

**ECONOMIC AND FISCAL IMPACT STATEMENT
(REGULATIONS AND ORDERS)**

STD. 399 (REV. 12/2013)

ECONOMIC IMPACT STATEMENT

DEPARTMENT NAME State Teachers' Retirement System	CONTACT PERSON Sal Sanchez	EMAIL ADDRESS ssanchez@calstrs.com	TELEPHONE NUMBER 916-414-1994
DESCRIPTIVE TITLE FROM NOTICE REGISTER OR FORM 400 Format for Employer Reports			NOTICE FILE NUMBER Z

A. ESTIMATED PRIVATE SECTOR COST IMPACTS *Include calculations and assumptions in the rulemaking record.*

1. Check the appropriate box(es) below to indicate whether this regulation:

- a. Impacts business and/or employees
- b. Impacts small businesses
- c. Impacts jobs or occupations
- d. Impacts California competitiveness
- e. Imposes reporting requirements
- f. Imposes prescriptive instead of performance
- g. Impacts individuals
- h. None of the above (Explain below):

There are no private sector cost impacts.

If any box in Items 1 a through g is checked, complete this Economic Impact Statement.

If box in Item 1.h. is checked, complete the Fiscal Impact Statement as appropriate.

StateTeachers' Retirement System

2. The _____ (Agency/Department) estimates that the economic impact of this regulation (which includes the fiscal impact) is:

- Below \$10 million
- Between \$10 and \$25 million
- Between \$25 and \$50 million
- Over \$50 million *[If the economic impact is over \$50 million, agencies are required to submit a Standardized Regulatory Impact Assessment as specified in Government Code Section 11346.3(c)]*

3. Enter the total number of businesses impacted: 0

Describe the types of businesses (Include nonprofits): _____

Enter the number or percentage of total businesses impacted that are small businesses: 0

4. Enter the number of businesses that will be created: 0 eliminated: _____

Explain: _____

5. Indicate the geographic extent of impacts: Statewide
 Local or regional (List areas): _____

6. Enter the number of jobs created: _____ and eliminated: _____

Describe the types of jobs or occupations impacted: _____

7. Will the regulation affect the ability of California businesses to compete with other states by making it more costly to produce goods or services here? YES NO

If YES, explain briefly: _____

**ECONOMIC AND FISCAL IMPACT STATEMENT
(REGULATIONS AND ORDERS)**

STD. 399 (REV. 12/2013)

ECONOMIC IMPACT STATEMENT (CONTINUED)

B. ESTIMATED COSTS *Include calculations and assumptions in the rulemaking record.*

1. What are the total statewide dollar costs that businesses and individuals may incur to comply with this regulation over its lifetime? \$ 0 See attachment

- a. Initial costs for a small business: \$ _____ Annual ongoing costs: \$ _____ Years: _____
- b. Initial costs for a typical business: \$ _____ Annual ongoing costs: \$ _____ Years: _____
- c. Initial costs for an individual: \$ _____ Annual ongoing costs: \$ _____ Years: _____
- d. Describe other economic costs that may occur: _____

2. If multiple industries are impacted, enter the share of total costs for each industry: _____

3. If the regulation imposes reporting requirements, enter the annual costs a typical business may incur to comply with these requirements. *Include the dollar costs to do programming, record keeping, reporting, and other paperwork, whether or not the paperwork must be submitted.* \$ _____

4. Will this regulation directly impact housing costs? YES NO

If YES, enter the annual dollar cost per housing unit: \$ _____

Number of units: _____

5. Are there comparable Federal regulations? YES NO

Explain the need for State regulation given the existence or absence of Federal regulations: _____

Enter any additional costs to businesses and/or individuals that may be due to State - Federal differences: \$ _____

C. ESTIMATED BENEFITS *Estimation of the dollar value of benefits is not specifically required by rulemaking law, but encouraged.*

1. Briefly summarize the benefits of the regulation, which may include among others, the health and welfare of California residents, worker safety and the State's environment: See attachment

2. Are the benefits the result of: specific statutory requirements, or goals developed by the agency based on broad statutory authority?

Explain: _____

3. What are the total statewide benefits from this regulation over its lifetime? \$ _____

4. Briefly describe any expansion of businesses currently doing business within the State of California that would result from this regulation: _____

D. ALTERNATIVES TO THE REGULATION *Include calculations and assumptions in the rulemaking record. Estimation of the dollar value of benefits is not specifically required by rulemaking law, but encouraged.*

1. List alternatives considered and describe them below. If no alternatives were considered, explain why not: See attachment

ECONOMIC AND FISCAL IMPACT STATEMENT

(REGULATIONS AND ORDERS)

STD. 399 (REV. 12/2013)

ECONOMIC IMPACT STATEMENT (CONTINUED)

2. Summarize the total statewide costs and benefits from this regulation and each alternative considered:

Regulation: Benefit: \$ _____ Cost: \$ _____

Alternative 1: Benefit: \$ _____ Cost: \$ _____

Alternative 2: Benefit: \$ _____ Cost: \$ _____

3. Briefly discuss any quantification issues that are relevant to a comparison of estimated costs and benefits for this regulation or alternatives: _____

4. Rulemaking law requires agencies to consider performance standards as an alternative, if a regulation mandates the use of specific technologies or equipment, or prescribes specific actions or procedures. Were performance standards considered to lower compliance costs? YES NO

Explain: _____

E. MAJOR REGULATIONS Include calculations and assumptions in the rulemaking record.

California Environmental Protection Agency (Cal/EPA) boards, offices and departments are required to submit the following (per Health and Safety Code section 57005). Otherwise, skip to E4.

1. Will the estimated costs of this regulation to California business enterprises exceed \$10 million? YES NO

*If YES, complete E2. and E3
If NO, skip to E4*

2. Briefly describe each alternative, or combination of alternatives, for which a cost-effectiveness analysis was performed:

Alternative 1: _____

Alternative 2: _____

(Attach additional pages for other alternatives)

3. For the regulation, and each alternative just described, enter the estimated total cost and overall cost-effectiveness ratio:

Regulation: Total Cost \$ _____ Cost-effectiveness ratio: \$ _____

Alternative 1: Total Cost \$ _____ Cost-effectiveness ratio: \$ _____

Alternative 2: Total Cost \$ _____ Cost-effectiveness ratio: \$ _____

4. Will the regulation subject to OAL review have an estimated economic impact to business enterprises and individuals located in or doing business in California exceeding \$50 million in any 12-month period between the date the major regulation is estimated to be filed with the Secretary of State through 12 months after the major regulation is estimated to be fully implemented?

YES NO

If YES, agencies are required to submit a Standardized Regulatory Impact Assessment (SRIA) as specified in Government Code Section 11346.3(c) and to include the SRIA in the Initial Statement of Reasons.

5. Briefly describe the following:

The increase or decrease of investment in the State: _____ There will not be a substantive change in investment in the State.

The incentive for innovation in products, materials or processes: _____ Not applicable.

The benefits of the regulations, including, but not limited to, benefits to the health, safety, and welfare of California residents, worker safety, and the state's environment and quality of life, among any other benefits identified by the agency: _____

**ECONOMIC AND FISCAL IMPACT STATEMENT
(REGULATIONS AND ORDERS)**

STD. 399 (REV. 12/2013)

FISCAL IMPACT STATEMENT

A. FISCAL EFFECT ON LOCAL GOVERNMENT *Indicate appropriate boxes 1 through 6 and attach calculations and assumptions of fiscal impact for the current year and two subsequent Fiscal Years.*

1. Additional expenditures in the current State Fiscal Year which are reimbursable by the State. (Approximate)
(Pursuant to Section 6 of Article XIII B of the California Constitution and Sections 17500 et seq. of the Government Code).

\$ _____

a. Funding provided in _____

Budget Act of _____ or Chapter _____, Statutes of _____

b. Funding will be requested in the Governor's Budget Act of _____

Fiscal Year: _____

2. Additional expenditures in the current State Fiscal Year which are NOT reimbursable by the State. (Approximate)
(Pursuant to Section 6 of Article XIII B of the California Constitution and Sections 17500 et seq. of the Government Code).

\$ _____

Check reason(s) this regulation is not reimbursable and provide the appropriate information:

a. Implements the Federal mandate contained in _____

b. Implements the court mandate set forth by the _____ Court.

Case of: _____ vs. _____

c. Implements a mandate of the people of this State expressed in their approval of Proposition No. _____

Date of Election: _____

d. Issued only in response to a specific request from affected local entity(s).

Local entity(s) affected: _____

e. Will be fully financed from the fees, revenue, etc. from: _____

Authorized by Section: _____ of the _____ Code;

f. Provides for savings to each affected unit of local government which will, at a minimum, offset any additional costs to each;

g. Creates, eliminates, or changes the penalty for a new crime or infraction contained in _____

3. Annual Savings. (approximate)

\$ _____

4. No additional costs or savings. This regulation makes only technical, non-substantive or clarifying changes to current law regulations.

5. No fiscal impact exists. This regulation does not affect any local entity or program.

6. Other. Explain See attachment

**ECONOMIC AND FISCAL IMPACT STATEMENT
(REGULATIONS AND ORDERS)**

STD. 399 (REV. 12/2013)

FISCAL IMPACT STATEMENT (CONTINUED)

B. FISCAL EFFECT ON STATE GOVERNMENT *Indicate appropriate boxes 1 through 4 and attach calculations and assumptions of fiscal impact for the current year and two subsequent Fiscal Years.*

1. Additional expenditures in the current State Fiscal Year. (Approximate)

\$ _____

It is anticipated that State agencies will:

a. Absorb these additional costs within their existing budgets and resources.

b. Increase the currently authorized budget level for the _____ Fiscal Year

2. Savings in the current State Fiscal Year. (Approximate)

\$ _____

3. No fiscal impact exists. This regulation does not affect any State agency or program.

4. Other. Explain See attachment

C. FISCAL EFFECT ON FEDERAL FUNDING OF STATE PROGRAMS *Indicate appropriate boxes 1 through 4 and attach calculations and assumptions of fiscal impact for the current year and two subsequent Fiscal Years.*

1. Additional expenditures in the current State Fiscal Year. (Approximate)

\$ _____

2. Savings in the current State Fiscal Year. (Approximate)

\$ _____

3. No fiscal impact exists. This regulation does not affect any federally funded State agency or program.

4. Other. Explain _____

FISCAL OFFICER SIGNATURE

DATE

Julie Underwood

2-26-19

The signature attests that the agency has completed the STD. 399 according to the instructions in SAM sections 6601-6616, and understands the impacts of the proposed rulemaking. State boards, offices, or departments not under an Agency Secretary must have the form signed by the highest ranking official in the organization.

AGENCY SECRETARY

DATE

Julie Lee *for MB*

2/26/19

Finance approval and signature is required when SAM sections 6601-6616 require completion of Fiscal Impact Statement in the STD. 399.

DEPARTMENT OF FINANCE PROGRAM BUDGET MANAGER

DATE

Department: California State Teachers' Retirement System
Contact Person: Sal Sanchez
Email Address: Regulations@calstrs.com
Telephone Number: (916) 414-1994

INTRODUCTION

School employers submit monthly reports to the California State Teachers' Retirement System (CalSTRS) containing information that is generally required for the administration of the Teachers' Retirement Plan, or is specified in existing law or regulations. That monthly report must be submitted electronically in an encrypted format provided by CalSTRS that ensures the security of the transmitted member and participant data. Current regulations require employers to submit reports using the F496 and the Voluntary Deduction File (VDF) specifications for members of the Defined Benefit Program or the Cash Balance Benefit Program, respectively.

As part of the larger, multi-year Pension Solution project to replace the legacy pension administration system and processes, CalSTRS will launch a new file format (NFF), which consists of a contribution file and an employment file, that will replace the existing file specifications. The contribution file, which replaces the existing F496 and VDF specifications, is associated with monthly payroll contribution reporting. The employment file, which replaces the current MR87, address and accounts receivable files, is associated with new hires, terminations, retirements, deaths, installment payments, address changes and other demographic changes. Most data fields that are contained in the existing F496 and VDF files are being carried forward into either the new contribution file or the new employment file. This analysis assesses costs or savings that would result from the amendments to CalSTRS regulations that are required in order to implement the NFF.

ECONOMIC IMPACT STATEMENT

Section A. Estimated Private Sector Cost Impacts

1. These regulations lay out file specifications school employers (including school districts, community college districts and county offices of education) must use to report information to CalSTRS. No impact to the private sector is expected to result from the proposed regulations. These regulations solely apply to school employers that report directly to CalSTRS. CalSTRS has determined that the regulations proposed do not constitute a major regulation. These regulations do not place any requirements on businesses. There are no direct economic impacts to the private sector.

Section B. Estimated Costs

1. There are no expected statewide costs that businesses or individuals may incur to comply with this regulation over its lifetime. These regulations solely affect school employers that report to CalSTRS.

Section C. Estimated Benefits

1. The NFF is expected to result in improved data integrity, which CalSTRS anticipates will improve accuracy when determining the appropriate amount of contributions as well as the ultimate calculation of

benefits. While the NFF will have substantial structural changes from the existing file formats, they are expected to result in an improved method of submitting information for county offices of education and school and community college district employers that report to CalSTRS by incorporating the most up-to-date file specifications reflecting current law and best practices. The NFF provides employers with the tools to properly submit and modify reports for members and participants, helping to ensure that retirement and other benefits payable to educators are based on properly reported data. Through these improvements, they broadly benefit the state as a whole.

Section D. Alternatives to the Regulation

1. The proposed file specifications promote legal compliance by providing employers tools that enable consistent implementation of the law. The alternative identified to implementing the use of NFF is to allow employers to implement the law independently or to communicate law changes solely through other channels. However, no other mechanism has been identified that would serve this function as well as the file specification documents currently do, so updating these file specifications was deemed by staff to be the only viable alternative.

FISCAL IMPACT STATEMENT

Section A. Fiscal Effect on Local Government

6. CalSTRS has determined that the regulations proposed do not constitute a mandate on school districts or other local agencies. The regulations do not mandate a new program or require a higher level of service in an existing program. These amendments affect school employers (including county offices of education, community college districts and school districts that report to CalSTRS).

While CalSTRS is aware that there is likely to be a fiscal impact to the 18 employers that use custom payroll software, these costs, as noted below are not considered state mandated reimbursable claims. The California Supreme Court established that “new program or higher level of service” means an underlying program of services to the public. Although the proposed regulations would impose costs for reporting information to CalSTRS under NFF, the reporting requirements do not constitute a program or service to the public. Also, the court has established that contributions to public retirement systems are not programs to the public, but instead are part of the compensation of employees. Similarly, the information that is required to be reported under the proposed regulations, as with the existing regulations, is part of the process of accepting contribution payments and does not constitute a program in itself.

Calculations and Assumptions

At the time they were asked, neither the employers nor the payroll software vendors had developed detailed business requirements that would be needed to align to the NFF. As a result, there were limited responses, and those estimates CalSTRS did receive were necessarily broad. Therefore, CalSTRS uses those broad estimates as the best available information.

There are 90 employers that report contribution information directly to CalSTRS. Of those 90 employers, 13 use custom payroll software. CalSTRS estimates that those 13 employers would incur costs in the range of \$50,000 to \$400,000 each associated with updating their software. An additional five employers that do not report contribution information directly to CalSTRS also use custom payroll systems and are

expected to make similar updates, with a similar cost range, in order to remain compatible with their respective county offices of education. Based on feedback from all vendors with whom CalSTRS has met, CalSTRS anticipates that the 77 employers that report contribution information directly to CalSTRS using partner agency or vendor-supported payroll software would be covered by an updated release and would not incur additional costs.

Lastly, CalSTRS anticipates that no system upgrades are necessary for submission of information under the Employment File because this information can be submitted via a secure employer website portal. Some savings are anticipated by transitioning from paper forms to electronic transactions for several business processes.

Section B. Fiscal Effect on State Government

4. CalSTRS is currently undertaking the Pension Solution project, which will replace the legacy pension administration system and processes. Along with this project, multiple systems used by employers, CalSTRS staff and members will be replaced and upgraded. The project is being rolled out in three phases to occur over the next several years. The second phase is currently scheduled to be implemented in the fall of 2021 and will include the full enforcement of the NFF incorporated by reference in the proposed regulations (prior to that date, the file formats will be available to employers in a test environment). The fiscal impact of developing and implementing the NFF has been incorporated into the total cost of the Pension Solution project.

Other agencies of the state government will not be impacted by the proposed regulations. The NFF solely affect school employers (including school districts, community college districts and county offices of education) at the local government level and CalSTRS at the state government level.