



Regular Meeting

Item number 5 – Open session

Subject: Proposed 2027–28 Operating Budget – Second Reading

Presenter(s): Julie Underwood and Pritpal Bains

Item type: Action

Date and time: November 5, 2026– 15 minutes

Attachment(s): Attachment 1 – Proposed 2027–28 Operating Budget Resolution

Attachment 2 – Proposed 2027–28 Annual Budget Report

PowerPoint presentation(s): Proposed 2027–28 Operating Budget-Second Reading

Item purpose¹

This item requests the board’s approval of the proposed 2027–28 Operating Budget of \$547.2 million and 1,655 authorized positions, the two-year investment management plan for fiscal years 2027–28 and 2028–29, and additional budget authority for unanticipated expenditures. This item also includes additional budgetary considerations, which provide supplemental information on items currently under review that may impact CalSTRS’ operating budget.

Building on the July 2026 budget strategy discussion, which provided a high-level preview of major initiatives and anticipated resource needs for 2027–28, staff presented a first reading of the proposed 2027–28 Operating Budget at the September 2026 board meeting. The first reading provided a detailed overview of the estimated funding and resources requested for the 2027–28 fiscal year.

Since the first reading, and following additional guidance from the state, staff identified funding constraints affecting the temporary transitional resources requested for BenefitConnect, and has refined the proposed budget accordingly. As a result, the proposed budget request has been reduced by \$4.0 million, from \$551.2 million to \$547.2 million. Staff will reprioritize existing resources to support the transition and will keep the board informed of any operational or budgetary impacts.

Recommendation

Staff recommends the board approve CalSTRS’ proposed 2027–28 Operating Budget of \$547.2 million and 1,655 authorized positions, the two-year investment management plan for fiscal years 2027–28 and 2028–29, and additional budget authority for unanticipated expenditures.

¹All figures in this agenda and attachments are rounded for presentation purposes.

Executive summary

The proposed 2027–28 Operating Budget is \$547.2 million, an increase of \$100.0 million, or 22.4%, compared with the adopted 2026–27 budget. The proposal also adds 164 authorized positions, representing an 11.0% increase. The following table summarizes actual 2025–26 expenditures, the adopted 2026–27 budget, the proposed 2027–28 budget, and year-over-year changes by budget category.

Three-Year Overview*(dollars in millions)*

Budget Category	Actual 2025–26	Adopted 2026–27	Proposed 2027–28	\$ Change	% Change
Salaries	\$170.9	\$203.2	\$239.1	\$35.9	17.7%
Benefits	84.5	89.0	111.9	22.9	25.7%
Operating Expenses and Equipment	111.1	155.0	196.2	41.2	26.6%
Total	\$366.5	\$447.2	\$547.2	\$100.0	22.4%

The \$100.0 million increase consists of \$81.3 million in operating budget proposals, including 164 authorized positions to support strategic priorities and ongoing operations, and \$18.7 million in other budgetary changes primarily for routine annual adjustments to administrative expenditures.

Operating budget changes – \$81.3 million, 164 positions

The proposed 2027–28 Operating Budget includes three major proposals: BenefitConnect system support to provide ongoing operational support for the new pension administration system; a two-year investment management plan to strengthen institutional investment capabilities; and enterprise support to strengthen information security and compliance capabilities, modernize enterprise technology, and support the *2025–28 Strategic Plan*.

BenefitConnect system support – \$42.8 million, 38 positions

The proposed 2027–28 Operating Budget includes \$42.8 million and 38 authorized positions within the Technology Services branch, to establish ongoing operational support for BenefitConnect as the system transitions from project implementation to sustained business operations. These resources will maintain system performance, service levels and support regulatory requirements.

Of the \$42.8 million, \$8.1 million is to establish 38 authorized positions and \$34.7 million, net of legacy system cost savings of \$5.3 million, is for ongoing system maintenance, enhancements, cloud services, licensing and consulting resources. The proposal also requests an extension of the encumbrance and liquidation periods for existing Pension Solution Project appropriations. The extension provides additional flexibility to complete remaining contractual obligations and transition applicable vendor contracts.

Investment management plan – Two-year proposal: \$57.8 million, 162 positions

The proposed 2027–28 Operating Budget includes the first year of a two-year investment management plan to strengthen CalSTRS' investment capabilities, support portfolio growth and complexity, and advance operational, governance and technology modernization. The full two-year plan totals \$57.8 million and 162 authorized positions across fiscal years 2027–28 and 2028–29. Of these positions, 139 are allocated to the Investments Branch, while the remaining 23 are distributed across five enterprise-wide business areas to support the Investments Branch in implementing and sustaining the plan.

Of the total, \$31.0 million and 90 authorized positions are incorporated into the proposed 2027–28 Operating Budget. The remaining \$26.8 million and 72 authorized positions will be included in the 2028–29 Operating Budget.

Approval of the plan would authorize the full two-year initiative, with funding and positions reflected in the respective annual operating budgets. Should earlier deployment of planned resources become necessary, staff would seek additional board approval for the associated budget changes.

Enterprise support – \$7.5 million, 36 positions

The proposed 2027–28 Operating Budget includes \$7.5 million and 36 positions to strengthen CalSTRS’ enterprise-wide capabilities, enhance organizational resilience, and support priorities identified in the *2025–28 Strategic Plan*. Of the \$7.5 million, \$6.4 million establishes 36 authorized positions across eight business areas, and \$1.1 million supports physical security, mail equipment, Member Service Center maintenance, and related facility costs.

Other budgetary changes – \$18.7 million

Other budgetary changes represent routine annual adjustments to nondiscretionary administrative costs, primarily driven by employee compensation and the pro rata assessment issued by the Department of Finance. Employee compensation accounts for an estimated \$15.1 million increase, primarily attributable to salary, benefit and incentive adjustments. The pro rata assessment is \$3.6 million, reflecting CalSTRS’ share of statewide administrative service costs.

Additional budget authority

Additional budget authority for the proposed 2027–28 Operating Budget is requested for unanticipated expenditures, consistent with the annual Operating Budget process. The requested authorities are described below.

Teachers’ Retirement Fund support appropriation savings

Pursuant to [*Appendix III.1 of the Teachers’ Retirement Board Governance Manual*](#), staff requests the board to authorize the availability of up to 3%, or \$14.4 million of the \$479.3 million 2027–28 Teachers’ Retirement Fund support appropriation from year-end savings. Use of this funding would require further board approval and would be limited to unanticipated expenditures for member services.

Proposed 2027–28 Operating Budget revision authority

Staff requests authorization to revise the 2027–28 Operating Budget without further board action for adjustments required by the Administration or changes in state laws or regulations. Staff will inform the board of any such revisions, including the associated budgetary impacts.

Additional budgetary considerations

Additional budgetary considerations provide supplemental information on items currently under review that may impact CalSTRS’ operating budget. These include the 100 Waterfront Building Modernization project and Senate Bill 122.

100 Waterfront Building Modernization

The proposed 100 Waterfront Building Modernization project addresses end of life infrastructure replacements and related improvements necessary to sustain long term operations, protect asset value, and support evolving technology and workplace needs. The project is estimated to cost \$96.7 million, phased over fiscal years 2026–27 through 2030–31. It is being presented separately in the November 2026 Teachers' Retirement Board Item #4–*100 Waterfront Building Modernization Project*, as an information item with the option for board approval. The project would be funded through CalSTRS' continuous appropriation, which provides ongoing statutory expenditure authority without the need for annual legislative appropriation. This funding authority does not require separate board approval; however, in light of the project's discretionary nature, scale, and long-term financial commitment, staff is seeking the board's approval to ensure transparency, accountability, and appropriate oversight of significant financial investments.

Funding for the project is not included in the adopted 2026–27 or proposed 2027–28 Operating Budgets. If the board approves the project, staff will revise both budgets to reflect the associated one-time fiscal impacts and present the revisions to the board. Planned one-time funding for fiscal years 2028–29 through 2030–31 would be incorporated into CalSTRS' baseline operating budget for each respective fiscal year.

Senate Bill 122

[*Senate Bill 122*](#) (Chapter 23, Statutes of 2026) was enacted as part of the 2026–27 State Budget trailer bill legislation. Effective January 1, 2027, SB 122 expands California's sales and use tax to include certain digital products, including prewritten software delivered electronically or accessed remotely, such as Software as a Service. This legislation may result in additional operating costs for CalSTRS related to software licenses, subscriptions and other technology services.

The California Department of Tax and Fee Administration has issued proposed regulations, which are anticipated to be finalized in December 2026. Consistent with state guidance, departments have been advised to submit a budget change proposal as part of the state May Revision process to address costs associated with SB 122. Staff will continue to monitor regulatory developments, refine cost estimates, and present any necessary revisions to the adopted 2026–27 and proposed 2027–28 Operating Budgets to the board.

Conclusion

These proposals reflect an investment in CalSTRS' capacity to fulfill its fiduciary responsibilities and deliver reliable service to members. They provide the resources needed to sustain BenefitConnect; execute a two-year investment management plan; advance security, compliance and enterprise technology; and maintain critical operations as organizational needs and complexity continue to grow.

A detailed presentation of the proposed 2027–28 Operating Budget is provided in *Attachment 2*. For the first time, CalSTRS is incorporating its draft [*Annual Budget Report*](#) as *Attachment 2*, providing a comprehensive summary of the system's total budget and resource allocations for the upcoming fiscal year. This report will also be submitted to the Government Finance Officers Association for consideration of the Distinguished Budget Presentation Awards Program, reflecting CalSTRS' continued commitment to transparency, accountability and excellence in budgetary reporting.

Strategic Plan linkage: The proposed 2027–28 Operating Budget includes resources required for the execution of the [*CalSTRS 2025–28 Strategic Plan*](#).

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Board Policy linkage: Pursuant to [*Appendix III.1 of the Teachers' Retirement Board Governance Manual*](#), board members must ensure that only reasonable and necessary expenses are incurred in the governance and management of the system. This is accomplished through the annual operating budget, which the staff proposes, the board approves and both monitor on a regular basis.
