May 8, 2009

MEMORANDUM FOR BOARD MEMBERS SAUL, FINK, WHITING,
SANCHEZ AND DUFFY

FROM: Gregory T. Long
               Executive Director

SUBJECT: Fiscal Year 2009 Mid-Year Budget Review

INTRODUCTION

　　　We have reviewed the FY 2009 budget activity to date,
focusing on the following four principal components of the
FY 2009 budget: 1) Record keeping activities (including
implementation of the TSP System Modernization Plan); 2)
Participant communications; 3) Agency staff; and 4) Other
Agency operations.

SUMMARY

　　　After projecting our major expenditures through the
end of fiscal year 2009 (September 30, 2009), we are
currently expecting total expenditures for FY 2009 to be
approximately $112.2 million, or $2.3 million below the
total budgeted amount of $114.5 million. As of March 31,
2009, $83.1 million, or 73% of the budgeted amount, has
been obligated. Our expectations are based on the
following projections:

- Record keeping activities are expected to exceed the
  currently budgeted amount of $85.8 million by $0.4
  million.

- Participant communications expenditures are expected
  to be at or slightly below the budgeted amount of $6.3
  million. The current budgeted amount should be
  adequate to fund currently scheduled major efforts
  (the web redesign, the L Fund DVD Update, and
  potentially the initial phase of the next DVD) as well
  as the U.S. Postal Service postage increase scheduled
  for May.

- Agency staff costs are estimated to be below the budgeted $12.9 million by approximately $2.3 million due to hiring of some new staff members in the latter half of the fiscal year instead of in the first half.

- Other Agency Operations are projected to be at or slightly below the budgeted amount of $9.6 million. Major efforts undertaken during this fiscal year include facilities improvements at Agency headquarters, increased procurement support, and a new, more secure identification card system including background checks for current and new Agency staff.

DISCUSSION

1. Record keeping activities

In September 2008, the Board approved $85.8 million for the FY 2009 record keeping activities, consisting of the following components:

- $29.5 million budgeted for TSP system support and TSP system software.

- $28.9 million budgeted for the call centers and the data centers.

- $27.5 million budgeted for other recordkeeping activities such as mail handling, data entry, benefits processing, and system accounting.

We currently estimate that the costs for system support and software development and maintenance activities may exceed the budgeted $29.5 million by approximately $0.4 million due to due to the addition of needed positions in the security, operations and software development/quality assurance areas.

We currently project that the FY 2009 costs for the two call centers and the two data centers will be at or slightly below the budgeted $28.9 million.

We are projecting that the combined costs of the Serco Operations Center, the Serco Accounting group and other record keeping activity such as mail handling, data entry,

and benefits processing, will comport with our budgetary estimate of $27.5 million. The current budget will be adequate to cover any additional staffing in the Operations Center should we decide to use these resources in support of the returned mail project.

2. Participant communications

In September 2008, the Board approved a budget of $6.3 million for participant communications, consisting of the following:

- $3.4 million budgeted for printing of brochures, forms, and production of other communications materials (e.g., the L Fund DVD update and the target communications for special populations), including the in-process OCR forms redesign project;

- $0.3 million for the distribution and fulfillment costs; and,

- $2.6 million for postage for discretionary mailings.

We do not anticipate needing any additional funding over the $6.3 million budgeted for the participant communications efforts through the end of the fiscal year. The estimated expenditures of communication projects such as the web redesign efforts are projected to fall within FY 2009 budgeted amounts. Postage costs are scheduled to increase this month; however, there is still adequate funding within the current $2.6 million budgeted to meet these additional postage costs through the end of the fiscal year. If needed, some savings could be realized in the area of discretionary communication materials that may be postponed until FY 2010 due to intervening work.

3. Agency staff

In September 2008, the Board approved $12.9 million for salaries and benefits of the Agency's staff. The FY 2009 budget provided for salaries and benefits of 89 full-time positions and 7 part-time positions, including the 5 part-time Board members.

We currently expect to spend approximately $10.6 million on Agency salaries and benefits in FY 2009, resulting in budget savings of approximately $2.3 million.

The Agency's projected salary and benefits costs are generally calculated as if all positions were filled as of the beginning of that budget year. We have hired 8 additional staff since the beginning of FY 2009. We have contracted for additional outside support and we anticipate filling up to 9 additional vacancies by the end of FY 2009. Consequently, only a few of the positions will have been filled for the entire fiscal year. As of March 31, 2009, The Agency had 72 full time and 8 part-time positions (including the five Board members). Staffing requirements necessary to accomplish the Agency's strategic plan will be presented in the FY 2010 budget in September.

4. Other Agency operations

In September 2008, the Board approved $9.4 million for other Agency operations, consisting of the following:

- $2.5 million for office rent;

- $0.8 million for Agency information technology costs; and

- $6.0 million for all other operating expenses, including the upgrade to facilities, the web redesign project, participant survey, travel (including contractor on-site reviews), increased employee training, miscellaneous contractual expenses, supplies, and office equipment.

Actual FY 2009 expenditures to date for office rent comport with the budgeted amount of $2.5 million for the fiscal year.

The FY 2009 budget estimate of $0.8 million is projected to be sufficient to meet the Agency information technology costs during the fiscal year.

We project that Agency Operations will comport with the budgeted amount of $6.0 million for FY 2009. This includes the project to upgrade the facilities at Agency Headquarters with new carpeting and new paint. We also have contracted to provide Agency staff with new identification cards which will be compliant with government wide security standards including background

checks for all current and new Agency employees. We are also in the process of contracting for additional procurement support.

Other

This budget review does not include assessment of any FY 2009 costs due to pending legislation nor does it include any costs associated with implementing the Agency's strategic plan. These will be incorporated into the Agency's FY 2010 budget and FY 2011 budget estimates to be presented in September.

TSP System Modernization Effort

A summary of the cost of the TSP System Modernization
Effort is presented in the table below.

Item	Planned	Actual	Difference
Mainframes	$ 6,300,000	$ 7,237,581	$ 937,581
Storage Network	$ 5,400,000	$ 7,251,270	$1,851,270
Mod	$ 1,986,000	$ 2,141,309	$ 155,309
Servers	$ 1,500,000	$ 1,236,514	$ (263,486)
	$15,186,000	$17,866,674	$2,680,674

The "Item" column lists the four categories of the Moderniza-
tion effort identified to the Board in September 2007. The
"Planned" column represents the original amounts estimated
requested in Sept 2007 necessary to support the system modern-
ization effort. The "Actual" column represents the actual
dollars spent in FY08 and projected FY09 expenditures to support
these implementation efforts. We expect to complete all
expenditures by the end of FY 2009.

• Mainframe Replacement (including one time capacity
  upgrade OTC Software Licenses)

  The mainframe replacement category included both the
  cost of hardware and one-time charges for capacity
  upgrade software licenses. While the hardware came in
  under budget, software costs exceeded planned
  expenses. The new mainframe is capable of supporting
  a 4X processing event and full size test environment.

• Storage Subsystem (Enterprise Storage Area Network)

  The storage requirements for the Distributed server
  environment have been completed. Routine storage
  expense will continue to grow annually as storage
  needs increase. As previously reported to the Board,
  the original storage requirement was underestimated
  because capacity to support a full size test area was
  not included.

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- Network Modernization

  The Network Modernization includes increased throughput; equipment and circuit redundancy; and support for IPV6. The network infrastructure implementation supporting the TSP operation will have 15 times the network capacity at 10% the cost per megabit as the old network.

- Server Consolidation

  The Server Consolidation includes a redundantly configured virtualized blade server infrastructure connected to the Enterprise Storage Area Network. The environment is capable of supporting a 4X processing event for distributed applications and a full size test bed. Some economies were realized due to end of fiscal year vendor discounts.