



## Regular Meeting

### Item Number 4 – Open Session

**Subject:** Pension Solution Project Update and Budget Adjustment

**Presenter(s):** Ashish Jain / Bill Perez/ Graeme Finley, Grant Thornton LLP

**Item Type:** Action

**Date & Time:** September 1, 2022 – 15 minutes

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**Attachment(s):** Attachment 1 – Project Oversight Report

Attachment 2 – Proposed 2022–23 Interim Pension Solution  
Project Budget Adjustment Resolution

**PowerPoint(s):** None

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#### **Item Purpose**

The purpose of this item is to provide a Pension Solution Project update and to request a budget adjustment to complete fiscal year 2022–23 system integration activities.

#### **Recommendation**

The board approve the attached resolution to:

1. Increase the Pension Solution Project budget by \$30 million to continue fiscal year 2022–23 system integration activities. The current Pension Solution Project budget is \$304.8 million. This adjustment will bring the interim project budget to \$334.8 million.
2. Utilize \$15,865,000 from the fiscal year 2020–21 and 2021–22 Teachers’ Retirement Fund (TRF) support appropriation savings, to fund a portion of the \$30 million. The remaining \$14,135,000 will be funded from existing 2022–23 budget authority through a combination of the Information Technology Project Fund (ITPF) appropriation and internal reserves.

#### **Executive Summary**

*Project Director Vacancy Update:*

The Pension Solution Project Director position is vacant as of April 1, 2022. The recruitment effort for this position continues. Filing period for this position ended and candidate applications are being reviewed. This position is expected to be filled in the coming months.

*Project Activities:*

At the July 2022 board meeting, staff reported that CGI and CalSTRS have mutually agreed that CGI will transition the remaining portion of the project to another technology vendor. To ensure progress continues on the project during transition, under the agreement, CGI will provide knowledge transfer to an interim vendor, Sagitec Solutions<sup>1</sup> (Sagitec), who was CGI's subcontractor. Additionally, CGI will continue to provide some essential services to CalSTRS through the end of their contract in June 2023.

Since the last board meeting, sessions to transfer knowledge about project tasks from CGI to Sagitec and CalSTRS have begun and are expected to continue through the end of September. Staff has also worked to finalize the non-competitive bid (NCB) with Sagitec, which will allow for continuation of key project activities through the interim service period (ISP), until a new system integrator is procured. During the ISP, Sagitec will focus on reducing the current backlog of defects and continue to address essential services such as, design and development, system testing and user acceptance testing support.

Concurrently, CalSTRS is developing a future procurement for a new system integrator to bring the project to completion. Discussions with procurement staff have begun to establish the procurement approach and timeline. To help inform the scope of work for the future procurement, CalSTRS has hired a contractor to conduct a third-party assessment to confirm the status of the project. This assessment comprises review of project artifacts (e.g., requirements and deliverables) and interviews with project staff. Additionally, staff has initiated an internal project improvement effort to assess what has or has not worked and how future execution strategies can be improved. The goal is to identify and, when feasible, implement improvements during the ISP and, where appropriate, incorporate such improvements into the future procurement. CalSTRS has also engaged assistance from the California Department of Technology and a project advisor to provide guidance on these important initiatives.

*Project Budget:*

At the July 2022 board meeting, the board gave approval for CalSTRS to engage Sagitec Solutions in a non-competitive bid contract for an amount not to exceed \$30 million for Sagitec to provide interim services during CGI's transition. Since this amount was unanticipated, and not included in the original project budget, staff is requesting the board approve an increase of \$30 million to the Pension Solution Project budget, for the Sagitec contract, to continue fiscal year

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<sup>1</sup> Additional details regarding the Sagitec contract are provided in the July 2022, Teachers' Retirement Board [Item # 7g - Contracts Requiring Board Approval](#).

2022–23 system integration activities. A summary of the current and interim project budget is outlined in the table below.

<b>Pension Solution Project Budget (dollars in millions)</b>	<b>Amount</b>
Current Pension Solution Project Budget	\$304.8
Proposed Budget Adjustment for 2022–23 Activities	\$30.0
<b>Interim Pension Solution Project Budget</b>	<b>\$334.8</b>

Staff is in the process of quantifying the impacts of a revised project plan on the total project budget, including any savings from the existing CGI contract and will provide an update to the board during the November 2022 meeting.

**Background**

*Project Budget*

To continue implementation activities, CalSTRS will work with Sagitec as an interim system integrator to continue the development and implementation of BenefitConnect throughout fiscal year 2022–23, at a not to exceed cost of \$30 million. Staff proposes to fund this \$30 million budget adjustment through a combination of funding. This is composed of 2020–21 and 2021–22 TRF support appropriation savings, and existing 2022-23 budget authority from the ITPF appropriation and internal reserves.

Pursuant to [Appendix III.1 of the Teachers’ Retirement Board Governance Manual](#), budget bills provide CalSTRS with the flexibility to “carry over” up to 3% of the operating budget into a future fiscal year upon approval of the board. Accordingly, Item 7920-001-0835, Provision 1 of the annual *Budget Act* allows CalSTRS to carry forward up to 3% of the TRF support appropriation savings into a future year for the purpose of meeting unanticipated system costs and promoting better service to the System’s membership. Under this provision, upon board approval CalSTRS can carry over \$8,007,000 and \$7,858,000 from the 2020–21 and 2021–22 TRF support appropriation savings, respectively. The remaining \$14,135,000 will be funded from existing 2022–23 budget authority through a combination of the ITPF appropriations and internal reserves. In order to make the \$14,135,000 available to help fund the remaining portion of the Sagitec contract, the organization reassessed various enterprise-wide priorities to redirect budget for this work. This included reprioritizing project investments and making tactical decisions to reduce and defer certain project expenditures. The proposed funding sources for the \$30 million Sagitec contract are outlined below.

<b>Funding Source</b>	<b>Amount</b>
<b>TRF Support Appropriation Savings<sup>2</sup></b>	<b>\$15,865,000</b>
<i>Fiscal Year 2020-21</i>	<i>\$8,007,000</i>
<i>Fiscal Year 2021-22</i>	<i>\$7,858,000</i>

<sup>2</sup> Approval to utilize the \$15,865,000 would formally augment the 2022–23 Operating Budget by this amount.

<b>ITPF Appropriations<sup>3</sup></b>	<b>\$12,500,000</b>
<b>Internal Reserves<sup>3</sup></b>	<b>\$1,635,000</b>
<b>Total</b>	<b>\$30,000,000</b>

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Strategic Plan Linkage: This work is directly tied to Goal 2, Objective A of the Strategic Plan - *Implement and integrate a highly adaptive pension administration system to modernize transactional capabilities.*

Board Policy Linkage: Pursuant to [Appendix III.1 of the Teachers' Retirement Board Governance Manual](#), budget bills provide CalSTRS with the flexibility to “carry over” up to 3% of the operating budget into a future year upon approval of the board.

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<sup>3</sup> Represents existing 2022–23 budget authority.