STATE OF CALIFORNIA — DEPARTMENT OF FINANCE

ECONOMIC AND FISCAL IMPACT STATEMENT

(REGULATIONS AND ORDERS)

STD. 399 (REV. 12/2008)

See SAM Section 6601 - 6616 for Instructions and Code Citations

DEPARTMENT NAME	CONTACT PERSON	TELEPHONE NUMBER
California State Teachers' Retirement System	Tifani Vincent	(916) 414-1720
DESCRIPTIVE TITLE FROM NOTICE REGISTER OR FORM 400		NOTICE FILE NUMBER
Late and incorrect remittances and reports		Z

ECONOMIC IMPACT STATEMENT

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 businesses 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. Complete the Fiscal Impact Statement as appropriate.)

h. (cont.) The impact of the regulations are avoidable if due date requirements are met.

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

2. Enter the total number of businesses impacted: ________ Describe the types of businesses (Include nonprofits.): ________

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

3. Enter the number of businesses that will be created: ________ eliminated: ________

Explain: ________

4. Indicate the geographic extent of impacts: ☐ Statewide ☐ Local or regional (List areas.): ________

5. Enter the number of jobs created: ________ or eliminated: ________ Describe the types of jobs or occupations impacted: ________

6. 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: ________

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? $ ________

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: ________ and the 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 that may result from this regulation and who will benefit: ______________________________

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? $ __________

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: ______________________________

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.) Cal/EPA boards, offices, and departments are subject to the following additional requirements per Health and Safety Code section 57005.

ECONOMIC AND FISCAL IMPACT STATEMENT cont. (STD. 399, Rev. 12/2008)

1. Will the estimated costs of this regulation to California business enterprises exceed $10 million ? ☐ Yes ☐ No (If No, skip the rest of this section.)

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

   Alternative 1: ____________________

   Alternative 2: ____________________

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

Regulation:	$ ____________	Cost-effectiveness ratio: $ ____________
Alternative 1:	$ ____________	Cost-effectiveness ratio: $ ____________
Alternative 2:	$ ____________	Cost-effectiveness ratio: $ ____________

FISCAL IMPACT STATEMENT

A. FISCAL EFFECT ON LOCAL GOVERNMENT (Indicate appropriate boxes1 through 6 and attach calculations and assumptions of fiscal impact for the current year and two subsequent Fiscal Years.)

☐ 1. Additional expenditures of approximately $ ____________ in the current State Fiscal Year which are reimbursable by the State pursuant to Section 6 of Article XIII B of the California Constitution and Sections 17500 et seq. of the Government Code. Funding for this reimbursement:

☐ a. is provided in ____________, Budget Act of ____________ or Chapter ____________, Statutes of ____________

☐ b. will be requested in the ____________ (FISCAL YEAR) Governor's Budget for appropriation in Budget Act of ____________

☐ 2. Additional expenditures of approximately $ ____________ in the current State Fiscal Year which are not reimbursable by the State pursuant to Section 6 of Article XIII B of the California Constitution and Sections 17500 et seq. of the Government Code because this regulation:

☐ a. implements the Federal mandate contained in ____________

☐ b. implements the court mandate set forth by the ____________

court in the case of ____________ vs. ____________

☐ c. implements a mandate of the people of this State expressed in their approval of Proposition No. ____________ at the ____________ (DATE) election;

☐ d. is issued only in response to a specific request from the ____________

____________, which is/are the only local entity(s) affected;

☐ e. will be fully financed from the ____________ (FEES, REVENUE, ETC.) 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 such unit;

☐ g. creates, eliminates, or changes the penalty for a new crime or infraction contained in ____________

☐ 3. Savings of approximately $ ____________ annually.

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

ECONOMIC AND FISCAL IMPACT STATEMENT cont. (STD. 399, Rev. 12/2008)

☐ 5. No fiscal impact exists because this regulation does not affect any local entity or program.

☑ 6. Other. See attached

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 of approximately $ See attached in the current State Fiscal Year. It is anticipated that State agencies will:

- ☑ a. be able to absorb these additional costs within their existing budgets and resources.
- ☐ b. request an increase in the currently authorized budget level for the ________________ fiscal year.

☑ 2. Savings of approximately $ See attached in the current State Fiscal Year.

☐ 3. No fiscal impact exists because this regulation does not affect any State agency or program.

☑ 4. Other. See attached

C. FISCAL EFFECT ON FEDERAL FUNDING OF STATE PROGRAMS (Indicate appropriate boxes1 through 4 and attach calculations and assumptions of fiscal impact for the current year and two subsequent Fiscal Years.)

☐ 1 . Additional expenditures of approximately $ ____________________ in the current State Fiscal Year.

☐ 2. Savings of of approximately $ ____________________ in the current State Fiscal Year.

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

☐ 4. Other.

FISCAL OFFICER SIGNATURE		DATE 2/25/11
AGENCY SECRETARY [1] APPROVAL/CONCURRENCE		DATE 2/25/11
DEPARTMENT OF FINANCE [2] APPROVAL/CONCURRENCE	PROGRAM BUDGET MANAGER	DATE

1. *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 department not under an Agency Secretary must have the form signed by the highest ranking official in the organization.*
2. *Finance approval and signature is required when SAM sections 6601-6616 require completion of Fiscal Impact Statement in the STD.399.*

Attachment to STD. 399 – Economic and Fiscal Impact Statement

Department: California State Teachers' Retirement System
Contact Person: Tifani Vincent Telephone Number: (916) 414-1720

Fiscal Impact Statement

Section A: Fiscal Effect on Local Government

☐ 6. Other: The employers (school districts, county offices of education, community colleges and charter schools) will not incur penalty and interest expenditures if there is compliance with current Education Code sections ("Law"). Employers not remitting contributions or reporting and correcting reported compensation in compliance with existing Law may require additional resources to become compliant with the Law. The regulations do not impact the resources required.

Section B: Fiscal Effect on State Government

☐ 1. Additional expenditures to be absorbed within existing budgets include the automation of assessments of penalties and interest by CalSTRS. CalSTRS is currently preparing to implement a penalties and interest software solution to automate the penalties and interest process. CalSTRS analysis of AB 654 (Chapter 249, Statutes of 2009), which required the assessment of penalties and interest, included initial estimates for automation in the range of $1 million. However, in acquiring software for penalties and interest automation, CalSTRS anticipated leveraging the platform to provide the basis for the new Corporate Accounting and Resource Management system to replace multiple legacy tools. The implementation cost estimate for the penalties and interest automation component increased to approximately $6 million to be distributed over the past, current and subsequent fiscal years based on detailed requirements and the finalized implementation approach. The high-level estimate is as follows:

2009/2010	$0-$0.5 million
2010/2011	$0-$3.5 million
2011/2012	$0-$2.0 million

☐ 2. CalSTRS estimates collections of penalties and interest will be highest in the first year following the regulation effective date and then will decrease over the next two fiscal years. After initial assessments, penalties and interest will have a sentinel effect, continuing to encourage employers to make timely and accurate remittance and report submissions and adjustments. The timely remittance of contributions will allow CalSTRS to invest monies at the actuarially assumed point in time, increasing returns for the days contributions were previously delinquent.

Additionally, CalSTRS expects savings related to reducing pension administrative costs for write-offs of overpaid benefits and staff time spent re-working accounts with errors, collecting overpaid benefits and providing member services to explain late employer reporting changes made to a member's or participant's account. The automation of the penalty and interest calculations, billing and collections processes will reduce the risk of errors made through the current manual process of calculating and assessing penalties and interest.

<u>Penalty and Interest Assessment*</u>

2012/2013	$3.0 million
2013/2014	$1.5 million
2014/2015	$ 0.7 million

* Estimated penalty and interest assessment based on calculations applied to fiscal year 2009-10 reported data and payments. CalSTRS did not assess nor collect penalties during fiscal year 2009-10.

CalSTRS does not have the data to estimate the reduction in write-offs or staff time associated with the improved timeliness and accuracy of employer remittances and reporting.

☐ 4. Other: Employers remitting and reporting timely will allow CalSTRS to receive all contributions due in accordance to Education Code sections 22954 and 22955. Lost investment opportunity and lost income would be avoided. This loss directly affects CalSTRS ability to fully fund the benefits guaranteed by the state by the Teachers' Retirement Law.

Lost state contributions, in absence of the regulations, due to late reporting for periods following the proposed regulation effective date are projected based on data from the last three fiscal years:

2012/2013	$ 2.0 million
2013/2014	$ 1.0 million
2014/2015	$ 0.5 million

Lost investment opportunity for lost state contributions based on annual assumed rate of return (7.75 percent) estimated to be:

2012/2013	$120 thousand
2013/2014	$214 thousand
2014/2015	$261 thousand

Given that state contributions are based on data from two fiscal years prior to the current fiscal year, the actual impact of the regulations will not be seen until 2014-15. Once the proposed regulations take effect, it is anticipated that there would be a reduction in these losses and that a portion of the remaining losses would be covered by penalty and interest assessments.