131,300	(800)	(1) %
Total Other Administrative	2,497,128	2,598,003	(100,875)	(4) %
Total Operating Budget	\$ 34,805,156	\$ 32,486,990	\$ 2,318,166	7 %
Total Capital Expenditures	\$ 1,375,392	\$ —	\$ 1,375,392	100 %
TOTAL BUDGET	\$ 36,180,548	\$ 32,486,990	\$ 3,693,558	11 %

Personnel Services

Personnel Services For the Years Ending December 31				
	2022	2021	Increase/ (Decrease)	% Change
Staff Salaries & Taxes:				
Staff salaries	\$ 15,392,448	\$ 14,576,987	\$ 815,461	6 %
Payroll taxes	1,056,363	983,977	72,386	7 %
Total Staff Salaries & Taxes	16,448,811	15,560,964	887,847	6 %
Employee Benefits:				
TMRS contributions	2,481,264	2,334,313	146,951	6 %
Employee insurance	1,452,007	1,474,942	(22,935)	(2) %
Retiree insurance	84,789	55,266	29,523	53 %
Employee Assistance Program	7,209	6,782	427	6 %
Unemployment	10,000	10,000	—	— %
Total Employee Benefits	4,035,269	3,881,303	153,966	4 %
Contract Labor/Temporary Staffing	100,000	—	100,000	100 %
Total Personnel Services	\$ 20,584,080	\$ 19,442,267	\$ 1,141,813	6 %

Personnel Services represent 59% of the 2022 operating budget, and reflects an increase of \$1,141,813 from the prior year. Consistent with prior years' budgets, personnel services continue to be the largest budget category.

Staff Salaries include eight new FTE positions: seven Member Services analysts and one Assistant Director of Member Services, at estimated salaries cost of \$515,000. In addition, during 2021 the part-time receptionist position was reclassified as full-time. These changes increase FTE headcount from 126 to 134.5. Staff salaries include estimated mid-year merit adjustments of \$221,000, at an average rate of 3%. Open positions are budgeted at the mid-point of the associated pay group. The budget also includes \$410,000 for the payout of compensated absences upon potential retirements, funds for promotions and a pool for bonuses.

Payroll taxes are based upon estimated staff salaries at the 6.2% rate for Social Security and 1.45% for Medicare. The estimated 2022 maximum wages for Social Security of \$146,700 is applied (an increase from \$142,800 in 2021).

TMRS Contributions. TMRS is a participating employer in the TMRS retirement system. Employees contribute 7% of their salary and account balances are matched 2:1 upon retirement. The actuarial determined employer contribution rate for 2022 is 15.36%. However, the 2022 operating budget assumes maintaining the 2021 rate paid of 16.12%, which is estimated to save \$1.9 million in future contributions by paying off the Unfunded Actuarial Accrued Liability nine years sooner.

Personnel Services (continued)

Employee Insurance. TMRS offers employees insurance through the Employees Retirement System of Texas Group Benefits Program (ERS-GBP). Health, vision, dental, long-term disability, accidental death and life insurance are provided at no cost to the individual employee. In addition, TMRS subsidizes 50% of the premium for dependent health coverage. The ERS-GBP plan year runs from September 1 through August 31, therefore the 2022 budget includes estimated rate increases for the last four months of 2022.

Retiree Insurance. TMRS retirees may also participate in the group health plan, with rates subsidized based on a tenure schedule. TMRS currently has 16 retirees participating (up from 11 in the 2021 budget).

Employee Assistance Program (EAP). The EAP provides employees with certain other benefits including counseling, guidance, training, resources and referrals to balance work with life and increase health and well-being.

Unemployment. TMRS is a "reimbursing employer," therefore quarterly contributions for state unemployment compensation are not submitted, but reimbursement occurs at the time claims are paid.

Professional Services

Professional Services				
For the Years Ending December 31				
	2022	2021	Increase/ (Decrease)	% Change
Actuarial:				
Retainer	605,700	\$ 588,300	17,400	3 %
Other	83,600	67,200	16,400	24 %
Total Actuarial	689,300	655,500	33,800	5 %
Audit:				
External financial and SOC-1 audits	180,125	176,750	3,375	2 %
Co-sourced internal audits	—	75,000	(75,000)	(100) %
Contingency for other audit needs	5,000	5,000	—	— %
Total Audit	185,125	256,750	(71,625)	(28) %
Banking and Custodial:				
Custodial services	1,500,000	2,350,000	(850,000)	(36) %
Depository services	53,000	50,000	3,000	6 %
Total Banking and Custodial	1,553,000	2,400,000	(847,000)	(35) %
Information Services Consultants:				
Expert quality assurance/testing resource	10,000	200,000	(190,000)	(95) %
Gartner consulting	125,000	139,572	(14,572)	(10) %
Information services support	93,100	105,105	(12,005)	(11) %
Network security audit	85,000	80,000	5,000	6 %
Total Information Services Consultants	313,100	524,677	(211,577)	(40) %
Investment Consultants:				
Alternatives consultant	1,000,000	1,200,000	(200,000)	(17) %
General investment consultant	414,347	357,203	57,144	16 %
Other	106,000	46,000	60,000	130 %
Total Investment Consultants	1,520,347	1,603,203	(82,856)	(5) %
Legal:				
Fiduciary	150,000	235,000	(85,000)	(36) %
Investment	848,000	741,500	106,500	14 %
Other	168,500	143,500	25,000	17 %
Total Legal	1,166,500	1,120,000	46,500	4 %
Other Services:				
Disability Board	50,000	50,000	—	— %
Governance/strategic planning	—	95,500	(95,500)	(100) %
Human resources	141,000	140,700	300	— %
Legislative	84,000	84,000	—	— %
Membership data services	33,900	34,480	(580)	(2) %
Other	16,300	24,000	(7,700)	(32) %
Total Other Services	325,200	428,680	(103,480)	(24) %
Total Professional Services	\$ 5,752,572	\$ 6,988,810	\$ (1,236,238)	(18) %

Professional Services (continued)

Professional Services represent 17% of the 2022 operating budget and reflect a decrease of \$(1,236,238), or (18)%, from the prior year.

Actuarial services are provided by GRS Retirement Consulting and represent 12% of the professional services budget category. The budget reflects a contractual increase in the annual retainer fee. In addition to the retainer, the budget includes costs for GRS' attendance at Board meetings, legislative actuarial studies and \$25,000 for participation in asset/liability and asset allocation studies, which was not included in the 2021 budget.

Audit services make up 3% of the professional services budget category. External financial and SOC-1 audits are performed by CLA, at proposed rates that are scheduled to increase by 2% from the 2021 fees. TMRS does not expect to co-source any of its internal audits in 2022.

Banking and custodial services make up 27% of the professional services budget category. During 2021, TMRS renegotiated its contract with State Street, resulting in a reduction of fees.

Information services consultants make up 6% of the professional service category and include funds for Gartner consulting, which provides access to research and an online peer community for the Information Services team, and funds for an annual network security audit.

Investment consultants make up 26% of total professional services. TMRS retains RVK as general investment consultant and Albourne as a consultant for alternatives. \$70,000 has also been included in 2022 for an asset/liability study.

Legal services make up 20% of the professional services budget category and include fiduciary legal counsel, investment-related legal fees and other legal matters.

Other services make up 6% of the professional services budget category and include funds for an employee engagement survey, compensation analysis, executive recruiting, and legislative services.

Facilities

Facilities				
For the Years Ending December 31				
	2022	2021	Increase/ (Decrease)	% Change
The Grove base rent	\$ 1,621,746	\$ —	\$ 1,621,746	100 %
The Grove additional rent	655,893	—	655,893	100 %
Building maintenance/utilities/security	173,320	425,419	(252,099)	(59) %
Property/liability insurance	35,239	31,120	\$ 4,119	13 %
Total Facilities	\$ 2,486,198	\$ 456,539	\$ 2,029,659	445 %

Facilities is 7% of the 2022 operating budget. The budget for facilities increased \$2.0 million from the prior year due to The Grove lease agreement that was executed in 2021.

Depreciation expense on the building at 1200 N IH-35 will be \$306,000 in 2021. With relocation to The Grove, TMRS' current property will be sold. The proceeds from the sale will be reinvested in the Trust Fund at our assumed 6.75% rate of return.

The Grove base rent. The Grove lease agreement includes scheduled monthly base rental payments from October 2021 through April 2034.

The Grove additional rent. The Grove lease agreement includes certain facilities expenses including: utilities, property maintenance, janitorial, insurance and property taxes. The 2022 budget includes approximately \$55,000 per month in additional rent.

Building maintenance/utilities/security. The budget includes costs of maintaining the 1200 N IH-35 building until it is sold. Costs include repairs, pest control, janitorial, elevator service, grounds maintenance, and security services. For The Grove, these items are included in the amount of additional rent.

Property/liability insurance. TMRS will continue to insure the 1200 N IH-35 building until it is sold. TMRS will also maintain the required property/liability insurance per The Grove lease agreement, as well as insurance on TMRS' owned contents.

Information Technology

Information Technology				
For the Years Ending December 31				
	2022	2021	Increase/ (Decrease)	% Change
Hardware/Software & Support:				
Hardware maintenance	\$ 173,133	\$ 115,150	\$ 57,983	50 %
Software maintenance	819,892	624,814	195,078	31 %
Internet service and other	91,200	44,260	46,940	106 %
Total Hardware/Software & Support	1,084,225	784,224	300,001	38 %
Cloud Hosted Services:				
Risk management & reporting	1,030,653	995,560	35,093	4 %
Investment analysis	403,339	471,737	(68,398)	(14) %
Information services	783,100	625,570	157,530	25 %
Other	183,861	124,280	59,581	48 %
Total Cloud Hosted Services	2,400,953	2,217,147	183,806	8 %
Total Information Technology	\$ 3,485,178	\$ 3,001,371	\$ 483,807	16 %

Information Technology is 10% of the 2022 proposed operating budget and reflects an increase of \$483,807 from 2021.

Of this category, \$1,084,225 is for **hardware/software & support**, which includes funds for hardware and software licensing/maintenance and internet service. New items include:

- \$109,783 - The budget includes the costs of ongoing maintenance/support for the Storage Area Network (SAN), which provides storage for all TMRS servers and virtual desktops.
- \$99,500 - With the pending go-live of the new City Portal in Q4 2021 and the expected go-live of the City Contribution System in Q4 2022, software maintenance and escrow fees for Tegrity's source code will move from the PASMod budget to Information Services' budget.
- \$64,000 - Data center hosting fees, which include internet connectivity for our servers.
- \$63,580 - A one-time cost for hardware/software requirements of the eight new FTEs, if approved.

Cloud hosted services make up 69% of this budget category. This line-item includes online services utilized by various departments within the organization. A majority of the services are utilized by the Investment department, providing them with tools and online research and reporting capabilities to monitor portfolio analytics and risk parameters. The 2022 budget increase includes \$138,000 for Information Services. With the pending go-live of the new City Portal in Q4 2021 and the expected go-live of the City Contribution System in Q4 2022, hosting fees for Tegrity's source code will move from the PASMod budget to Information Services.

Other Administrative

Other Administrative				
For the Years Ending December 31				
	2022	2021	Increase/ (Decrease)	% Change
Travel:				
Business travel	\$ 365,237	\$ 350,770	\$ 14,467	4 %
Professional development travel	175,300	182,464	(7,164)	(4) %
Total Travel	540,537	533,234	7,303	1 %
Professional Development:				
Member dues	52,296	52,789	(493)	(1) %
Subscriptions/publications	113,632	113,543	89	— %
Training/tuition	333,680	279,201	54,479	20 %
Total Professional Development	499,608	445,533	54,075	12 %
City and Member Outreach:				
Printing	243,260	212,690	30,570	14 %
Postage	320,375	301,635	18,740	6 %
Seminars/conferences/workshops	197,100	226,206	(29,106)	(13) %
Total City and Member Outreach	760,735	740,531	20,204	3 %
Supplies, document storage, miscellaneous:				
Business insurance	167,560	154,170	13,390	9 %
Equipment and supplies	278,350	450,085	(171,735)	(38) %
Offsite/records storage	35,000	31,000	4,000	13 %
Miscellaneous	84,838	112,150	(27,312)	(24) %
Total Supplies, Document Storage, Misc.	565,748	747,405	(181,657)	(24) %
Board of Trustees/Advisory Committee:				
Meetings	93,240	97,800	(4,560)	(5) %
Travel	17,100	23,300	(6,200)	(27) %
Training/education	18,000	9,600	8,400	88 %
Member dues	2,160	600	1,560	260 %
Total Board of Trustees/Advisory Committee	130,500	131,300	(800)	(1) %
Total Other Administrative	\$ 2,497,128	\$ 2,598,003	\$ (100,875)	(4) %

Other Administrative represents 7% of the 2022 proposed operating budget.

Travel expenses include staff travel for city visits and seminars, investment due diligence and professional development.

Professional Development is approximately 20% of the Other Administrative budget category. Each department itemizes expected training costs by employee. Most departments include requests for annual user conferences, as well as other technical training relevant to their respective duties and to meet annual continuing professional education requirements.

Other Administrative (continued)

City and Member Outreach represents 30% of this budget category and includes costs of outreach efforts to our participating cities and Members. TMRS incurs printing and mailing costs for publications such as *RetirementWise* and *TMRS Times* newsletters, Annual Member Statements, the TMRS Benefit Guide, annual financial reports and other single issue brochures/publications. Also included are costs for issuing 1099-R forms, the TMRS Annual Training Seminar, regional seminars, educational video recordings and booth exhibits at other workshops/seminars/conferences.

Supplies, Document Storage and Misc. include items that are not specifically categorized elsewhere:

- Business insurance costs include estimates of fiduciary liability, cyber liability and workers compensation coverage based on quotes received from the respective carriers.
- Equipment and supplies include general office supplies, equipment purchases at amounts below capitalization thresholds and equipment rentals.
- Miscellaneous includes business meals, staff office functions, logo shirts for Board and staff and human resources recruiting costs to cover expenses for job postings and background checks.

Board of Trustees/Advisory Committee expenses include estimates for eight Board meetings and four separate Advisory Committee meetings. This category also includes travel for Board members on official TMRS business, Board education/training expense (registration fees for attending training seminars) and membership fees.

Capital Expenditures

Capital Expenditures For the Years Ending December 31				
	2022	2021	Increase/ (Decrease)	% Change
SAN replacement	\$ 503,492	\$ —	\$ 503,492	100 %
Physical servers replacement	871,900	—	871,900	100 %
Total Capital Expenditures	\$ 1,375,392	\$ —	\$ 1,375,392	100 %

Capital expenditures include furniture, software and equipment and are depreciated (expensed) over the items' useful lives (ranging from three to ten years.) TMRS' policy is to capitalize only those items that individually exceed \$10,000. There were no capital expenditures included in the 2021 budget.

SAN replacement. The existing Storage Area Network (SAN), which provides storage for all TMRS servers and virtual desktops, was installed in July 2017 and is replaced at 5 years in accordance with the TMRS equipment lifecycle. The capital expenditures budget includes the costs of hardware, software and installation. The Information Technology budget category includes the costs of ongoing maintenance.

Physical servers replacement. The existing physical servers that host all TMRS virtual servers and desktops were installed in July 2017 and is replaced at 5 years in accordance with the TMRS equipment lifecycle. The capital expenditures budget includes the cost of equipment plus installation. The Information Technology budget category includes the costs of ongoing maintenance.

**Pension Administration System Modernization
(PASMod) Program Budget**

Fiscal Year Ending December 31, 2022

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Pension Administration System Modernization (PASMod) Program

	2020 Actual	2021 Actual (estimate)	2022 Budget	2023 Budget	2024 Budget	Total
Program Objectives:						
City Contribution System (CCS)	\$ -	\$ 845,439	\$ 2,418,942	\$ 574,038	\$ -	\$ 3,838,419
Customer Relationship Mgmt System	-	-	-	-	-	-
NextGen Refactoring	-	-	-	-	-	-
Mobile App Needs Assessment	-	-	-	-	-	-
Program Resources:						
Organizational Change Mgmt (OCM)	12,200	-	-	-	-	12,200
Agile Training	33,000	-	-	-	-	33,000
Project Manager	102,088	-	-	-	-	102,088
Temporary Staffing	-	180,000	376,000	-	-	556,000
Program Supplies	-	-	5,000	-	-	5,000
Online Services	22,763	69,000	-	-	-	91,763
Data Processing	-	5,542	-	-	-	5,542
Other Services (video/technical writer)	-	-	10,000	-	-	10,000
Total	\$ 170,051	\$ 1,099,981	\$ 2,809,942	\$ 574,038	\$ -	\$ 4,654,012

As noted below, TMRS staff continually review the PASMod program objectives and refine the budget accordingly. TMRS is now estimating to complete the PASMod program earlier than initially anticipated, with an overall reduction in estimated expenses of \$5 million.

Pension Administration System Modernization (PASMod) Program - Overall Budget Savings

	2020	2021	2022	2023	2024	Total
Original budget (approved for 2020)	\$ 1,468,097	\$ 3,421,798	\$ 2,170,440	\$ 2,705,440	\$ 763,870	\$ 10,529,645 A
Revised budget - 2021 (actual)	\$ 170,051	\$ 1,932,628	\$ 3,673,391	\$ 1,545,000	\$ 350,000	\$ 7,671,070
Revised budget - 2022 (estimate)	\$ 170,051	\$ 1,099,981	\$ 2,809,942	\$ 574,038	\$ -	\$ 4,654,012 B
Total savings						<u>\$ 5,875,633</u> A - B